POLICY FRAMEWORK
FOR
THE INTRODUCTION OF THE
MUNICIPAL INFRASTRUCTURE GRANT (MIG)

Concise version - final

Amended by the Municipal Infrastructure Task Team
5 February 2004

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1 Background

The establishment of a consolidated grant mechanism, referred to as the Municipal Infrastructure Grant (MIG), was approved by Cabinet on the 5th March 2003, after being strongly supported by organised local government and a range of public and private agencies, including the Finance and Fiscal Commission. Cabinet approved the basic principles relating to the new grant; the details of the grant, and the strategy for implementing the new arrangements, are the subject of the draft policy statement, which has been developed collaboratively by the Municipal Infrastructure Task Team (MITT). This document represents a summary of the draft policy statement.

In brief, the MIG will be phased in over a three-year period, starting in 2003/04, through the merger of the Consolidated Municipal Infrastructure Programme, the Local Economic Development Fund (both managed by DPLG), the Water Service Capital Grant (managed by DWAF), the Community Based Public Works Programme (managed by Public Works), the Building for Sports & Recreation Programme (Sport and Recreation SA) and the Urban Transport Grant (Department of Transport). Current electrification funding will be incorporated once the framework for restructuring of the electricity distribution industry has been finalised. Individual national line departments will continue to lead the monitoring and support of implementation in their specific functions and priorities.

The MIG will have an overall target of removing the backlog with regard to access to basic municipal services over a 10-year period.

2 Vision for the MIG programme

The municipal infrastructure grant programme is aimed at providing all South Africans with at least a basic level of service by the year 2013 through the provision of grant finance aimed at covering the capital cost of basic infrastructure for the poor. The MIG programme is a key part of government's overall drive to alleviate poverty in the country and, therefore, infrastructure is to be provided in such a way that employment is maximised and opportunities are created for enterprises to flourish.

In fulfilment of this vision, national government is committed to allocating sufficient funds from the national fiscus to ensure that basic services are provided to all by 2013.

3 Current funding arrangements for municipal infrastructure investment

The current framework for infrastructure investment is listed in Table 1, below. Unlike funding provided for operating purposes through the equitable share for local government, infrastructure funding is provided through 8 largely autonomous programmes, and includes both asset and cash transfers.

It is the rationalisation of the eight funding mechanisms listed in Table 1, together with Eskom grants, which is the basis of MIG.
Table 1: Existing funds and budget allocations

<table>
<thead>
<tr>
<th>R million</th>
<th>Responsible department</th>
<th>Transfer type</th>
<th>2002/03</th>
<th>2003/04</th>
<th>2004/05</th>
<th>2005/06</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consolidated Municipal Infrastructure Programme</td>
<td>DPLG</td>
<td>Cash</td>
<td>1 671</td>
<td>2 246</td>
<td>2 724</td>
<td>3 016</td>
</tr>
<tr>
<td>Water Services Project</td>
<td>DWAF</td>
<td>Cash / Asset</td>
<td>999</td>
<td>1 102</td>
<td>948</td>
<td>1 037</td>
</tr>
<tr>
<td>Community Based Public Works Programme</td>
<td>DPW</td>
<td>Cash / Asset</td>
<td>260</td>
<td>260</td>
<td>555</td>
<td>588</td>
</tr>
<tr>
<td>Local Economic Development Fund</td>
<td>DPLG</td>
<td>Cash</td>
<td>111</td>
<td>117</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Sport and Recreation facilities</td>
<td>DSR</td>
<td>Cash</td>
<td>76</td>
<td>123</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>National Electrification Programme to LG</td>
<td>DME</td>
<td>Cash</td>
<td>228</td>
<td>240</td>
<td>245</td>
<td>258</td>
</tr>
<tr>
<td>Urban Transport Fund</td>
<td>DoT</td>
<td>Cash</td>
<td>40</td>
<td>9</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Integrated sustainable rural development</td>
<td>-</td>
<td>Cash</td>
<td>32</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Municipal infrastructure grant</td>
<td>DPLG</td>
<td>Cash</td>
<td>-</td>
<td>47</td>
<td>117</td>
<td>97</td>
</tr>
<tr>
<td>Subtotal capital</td>
<td></td>
<td></td>
<td>3 416</td>
<td>4 144</td>
<td>4 588</td>
<td>4 996</td>
</tr>
</tbody>
</table>

1 Allocations in 2004/05 and 2005/05 are subject to review by Cabinet of all poverty relief programmes.
2 Allocation to Eskom not included as it is not taken as funding to local government. But amounts are substantial: R600m increasing to R740m.
3 Methodology for MIG allocations uncertain.

Data Source: National Treasury: Budget Review 2003, Table E16.

4 Principles and objectives of the Municipal Infrastructure Grant

4.1 Key principles

The Municipal Infrastructure Grant will complement the introduction of the equitable share for local government, although it will not be provided unconditionally to municipalities. The key principles underpinning the design of the MIG are outlined below:

a) Focus on infrastructure required for a basic level of service: the MIG programme is aimed at providing only basic infrastructure.

b) Targeting the poor: The programme is aimed at providing services to the poor and funds will therefore be targeted to reach them.

c) Maximising economic benefits: The programme will be managed to ensure that the local economic spin-offs through providing infrastructure are maximised. This includes employment creation and the development of enterprises.

d) Equity in the allocation and use of funds: The mechanism for distributing funds must provide for equitable access to such funds by the poor in order to make uniform progress in closing the infrastructure gap.

e) Decentralisation of spending authority within national standards: Decisions relating to the prioritisation of municipal infrastructure spending, such as the identification, selection and approval of projects, are best undertaken at municipal level, with the following provisions:

- the operating finance and management arrangements must be in place;
- a degree of national and provincial influence over capital spending, expressed through clear norms, standards and spending conditions must be retained; and
- unintended consequences should be limited: the grant must promote sound management practices, not the reverse.

Note that these relate only to capital grants. There are a number of other grants to municipalities which need to be considered in an integrated way by municipalities.
f) Efficient use of funds: Funding must be used to provide the greatest possible improvement in access to basic services at the lowest possible cost. This implies the following:
   • There should be an appropriate selection of service levels.
   • Incentives and conditions must ensure that other funds are mixed with grant funds to minimise leakage to non-eligible households and service levels.
   • The mechanism to disburse funds should be simple and easy to monitor, and the outcomes of municipal spending should be easy to evaluate.

g) Reinforcing local, provincial and national development objectives: This implies the following:
   • The funding mechanism must be consistent with the planning processes of local, provincial and national government.
   • Nodal municipalities associated with the Urban Renewal Strategy and the Integrated Sustainable Rural Development Programme must receive proportionally greater allocations of funding.
   • Spatial integration must be promoted.
   • The emphasis placed on the selection of appropriate service levels.
   • The formula should promote appropriate municipal performance relative to policy objectives.

h) Predictability and transparency. Funds should be provided to individual municipalities on a three-year basis, consistent with medium term budgeting practice, with minimal in-year changes and with year to year changes based only on clearly defined conditions. It is also essential for municipalities and other stakeholders to easily understand how the funds are distributed.

