

# The Municipal Infrastructure Grant Programme

An Introductory Guide

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## 1. INTRODUCTION

The South African Cabinet approved the establishment of the Municipal Infrastructure Grant (MIG) on 5 March 2003. MIG is a new municipal infrastructure funding arrangement. It replaces all existing capital grants for municipal infrastructure and incorporates seven infrastructure programmes, namely:

- Consolidated Municipal Infrastructure Programme;
- Water Services Projects;
- Community Based Public Works Programme;
- Local Economic Development Fund;
- Building for Sports and Recreation Programme;
- Integrated National Electrification Programme to local government and the Integrated National Electrification Programme implemented by Eskom; and
- Urban Transport Fund.

### 1.2 About this document

DPLG is assigned the responsibility for managing MIG. It co-operates with other departments associated with municipal infrastructure through the Municipal Infrastructure Task Team (MITT). MITT is appointed by cabinet to co-ordinate infrastructure delivery. The participating organisations are:

- Department of Provincial and Local Government
- National Treasury
- Department of Water Affairs and Forestry
- Department of Minerals and Energy
- Department of Transport
- Sports and Recreation South Africa
- Department of Public Works
- Department of Housing
- Department of Environment Affairs and Tourism
- South African Local Government Association

To ensure the effective management of MIG, the management of the MIG programme, reports to MITT.

This document provides all stakeholders with an introduction to the MIG programme, what it is and how it works. It aims to assist councillors, municipal officials and others to gain a broad understanding of how the programme works.

More detailed information is available from the Department of Provincial and Local Government (DPLG), specifically:

- Policy framework for the introduction of the Municipal Infrastructure Grant, January 2004.
- Programme operating manual for the Municipal Infrastructure Grant, November 2003.
- Guideline document for the establishment of Project Management Units, Draft 1, January 2004.

## 2. THE VISION OF THE MIG PROGRAMME

The vision of the MIG programme is to provide 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.

## 3. MISSION

The MIG programme has been designed to achieve the following:

- Access to basic services;
- Consolidation of funding arrangements;
- Decentralised service delivery;
- Job creation through Extended Public Works Programme;
- Local economic development;
- Empowerment of municipalities; and
- Poverty alleviation

## 4. WHY HAVE A MIG PROGRAMME?

In the past infrastructure grants were uncoordinated, fragmented and managed by different departments. This defeated the purpose of cost effective and integrated service delivery. Municipalities were often not in control of infrastructure projects within their jurisdiction. Further, projects were handed over to municipalities without resources for the maintenance and operation of the resulting infrastructure.

Hence the new demand driven approach with:

- All infrastructure grants integrated into one;
- Programme co-ordination through one structure, the MIG unit;
- Funding allocations linked to Integrated Development Plans (IDPs);
- Communities participating in identifying projects;
- Infrastructure planning done by municipalities themselves; and
- Predictability of capital grant allocations.

## 5. ROLE PLAYERS AND STAKEHOLDERS

### 5.1 Functions of municipalities

There are four key functions municipalities undertake with respect to MIG:

- Project selection and integration with IDPs;
- Receiving an allocation of MIG funds;
- Administration of MIG funds received into municipal accounts; and
- Management of MIG projects.

All municipalities perform the first function. But not all municipalities perform the other three. The responsibility for these three functions is defined as follows:

- A phased-in approach is used in the allocation of MIG;
- All metros, district municipalities and high capacity local municipalities administer MIG funds and manage MIG projects from the outset. The high capacity local municipalities are referred to as Type 1 LMs;
- Moderate and low capacity local municipalities do not administer MIG funds or manage MIG projects for the first year of the MIG programme (2004/05). These municipalities are referred to as Type 2 and 3 municipalities;
- District municipalities will administer MIG funds and manage MIG projects on behalf of Type 2 and 3 municipalities in the first year of the MIG programme;
- For following years of the MIG programme (2005/06 onwards) DPLG will establish criteria for deciding on the functions of Type 2 and 3 municipalities as part of the MIG programme;
- DPLG will develop a phased-in, capacity building approach to elevate the status of other municipalities so that they can administer the funds; and
- National and provincial government will build the capacity of Type 2 and 3 municipalities to undertake MIG functions.

