A white toilet is shown from a low angle, splashing water. The water is captured in mid-air, creating a dynamic scene with many bubbles and droplets. The background is a light, clean white, making the blue water stand out.

# Towards the Effective Use of Sanitation Subsidies: **A GUIDE**

Melanie Wilkinson  
& Louiza Duncker



# **TOWARDS THE EFFECTIVE USE OF SANITATION SUBSIDIES: A GUIDE**

**Melanie Wilkinson and Louiza Duncker**

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# EXECUTIVE SUMMARY



It is widely acknowledged that hygienic sanitation is necessary to sustain human life and to ensure good health and human dignity. As a result, the South African Government has committed itself to universal access to sanitation. As part of this commitment, poor households<sup>1</sup> are provided various sanitation subsidies to gain access to a basic level of sanitation service. A sanitation subsidy can be defined as *any financial support offered to a household to meet national sanitation policy objectives*.

The two key mechanisms of provision of subsidised sanitation services to poor households in South Africa are those that provide a sanitation facility directly to a household (household subsidy) and provision of sanitation facilities as part of a subsidised housing service (housing subsidy). These sanitation subsidies stem largely from public funds, but may also flow from donor inputs. It is important to note that in the sanitation sector not all subsidies are for the cost of the sanitation infrastructure (i.e. toilet facility), but may include financial assistance for a range of activities including project management and health and hygiene awareness and promotion.

South Africa has been providing poor households with this sanitation subsidy for many years. At the same time a number of perceptions have evolved in the sector related to these subsidised sanitation services, including:

- That despite industry and governmental guidelines recommending a ceiling amount per household for the provision of a basic sanitation service, perceptions are that capital and institutional social development (ISD) costs of provision of basic sanitation services are much higher than this recommended unit cost.
- There is a growing perception that the capital cost for construction of a basic sanitation facility in the past 10 years has been unreasonably high.
- There are perceptions in the sector that some households have benefited from more than one subsidy.

The question thus remains: is the sanitation sector effective and responsible in their use of public funds and if not, how can the sector become effective and responsible in their use of the sanitation subsidy? This became the research question of a WRC commissioned study with the outcome of this research the current Guide and a Technical Report (WRC Report No. 2136/14/2), which provides more details of the research informing this Guide.

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<sup>1</sup> Households with household income below R2 300 per month (Treasury, 2013).

The purpose of this Guide is to provide guidance to role players in the sanitation sector on how to apply and use the sanitation subsidies effectively and responsibly, focusing on subsidies used for a basic level of sanitation service funded through the Municipal Infrastructure Grant (MIG), Local Government Equitable Share (LES) and National Housing Programmes.

The guideline includes the following sections:

### **SECTION 1: Introduction**

Section 1 of the Guide introduces the sanitation subsidy sector in South Africa and the purpose of the Guide.

### **SECTION 2: Overview of the legal “right” to sanitation in South Africa**

This chapter describes the contents of the right to sanitation, its contributions and its limitations.

The key discussion points in this section of the Guide related to:

1. how the Constitution of South Africa, which is the cornerstone of all policy and legislation in the country, does not directly refer to the right to sanitation, but does implicitly express this right through the right of all citizens to an environment that is not harmful to their health or well-being. The Constitution also recognises the right of access to adequate housing, which includes the provision of water and the removal of sewage; and
2. that the Water Service Act (Act No. 108 of 1997a), the principal policy regulating water service provision in South Africa, legitimises this constitutional right to sanitation and legitimising the right of everyone to access to basic water supply and basic sanitation, subject to the limitations contained in the Act. These basic sanitation services rights are, however, a socio-economic and people-centred right that is not absolute or immediate. Government is required to take reasonable steps to progressively achieve the full realisation of the rights, using their maximum available resources.

### **SECTION 3: Definition of terms**

Due to disparity in the definitions of terms applied in the sector, Section 3 provides and discusses the terms that are applied in the Guide. Very often, when sanitation specialists and non-specialist begin discussions on ‘subsidised sanitation’, the first two questions asked are usually, ‘what is subsidised sanitation’ and ‘does this really exist in South Africa’. To lend clarity to this issue, definitions of a subsidy and a sanitation subsidy and how these relate to government supported sanitation initiatives in South Africa are provided.

### **SECTION 4: Policy governing subsidised sanitation in South Africa**

This section provides a discussion on the key policies that govern crucial components of the subsidised sanitation sector, including the following:

- South Africa, since 1994, has developed and implemented a number of sanitation-related policies that regulate the sector. The original development policy in the country, the Reconstruction and Development Programme (RDP), identified the provision of infrastructure for services such as housing, water supply and sanitation as one of the key elements of developing the South African economy along this new path.
- The RDP informed the development of four policies that guide the sanitation sector, namely the 1994 White Paper on Water Supply and Sanitation (WS&S) Policy, the 1994 New Housing Policy and Strategy White Paper, the 1997 White Paper on a National Water Policy and the 2001 White Paper on Basic Household Sanitation (BHS).
- The 1994 White Paper on Water Supply and Sanitation and the New Housing Policy and Strategy White Paper was the first two White Papers to introduce the need for the development of a state subsidy for the provision of a minimum basic sanitation for poor household and to implemented national housing programmes that include the *provision of water, sanitation, roads, storm water drainage and domestic energy to housing developments*. These two policies did not cover operational and maintenance costs.
- Unfortunately, subsequent sanitation-related policies, strategies and frameworks have led to a number of contradictions that currently confuses the provision of sanitation services in South Africa.
- As a result, this section summarises a thorough review of these policies.

#### **SECTION 5: Background to sanitation subsidy funding in South Africa (at 2013)**

In this section the chief funding source for subsidised sanitation service provision are outlined and discussed, including:

- That the Minister of Water Affairs is responsible for the granting of loans/subsidies and the developing of the regulations that administer these loans and subsidies.
- Two types of financial support are provided, through DoRA, to provincial and local government to meet these obligations of water service provision; namely conditional grants and unconditional grants.
  - Conditional grants include the MIG, USDG, RHIP and HSDG, all of which have conditions attached to them. As the regulator, the DWA has attached conditions to MIG funding.
  - Unconditional grants include the LES, which do not have conditions attached and allow the recipient (municipality) to determine how these funds are utilised. However, Treasury has provided a formula that determines the fund allocated to a municipality. This formula includes a basic service component to provide free basic service to household that fall below the affordability threshold of R2300 (as of 2013).

#### **SECTION 6: Guidance to national, provincial and local interventions for effective and responsible use of the sanitation subsidy**

This section of the guide focusses on two key aspects of sanitation subsidy use, namely effective and responsible (efficient) use of the subsidy.