4.2 Grant objectives
National government provides infrastructure subsidies to ensure that all households have access to a basic level of infrastructure services. The benefits of this intervention are well-known, particularly in relation to the public good characteristics of many municipal services.

In the context of the principles outlined above, the key objectives of the Municipal Infrastructure Grant are to:

a) fully subsidise the capital costs of providing basic services to poor households: this implies that priority must be given to meeting the basic infrastructure needs of poor households, through the provision of appropriate bulk, connector and internal infrastructure in key services;

b) distribute funding for municipal infrastructure in an equitable, transparent and efficient manner which supports a co-ordinated approach to local development and maximises developmental outcomes;

c) assist in enhancing the developmental capacity of municipalities, through supporting multi-year planning and budgeting systems; and

d) provide a mechanism for the co-ordinated pursuit of national policy priorities with regard to basic municipal infrastructure programmes, while avoiding the duplication and inefficiency associated with sectorally fragmented grants.

5 Targeting the Municipal Infrastructure Grant
The MIG is intended to provide capital finance for basic municipal infrastructure for poor households and, to a limited extent, to micro enterprises and deserving institutions. It is important that it is properly targeted to ensure efficient use of funds.
In targeting MIG funds the starting point is the definition of a municipal service which has been defined as:

"a service that a municipality in terms of its powers and functions provides or may provide to or for the benefit of the local community irrespective of whether-
(a) such a service is provided, or to be provided, by the municipality through an internal mechanism contemplated in section 76 or by engaging an external mechanism contemplated in section 76; and
(b) fees charges or tariffs are levied in respect of such a service or not";

Within this broad definition, municipal infrastructure is defined in broad terms as ‘the capital works required to provide municipal services’. Here the term ‘works’ is taken to exclude readily movable assets and land not directly required for the construction of municipal infrastructure. It includes all the activities necessary to ensure that the works are delivered effectively, such as feasibility studies, project planning and capacity building to establish sound operational arrangements for the works.

While there is room for local discretion, constraints to this definition will be applied as described below.

### 5.1 Eligible categories of infrastructure

Table 2 groups municipal services into five categories based on the consumers they are intended to serve. The table identifies eligible categories of infrastructure for MIG funding and should be read in conjunction with other eligibility criteria.

<table>
<thead>
<tr>
<th>Infrastructure category</th>
<th>Target consumer group</th>
<th>Sub-category</th>
<th>Services included</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential services</td>
<td>Specific households.</td>
<td>‘Plot package’ including: electricity, stormwater management, water supply, sanitation, municipal roads, refuse removal and street lighting.</td>
<td></td>
</tr>
<tr>
<td>Services provided to institutions other than public municipal services.</td>
<td>Institutions such as schools, clinics, police stations, prisons, churches, and private recreational facilities.</td>
<td>‘Plot package’</td>
<td></td>
</tr>
<tr>
<td>Public municipal services</td>
<td>Accessible to all</td>
<td>Public transport.</td>
<td>Municipal public transport, municipal airports and pontoons, ferries and harbours.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Emergency services.</td>
<td>Fire fighting</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Community services.</td>
<td>Child care facilities; beaches and amusement facilities; cemeteries, funeral parlours and crematoria; cleansing; facilities for animals; fencing; local amenities; local sports facilities; municipal health services and public places.</td>
</tr>
<tr>
<td>&quot;Standard services' to business premises&quot;</td>
<td>All businesses</td>
<td></td>
<td>‘Plot package’</td>
</tr>
</tbody>
</table>

Note: These categories are based on the constitutional definitions. Certain municipal services responsibilities, such as local economic development, have been defined subsequently.

The following types of infrastructure are excluded from the definition of municipal infrastructure: *Provincial infrastructure, National infrastructure, Housing related infrastructure*. Infrastructure on residential properties is excluded with the exception of 'on-site' sanitation.

### 5.2 Eligible beneficiaries of the MIG

The MIG is aimed at assisting the poor to gain access to infrastructure, thereby improving their opportunities to engage in the economy. To some extent the limitations to the level of service that can

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2 Note that school sanitation is a particularly high priority due to the impact it has on the health of the community.
3 Note: MIG funds may not be used for building work ('top structure') for businesses.
be funded via the MIG will result in self-selection of beneficiaries. However, the following specific restrictions are necessary:

a) *For households using residential services:* Only basic infrastructure to poor households (those with household expenditure of below R1 100 per month\(^4\)) may be included. Although it is accepted that in some communities living in individual settlements (or suburbs in urban areas) communally provided services will be used by some who are not poor, demonstrable steps to reduce the extent of subsidy leakage will be required.

b) *For public municipal services and privately run institutions:* Only services or institutions which are used extensively by the poor (those living in poor households as defined above) may be included. Where the majority of those using the service are not poor and can therefore afford to pay for the service, the use of MIG funds for providing the infrastructure is excluded.

c) *For businesses:* MIG funds may only be used to provide infrastructure to businesses run by individuals who are poor. If the income to the proprietors of such businesses is likely to be such that they are not poor (as defined above) it is assumed that they can pay for services to their businesses and they are excluded from support through the MIG.

6 Estimated funding requirement for the MIG

Estimates of the capital funding requirements for municipal infrastructure are strongly influenced by level of service decisions. Assumptions have been made about appropriate service levels for different conditions and appropriate service level targets in order to model the national funding requirement for municipal infrastructure. Furthermore, it has been assumed that this will be achieved over a 10-year period, with the overall objective of eliminating the basic infrastructure backlog.

It has been estimated that the infrastructure investment programme for all municipal infrastructure over a 10 year period required an investment of R93 billion. This requires grant funds estimated at R56 billion, of which an estimated R38 billion is assumed to be MIG-funded with the remainder provided through the Housing Subsidy\(^5\).