### HOW WILL MIG FINANCIAL RESPONSIBILITIES BE PHASED IN?

MIG financial responsibilities will be phased in as follows:

	2004/05	2005/06	2006/07
Allocation of MIG funds	Funds paid to metros, district municipalities and Type 1 municipalities only	Funds allocated to all municipalities	Funds allocated to all municipalities
Administration of MIG funds	Funds administered by metros, district municipalities and Type 1 municipalities only.	Administration of funds may be delegated to Type 2 LMs.	Funds administered by all municipalities except Type 3 LMs.
Management of MIG projects	Only metros, district municipalities and Type 1 municipalities manage MIG projects.	New Type 1 LMs may be identified to take on MIG management responsibilities.	
Current CMIP and Water Services grant commitments. (See 8.3 for more on this).	CMIP and WS grants included on MIG allocation.	CMIP and WS grants included on MIG allocation.	CMIP and WS grant programmes no longer get allocations.
MIG programme management capacity building	Administration of funds for Type 2 municipalities.	Management of MIG projects for Type 2. Administration of funds for Type 3.	Management of MIG projects for Type 3 Municipalities

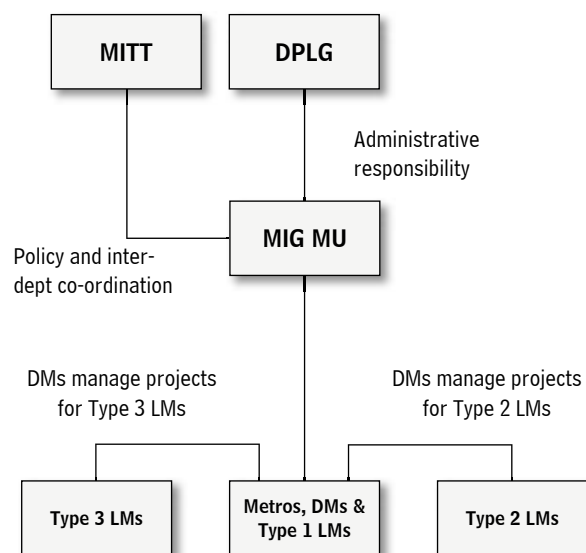
### 5.2 The role of the national MIG management unit

The national MIG management unit (MIG MU) is responsible for:

- Implementing policy relating to infrastructure delivery.
- Setting up the MIG national fund administration system, including monitoring arrangements.

- c) Facilitating 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 with MIG.
  - g) Ensuring that evaluation of local programmes takes place.
  - h) Preparing reports to MITT and provincial and national government departments.
- The relationship between the MIG MU and other bodies is shown as Figure 1.

**Figure 1: Management of MIG projects**



From the point of view of municipalities which have MIG project management responsibilities, the role of the MIG MU can be seen from two perspectives:

- A supportive, or capacity building role, through which the MIG Management Unit (MU) assists municipalities to establish effective Project Management Units (PMUs) and associated systems for PMUs to function.
- A monitoring role through which the MIG MU measures performance. This is done through the flow of information into the national database, through regular audits and through evaluations which will be undertaken at certain intervals.

### 5.3 The role of provincial administrations

Provincial administrations support and regulate the activities of municipalities. This includes:

- Ensuring that IDPs are properly prepared;
- Developing the capacity of municipalities to effectively manage the infrastructure provided using MIG funds;

- Monitoring financial performance of municipalities;
- Providing technical advice on the MIG programme related to infrastructure for which provinces have responsibility (roads for example); and
- Undertaking MIG monitoring and capacity building on behalf of the national MIG MU. This may be delegated to specific provincial administrations by DPLG.

### 5.4 The role of national departments

Nine national departments participate in the MIG programme. Their responsibilities are summarised below:

Department	Policy	Support	Regulation
Provincial and Local Government	Responsible for implementing MIG policy on behalf of all departments.	Establishes MIG administrative structures; administers transfers of funds; provides support to PMUs	Monitors performance of overall MIG programme.
National Treasury	Overall allocation of funds, through DORA.		Establishes specific MIG conditions
Water Affairs and Forestry	Sets norms and standards for water services infrastructure.	Planning oversight.	Monitors conditions specific to water services.
Public Works	Establishes criteria relating to poverty alleviation.	Provides advice on labour based construction and procurement.	Monitors poverty alleviation conditions.
Minerals and Energy	Only becomes active once electricity funding is incorporated into MIG		
Transport	Policy relating to municipal roads and transport.		Monitors performance relating to specific roads and transport conditions.
Housing	Co-ordination of housing and infrastructure policy; synchronisation of housing and infrastructure funding.		
Sport and Recreation	Policy relating to sport and recreation.		Monitors performance relating to specific sport and recreation conditions.
Environmental Affairs and Tourism	Policy relating to municipal solid waste (refuse) services.		Monitors environmental performance.