Effective subsidised sanitation services in South Africa are defined as *doing the **right thing*** with reference to the use of the subsidy. For the purposes of this Guide, the effective use of sanitation subsidies is defined as the use of the subsidy to achieve policy, strategy, framework, guideline and unit standard requirements and national social, economic and environmental imperatives. To create this good governance and a sound enabling environment, the following additions to the current sanitation subsidy environment are required:

1. An unambiguous and irrefutable sanitation subsidy policy and legislative environment including review and update of the policy positions to reflect the needs of the sanitation subsidy sector.
2. Sanitation subsidy regulations have been developed and implemented.
3. A capable subsidy management structure is in place.
4. Subsidised sanitation norms and standards have been developed and applied.

On the other hand, responsible use of the sanitation subsidy is defined as *doing the **thing right***, which has an element of cost effectiveness in the use of the subsidy. For the purposes of this guideline, the responsible use of sanitation subsidies implies the use of the subsidy to provide sanitation in the most cost effective manner; i.e. the benefits of provision outweigh the social, economic and environmental costs of providing such service. Responsible subsidised sanitation in South Africa will require the following additions to the current sanitation subsidy environment in the country:

1. Planning of sanitation subsidies based on the full cost of sanitation and responsible utilisation of the subsidy.
2. Planning sanitation subsidies for a delivery of service at scale.
3. Planning subsidies on needs and not on subsidy amounts or budgets.
4. Planning subsidies for environmental appropriate subsidised sanitation.
5. Clear and evident targeting mechanisms for equitable subsidised sanitation.
6. Strategy development for effective and responsible use of sanitation subsidies at local level.
7. Implementation of subsidised sanitation for ownership.

## **SECTION 7: Conclusions**

South Africa has made significant progress in the past 17 years in the water services sector, having met both the water supply and sanitation Millennium Development Goals of halving the proportion of people without safe water supply and adequate sanitation by 2015. However, recent reviews of provision of these services to the poor through the free basic services and subsidy process have shown that South Africa has a very long way to go to meet the post-2015 Sustainable Development Goals.

There is a growing recognition of the need for a collaborative and harmonised subsidy system in South Africa. National departments, local government, funding agencies, donors, NGOs and service providers need to have convergence in the subsidised sanitation sector on policies, regulations,



norms and standards, as well as on definitions, indicators and benchmarks; planning and implementation methods, process and procedures and, most importantly, on the management and use of sanitation subsidies effectively and responsibly through benchmarking, ring-fencing of funds and through strong and consistent monitoring and reporting.

A summary of recommendations to facilitate effective and responsible use of sanitation subsidies in future include:

- **To address the policy omissions and gaps in effective and responsible use of sanitation subsidies:**
  - The development and implementation of a sanitation subsidy policy, or strong sanitation subsidy positions being amended in current policy.
  - Sanitation policy positions need to be followed by legislative updates.
  - Clarity is required on:
    - common definitions and terms related to sanitation and sanitation subsidies;
    - who the beneficiaries of capital subsidies for sanitation are;
    - who should be targeted in the free basic sanitation subsidy; and
    - what costs are addressed by the sanitation subsidy in urban and rural areas.
  - Policy positions on sanitation subsidies on private and rental properties are needed.
  - Policy guidelines are needed for the integration of water conservation and water demand management strategies into the delivery of basic sanitation services and appropriate economic and legal instruments for enforcing compliance.
  - A coordinated strategy for sanitation subsidies, mandated by policy, should be developed to guide implementation at local level.
  - Policies and guidelines, to allow the various forms of private sector participation in the provision of basic sanitation, should also be adopted.
- **To address regulation of effective and responsible use of sanitation subsidies at a national level:**
  - The development, application and enforcement of regulations related to sanitation subsidies to provide clear direction and limitations to the sector.
  - Integration of national sanitation subsidy regulations into municipal sanitation by-laws.
- **To ensure effective use of sanitation subsidy:**
  - There is a need for regulations for ring-fencing subsidised sanitation funding.
  - These regulations should be supported by guidelines to assist local government in ring-fencing their sanitation subsidy interventions.
  - There is a need for national norms, standards and building codes for minimum acceptable level of a subsidised sanitation service to meet the requirements of constitutional right to an environment that is not harmful to the health of all people.
  - Capacity should be built in local government in order to make objective and well-informed decisions regarding the use of subsidies for sanitation.

- There is a need to ensure that implementation processes/procedures are well understood by all.
- There is a need to apply lessons learnt from history at the various government levels.
- The subsidy needs to focus on the most needy communities and local municipalities.
- **To ensure the responsible use of subsidised sanitation funds**
  - Subsidised sanitation funds, including those from MIG, LES and other sources, need to be ring-fenced.
  - Subsidy ring-fencing must be linked to the subsidy benchmarking activities of a local municipality.
  - There is a need for policy to guide municipalities on the ring-fencing of operational budgets for provision of basic sanitation services.
  - Subsidised sanitation need to be planned based on the *full supply cost* of the facility.
  - Subsidised sanitation services need to be planned based on the *full cost* of the service.
  - Subsidised sanitation services provision should be planned at scale.
  - Sanitation subsidy amount needs to be based on sound data of the actual cost of supplying a sanitation service in various situations –geo/bio-physical situation, geographic location, etc.
  - A strategy/guideline of mechanisms for more effective targeting of the household and housing sanitation capital subsidy is needed.
  - Alternative processes of dispersing these subsidies need to be considered.
  - Different options of targeting need to be considered to address ineffectiveness in targeting the neediest households.
  - A national guideline on sanitation subsidy needs to be developed and implemented.
  - Subsidised sanitation and hygiene programmes, which focus on behaviour change and other hygiene issues, should be targeted at all households and should be provided for through other fiscal means separate from sanitation subsidy.
  - Effective sanitation communication requires good information, strategic networking, continuous learning and using information and communications tools and technologies to our best advantage.
  - Community mobilisation and hygiene promotion interventions are necessary to maintain the level of services provided through the subsidy.