7 Design of the grant mechanism

The design of any intergovernmental grant must provide mechanisms for both the vertical and horizontal division of funding between programme components and municipalities respectively, and the conditions attached to that funding. As South Africa has a multi-tiered system of local government in non-metropolitan areas, a mechanism is also required to determine the division of funding between district (Category C) and local (Category B) municipalities.

The design of the Municipal Infrastructure Grant arrangements is shown in Figure 1, below. The policy framework relating to each of these components is dealt with in the remainder of this section.

\(^4\) This ceiling may be adjusted from time to time in conjunction with the poverty measure used in the distribution formula for the equitable share for local government.

\(^5\) These figures are rough estimates only and will require re-calculation from time to time.
Figure 1: Diagram showing MIG funding mechanism

1) Allocated to national MIG unit for national programme management

2) Special Municipal Infrastructure Fund, allocated to municipalities on application

3) Allocated to municipalities for infrastructure via formula mechanism

Horizontal split to all metro's & local municipalities based on a formula

.....Local municipalities and metros

Fund allocated to group of LMs in a DM then split “vertically” to give allocation to DM:
   a) Based on formula
   b) With option of amendment proposed by all LMs & DM

DM sets up PMU to manage MIG fund. With possible 'type 1' accreditation of some LMs to have PMU

PMU takes percentage to cover its costs

All municipalities select their own projects based on IDP

PMU oversees project feasibility and sets up contracts for selected projects. Contracts signed by designated municipality.

Funds paid to projects by designated municipality based on certification by PMU

Municipality with type '1 & 2' devolution gets funds into their account. For 'type 3' LM funds are managed by DM on their behalf

Funding allocation adjusted based on performance of municipality in relation to criteria

Horizontal split to all metro's & local municipalities based on a formula

DM LM 1 LM 2 LM 3 LM 4 etc
7.1 The funding of national programme management

Various programme management costs are incurred at a national level. These functions are detailed in Section 11 below, and include fund management, monitoring, evaluation and enforcement specifically related to the MIG programme. A MIG management unit established within DPLG will perform these functions.

These costs will be top-sliced from the available MIG funding and allocated separately on the vote of the Department of Provincial and Local Government (DPLG). The allocation will be reviewed annually, but capped at a maximum of one percent of the fund.

7.2 The division of funding between municipalities

The fundamental feature of the policy is that funds will be allocated to municipalities by formula each year. However, two other policy requirements mitigate against the sole use of a formula mechanism, namely the need to:

a) account for regional (spillover) effects of infrastructure investments in certain circumstances; and
b) promote innovative approaches to infrastructure investment.

Thus, although the MIG funds available to municipalities will primarily be distributed through a formula, a portion of funding will be retained to fund project-based applications by municipalities that meet pre-determined criteria. This will be disbursed through a Special Municipal Infrastructure Fund (SMIF) that is a component of the MIG.

7.3 The Special Municipal Infrastructure Fund (SMIF)

The SMIF will be allocated to specific municipalities based on project applications, rather than through the formula mechanism.

The amount of funding to be allocated for the SMIF will be a percentage of the total MIG, which can be changed by the Minister for Provincial and Local Government in consultation with the Minister of Finance.

This component of the fund may be used for two types of projects:

a) Supporting innovation: Innovation in the provision of infrastructure is essential to assist municipalities in delivering the best possible standard of service to their consumers at the lowest possible cost. While many municipalities are able to innovative themselves, there remains a strong role for national government to promote such innovation.

b) Regional Investments: In certain instances large-scale municipal infrastructure systems can be developed more cost-effectively and efficiently at a scale that is larger than any specific municipality. This component of the SMIF will provide funding for a portion of the costs associated with regional-level infrastructure solutions. The intention of the facility is to encourage co-operation between adjacent municipalities in developing appropriate service delivery solutions at scale.

7.4 Formula-based allocations to municipalities

The bulk of MIG funding will be allocated to municipalities by a formula mechanism. A multi-year, formula-based allocation will be calculated to give a ‘horizontal division’ of the fund to all metropolitan and local municipal areas. This will include funding for capital investment in new, rehabilitated and upgraded infrastructure for unserviced and newly formed households, funding for

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6 The allocation of funding to specific municipalities must be distinguished from the actual disbursement of funds, including funding channels, cash flows and compliance with conditions.
municipal capital programme management and capacity building activities. This will be adjusted to provide specific support for the urban renewal and rural development programmes.

**Policy parameters for the formula**
The design principles underlying the formula are discussed in Section 4. The policy parameters for the design of the formula-based allocation mechanism are described here. The detailed design and implementation of the formula will be undertaken annually by the MITT, subject to the annual approval by the Minister for Provincial and Local Government in consultation with Cabinet, by 31 March of each year.

The allocation of funds via formula represents a new development, and experience in applying this approach will be gained with time. Based on this experience the formula and the way it is applied will be reviewed and amended as necessary. Major policy shifts will require the consent of Cabinet; the Minister for Provincial and Local Government will determine smaller modifications annually in consultation with the Minister of Finance.

**Proposed structure of formula for infrastructure gap: the national totals**
The central intention of the MIG is to address the ‘infrastructure gap’, or the level of access by all households to basic municipal infrastructure services. The infrastructure gap is to be measured for each municipality based on statistics available from the census. The formula for the distribution of funds between municipalities will give effect to this, and is summarised below:

The basic elements of the formula for calculating the national totals is summarised below starting with the calculation of the total allocation to municipalities, \( MIG(T) \), calculated as the difference between the total allocation made to MIG through the national budget process (\( MIG(T) \)) and the national MIG unit management costs and the allocation for SMIF.

\[
MIG(T) - \text{management costs} - \text{SMIF} = MIG(F)
\]

The \( MIG(F) \) allocation is further split as follows:

\[
MIG(F) = B + P + E + N + M
\]

Where:
- \( B \) is the amount allocated for basic residential infrastructure (new and rehabilitated) This component consists of proportional allocations for water supply and sanitation, electricity, roads and ‘other’ (street lighting and solid waste removal).
- \( P \) is an allocation for public municipal service infrastructure (new and rehabilitated).
- \( E \) is an allocation for infrastructure for social institutions and micro-enterprises (new and rehabilitated).
- \( N \) is an allocation to identified nodal municipalities in the urban renewal and rural development programmes
- \( M \) is a negative or positive allocation related to past performance of each municipality relative to grant conditions.

The percentages for each funding window is enclosed as Appendix A.

**Making the horizontal split**
Having the national totals, as described above, the amounts then need to be split to each metro and local municipality. This is referred to as the horizontal split. The split is based on the following parameters, with details provided in the Appendix:

a) Backlogs in specific services.
b) Poverty.
c) Identification as a node.