## 6. MONITORING AND CONTROL

### 6.1 The monitoring and control framework

MIG is a conditional grant and municipalities must conform to conditions laid down by MITT and administered by DPLG through the MIG MU. The conditions are described in 8.7.

In order to regulate the performance of municipalities in using MIG grants the monitoring and control framework:

- Sets standards and conditions as part of MIG policies;
- Establishes a monitoring system, including reporting requirements for municipalities; and
- Controls the funding.

### 6.2 How monitoring takes place

DPLG will establish a national MIG information system to manage information on all MIG projects and all municipalities using MIG funds. Municipalities with management responsibilities will have to provide information to this system. The ongoing allocation of MIG funding is dependent on the quality of the information provided.

### 6.3 Reports from the MIG system

The MIG MU will generate reports from the information system on overall progress of the MIG programme and the performance of individual municipalities. These will be generated monthly, quarterly and annually and will be available to government bodies.

### 6.4 Controls

Controls will be applied in two ways, firstly on the routine management of funds; and secondly on changing funding flows based on the performance of municipalities in the use of MIG funds.

In the first instance the provisions of the Division of Revenue Act (DORA) will apply. This sets out the responsibilities of the national transferring officer in DPLG and the receiving officer in the municipality.

In the second instance the MIG conditions stipulate either penalties or rewards for municipalities related to their performance in using MIG funds.

For each of the conditions listed, indicators have been developed and the municipality will be required to provide information relating to these indicators to the MIG MU. Where there is under-performance in relation to any of the conditions, the future funding allocation will be reduced accordingly.

## 7. CAPACITY BUILDING

National and provincial government will support municipalities with regard to the MIG programme. This will aim to:

- Establish MIG systems; and
- Establish MIG programme management capacity.

While this capacity building is aimed at the MIG programme it will link with other capacity building initiatives of government.

## 8. MIG FUNDING ARRANGEMENTS

This deals with how MIG funds are calculated and how the funds are received and used by municipalities.

### 8.1 How funding will be phased in

According to the Division of Revenue Bill, 2004, allocations from the national budget for municipal infrastructure are planned as follows:

(R million)	2003/04	2004/05	2005/06	2006/07
Amount allocated to MIG	47	4 446	5 193	5 987
Total Allocations to municipal infrastructure	4 137	4 986	5 589	5 987

Data Source: National Treasury: Division of Revenue Bill, 2004. Table E16.

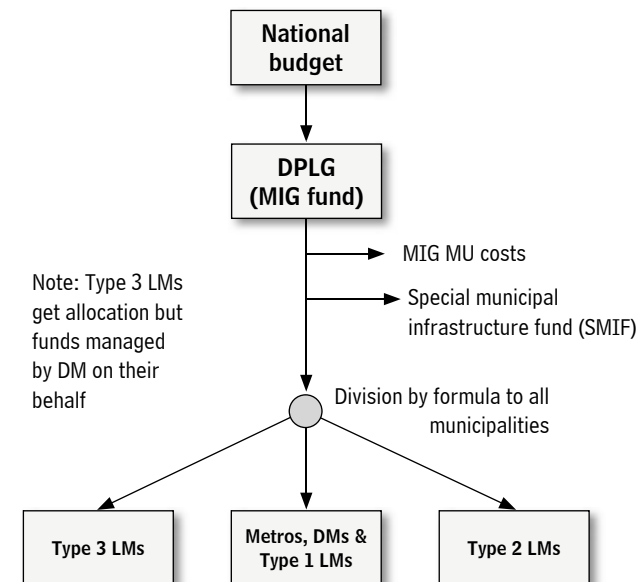
MIG will be implemented at full scale from 2004/05.

