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## Strengthening Local Governance Program (SLGP)

### GTZ-support to Fiscal Decentralization and Municipal Finance Management in South Africa

#### Theme

GTZ-support to Fiscal Decentralization and Municipal Finance Management in South Africa - Experiences from the Municipal Finance Management Capacity Building Project (MFMCB) and the Strengthening Local Governance Program (SLGP)

#### Regional reference

As key factors for poverty reduction and sustainable development, GTZ supports fiscal decentralization, municipal finance and the promotion of good (local) financial governance worldwide, mostly within the context of ongoing decentralization and state reform processes or local and urban development programs. Partner countries where these issues are addressed are for example:

Africa	Latin America	South Eastern Europe and Middle East	Asia
<ul style="list-style-type: none"> <li>- Benin</li> <li>- Cameroon</li> <li>- Malawi</li> <li>- Mali</li> <li>- Mauritania</li> <li>- Mosambique</li> <li>- Sambia</li> <li>- <b>South Africa</b></li> <li>- Tansania</li> </ul>	<ul style="list-style-type: none"> <li>- Bolivia</li> <li>- Ecuador</li> <li>- Guatemala</li> <li>- Peru</li> <li>- Kolumbia</li> </ul>	<ul style="list-style-type: none"> <li>- Serbia</li> <li>- Palestine</li> </ul>	<ul style="list-style-type: none"> <li>- Nepal</li> <li>- Indonesia</li> <li>- Philippines</li> </ul>



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## Strengthening Local Governance Program (SLGP)

### Background and objectives

With the end of the Apartheid System, a development towards an open and democratic system started in 1994, and was consequently followed by a reshaping of communities and municipalities in 2000, which put new local entities and a new regulatory framework for the entire process of municipal management (Municipal System Act - MSA) in place. Thereby, municipalities were intended to play an enhanced role in the political, social and economic development of South Africa and to effectively and efficiently provide infrastructure and other public services. But the new municipalities often lacked (and still lack) the necessary capacities to meet the assigned tasks and comply with the regulatory requirements. Particularly deficits in fiscal and financial management capacities, with a shortage of experienced and well trained staff, a wide range of different budget systems and a high level of intransparency imposed a major constraint to requirements such as sound decision-making and planning, linking budgets to integrated development planning (IDP), priority for the provision of basic needs services, accountability and reporting for fund spending, etc.

Therefore the national government, under the leadership of National Treasury developed a massive set of reforms, which became effective in 2004, with the passing of the Municipal Finance Management Act (MFMA), a comprehensive and internationally renowned legislation covering all aspects of municipal financial management and the introduction of generally recognised municipal accounting practices (GRAP).

Since 2003 GTZ provides support to the improvement of good local financial governance through policy advice and capacity development on all levels. First through the Municipal Finance Management Capacity Building Project (MFMCB) and since 2007 in the context of the Strengthening Local Governance Program (SLGP), which **overall program objectives** are:

Systemically strengthen and capacitate the municipalities and its political and administrative representatives to plan and operate their budgets and finances in accordance with the requirements of the reformed municipal finance management and administration system.

From this overall objective, the following **sub-objectives / fields of activity** of the GTZ-support were derived:

- Dissemination and implementation of the MFMA and strengthening of the IDP – Budget link in local governance
- Establishment of an adequate system of training and capacity building for municipal finance officials



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### Target groups and partners

	National / Macro-level	Provincial / Meso-Level	Local / Micro-Level
Counterpart	<ul style="list-style-type: none"> <li>National Treasury – MFM Implementation Unit (main partner)</li> <li>Department of Provincial and Local Government</li> <li>South African Local Government Association - SALGA</li> </ul>	<ul style="list-style-type: none"> <li>Provincial Treasury in Eastern Cape (under MFMB) <i>supervision of the MFMA</i></li> </ul>	<ul style="list-style-type: none"> <li>Districts and Local Municipalities in the two impact zones Mpumalanga and Eastern Cape Province</li> </ul>
Implementing Partners	<ul style="list-style-type: none"> <li>South African Qualifications Authority – SAQA</li> <li>Local Government Sector Education and Training Authority - LG SETA</li> </ul>	<ul style="list-style-type: none"> <li>Training Providers, Consultings and engaged in local government / governance and municipal finance</li> <li>Universities</li> </ul>	
Target Group	<ul style="list-style-type: none"> <li>SAQA: Staff responsible for the national accreditation and registration of training standards</li> <li>LG SETA<sup>1</sup>: Staff responsible for the development of learnerships/trainings for local government and municipal finance administration and the accreditation of respective training providers</li> </ul>	<ul style="list-style-type: none"> <li>Prov. Treasury: Staff responsible for the implementation and supervision of the MFMA</li> </ul>	<ul style="list-style-type: none"> <li>Mayors</li> <li>Municipal Managers</li> <li>Chief Financial Officers (CFO) and other financial staff</li> <li>Councillors</li> <li>IDP-Managers and other IDP-staff</li> </ul>

<sup>1</sup> LG SETA is the national authority responsible for the provision of trainings for Local governments via the development of sector skills plans and accredited learnership (eg. In municipal finance), monitoring of education and training in the sector and the accreditation training providers



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## Strengthening Local Governance Program (SLGP)

### Strategic orientation of the approach, activities and advisory packages

#### Approach:

The GTZ support to Fiscal Decentralization and Municipal Finance in South Africa followed a **systemic** and **interdisciplinary multi-stakeholder** and **multi-level-approach**, focussed on **capacity development** and **policy advice**.