Making the vertical split
As South Africa has a two tier system of local government, the amount allocated to each local municipality area needs to be shared ‘vertically’ between the local municipality and district municipality. The methodology for doing this, described in the Appendix, is based primarily on an assessment of where the function for each municipal service lies.

Applying the formula-based allocations locally
While the allocation of funds is divided based on sectoral assessments of infrastructure gaps, the funds will be allocated to municipalities as a single lump sum per year. On average over a three year period municipalities will be required to split their MIG allocations between services in the same proportion to the weights in the formula applied to their particular municipality and within pre-existing Integrated Development Plans and approved budgets.

Locally motivated adjustments to the vertical split
Due to current uncertainties with regard to the split, municipalities will be permitted to propose amendments to this vertical division, provided that there is consensus between affected municipalities.

Dealing with ‘lumpy’ investments
The situation will arise in the case of smaller local municipalities where there are projects of a large scale in relation to the size of the MIG grant allocation to a particular municipality. In such cases the municipality may motivate to the national MIG unit for a re-scheduling of the grant allocations.

Future nationally motivated adjustment to formula
It will be necessary to review the performance of this formula from time to time and make adjustments to it as necessary.

8 Conditions applied to the MIG
The MIG is a conditional grant. The formula is intended to allocate funding in accordance with government’s policy priorities. The utilisation of this funding in accordance with these policy priorities and objectives is a function of the conditions imposed on its use by beneficiary municipalities.

8.1 Principles relating to the setting of conditions
Conditions will be applied to ensure that municipalities appropriately address the objectives and parameters of this policy statement. The conditions seek to avoid placing an undue burden of compliance on municipalities. Therefore the number of conditions must not be excessive and it must be possible to easily measure performance in relation to the conditions.

Two groups of conditions are established: cross-cutting conditions relating to overall performance of the municipality and all its projects and sector specific conditions.

8.2 Cross-cutting conditions
The following conditions are set as the founding conditions for the MIG programme, which may be varied from time to time by the MITT:

a) Conformity with IDPs: No MIG funds may be spent outside the framework of a municipality’s pre-existing Integrated Development Plan and its approved budget. The IDPs should be based on the provision of a basic package of services to the poor, appropriate services levels, financial sustainability and the existence of adequate organisational capacity

b) Limitation on operational spending: The MIG grant can only be used for capital investment and cannot be used to finance operating expenditure other than the prescribed percentage permitted for
the operation of a project management unit in applicable municipalities, as described in Section 10.

c) Restrictions on eligibility: Spending of MIG funds is restricted to those categories of infrastructure, beneficiaries and levels of service identified in Section 5. To ensure that eligibility requirements are met a cap on capital spending per household will be set and specific requirements may be set for the amount of spending on particular types of infrastructure.

d) Adequate attention to rehabilitation: The municipality must invest an appropriate proportion of the funds on rehabilitating existing infrastructure.

e) Pledging of funds to secure loan finance: No ‘pledging’ (the assigning of capital grant funds to be used to pay off a loan to a particular lending organisation) may be undertaken with MIG funds.

f) Conformity with IDPs: No MIG funds may be spent outside the framework of a municipality’s pre-existing Integrated Development Plan and its approved budget. The IDPs should be based on the provision of a basic package of services to the poor, appropriate services levels, financial sustainability and the existence of adequate organisational capacity.

g) Achievement of specified basic service coverage targets: the attainment of pre-agreed basic service coverage targets in specific sectors (water and sanitation, for example) to be achieved by a particular municipality over a three-year period, based on their current position. Once established, non-compliance with these targets will cause a negative performance evaluation on the M component of the formula.

h) Poverty alleviation: It is important for the economic spin-offs of infrastructure delivery to be maximised. This relates primarily to temporary and permanent job creation arising for municipal infrastructure investments. This condition will be associated with national government’s ‘Expanded Public Works Programme’ (EPWP). The gender provisions of this programme must be adhered to.

i) Reporting: The recipient municipality has prepared and submitted all monthly reports on grant utilisation in a prescribed format by a specified time.

j) MIG funds to be allocated in municipal budget: All MIG funds to be spent in any year must be allocated to specific projects which must be identified in municipal budgets.

k) Registration of MIG project business plan (otherwise referred to as project feasibility study): All projects to be funded with MIG funds, wholly or partially, must have a project business plan which conforms with requirements to be established for the MIG programme and which must be registered on the national MIG database before the award of contracts for construction commences.

8.3 Sector specific conditions

Each sector department (DWAF, DME, DoT and DSRSA) may establish further conditions specific to their sectors. Such conditions will be included at the discretion of the Municipal Infrastructure Task Team. These conditions is contained in Appendix B.

8.4 Monitoring performance and applying sanctions

Monitoring of the MIG programme is discussed in Section 11, but specific requirements relating to the MIG conditions are summarised here.

Responsibility for monitoring compliance with the MIG conditions listed above is divided between national departments, as follows:

- DPLG, acting through the MIG unit is responsible for monitoring the cross-cutting conditions mentioned in Section 8.2.
- Sector departments (DWAF, DME, DoT and DSRSA) are responsible for monitoring performance of municipalities with regard to sector specific criteria.
- DPW is responsible for monitoring poverty alleviation criteria.

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7 This requires careful integration of the municipal budget cycle with the national budget cycle. Detail in this regard will be provided in the MIG programme operating manual.
• National Treasury is responsible for monitoring financial reporting and revenue related criteria.

With regard to institutional responsibility for making the interventions the following will be applied:
• Any adjustment to the funds received by municipalities can only be made by National Treasury. However, this can be based on the advice of the MITT.
• Line departments, particularly DWAF, have the responsibility to initiate an intervention related to their sector responsibility. Action in this regard will be taken via the MITT, as described in Section 11.

The full implementation of conditions, specifically those used as indicators for the M component of the grant allocation formula, implies detailed information requirements. The technical MITT (MIT3), in association with Stats SA, will investigate the possibility of an annual municipal services survey in this regard in the course of 2004.

8.5 Nature of sanctions
Sanctions may include adjustments to the MIG funding allocations either during the year or for the following year.

9 Co-ordination with other national funding arrangements

Co-ordinating infrastructure grants with housing grants
There is currently inconsistency in the way planning is undertaken for housing (which currently includes ‘internal’ infrastructure) and related bulk and connector infrastructure. In order to deal with these problems it may become necessary that in the medium to long term the infrastructure component of housing developments be funded from the MIG grant, leaving land acquisition and ‘top structure’ provision to be funded from the housing subsidy.