All municipal infrastructure funds will by 2006/07 be channelled via the MIG grant with the other seven grants, referred to in 8.4, phased out.

### 8.2 How national funds are divided between municipalities

The funds are allocated using a formula which first splits the national total amount into different components as shown below:

Figure 2: Allocation of funds to municipalities

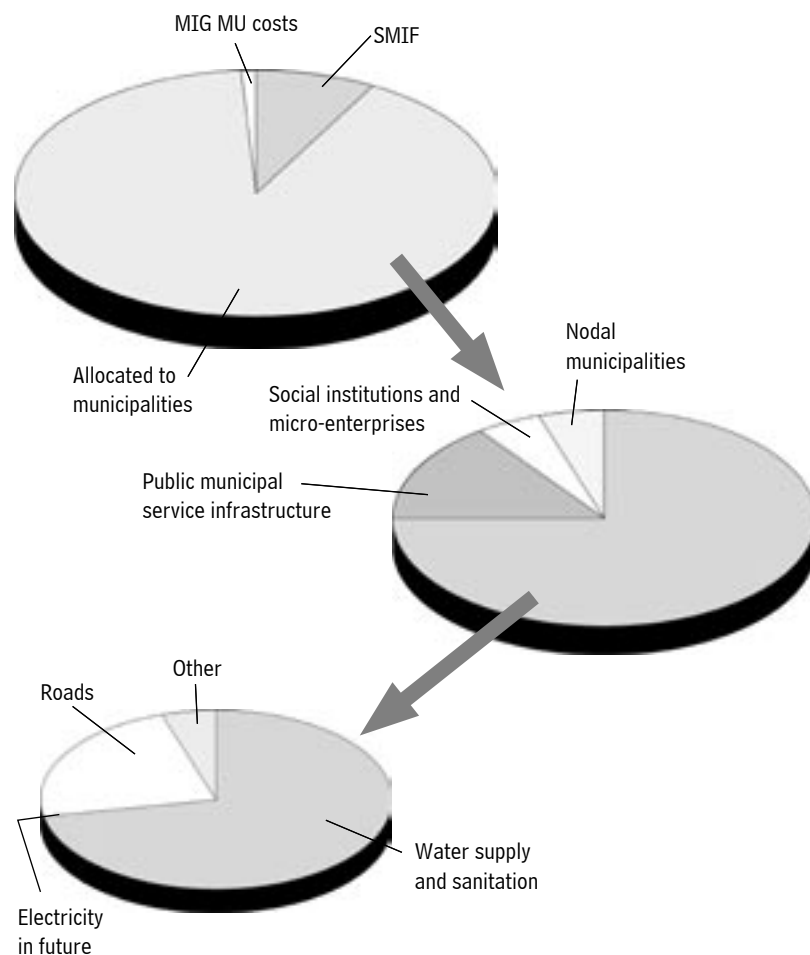


The amount allocated for each type of infrastructure is then divided between all municipalities based on an assessment of the backlog of infrastructure in that municipality as follows:

- The national MIG allocation from the budget is split into each type of infrastructure. So, for example, a national 'pot' for water supply is created.
- For each type of infrastructure, for example water supply, the national pot is divided between municipalities which have water supply responsibilities based on their backlogs.
- Thus municipalities with bigger backlogs in water supply get more MIG funding.
- In this way municipalities are given a MIG allocation for each type of infrastructure.
- The allocations for each type of infrastructure are then added up for each municipality to calculate its total MIG allocation for the year.

The way the funds are split is shown diagrammatically as Figure 3.

**Figure 3: National split of MIG funds**



### 8.3 What MIG funding is used for

The type of infrastructure which may be funded with MIG funds is set out below:

Infrastructure category	Services included
Residential services	'Plot package' including: electricity, stormwater management, water supply, sanitation, municipal roads, refuse removal and street lighting.
Services provided to institutions other than public municipal services.	This applies particularly to services which are the responsibility of other government departments, such as schools, provincial clinics etc. This is limited to the 'plot package'.
Public municipal services	Facilities required for: <ul style="list-style-type: none"> <li>Municipal public transport.</li> <li>Emergency services such as fire stations.</li> <li>Community services such as cemeteries, local sports facilities and local amenities.</li> </ul>
'Standard services' to business premises	Only the 'plot package' may be provided. Buildings are excluded.