The main activities and advisory packages in the objective “dissemination and implementation of the MFMA and strengthening of the IDP – Budget link in local governance” were:

- Support in the **development of a methodology (capacity indicators) to assess and categorize the capacity levels of the different municipalities** in order to
  - gain insights to the type and level of assistance that will be required by the different municipalities to successfully meet the requirements of the MFMA
  - allow for **sequenced implementation on the MFMA** according to the competency levels of the different municipalities
- Development of a **“road show”-concept** to inform the municipalities (mostly mayors, municipal managers and chief financial officers (CFOs)) about the implications and requirements of the MFMA in order to “get them on the boat”. All municipalities of South Africa were invited to the presentation events, which were conducted by National Treasury and GTZ in all provinces and which reached more than 2000 participants. The documentation of the “road-show” consisted of a FAQ-report, available on the website of National Treasury and for those unable to participate a DVD of the events was produced and disseminated.
- Assistance and advice in the **legal regulation of and guidelines for minimum competency levels** for the employment of NQF-level 5 and 6<sup>2</sup> staff such as CFOs, Accounting Officers, Supply Chain Managers and other senior managers ensures that staff employed meets the required qualifications for the implementation of the MFMA. The establishment of this legally required minimum competency levels addressed the common problem of public administration in South Africa, that staff is often not employed according to their qualifications and competencies.
- Development of standardized procedures, manuals, guidelines and other support material, for capacity development in municipal finance and integrated development planning (IDP)
- As part of an international expert team (Worldbank, USAID, DFID, AusAid and GTZ): **Hands-on support** to assist and advice selected districts, local municipalities and provincial treasuries in the improvement of their capacities in the fields of accounting, reporting and linking budgets to IDP according to the requirements of MFMA and MSA.

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<sup>2</sup> NQF stands for National Qualification Framework. NQF-levels reach from 1 to 8 and are obtained according to the formal theoretical and practical qualification acquired. NQF-levels above level 4 are equivalent to higher education i.e. college or university degrees/certificates. NQF-Level 5 corresponds to a two year diploma, NQF-level 6 to a three year diploma.



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The main activities and advisory packages in the objective “establishment of an adequate system of training and capacity building for municipal finance officials” were:

- Support of the development of **unit standards**<sup>3</sup> for NQF-levels 5 and 6 learnerships/trainings in municipal finance. These unit standards cover thematic areas like strategic and operational financial management, financial legislation, accounting and reporting, supply chain management, auditing, etc.
- Demand-driven **conceptualization, accreditation and conduction of trainings** for NQF-levels 5 and 6 in municipal finance and IDP, development of respective **manuals and learner guidelines** and training of trainers.
- Conceptualization of an **internship-programm** for new graduates to obtain practical experience within municipal finance administration in order to improve human resource development and enhance the recruitment-base of well trained staff in municipal finance. Development of respective training guidelines and qualification of mentors.

### Innovative elements

- Sequenced implementation on the MFMA

Implementation of the MFMA was sequenced, according to the assessed competency levels (high, medium and low capacity) of the municipalities. Low capacity municipalities for example were given a timeframe of two to four years for converting their accounting systems and procedures to the standards and requirements of the MFMA. This allowed to systematically support and advice those municipalities, where implementation was delayed, to build up the required competencies for successful implementation of the MFMA.

- “Road show”

Due to delays in the implementation and insufficient information, the attitude of the municipalities towards the MFMA and its implementation was characterised by rumours, scepticism, mistrust and sometimes even rejection. By addressing the different concerns and informing the over 2000 participants about the MFMA and its implementation, the “road show” made it possible to get the municipalities and their CFOs “on board”, reach broad acceptance and thus to lay the foundations for successful implementation of the MFMA. At the same time, by participating in and accompanying the “road show”, staff from National Treasury learned more about the different concerns and constraints of the municipalities and got a better understanding of the situation and challenges at local level. Meanwhile the concept has been copied by several other ministries for the introduction and implementation of new policies and programs.

- Internship-programm

The lack of well-trained and available human resources within public administration as well as on the “free” labour market imposes one of the major constraints for municipalities to build up the necessary capacities to meet the requirements of the MFMA. More attention has to be paid to put in place alternative mechanisms for the development of the requested quantitative and qualitative capacities and human resources, such as internal trainee-programs. With the implementation of the internship-program, new graduates are for the first time formally educated and qualified and thus systematically prepared for a management career within public administration (in this case: municipal finance administration). Internal human resource development is improved and the recruitment-basis for highly trained staff especially for management and executive positions increased.