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## LIST OF ABBREVIATIONS

BNG	Breaking New Ground
CIP	Comprehensive Infrastructure Plans
CoGTA	Department of Cooperative Governance and Traditional Affairs
DBSA	Development Bank of Southern Africa
DHS	Department of Human Settlements
DLA	Department of Land Affairs
DH	Department of Housing
DoH	Department of Health
DORA	Division of Revenue Act
dplg	Department of Provincial and Local Government
DWA	Department of Water Affairs
EPHP	Enhanced People's Housing Process
EPWP	Expanded Public Works Program
FBS	Free Basic Services
FBSan	Free Basic Sanitation
FLISP	Finance Linked Individual Subsidy Programme
GEAR	Government's Growth, Employment and Re-distribution Strategy
H&HE	Health and Hygiene
HDA	Housing Development Agency
HH	Households
IDP	Integrated Development Plan
IGRFA	The Intergovernmental Relations Framework Act, 2005 (Act 13 of 2005)
ISRDP	Integrated Sustainable Rural Development Programme
LES	Local Equitable Share
MDGs	Millennium Development Goals
MHDP	Municipal Housing Development Plans
MI	Mortgage insurance
MIG	Municipal Infrastructure Grant
MTEF	Medium Term Expenditure Framework
MTSF	Medium Term Strategic Framework
NDHS	National Department of Human Settlements
NHBRC	National Housing Builders Registration Council
NHFC	National Housing Finance Corporation
NHP	National Housing Programme
NPM	New Public Management
NSDP	National Spatial Development Perspective
NSPU	National Sanitation Programme Unit
NUSP	National Upgrading Support Programme
O&M	Operation and maintenance
PGDS	Provincial Growth & Development Strategy
PMU	Programme Management Unit
RDP	Reconstruction and Development Programme



SALGA	South African Local Government Association
SHA	Social Housing Associations
SHI	Social Housing Institutions
SHRA	Social Housing Regulatory Authority
SLA	Service Level Agreement
SOEs	State Owned Enterprises
UISP	Upgrading informal settlements programme
URP	Urban Renewal Programme
VIP	Ventilated Improved Pit toilet
WASH	Water, Sanitation and Hygiene
WSAs	Water Services Authority
WSDPs	Water Services Development Plan





## 1 INTRODUCTION

The South African Government has committed itself to universal access to sanitation by 2014. As part of this commitment, poor households<sup>2</sup> are provided various sanitation subsidies to gain access to a basic level of sanitation service; i.e. at least a Ventilated Improve Pit toilet.

The legislation that regulates sanitation services in South Africa, irrespective of whether the service is provided to a household, school, clinic, hospital or community site, are the National Water Services Act (Act No. 1662 of 1997) and the National Water Act (Act No. 36 of 1998) (South Africa, 1997a; 1998). Both of these Acts fall under the ambit of the Minister of Water Affairs and are thus regulated by the Department of Water Affairs (DWA). The Minister's mandated functions in the domestic water use sector, according to these Acts, are to establish, monitor and regulate guidelines to address national sanitation policies, the setting of criteria to guide sanitation subsidies, to provide minimum sanitation services standards and to monitor and regulate sanitation services provision. Actual delivery of the sanitation service, in accordance with the Constitution, is the responsibility of local government.

The two key mechanisms of provisions of sanitation services to poor households in South Africa are those that provide a sanitation facility directly to a household (household subsidy) and provision of sanitation facilities as part of a subsidised housing service (housing subsidy).

The household sanitation subsidy is administered by local government using various sources of funding, chiefly the Municipal Infrastructure Grant (MIG) and the Local Equitable Share (LES). The housing subsidy, which includes provision of a sanitation facility, can be administered by local government if they are accredited to implement subsidised housing programmes, but is generally administered by the provincial departments responsible for human settlements.

The provision of sanitation services utilising subsidies is perhaps one of the most difficult regulatory and implementation environments in which to operate in South Africa. This is largely due to the confusing and often conflicting legislation, policies and strategies at all levels of operation. To meet

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<sup>2</sup> Households with expenditure below R1 100 per month (DWAF, 2003; dplg, 2005a).

their Constitutional mandates and to be able to deliver effective and responsible basic sanitation services to all South Africans, all sectors of government need to understand the interactions, overlaps, gaps and conflicts in these subsidised sanitation policies, processes and procedures.

## 1.1 Purpose of the guideline

The purpose of this guideline is to provide guidance to role players in the sanitation sector on how to apply and use the sanitation subsidies effectively and competently, focusing on subsidies used for a basic level of sanitation service funded through the MIG, Local Government Equitable Share (LES) and National Housing Programmes.

It is important to note that this guideline focusses specifically on those aspects of policy, regulations and procedures that relate to sanitation subsidies for sanitation services provided through a subsidy. The use of sanitation subsidy for municipal waterborne sanitation systems is not included in this guideline.

This guideline consolidates the confusing and contradictory subsidised sanitation policy documents and instruments in one document, bringing together water services, housing, indigent, municipal and financial requirements and providing guidance on how to use sanitation subsidies effectively and competently. The guideline includes the following sections:

Section 1	<b>Introduction</b>
	• Provides the background and purpose of the Guide.
Section 2	<b>Discussion on the 'right' to sanitation in South Africa;</b>
	• Provides a discussion on the legal right to sanitation in South Africa and the complexities associated with this right.
Section 3	<b>Definition of key terms</b>
	• Provides a definition of key terms such as subsidy, sanitation subsidy, subsidised sanitation facility/service, effective use of subsidy, responsible use of subsidy).
Section 4	<b>Policies government subsidised sanitation in South Africa</b>
	• Summarises policies and procedures governing sanitation subsidies in order to understand the interaction, overlaps, gaps and conflicts in national subsidised sanitation-related policies, processes and procedures.
Section 5	<b>Funding of sanitation subsidise in South Africa</b>
	• Provides details of the various funding stream for subsidised sanitation in the country, the details attached to each stream and the sources and regulator of the funds.
Section 6	<b>Measurement of effective and responsible use of sanitation subsidise</b>
	• Provides guidance as to how national, provincial and local subsidised sanitation interventions can ensure they are effective and responsible.
Section 7 and 8	<b>Conclusion and References</b>



## 2 THE LEGAL “RIGHT” TO SANITATION IN SOUTH AFRICA

The South African commitment to universal access to water supply and sanitation services was first articulated in the White Paper of Water Supply and Sanitation Policy of 1994, which was informed by the Constitution of South Africa (DWAF, 1994). The White Paper outlines that basic services are a human right (DWAF, 1994). Interestingly, while the right to access water is directly addressed in the Constitutions, the right of access to sanitation is only implicitly expressed through the clauses related to the right of all citizens to an environment that is not harmful to their health or well-being (Section 24 (a) of the South African Constitution, 1996) (South Africa, 1996). This environmental right is very often interpreted as a right of access to basic sanitation, and is articulated as such in sanitation-related policy and regulations.

Section 26 of the Constitution also enshrines the right of all South Africans to adequate housing, with the state required to develop legal and other measures, within available resources, to progressively realise this right (South Africa, 1996). Government’s mandate for human settlement development thus emanates from the Constitution, with the State working progressively towards ensuring this right.