MIG funds may only be used for basic infrastructure, which will be defined for the programme. This applies to new infrastructure and for rehabilitation (reconstruction of infrastructure which has reached the end of its life).

Further, MIG funds may only be applied to fund these services where they are used by the poor. (In the case of business this means that if the owners of the business are not poor MIG funds cannot be used).

This limitation means that where the infrastructure is used by a mix of poor and non-poor citizens, other capital funds (not MIG funds) must be used to cover the cost of providing for the non-poor.

Note that housing related infrastructure (the internal services provided as part of a housing package) is excluded as this is funded via a separate housing subsidy.

### 8.4 Accessing MIG funds

The amount of MIG funding due to a municipality each year is calculated by a formula and published in the Division of Revenue Act (DORA). No application is necessary and the amount is paid out automatically, provided certain conditions are met (See 8.7 for more on conditions). MIG funds are paid into the account of the municipality (or the district municipality acting for other municipalities).

The way the amount of funding is calculated is covered in 8.2.

#### HOW MIG RELATES TO CMIP AND OTHER PROGRAMMES

Other than MIG there are seven programmes which provide funds for municipal infrastructure of some sort. These are listed in the table below:

	Responsible department	2003/04 allocation (R million)	2004/05 allocation (R million)
Consolidated Municipal Infrastructure Programme	DPLG	2 246	-
Water Services Projects	DWAF	1 102	160
Community Based Public Works Programme	DPW	260	-
Local Economic Development Fund	DPLG	117	-
Sport and Recreation facilities	DSR	123	132
National Electrification Programme to LG	DME	240	248
Urban Transport Fund	DoT	9	-
Municipal infrastructure grant2	DPLG	47	4 446
Subtotal capital		4 137	4 986

Data Source: National Treasury: Division of Revenue Bill, 2004. Table E16

It is evident that there will be major changes to funding allocations from national government in the coming year. Almost all the funding for municipal infrastructure will now be channelled through the MIG grant. But it is important to note that current CMIP and water services projects commitments will be provided for as part of the MIG allocations to municipalities.

#### 8.5 Schedule of payments

Funds will be paid quarterly into the accounts of those municipalities that receive MIG funding allocations. As noted in 5.1, only metros, district municipalities and Type 1 local municipalities are expected to administer MIG funds allocations in 2004/05. From then other municipalities will also be required to administer MIG funds.

#### 8.6 Withdrawal of MIG funds

MIG is a conditional grant and if municipalities do not perform, in terms of the conditions listed in 8.7, then the grant amount in following years will be decreased. This is essential to prevent the misuse of national funds to support access to infrastructure by the poor.

#### 8.7 Conditions applied to the use of funds

The following conditions apply. If the municipality does not comply, then MIG funding allocations will be reduced.

- 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.
  - c) Restrictions on eligibility: Spending of MIG funds is restricted to those categories of infrastructure, beneficiaries and levels of service of the MIG Policy Framework document. 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) 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.
  - g) 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.
  - h) Financial reporting. The recipient municipality has submitted its financial statements to the Auditor-General on time.
  - i) Management capacity: The recipient municipality has demonstrated that it has the capacity to manage the infrastructure investment programme.
  - j) Reporting: The recipient municipality has prepared and submitted all monthly reports on grant utilisation in a prescribed format by a specified time.
  - k) 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.
  - l) 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.
- Municipalities should also adhere to sector conditions.

## 9. IMPLEMENTATION FRAMEWORK

### 9.1 Planning arrangements

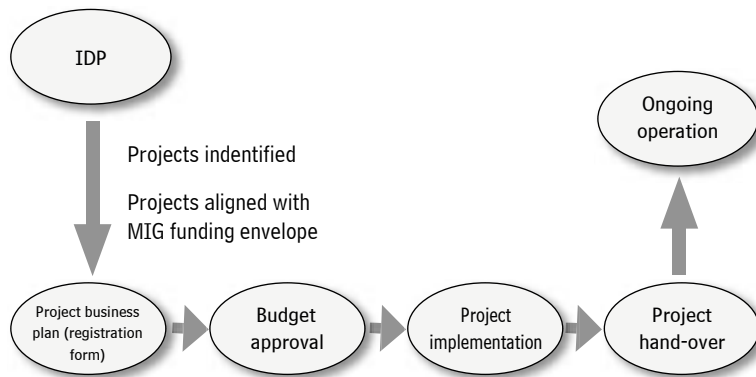
#### HOW MIG RELATES TO THE IDP

All MIG projects must be identified in the IDP and the MIG conditions will be clear about what is required in an IDP. This implies that:

- For the first three years of the five year infrastructure plan in the IDP, the total amount of capital grant funds provided for in the IDP must equal the medium term allocation of MIG funds (and other capital grants) to the municipality given in the Division of Revenue Act (DORA).
- Each project to be funded with MIG funds, as part of the current year's budget, must appear in the IDP, which is typically updated in the previous year.
- The IDP must contain details of the level of service to be applied for all infrastructure and the rate at which the overall backlog in providing infrastructure is to be reduced.
- The IDP must include an assessment of the operating expenditure of all infrastructure under the control of the municipality, with an assessment of the operating revenue which will be raised to cover this expenditure.

The diagram below illustrates how the project cycle works.

Figure 4: Overview of the project cycle



#### HOW MIG FUNDS ARE INTEGRATED INTO THE MUNICIPAL BUDGET

All MIG funds allocated to projects must be contained in the annual capital budget of the municipality. This implies that the process for funding a MIG project is as follows:

- The project is identified in the IDP.
- A three year capital plan based on project business plans (or feasibility studies) is prepared.
- A MIG project registration form is completed
- Funds (including MIG funds) are allocated to the project in the municipal budget.

#### MAXIMISING THE DEVELOPMENT IMPACT OF MIG FUNDS

One of the key conditions of the MIG grant is that it must be used to maximise employment generation and promote small, medium and micro enterprises. At a national scale the MIG programme is seen as a central part of government's Expanded Public Works Programme. Locally, the MIG programme should be integrated into the municipality's local economic development programme.

The achievements of the municipality with regard to employment creation and business development will be monitored by the MIG MU and, where specified goals are not met, MIG funding will be reduced.

#### FUNDING LARGE PROJECTS WHICH CROSS MUNICIPAL BORDERS

The MIG programme includes a Special Municipal Infrastructure Fund (SMIF) (See figure 2 for flows of funding) This provides for large projects that cross municipal borders and are not clearly the responsibility of one municipality. These projects are typically planned with the support of a national or provincial department.

In order to gain access to capital from the SMIF, a municipality needs to engage with the national or provincial department responsible for the particular type of infrastructure, and with neighbouring municipalities. A business plan for the regional project will then be prepared by this grouping and submitted to the MIG MU for funding from the SMIF.

#### FUNDING PROJECTS WHERE NON-POOR RESIDENTS AND BUSINESSES BENEFIT

MIG funds can only be used to fund basic infrastructure to the poor. Yet almost all projects provide infrastructure which also serves those who are non-poor, including businesses. This means the municipality must raise capital from other sources (excluding MIG and other capital grants) to finance the part of the infrastructure which does not serve the poor. Typically these funds are sourced from:

- Internal capital funds;
- Capital contributions by non-poor consumers;
- Private sector funding;
- Equities; and
- Loans.

### 9.2 MIG management arrangements by local government

As noted only certain municipalities are responsible for managing MIG projects: metros, district municipalities and Type 1 local municipalities. District municipalities manage projects on behalf of Type 2 and 3 local municipalities. This section of the guide is aimed only at those municipalities with MIG project management responsibilities.

#### WHAT A MUNICIPALITY NEEDS TO DO TO MANAGE MIG PROJECTS

With certain exceptions, all metros, DMs and Type 1 LMs must establish a project management unit (PMU) to take responsibility for managing MIG projects. The exception applies to metros which can demonstrate to the MIG MU that they are able to effectively manage the MIG programme without a PMU.