Funding for capacity building
The national system for supporting capacity building at the municipal sphere is discussed in Section 11.4, where it is noted that national government is committed to establishing a single fund for all its capacity building initiatives. Capacity building activity will remain primarily with line departments and it is not proposed that the MIG programme uses the consolidated capacity building fund directly. However, as noted in Section 11.4, the national MIG unit will support capacity building of the project management units (PMUs) established within municipalities, using the MIG fund.

Providing for donor funds
International donors have played an important part in promoting effective infrastructure delivery in South Africa through supporting policy, planning, capacity building and direct infrastructure funding. It is important that co-operation with international donors is maintained and that the new municipal grant mechanism does not introduce limitations in this regard. Therefore the MIG programme will link closely with national departments in ensuring that the opportunities for the use of donor funds for infrastructure related activities are maximised.

10 Institutional arrangements at municipal sphere

10.1 Overall structure at municipal sphere
The MIG is a grant to municipalities, and thus the management of the grant at municipal level must occur within the planning, budgeting, financial management and operational arrangements in this sphere. Effective management and utilisation of capital funding falls within the responsibility of the municipal manager.

National government, through the MIG programme, will therefore assist municipalities in the
development of appropriate capital programme management capacity, typically achieved through the establishment of project management units (PMUs) within municipalities. PMUs will be accountable to the council and management structure of the municipality in which they are established. However, they will be supported and monitored by the national MIG unit, as described in Section 11.

10.2 Delegation of MIG responsibilities at local sphere

The MIG programme promotes the devolution of responsibility to the lowest possible level. In this context devolution has two dimensions:

a) devolution of the project management function, which implies the establishment of a PMU within a municipality; and
b) devolution of responsibility for control of the funds, with associated accounting responsibility and the requirement to contract with consultants and contractors.

As the capacity to absorb these responsibilities is highly variable between municipalities, an asymmetric approach to devolution is required. This approach accounts for the supportive role envisaged for district municipalities in the Local Government White Paper, 1998, and is outlined in Table 3, below.

### Table 3: Options for devolution of functions to local municipalities

<table>
<thead>
<tr>
<th>Devolution option</th>
<th>Project selection and integration with IDP</th>
<th>Control of funds and contracting</th>
<th>Location of PMU</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type 3: Lower capacity local municipalities</td>
<td>LM</td>
<td>DM</td>
<td>DM</td>
</tr>
<tr>
<td>Type 2: Moderate capacity local municipalities</td>
<td>LM</td>
<td>LM</td>
<td>DM</td>
</tr>
<tr>
<td>Type 1: Higher capacity local municipalities</td>
<td>LM</td>
<td>LM</td>
<td>LM</td>
</tr>
</tbody>
</table>

Note: LM = local municipality; DM = district municipality

In all circumstances local municipalities will retain their existing responsibilities with regard to the preparation of IDPs and identification of projects that emanate from the IDPs, for the powers and functions that are assigned to them.

10.2.1 Criteria for deciding on devolution of MIG responsibilities

The process of devolution will be guided by the following criteria:

a) The municipality must have ‘sufficient capacity’ to undertake the function.
b) Considering a district as a whole the establishment of PMUs must represent the most efficient arrangement possible, in order to best serve the needs of communities.
c) The ability of national structures to support and monitor municipalities with PMUs must be considered.

Metro municipalities will be treated as an exception with regard to the requirement to establish a PMU: they may choose not to set up a PMU to manage MIG funds. Those which choose not to will nevertheless have to appoint a single individual to be responsible for MIG funds and will have to conform with national MIG reporting requirements.

10.3 Functions of PMUs

Each of the identified municipalities is required to set up a Project Management Unit (PMU) which will have the following functions in relation to the municipalities they serve:

a) responsibility for project managing MIG funding, within the relevant municipal accounting system, for infrastructure projects of their own using MIG funds, and for projects of other municipalities where they are delegated this authority.
b) co-ordination of the project identification process between municipalities served by the PMU, in terms of the relevant IDPs;
c) co-ordination of the *project feasibility* process, with involvement of other municipal departments where appropriate, in terms of the relevant IDPs;
d) establishment and approval of contracts with contractors and consultants for each project, including feasibility studies;
e) project management, including ensuring that projects meet planning objectives;
f) co-ordination of project-based *capacity building* initiatives: the PMU is responsible for ensuring that project-related capacity building and development objectives are met; and
g) management of monitoring database and preparation of all necessary reports.

It should be noted that the PMU is not responsible for *planning* but will liaise closely with municipal planning departments and the PIMSS centre.

The PMU will be required to have a suitably qualified manager, employed by the municipality, who will take individual responsibility for the MIG programme in their own municipality and for other municipalities where this responsibility has been delegated to them.

Municipalities will be encouraged to include capital works funded from other sources within the competence of the PMU.

Municipal personnel will staff the PMU with the assistance of consultants employed at the discretion of the municipality. The manner in which the PMU is established and resourced will be decided by the municipality, subject to the approval of the national MIG unit.

10.4 Funding of PMUs

The PMUs will be funded from the MIG grant allocation made to the municipality and will be subject to a maximum limit of the grant allocation. The MIG unit will develop further methods for ensuring the cost efficiency of PMUs.

11 Institutional arrangements at national and provincial spheres

A central feature of the MIG programme is that the policy making and regulatory functions of each of the national and provincial departments responsible for municipal infrastructure remain intact. This is provided for in the institutional structure through the recognition of a policy and regulation co-ordinating body (MITT), assisted by a technical committee (MIT3), and through the establishment of a national-level MIG management unit.

11.1 Policy and regulation

11.1.1 Structure for co-ordinating policy and regulation: the MITT

It is accepted that all national departments and their provincial counterparts retain their policy making and regulatory functions which cover the full range of municipal activity: governance, administration, planning, projects and operations. Furthermore, the departments and provinces retain their constitutional rights to intervene directly in the affairs of municipalities. However, the importance of co-ordinating such activity, with the objective of creating a common approach to local government, is recognised. The Municipal Infrastructure Task Team (MITT) has therefore been established and assigned these co-ordinating functions.