The Water Service Act (Act No. 108 of 1997a), the principal policy regulating water service provision in South Africa, legitimises the right to sanitation which ensures an environment that is not harmful to human health and well-being by mandating that (Section 3) (South Africa, 1997a):

- Everyone has a right of access to basic water supply and basic sanitation.
- Every water services institution must take reasonable measures to realise these rights, which is subject to the limitations contained in the Act.
- Every water services authority must, in its water services development plan, provide for measures to realise these rights.

Similarly the Housing Act (Act No. 107 of 1997), which is the primary piece of housing legislation, legitimising the New Housing Policy and Strategy White Paper policy principle that housing as a basic human right (South Africa, 1997b; Department of Housing, 1994). The Act defines housing development to include *all citizens and permanent residents of the Republic having access to potable water, adequate sanitary facilities and domestic energy supply*’ (South Africa, 1997b).

Despite the Act clearly defining sanitation services as a legislative requirement in the provision of housing, it was only after a ground-breaking Constitutional Court decision on the Grootboom case that this right was recognised. The court ruled that *the right delineated in section 26(1) is a right of “access to adequate housing” as distinct from the right to adequate housing encapsulated in the Covenant. This difference is significant. It recognises that housing entails more than bricks and mortar. It requires available land, appropriate services such as the provision of water and the removal of sewage and the financing of all of these, including the building of the house itself. For a person to have access to adequate housing all of these conditions need to be met: there must be land, there must be services, and there must be a dwelling. Access to land for the purpose of housing is therefore included in the right of access to adequate housing in section 26*” (Constitutional Court of South Africa, 2000). Sanitation is thus included as part of this Constitutional right to adequate housing. The sanitation subsidy argument in South Africa is thus chiefly rights-based and driven by a moral argument.

It should be noted that this right to sanitation is not an absolute right. The Constitution effectively has three categories of human rights (Kidd, 2011):

1. **First generation rights**, which are civil and political rights of individuals, such as the right to equality, the right to life and the right to freedom. These rights are enjoyed without the state having to provide anything or excluding any other individual.
2. **Second generation rights**, which are social, economic and cultural rights, such as the right to work, food and water. These rights require positive action by the state to ensure the right is recognised, and can result in the exclusions of other individuals in realising this right, i.e. addressing the right to water for some may require a reduction in the right of another to the water resource. Economic, social, and cultural rights are addressed in a different manner than civil and political rights, which require immediate realisation. Instead, in realising second generation rights government are to take steps to progressively achieve the full realisation of the rights, using their maximum available resources. Progressive realisation should not be misinterpreted as allowing governments not to act. All appropriate means, including particularly the adoption of legislative measures, are to be used (COHRE et al., 2007).
3. **Third generation rights**, which are ‘people or solidarity rights’, such as environmental rights, the right to peace and the right to development. These rights are usually exercised as group rights and are thus the rights of the public at large.

Interestingly, the right to sanitation is in fact an environmental right in the Constitution and would generally fall in the third category of humans rights, while water is a second generation right. The difference is that sanitation is provided to protect the public from a harmful environment, while access to water is provided as a socio-economic right to the individual.

Perhaps the most important aspect of these socio-economic (2<sup>nd</sup> generation) and solidarity (3<sup>rd</sup> generation) rights is that reasonable measures are taken to realise these rights. These rights may be constrained by resources and require that available resources be utilised effectively in order to realise the right progressively within the shortest possible timeframe and that certain steps require immediate implementation (COHRE et al., 2007). It is important, however, to have realistic expectations and to take into account the limitations of the right to sanitation.

The right to sanitation is particularly poorly understood in South Africa (see Table 1). A significant level of additional work, including research, training, education, promotion, awareness, etc. is required to address this issue.

Table 1: Misconceptions regarding the right to sanitation (adapted from COHRE et al., 2007)

Misconception	Clarification
<b>The right entitles people to free sanitation</b>	Sanitation services need to be affordable for all. People are expected to contribute financially or otherwise to the extent that they can do so.
<b>The right allows for unlimited use of water for sanitation</b>	The right entitles everyone to adequate sanitation and is to be realised in a sustainable manner for present and future generations.
<b>The right entitles everyone to a household facility connected to a municipal sewer system</b>	Sanitation facilities need to be within, or in the immediate vicinity, of the household and can comprise facilities such as a ventilated pit latrines.
<b>A country is in violation of the right if not all its people have access to sanitation</b>	The right requires that a state takes steps to the maximum of available resources to progressively realise the right.
<b>The right is absolute and immediate</b>	Governments are to take steps to progressively achieve the full realisation of the right, using their maximum available resources. Progressive realisation should not be misinterpreted as allowing governments not to act. All appropriate means, including particularly the adoption of legislative measures, are to be used (COHRE et al., 2007).

Despite a relatively strong legislative framework that underpins provision of basic sanitation services in South Africa, there is still general confusion in the interpretation and implementation of the framework at various levels of government.

## 2.1 Summary of key considerations

- South Africa is committed to universal access to water supply and sanitation services.
- The right of access to sanitation is only implicitly expressed through the Constitutional clauses related to the right of all citizens to an environment that is not harmful to their health or well-being.
- The Constitutional right of *access to adequate housing* includes the provision of water and the removal of sewage.
- Basic services rights are socio-economic and people rights, which are not absolute or immediate. However, reasonable steps need to be taken to progressively achieve the full realisation of the rights, using their maximum available resources.
- Basic services right are subject to the limitations contained in legislation.







### 3 DEFINITION OF TERMS

Very often, when sanitation specialists and non-specialist begin discussions on ‘subsidised sanitation’ the first two questions asked are usually, ‘what is subsidised sanitation’ and ‘does this really exist in South Africa’. To lend clarity to this issue, definitions of a subsidy and a sanitation subsidy and how these relate to government supported sanitation initiatives in South Africa are provided.

#### 3.1 Subsidy

Defining a subsidy is not a straightforward proposition (Srivastava et al., 2001). The Oxford Dictionary defines a subsidy as "a sum of money granted by the state or a public body to help an industry or business keep the price of a commodity or service low". However, as Box 1 shows, the term ‘subsidy’ has different meanings and definitions.

##### Box 1: definition of a subsidy include:-

- Monetary assistance granted by a government to a person or group in support of an enterprise regarded as being in the public interest.
- Financial assistance given by one person or government to another.
- A direct financial aid furnished by a government to a private industrial undertaking, charity organisation, or the like.
- A sum paid, often in accordance with a treaty, by one government to another to secure some service in return.
- A grant or contribution of money.