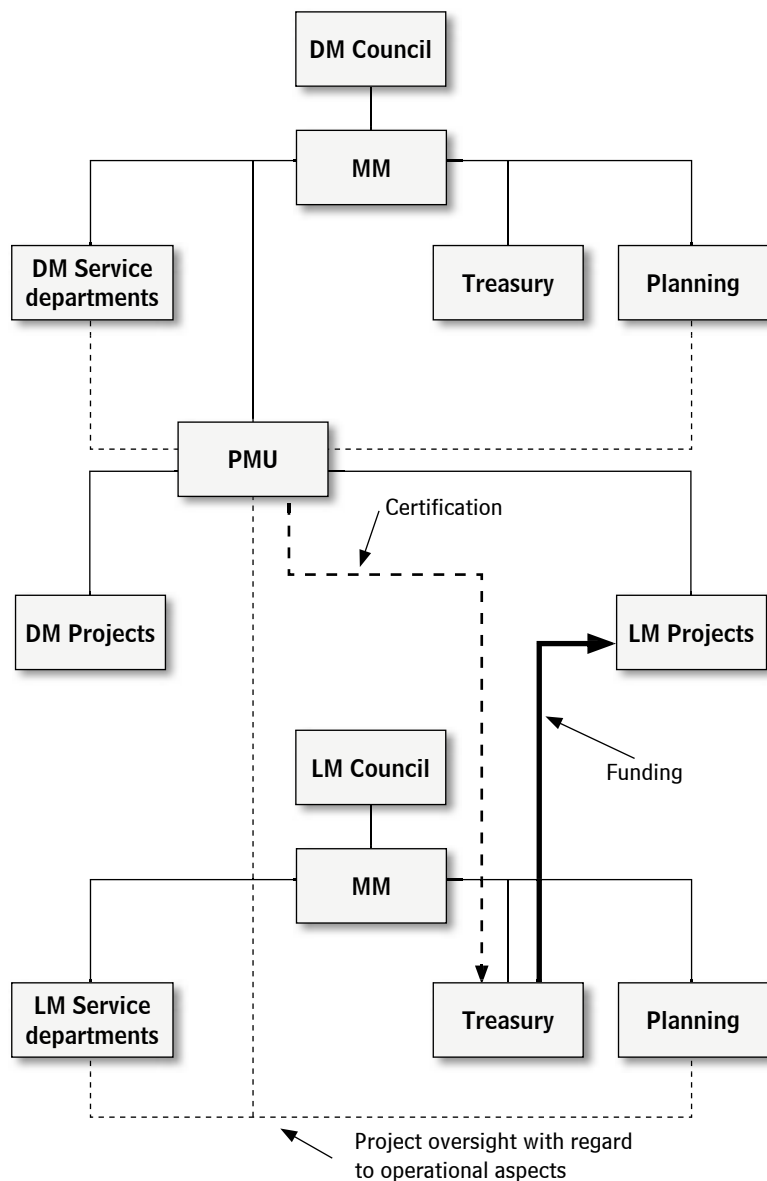
In all cases municipalities with project management responsibilities will have to appoint a single person to act as the MIG programme manager. This individual will be directly responsible for the success of the MIG programme in the area and for running the PMU, with the exception of those metros without a PMU.





For a PMU established in a district municipality it is particularly important for the unit to establish good working relationships with the local municipalities it serves (Type 2 and 3 local municipalities). The relationship is illustrated in the diagram below:

**Figure 6: Relationship with another municipality with no PMU**



Where a municipality does not believe it has 'in house' staff with the skills and time to manage the MIG programme for the area, the municipality may contract out certain PMU functions to external service providers.

**FUNDING THE PMU**

PMU operating costs, up to a limit of 5 percent to a maximum of R3,5 million, may be funded from the MIG allocation made to the municipality.

**WHAT INFORMATION NEEDS TO BE PROVIDED BY THE MUNICIPALITY ON MIG PROJECTS?**

One of the most important roles of the PMU is to run a project information system. This has three purposes:

- To track progress with each project;
- To provide management information for the municipalities served by the PMU; and
- To provide information to the national MIG MU on progress and performance relating to MIG conditions.

This information will be entered into the national MIG information management system described in 6.2.

**9.3 Operation and maintenance of infrastructure**

It is essential for infrastructure which is provided under the MIG programme to be properly operated and maintained. Therefore one of the conditions of MIG funds is that the municipality must prove that it has the capacity to manage the infrastructure.

This requires a sound viability assessment of the planned infrastructure investment programme. This assessment must be linked to the IDP and sector plans. DPLG will establish a basis for ensuring that such viability assessments take place.