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<sup>3</sup> Unit standards are practical and theoretical competencies to be acquired during a learnership/training in order to obtain a NQF level



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## Strengthening Local Governance Program (SLGP)

### Impact

With its advice and support, the GTZ contributed considerably to the policy development, dissemination and implementation of the MFMA.

In the budget year 2004/2005 for example, only 44% of the municipalities submitted its annual financial statements (AFS) in time and 21% of the municipalities did not submit their statements at all. In 2005/2006 the percentage increased to 71% of the municipalities submitting their AFS in time and only 8% of non-submission. In 2006/2007 the percentage of AFS submitted in time increased already to 81%. At the same time, the Auditor General reported a modest improvement in all categories of audit opinions (disclaimer, adverse, qualified and unqualified opinion). Furthermore, in almost 100% of the municipalities, that already have fully implemented the MFMA (sequencing) budgets are approved in time by councils and about 90% of these municipalities provide monthly budget reports to mayors and quarterly reports to councils. Also the number of municipalities, that integrated their multi-year budget plans as well as their operating budgets with their IDPs, increased.

The significantly improved data base available for analyzing municipal finance and municipal financial governance in South Africa enabled decision-makers to address the main constraints, bottlenecks and challenges better and more specifically. In the last years, transfers from national government, especially for the provision of basic infrastructure services, have been drastically increased and formulas for budget allocation as well as government programs have been refined to better meet the different needs and challenges at local level. At the same time, the new reporting and budgeting standards increased transparency and (political, administrative and civil) accountability in public spending, which via the IDPs is now more closely linked to development priorities and demands at local level. As a consequence of these developments, infrastructure service provision at local level has in the last three years significantly improved – especially for the poor - with the number of municipalities, where more than 60% of the population had no access to basic infrastructure services, being reduced between 25% (formal housing, water and sanitation) and 63% (electricity).

A coherent, experience- and demand-based system of training and capacity building for municipal finance officials is in place and applied by the different training-providers. The internship-program, with more than 500 interns trained and incorporated in municipal finance administration, enhances the recruitment-base for well trained staff further.

The systemic capacities to enable municipalities and its political and administrative representatives to plan and operate their budgets and finances in accordance with the requirements of the reformed municipal finance management and administration system are thereby sustainably increased, which forms a major contribution to ensure the sustainability of the reforms. Particularly as the shortage of well trained staff, together with a high turnover rate, imposes one of the major constraints for good local financial governance.

Despite the great challenges, the 283 municipalities of South Africa are still facing, the implementation of the MFMA together with the establishment of an adequate system of training and capacity building, can thus be seen an important step towards an adequate system of municipal finance and good local financial governance in South Africa.



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## Strengthening Local Governance Program (SLGP)

### Success factors

- **Systemic approach**

Leverage and sustainability has been increased, by concentrating advice and support on strengthening the system of fiscal decentralization and municipal finance as whole, for example by addressing systemic bottlenecks and shortcomings such as the lack of an adequate training system,

- **multi-level and multi-stakeholder approach**

The multi level and multi-stakeholder approach allowed for:

- better refining and steering of the reforms at policy level based on the experiences and demands derived at lower levels, e.g. in the formulation of guidelines or regulations.
- better scaling up of experiences and good practices made on lower levels, for example experience- and demand-based development and refining of manuals and trainings as well as cooperation with training providers and training of trainers
- improvements in cooperation and communication within and between the different levels via trustbuilding and the introduction of informal or standardized cooperation mechanisms, e.g. by bringing stakeholders such as DPLG, National Treasury and LG SETA together, which before hardly cooperated, or by improving intergovernmental relation and better understanding between the different levels and stakeholders.

- GTZ support was highly effective due to strong **national ownership** and a **trustful** and **partnership-oriented** cooperation framework.

### Available informational material (documentations, photos, movies, exhibits)

- Road-show DVD
- "Understanding the Municipal Finance Act – A Guide for Councillors"
- Handbook for Municipal Councillors – Councillor Induction Programm
- IDP Guide Pack
- Revised IDP Training Material
- MFM skills training programme Learner Guidelines And Logbook
- Municipal Finance Management Intern Programme Guidelines
- Municipal Regulations on Minimum Competency Levels - Gazette No 29967

### Web-site links for the respective working approaches and projects

Further information about the MFMA and municipal finance in South Africa is available on the website of National Treasury: <http://www.treasury.gov.za/legislation/mfma/Default.aspx>

For further information regarding the GTZ supported Strengthening Local Governance Program please refer to: <http://www.gtz.de/en/weltweit/afrika/suedafrika/12194.htm>

### Contact

Joachim Fritz

GTZ - Programme Manager

South African - German Strengthening Local Governance Programme (SLGP),  
333 Grosvenor Street, Hatfield Gardens, Block E.

P. O. Box 13732, Hatfield 0028, Pretoria - South Africa

Phone: +27 (0) 12 423 6304

Fax : +27 (0) 12 423 6303

E-mail: [joachim.fritz@gtz.de](mailto:joachim.fritz@gtz.de)