For the purposes of this guideline, the definition of a subsidy by Evans et al. (2009) is used: A subsidy is “a form of financial assistance paid to an individual, a business or an economic sector in order to achieve certain policy”. Thus, any financial support offered to a household to meet national policy objectives (i.e. poverty alleviation, access to sanitation services, water services, housing, energy, etc.) can be defined as a subsidy (Evans et al., 2009).

Subsidies constitute an important fiscal instrument in a country as, unlike taxes that reduce disposable income, they introduce money into circulation in some of the poorest areas of the country (Srivastava et al., 2001). Thus provided competently, subsidies can have significant positive impacts on the welfare of the current and future populations of a country (Srivastava et al., 2001).

### 3.2 Sanitation Subsidy

Based on the above definition of a subsidy, a sanitation subsidy will be defined as *any financial support offered to a household to meet national sanitation policy objectives*. These sanitation subsidies stem largely from public funds, but may also flow from donor inputs.

It is important to note that in the sanitation sector not all subsidies are for the cost of the sanitation infrastructure (i.e. toilet facility), but may include financial assistance for a range of activities as shown in Table 2 (Evans et al., 2009):

Table 2: Type of sanitation subsidies, based on the intended purpose of the subsidy (adapted from Evans et al. (2009))

Mechanism	Description
<b>Subsidies for software</b>	Software activities include: Capacity building and training Development of promotional materials and campaigns Monitoring and evaluation systems and processes Financial management, budgeting and advocacy in national planning processes Recurrent budgets of health extension worker responsible for hygiene behaviour activities Market research and development of sanitation market activities Recurrent budgets for schools sanitation and hygiene programmes
<b>Subsidies for hardware</b>	Provides for provision of sanitation infrastructure
Direct subsidy	Direct payment (cash or vouchers) provided to the households to access sanitation services
Infrastructure subsidy	The use of public funds to construct sanitation infrastructure at a household level Households may be required to contribute additional funds or 'sweat equity' Funds are generally handled by a service provider
Connection subsidy	Subsidy to connect poor households to a sewer system Funds usually handled by a service provider
<b>Operational subsidy</b>	Payment to a service provider to offset some or all of the costs of supplying a service (i.e. payment for operational losses, lowering of tariffs)
<b>Small-scale operator subsidy</b>	Provided to bring down cost of operations of small-scale service providers (i.e. pit emptying operators, latrine building enterprises) Can include subsidy for training and business development (accounting, planning, auditing) May include start-up loans and guarantees to kick-start an enterprise
<b>Cross-subsidisation</b>	Contribution of one group of service users to part of the cost of another group of service users Transfer, through tariffs, from high-volume user to low-volume users
<b>Consumption subsidy (tariffs)</b>	Tariffs for sewer services are kept artificially low Subsidy towards the 'consumption' of the service
<b>Output-based subsidy</b>	Provided to the service provider for services successfully delivered for a pre-agreed period. Requires on good quality verification and monitoring system
<b>Regulatory subsidy</b>	Provides preferential legal rights for selected service providers. Technical norms and standards and licences allow only selected service providers to construct publicly-funded facilities
<b>Subsidized credit</b>	Subsidies and guarantees provided to micro-financial institutions which lend money for sanitation investments to households at a reduced interest rate

Subsidised sanitation infrastructure, as provided through the MIG funds, are generally allocated budgets to cover the cost of (CoGTA, 2010):

- Construction, which includes basic materials, the wages of the builders, labour for digging pits and trenches, contractors' costs and fees,
- Social facilitation, which includes training, health and hygiene education, community liaison and functioning of the committee;
- Project management; and
- Other expert inputs as required (e.g. geo-hydrological assessments).

In addition, the Local Equitable Share in the 2013/14 financial year will subsidise two aspects of sanitation support to households below the affordability threshold<sup>3</sup>, namely an operation subsidy of R 64.84 and a maintenance subsidy of R7.20 (South Africa, 2013). This allocation of operation and maintenance (O&M) subsidy is a shift from the formula utilised in previous years where a lower subsidy was provided for households without access to services (South Africa, 2013). This new formula thus provides the same basic services subsidy for all poor households, irrespective of their level of sanitation service.

### 3.3 Subsidised Sanitation Facility or Sanitation Service

The White Paper of Water Supply and Sanitation Policy (1994) clearly indicated that the government “*may subsidise the cost of construction of **basic minimum services** but not the operating, maintenance or replacement costs*” (DWAF, 1994). At the time, the White Paper indicated the basic (minimum) level of service to mean a *VIP (Ventilated Improved Pit) latrine (in its various forms, to agreed standards) or its equivalent in terms of cost, robustness, health benefits and environmental impact; together with on-going exposure to readily understandable information about correct hygiene practices.*

This White Paper was followed by the 2001 White Paper on Basic Household Sanitation (DWA, 2001). Unlike the 1994 White Paper, the 2001 White Paper for Basic Household Sanitation does not address sanitation subsidy issues other than in a broad sense.

Effectively, with no change in the policy position on the sanitation subsidy, the 1994 position of the subsidy addressing the cost of construction only would thus stand.

Many sanitation stakeholders would argue that this sanitation subsidy had changed in the 2003 Strategic Framework for Water Services (DWAF, 2003). The Strategy indicates that *subsidies for free*

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<sup>3</sup> See Section 5.2.1 for a discussion on this threshold

*basic sanitation should cover the hygiene promotion costs and the operating costs of providing a basic sanitation service to households.* It should be noted that the SFWS was never gazetted as a policy document and thus does not mandate a shift in policy position on sanitation subsidies. The SFWS also separates the definition of a basic sanitation facility and a basic sanitation services. The facility is the sanitation infrastructure, while the service is the infrastructure, operation of such infrastructure and the communication of sanitation and hygiene promotion. Based on these separate definitions the 1994 policy position is contradictory as it implies that the subsidy would cover the cost of the sanitation facility, but not the operational cost (service).

Despite these contradictions, the sector has made the shift to inclusion of an operational subsidy in the suite of sanitation subsidies provided to households in the country. This is reflected in the Free Basic Sanitation Implementation Strategy, in agreement with the SFWS, outlining sanitation subsidies as:

- a **capital subsidy** for all municipal infrastructure, referred to as the municipal infrastructure grant (MIG). In addition, the housing programme also provides sanitation infrastructure as part of the subsidised house; and
- subsidies for free basic sanitation should cover the **hygiene promotion** costs and the **operating** costs of providing a basic sanitation service to households.