The MITT will have the following overall functions:
- To review municipal infrastructure policy to ensure efficiency, effectiveness and consistency in the delivery of infrastructure by municipalities;
- To monitor progress and unblock any challenges that may emerge in the delivery of services; and
- To make decisions on the above.
In order to undertake these functions the MITT will be required to:

a) Reflect and review municipal infrastructure policy as and when required;
b) Review emerging developments emanating from other programmes and process which have direct bearing on municipal infrastructure delivery e.g. the restructuring of electricity distribution industry;
c) Review sector service delivery targets;
d) Promote financial, technical, social and environmental sustainability;
e) Make policy proposals to Cabinet;
f) Monitor sector service delivery impact;
g) Agree on regulations, where required;
h) Propose scaling down or broadening the scope of service delivery levels, where required; and
i) Ensure the fulfilment of commitments emanating from the decisions of the Cabinet Makgotla, Clusters and Local Government MinMec.

11.1.2 Support to the MITT: the Technical MITT (MIT3)

The MITT will be supported by the technical MITT which is referred to as MIT3. This will be formed from the same departments as the MITT, with representatives at Chief Director level or their mandated alternates. SALGA and the national MIG programme manager will also serve on the team.

The MIT3 will report directly to the MITT and will have the following responsibilities:

a) Ensure that the MITT agenda focuses on the sectoral priorities;
b) Determine sectoral priorities, which are linked, to Departmental objectives;
c) Facilitate implementation of the Municipal Infrastructure Grant (MIG) policy;
d) Promote financial, technical, social and environmental sustainability of municipal services through infrastructure programmes;
e) Monitor and ensure implementation of MIG;
f) Assess and monitor the progress made by Departments in implementing the decisions taken at the MITT meetings;
g) Ensure that sufficient information needed for a decision is collected;
h) Oversee the implementation of the pilot projects;
i) Facilitate the establishment of the MIG unit;
j) Coordinate the implementation of the MIG;
k) Draft policy amendments and other expert advise to the MITT;
l) Coordinate the reviews of the MIIF document;
m) Oversee the work of Working Committees
n) Commission studies on infrastructure.
o) Coordinate impact studies on the MIG.
p) Review and correct blockages in process.
q) Ensure proper co-ordination between sector departments.
r) Review regular reports from municipalities and PMU’s.
s) Recommend policy changes to the DG/higher committee.
t) Review Sector reports.

11.1.3 Intervention

Where a municipality is not performing adequately with regard to the implementation of the MIG programme, the MITT has certain specific intervention responsibilities related to the grant conditions. It will act upon information provided by each of the national departments, or the MIG unit, as described in Section 8, and will decide on the nature of the intervention to be made and ensure that this is followed through. Such intervention may be directly through the MIG arrangements if it relates specifically to the way the programme is being implemented. Where MIG related interventions fail to bring an improvement the national departments and the relevant provinces will be required to take coordinated action to bring about change which may be required in the governance or administrative
arrangements within the municipality concerned, via the constitutionally established arrangements for regulating municipalities.

11.2 Establishment of a national MIG management unit

The MIG unit will be charged with administrating the use of MIG funds (ensuring that the funds are properly allocated and spent on appropriate projects). This activity relates only to the way projects are implemented and implies that national and provincial government departments retain their normal responsibilities for policy, regulation and capacity building relating to municipal governance, administration, planning and operations activities.

The MIG unit will have the following primary functions:

a) Implementing policy relating to infrastructure delivery;
b) setting up a the MIG national fund administration system, including monitoring arrangements;
c) ensuring the establishment of project management units in all metropolitan, district, and type 1 local municipalities, including local monitoring arrangements;
d) operating the national MIG information system;
e) monitoring the use of MIG funds;
f) auditing the local programmes to ensure compliance;
g) ensuring that evaluation of local programmes takes place; and
h) preparing reports to MITT and to provincial and national government departments.

Given its direct responsibilities for local government at national sphere, the National MIG unit will be located within DPLG. Overall financial accountability of the MIG unit will be to the Director-General of DPLG.

The financial accountability responsibility will be exercised by DPLG, and be restricted to the administration of transfers. The policy oversight responsibility will reside with the MITT (jointly) and with each sector individually. Each sector will also have to monitor (and assess) the outcomes in that sector, and take responsibility for monitoring MIG-specific conditions as described in Section 8.

11.3 Infrastructure planning arrangements

Effective area-based, service sector and project planning is central to the success of a municipality’s infrastructure investment programme. National and provincial departments will, within their areas of functional competence, continue to hold responsibility for supporting and developing appropriate municipal planning capabilities. The MIG programme will integrate with these sectoral planning initiatives through ensuring that:

a) the MIG programme is properly integrated with municipal IDPs;
b) planning for regional scale infrastructure is guided by the relevant national department, or its provincial counterpart, working in conjunction with the municipalities and their PMUs; and
c) the municipal PMUs are supported in their function of overseeing project feasibility studies within the municipalities they serve, as part of the municipal planning process.

11.4 Capacity-building

Support to the development of municipal capacity has a number of dimensions, namely enhancing governance and administration, planning, operations and projects. Government is developing an integrated strategy for capacity building for each of these components. Within this strategy, MIG is concerned only with projects, the arrangements relating to the effective delivery of municipal infrastructure. In this context the capacity building component of MIG will be targeted as shown in Table 4.
Table 4: Targeting MIG capacity building

<table>
<thead>
<tr>
<th>Scale of initiative</th>
<th>Type of activity</th>
<th>Key features</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project level</td>
<td>Project implementation</td>
<td>Capacity building is associated with improving the ability of communities to become involved with the project planning and construction of projects. With regard to the latter the focus is on labour-based construction and small contractor development.</td>
</tr>
<tr>
<td>Operation</td>
<td></td>
<td>Under this category the project includes an undertaking to train the future services provider (or operator) to operate the infrastructure. Typically this would involve community-based organisations but it may also be aimed at municipal staff. In some cases the obligation to support services providers may extend for up to three years. Such costs may be included under project costs.</td>
</tr>
<tr>
<td>Programme (municipal scale)</td>
<td>Programme management</td>
<td>The focus of the national effort under the national MIG office will be on building the capacity of project management units (PMUs) to ensure that they can fulfil their functions.</td>
</tr>
<tr>
<td>Project implementation</td>
<td></td>
<td>There may be a local motivation to establish programme scale initiatives which could include district scale labour-based construction programmes, particularly for roads. Such initiatives typically have a strong capacity building element.</td>
</tr>
</tbody>
</table>

Within this framework, the national MIG unit will only take responsibility for building the capacity of the project management units (PMUs).

11.5 Monitoring and evaluation system

The central challenge facing national government is the development of a monitoring system over local government. This can be divided into three components:

a) The planning and service delivery aspects relating to each sector.

b) The governance, financial management and integrated planning arrangements for the municipality as a whole.

c) Project implementation arrangements where national funds are being used.