For the purposes of this guideline, the broad definition of a subsidised sanitation facility/service is adopted, meaning that the guideline will address sanitation subsidies that cover capital, hygiene promotion and operating costs of a basic sanitation service in the country.

### **3.4 Defining Effective and Responsible Use of the Sanitation Subsidy**

There are many ways of defining the words 'effective' and 'responsible'. These terms are defined below in terms of the use of sanitation subsidies.

#### **3.4.1 Effective Use of the Sanitation Subsidy**

The term 'effective' differs depending on the sector it is used in. 'Effective' means the degree to which objectives are achieved and the extent to which targeted problems are solved. Effectiveness is determined without reference to cost – it means "doing the right thing".

Therefore, for the purposes of this guideline, the effective use of sanitation subsidies implies that the subsidy is utilised to achieve its intended purposes, thus utilised in a manner to achieve:

- policy imperatives, such as universal access to a basic level of sanitation; and

- the social, economic and environmental imperatives of addressing the negative effects of inadequate sanitation.

### **3.4.2 Responsible Use of the Sanitation Subsidy**

There are also many different definitions of the word 'responsible'. The key definition that applies to the Guide is that 'responsible' means to be *answerable or accountable, as for something within one's power, control or management*. Responsible use of the sanitation subsidy thus require having the ability to be trusted to do what is right or to do the things that are expected or required. Responsible use of the subsidy thus requires having the ability to utilise the funds in an effective manner, as required by the public's trust that government will utilised the fiscus in a responsible manner.

Therefore, for the purposes of this Guide, the responsible use of sanitation subsidies implies the use of the subsidy to provide sanitation in the most cost effective manner; i.e. the benefits of provision outweigh the social, economic and environmental costs of providing such service. Responsible use of sanitation subsidies would include the provision of the service in a manner that minimise social, economic and environmental cost, while at the same time ensure the service is sustainable and maximises the benefits to the individual, household and society in general.





#### 4 POLICIES GOVERNING SUBSIDISED SANITATION IN SOUTH AFRICA

South Africa's commitment to universal access to basic sanitation originates from the very first developmental policies of the new democratic government of 1994, including the White Paper on Reconstruction and Development (RDP) (South Africa, 1994a).

1994  
White  
Paper on  
the RDP



1994  
White  
Paper on  
Water  
Supply  
and  
Sanitation

The 1994 White Paper on the RDP provided government's vision for the fundamental transformation of South Africa's society and demonstrated the manner in which government would implement and manage processes to achieving this (South Africa, 1994a). The RDP identifies the provision of infrastructure for services such as housing, water supply and sanitation as one of the key elements of developing the South African economy along this new path. The White Paper does not, however, mention sanitation subsidy as the vehicle to address the universal access imperatives of the country. The White Paper does introduce the state subsidy for housing and 5-7 year programmes that targeted the provision of safe sanitation and refuse removal (South Africa, 1994a).

The question is therefore, which policy or policies introduce and provide the policy brief for subsidised sanitation in South Africa?

The policies, which underpin sanitation-related legislation in South Africa, remain the 1994 White Paper on Water Supply and Sanitation (WS&S) Policy, the 1994 New Housing Policy and Strategy White Paper and the 1997 White Paper on a National Water Policy and the 2001 White Paper on Basic Household Sanitation (BHS) (DWA, 1994; Department of Housing, 1994; DWA, 2001). These policies thus provide the sanitation principles and positions that frame the sanitation-related legislation in the country.

The 1994 White Paper on Water Supply and Sanitation mentions the development of a state subsidy for the provision of basic water and sanitation services. The details of this subsidy were, however, not finalised at the time of the White Paper

(DWAF, 1994). The White Paper does provide the policy positions on subsidised sanitation services, which included that the state subsidy would (DWAF, 1994):

..continued

1994

White  
Paper on  
Water  
Supply  
and  
Sanitation

1. only be available to communities that cannot afford minimum water supply and sanitation services;
2. only cover the cost of minimum services provision, not the operating and maintenance costs;
3. normally be paid to local authorities or statutory Local Water Committees, rather than direct to a service provider; and
4. has the subsidy amount determined locally by the actual cost of providing basic services.

This White Paper also takes the position that any other subsidies provided by the then Department of Water Affairs and Forestry (now Dept. of Water Affairs) for water supply and sanitation provision will be phased out, particularly in respect to operation and maintenance costs, *except in cases where subsidies are required in the public interest, such as for the protection of the environment.*

The policy further highlights that, apart from the state subsidy, the following additional sources for financing sanitation services should be considered (DWAF, 1994):

1. Consumers (households), through their cash contributions and tariff payments.
2. Loans, which can be obtained from the “money market”.
3. Donations and cheap or concessional loans that may be available from local or foreign sources for some projects.
4. Privatisation, which can raise funds for service provision in a number of ways.

The White Paper (1994) also introduces progressive improvement in sanitation, suggesting that government subsidises provision of a basic sanitation service, but that communities or individuals wishing to upgrade or improve their sanitation services to a higher level pay for these themselves. Thus, government would provide a Ventilated Improved Pit toilet with the capital subsidy and if a household wishes to upgrade or improve this level of service they would be responsible for these costs.

The New Housing Policy and Strategy White Paper, which was developed in 1994, had the focus of establishing new systems to address South Africa’s housing priorities, policy approaches and intervention to attain the housing goals of the country (Department of Housing, 1994). This White



1994

New Housing Policy and Strategy for South Africa: White Paper

Paper mandates targeted end-user subsidies, implemented as the national housing programme, as the approach to addressing the housing challenge in the country (Department of Housing, 1994). The National Housing Subsidy Scheme (NHSS) offered subsidies over a range of options: project linked subsidies, individual subsidies, consolidation subsidies and institutional subsidies (Department of Housing, 1994) (see Appendix A for more details). The housing subsidy is targeted to destitute households, with the provinces, as the sphere of government responsible for housing delivery, required to define what this category of 'destitute' meant.

This White Paper clearly indicates that the approach outlined by the policy *applies to the provision of water, sanitation, roads, storm water drainage and domestic energy to housing developments*. Like the early water services policies, this Housing White Paper has the underlying principle that communities should pay for the operational and maintenance costs of the service provided, as water and sanitation services were not to be provided for free.

The White Paper mostly concurs with early water services policies in that:

- beneficiaries of subsidies would be poor individuals, based on household monthly expenditure;
- operational costs are the responsibility of the households; and
- internal services will be provided by the developer, i.e. provincial housing department using the capital housing subsidy.

1997

White Paper on a National Water Policy

The White Paper differs from the early water service policies in the sense that:

- provincial departments are responsible for the housing service delivery and thus the housing subsidy; and
- sanitation services provided are not limited to a VIP toilet.

The 1997 White Paper on a National Water Policy has a very strong focus on the principles and positions related to water resources; hence it makes limited direct reference to sanitation and no mention of the subsidies of sanitation service provisions (DWAF, 1997). This White Paper is noteworthy for the Fundamental Principles and Objectives for a New Water Law in South Africa, which provided the principles that underpin sanitation provision to this day.

1997/1998

New sanitation-related legislation

This legislation provided the policy positions/statements for basic sanitation services. These policy positions/statements were legitimatised by the sanitation-related legislations that were promulgated in the early years of the





South African democracy. The legislation that regulates sanitation services in South Africa are the National Water Services Act (Act No. 1662 of 1997) and the National Water Act (Act No. 36 of 1998). Both these Acts fall under the ambit of the Minister of Water Affairs (South Africa 1997a; 1998). The Minister's, and thus DWA's, mandated function in the domestic water use sector, according to these Acts, includes the formulation of criteria for state subsidies.

The sanitation sector is fortunate to have promulgated an additional policy since the two base policies of 1994 and 1997, namely the 2001 White Paper on Basic Household Sanitation (BHS) (DWA, 2001). This policy strongly focuses on the provision of a basic level of household sanitation to mainly rural communities and informal settlements. These were, and still are, the areas with the greatest need. This White Paper reiterates those sources of financing sanitation services highlighted in the 1994 White Paper on WS&S Policy, but adds the additional sources of (DWA, 2001):

4. community based contractors;
5. the private sector, including funding institutions, consultants;
6. contractors and materials and equipment suppliers; and
7. non-governmental organisations.

The White Paper also introduces the various sources of sanitation funding available to a municipality, including:

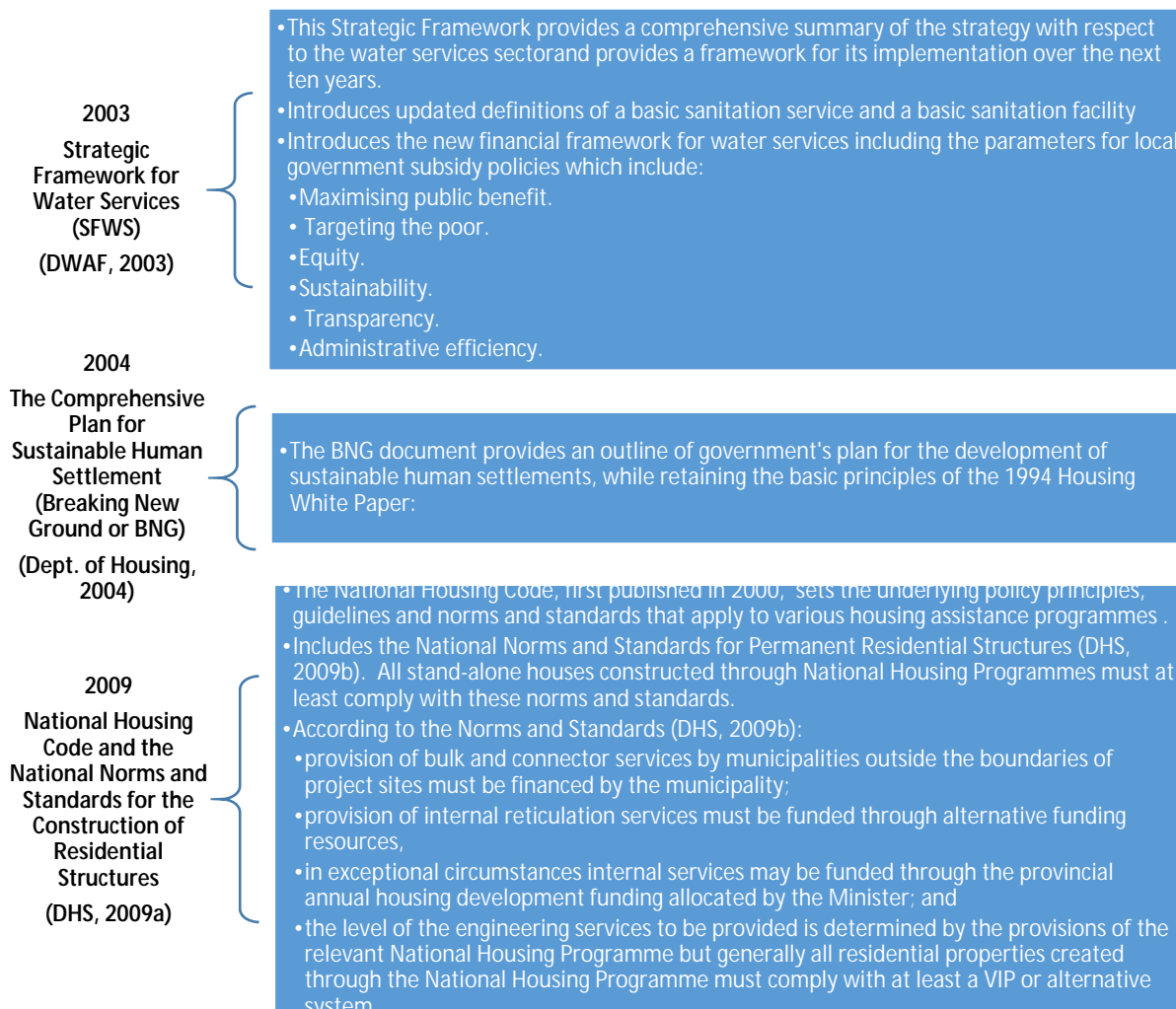
- the Equitable Share subsidy;
- infrastructure grants; and
- the municipalities' own revenue.

In addition, this policy, for the first time, links sanitation policy to housing policy, indicating that the *subsidy can be utilised to provide houses and, under certain circumstances, a portion of the subsidy amount could be applied to provide internal engineering services.*

Where there is contradiction between the principles and positions of the White Paper on BHS and the two previous sanitation policies, the principles and positions of the 2001 White Paper on BHS take precedence. Similarly, for the two earlier White Papers, the positions in the 1997 White Paper on National Water Policy take precedence.