The MIG programme is only concerned with the last item. It will incorporate the following three components:

Information
An information system, centred on a national database with data gathering and information analysis capacity linked to performance monitoring based on simple indicators. This internet-based information system should be centred on a single central database that is widely accessible. The system could be designed with the dual purpose of establishing a tool in the municipality for controlling its own programme and allowing monitoring at provincial and national scale. Information relating to the MIG programme could then be uploaded into the database by PMUs, after verification. The information can be made available to all national and provincial departments, to be used by them for their normal sector-based monitoring responsibilities.

Audit
An audit component dealing with annual financial, technical and social audits to ensure that information in the database is correct and that projects meet the criteria laid down by the MIG programme.

Evaluation
An evaluation component aimed at providing an in-depth assessment of the achievements of the programme as a whole, with recommendations for improvements to the programme, carried out by experts from time to time.

11.6 Engaging on specific MIG projects

The primary intention of the national structures established in support of the MIG programme is to ensure that funds are used in the best possible way to improve access to municipal services by the poor. In order to do this the role of the national MIG unit and sector departments is largely supportive with the intention being to work together with municipalities in the process of implementing projects.
This support takes place during the project cycle and national departments may require certain checks to be undertaken at specific stages of the project cycle. The nature of these checks and methodology for applying them will be covered in more detail in the programme manual.

11.7 Fund disbursement arrangements
Key parameters of the funding arrangement are identified below:

a) The funds for MIG will be appropriated to DPLG's budget and DPLG maintains overall responsibility for disbursing the funds.

b) The funds will be paid out at quarterly intervals in accordance with the formula but offset by one week from equitable share disbursements. Payments for SMIF projects will be made according to a schedule set up for the particular project.

c) All funds must be budgeted for by a municipality prior to any spending and must be audited as part of the annual audit process by the Auditor-General.

11.8 Roles of national departments
Certain responsibilities of national departments have been discussed in earlier sections. Their overall responsibilities relating to the MIG programme are summarised here.

Department of Provincial and Local Government (DPLG)
- Exercises financially accountability for the MIG programme.
- Administration of grant transfers.
- Setting up of the restructured MITT, chairing the MITT and its technical committee (MIT3) and providing them with the secretariat function.
- Setting up the MIG Unit
- Compile an annual report to parliament on the MIG programme.
- Monitor performance in respect of generic conditions.

National Treasury (NT)
- Administers legislation that has implications for the MIG programme, notably DORA.
- Incorporation of MIG conditions and transfers into DORA.
- Ensure that municipalities observe and operate within the macroeconomic framework driven by national government.

Department of Water Affairs and Forestry (DWAF)
- Policy making, including the setting of norms and standards for water services infrastructure.
- Planning oversight (regional and water service development plans).
- Monitoring of water sector related conditions and progress in meeting targets.
- Initiating intervention related to water services activities.

Department of Public Works (DPW)
- Set criteria related to poverty alleviation and employment generation.
- Advise municipalities on intensive labour based processes, systems, techniques and approaches.
- Liase with municipalities on procurement reforms.
- Monitor performance in relation to employment generation, labour based technology and SMME involvement.
**Department of Minerals and Energy (DME)**
DME's responsibilities will relate initially to policy development. Once the Integrated National Electrification Programme (INEP), has been incorporated into the MIG programme it will undertake similar responsibilities to those identified for DWAF.

**Department of Transport (DoT)**
- Policy relating to municipal roads and municipal transport.
- Monitoring of the performance of municipalities in the provision of roads and compliance with conditions applicable to this sector.
- Ensuring that funds allocated to transport infrastructure are properly spent.

**Department of Housing (DoH)**
- Coordination of policy and planning of housing development and the provision of infrastructure through the MIG programme.
- Synchronisation between the MIG programme and the Housing Fund.

**Department of Sport and Recreation South Africa (DSRSA)**
- Policy relating to sports and recreation.
- Ensuring that MIG funds are properly applied to building associated infrastructure.
- Monitor conditions applicable to this sector.

### 11.9 Responsibilities of provinces

Provincial departments play a number of roles, which have an impact on the MIG programme. These include:

a) Ensuring that municipal IDPs combine to form a viable development framework across the province, and are vertically integrated with the Provincial Growth and Development Strategy;

b) Ensuring that IDPs give priority to the basic needs of communities and promote the social and economic development of communities;

c) Promoting the development of local government capacity to enable municipalities to perform their MIG function;

d) Monitoring the financial status of municipalities through Project Viability; and

e) Providing technical advice to municipalities on the MIG programme.

### 12 The transition from existing grant arrangements to the MIG

In the future all grants for municipal infrastructure will be channelled to the municipality, as the service authority, via the MIG. The eight existing grant mechanisms identified in Section 3 will therefore be phased out. The overall objective is to have the institutional arrangements fully in place by June 2004 and to have all funding channelled via MIG in the February 2006 national budget. The process for doing this requires:

#### Institutional transition

The institutional transition will be take place in two stages, as follows:

- From July 2003 to June 2004 the pilot programme will be launched.
- In the 2006/07 financial year it will be established in all municipalities.

Central to this transition is the establishment of the **MIG management unit**. This unit must be established by June 2003 with its manager in place.

#### Budget transition

The formula-based allocations will be applied at pilot scale as from July 2003 and phased to full scale as from the 2006/07 financial year.
In order for this to happen the funding commitments for each of the existing programmes need to be clearly identified per municipality. These commitments, which will be declining, will be subtracted from the formula based allocations made to each individual municipality.
APPENDIX A

MIG FORMULA

\[ MIG_{(F)} = B + P + E + N + M \]

- **B** Basic residential infrastructure (new and rehabilitated)
  Proportional allocations for water supply and sanitation (72%), electricity (0%),
  roads (23%) and ‘other’ (5%) (Street lighting and solid waste removal)

- **P** Public municipal service infrastructure (new and rehabilitated)

- **E** Allocation for social institutions and micro-enterprises infrastructure

- **N** Allocation to all nodal municipalities

- **M** Negative or positive allocation related to past performance of each
  municipality relative to grant conditions

Vertical division of funds

<table>
<thead>
<tr>
<th>(Millions)</th>
<th>% Split</th>
<th>2004/05</th>
<th>2005/06</th>
<th>2006/07</th>
</tr>
</thead>
<tbody>
<tr>
<td>MIG (T)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SMIF + Management</td>
<td>4%</td>
<td>178</td>
<td>208</td>
<td>239</td>
</tr>
<tr>
<td>MIG (F)</td>
<td>96%</td>
<td>4268</td>
<td>4984</td>
<td>5748</td>
</tr>
<tr>
<td>B Component</td>
<td>75%</td>
<td>3201</td>
<td>3738</td>
<td>4311</td>
</tr>
<tr>
<td>Water &amp; Sanitation</td>
<td>72%</td>
<td>2305</td>
<td>2692</td>
<td>3104</td>
</tr>
<tr>
<td>Electricity</td>
<td>0%</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Roads</td>
<td>23%</td>
<td>736</td>
<td>860</td>
<td>991</td>
</tr>
<tr>
<td>Other</td>
<td>5%</td>
<td>160</td>
<td>187</td>
<td>216</td>
</tr>
<tr>
<td>P Component</td>
<td>15%</td>
<td>640</td>
<td>748</td>
<td>862</td>
</tr>
<tr>
<td>E Component</td>
<td>5%</td>
<td>213</td>
<td>249</td>
<td>287</td>
</tr>
<tr>
<td>N Component</td>
<td>5%</td>
<td>213</td>
<td>249</td>
<td>287</td>
</tr>
</tbody>
</table>
Table 2: Horizontal Division of Funds

<table>
<thead>
<tr>
<th>B Component</th>
<th>Formula</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Water &amp; Sanitation</strong></td>
<td><strong>Number of Water Backlogs in Municipality * 0.5 * W &amp; S Allocation</strong></td>
<td>+ Total Number of Backlogs in SA</td>
</tr>
<tr>
<td></td>
<td><strong>Number of Sanitation Backlogs in Municipality * 0.5 * W &amp; S Allocation</strong></td>
<td>Total Number of Backlogs in SA</td>
</tr>
<tr>
<td></td>
<td>Backlog = Household with less than basic access to water and sanitation</td>
<td>Basic access to water = Access to water within 200m of dwelling</td>
</tr>
<tr>
<td></td>
<td>Backlog = Sanitation = Ventilated Pit Latrine</td>
<td></td>
</tr>
<tr>
<td><strong>Electricity</strong></td>
<td><strong>Number of Electricity Backlogs in Municipality * Electricity Allocation</strong></td>
<td>Total Number of Backlogs in SA</td>
</tr>
<tr>
<td></td>
<td>Backlog = Household with less than basic access to water and sanitation</td>
<td>Basic access to electricity = Use of electricity for lighting</td>
</tr>
<tr>
<td><strong>Roads</strong></td>
<td><strong>Number of Roads Backlogs in Municipality * Roads Allocation</strong></td>
<td>Backlog = Household living in informal settlement</td>
</tr>
<tr>
<td></td>
<td></td>
<td>This may not be the most accurate measure of backlogs in roads, however official municipal data on backlogs in roads does not exist currently.</td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td><strong>Number of Other Backlogs in Municipality * Other Allocation</strong></td>
<td>Backlog = Household with less than basic access to refuse removal</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Basic = Refuse removal by municipality at least on a weekly basis</td>
</tr>
<tr>
<td></td>
<td></td>
<td>This may not be the most comprehensive measure of other services, however official municipal data on backlogs in other services such as street lighting does not exist currently.</td>
</tr>
<tr>
<td><strong>New and Rehabilitated Infrastructure</strong></td>
<td>We assume an 80:20 % split between new and rehabilitated infrastructure.</td>
<td>We cannot distribute the funds differently between new and rehabilitated infrastructure as suggested in the policy manual, as we lack information on an adequate measure for rehabilitated infrastructure.</td>
</tr>
</tbody>
</table>

8 All the data used in the formula has been obtained from Stats SA; namely Census 2001 and poverty data based on imputed household expenditure.
<table>
<thead>
<tr>
<th>Component</th>
<th>Formula</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>P Component</td>
<td>Number of Poor Households in Municipality * P Allocation</td>
<td>Total Number of Poor Households in SA</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Poverty threshold = R1100 household expenditure per month</td>
</tr>
<tr>
<td>New and Rehabilitated Infrastructure</td>
<td></td>
<td>We assume an 80:20% split between new and rehabilitated infrastructure.</td>
</tr>
<tr>
<td>Component</td>
<td>Number of Poor Households in Municipality * E Allocation</td>
<td>Total Number of Poor Households in SA</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Poverty threshold = R1100 household expenditure per month</td>
</tr>
<tr>
<td>N Component</td>
<td>Number of Poor Households in Nodal Areas in Municipality * N Allocation</td>
<td>Total Number of Poor Households in all Nodal Areas</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Poverty threshold = R1100 household expenditure per month</td>
</tr>
</tbody>
</table>
APPENDIX B

SECTOR SPECIFIC CONDITIONS (section 8.3 of the MIG policy framework document)

Each sector department (DWAF, DME, DoT, SRSA and DPW) may establish further conditions specific to their sectors. Such conditions will be included at the discretion of the Municipal Infrastructure Task Team.

1. Department of Public Works

   (a) A minimum of 10% of all projects related to rural roads, low volume municipal roads (less than 500 vehicles per day), pipelines, trenches and sidewalks have to be conducted in a labour-intensive manner in terms of the Expanded Public Works Programme (EPWP) guidelines issued by the Department of Public Works. The proportion of these types of projects to be done by hand will increase to 80% by 2008/09.

   (b) To issue contracts for projects of the above type only to consulting engineers and contractors who are qualified (either through undergoing training to be qualified or through gaining recognition of prior learning) in managing labour-intensive projects.

2. Department of Water Affairs and Forestry

   (a) The funding is only to be used for the Basic Water Services component of the projects. Basic water services in this case means Basic Water Supply Facilities and/or Basic Sanitation Facilities as defined in the Strategic Framework for Water Services, approved by Cabinet September 2003.

   (b) Projects to be funded must be within the Water Services Development Plan (WSDP) as the Sector Component of the Integrated Development Plan (IDP).

   (c) Projects to be funded must be proven to be viable, feasible, acceptable and sustainable based on a proper feasibility study.

   (d) To ensure sustainable operation and maintenance of the proposed infrastructure the operating, finance and management arrangements must be in place and committed.(If acceptable to the other sectors this could be a cross-cutting condition).
(e) Projects must be implemented in line with the policies as set by the Strategic Framework for Water Services and the legal requirements of the Water Services Act (Act 108 of 1997) as well as the National Water Act (Act 36 of 1998).

3. Department of Transport

(a) The development of road infrastructure to poor households that would create access to trade, local economic development and essential services and to promote road safety.