Many sanitation stakeholders in the country would argue that the current policy that drives the sanitation sector is the 2003 Strategic Framework for Water Services (SFWS) (DWA, 2003). However, since the SFWS was never promulgated by Parliament as a policy document, this document remains a strategic document which does not change the policy positions outline in the

1994, 1997 and 2001 sanitation policies. Current strategic frameworks and guidelines that impact on the subsidised sanitation section include:



It is thus clear from the summary of sanitation and housing policies, from a financial perspective, that:

- financing of operation and maintenance of sanitation services is confusing and contradictory in the policies, which leads the Fiscal and Financial Commission, an advisory body to the government on the Division of Revenue, to state in its 2012 recommendations that *“over the past 15 years, South Africa has seen a continuous paradigm shift in policy and thinking around the implementation of municipal services. The basic services approach has progressively developed – from government-funded capital costs for new services infrastructure and the user (households) paying for the operation and maintenance of that infrastructure – to the current situation where the need for FBS (Free Basic Sanitation) has become more apparent and pressing. Abject poverty, unemployment and the high running costs of many schemes has meant that poorer people cannot afford to pay the full cost of essential municipal services. The consensus is that municipalities, especially the indigent municipalities and those with low gross domestic product (GDP), cannot sustain and equitably continue to provide these basic services” (FFC, 2012);*

- although all policies recommend poor households as the target for subsidised services provision, some also express the need to provide these services to all - does this imply a subsidy will be made available to all households?; and
- few norms, standards and guidelines are provided on the economic efficiency of providing a particular service within a limited fiscal budget.

A number of key policy-related contradictions confuse the provision of sanitation services in South Africa. These include:

1. How to determine the beneficiaries of the subsidy, i.e. poor, poorest, and indigent?
2. Which components of sanitation services are addressed with/by the subsidy?
3. Sanitation subsidies and free basic sanitation.
4. Use of subsidies in the rural areas and urban areas.

The current policy position related to each of these issues is summarised in the section below. This will provide government with some clarity at this point in time, but also should guide any future revisions of sanitation policy positions.

#### ***Current Policy Position***

No change from the 1994 White Paper on Water Supply and Sanitation - *subsidies will be made available to **communities which cannot otherwise afford** minimum sanitation services.*

No change from the 1994 New Housing Policy and Strategy for South Africa: White Paper, which states that the housing subsidy is targeted to *destitute households*, with the provinces, as the sphere of government responsible for housing delivery, required to define what this category of 'destitute' means.

#### ***Strategy***

The 2003 SFWS highlights *the need to ensure the progressive realisation of the right of **all people** to receive at least a basic level of sanitation services. The municipal infrastructure grant (MIG) will be adequate to ensure universal provision of at least a basic sanitation facility.*

### **4.1 Policy Positions on the Beneficiaries of the Sanitation Subsidy**

The White Papers, which follow the 1994 White Paper on Water Supply and Sanitation Policy and the New Housing Policy and Strategy for South Africa, do not change policy position on beneficiaries of sanitation subsidies. The position thus remains that communities which cannot afford minimum sanitation services should benefit from the subsidy.

These subsidies would be paid to local authorities or statutory Local Water Committees, the amounts of which will be determined locally based on the actual cost of providing this basic service.

The lack of change in the policy positions is, however, not the only or key problem in the subsidised sanitation sector. It is also the difficulty experienced by local government to determine the beneficiaries of the subsidy.

Generally, where available, service providers make use of local government indigent policies to demarcate the beneficiaries of the subsidised sanitation infrastructure grant.

The then Department of Provincial and Local Government (dplg) published a National Framework for Municipal Indigent Policies so that municipalities could formulate their own indigent policies based on this framework (dplg, 2005a). This Policy indicates three parts to a well-functioning indigent policy, as shown in Figure 1 below, focusing firstly on providing physical access to a sanitation service (i.e. the sanitation subsidy as discussed in the 1994 White Paper); secondly, providing sustainable sanitation services once sanitation backlogs have been addressed by the municipality (i.e. subsidising operation and maintenance costs); and finally, access to the service must be properly targeted where all municipalities have a mix of those who are indigent and those who can afford to pay for the services provided.

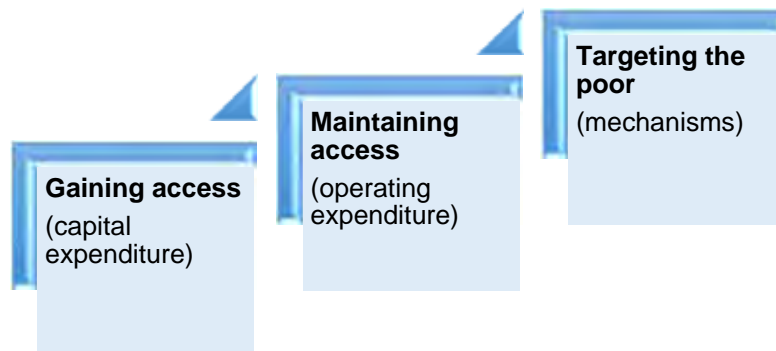


Figure 1: Levels of provision of sanitation service at a municipal level (taken from dplg, 2005c)

According to the Framework, the term 'indigent' means *lacking the necessities of life*. The Framework interprets these necessities to include:

- sufficient water;
- basic sanitation;
- refuse removal in denser settlements;
- basic energy provision; and
- housing.

It should be noted that the definition of 'indigent' in this Framework specifically excludes household income as an indicator to delineate poor households. This is of particular interest when determining sanitation backlogs in the country.

Applying the above definition for 'indigent' verbatim in order to determine sanitation infrastructure subsidy requirements can have a significant impact on the financial requirements of municipalities. It

would imply that **any** household without access to basic sanitation could be classed as indigent. Using this definition, an analysis of the 2011 Census sanitation services data shown in Table 3 indicates that at least 4.19 million households in South Africa would be classified as indigent (yellow columns). This would imply that the state will need to make provision for an additional 4.19 million capital sanitation subsidises. However, Table 3 also shows that the incomes of these households extend across a range of income groupings, including households in very high income categories (columns highlighted in light yellow in Table 3). If the Framework's definition of indigent is combined with an income level indicator (e.g. R2300<sup>4</sup> per household per month or R27 600 per annum), only approximately 3.48 million households (bright yellow blocks in Table 3) would qualify for this capital subsidy. Assuming a R7500 subsidy is provided to each household, this would reduce the financial burden on municipalities from approximately R31.4 billion to R26.1 billion, an approximate reduction of R5.33 billion.

Table 3: Sanitation services per income category as shown by Census 2011 (StatsSA, 2012)

Annual household income	Flush toilet (connected to sewerage system)	Flush toilet (with septic tank)	Pit toilet with ventilation (VIP)	Pit toilet without ventilation	Chemical toilet	Bucket toilet	None	Other	TOTAL
No income	1121814	56389	198342	460991	69550	68051	147437	54963	2177538
R 1 - R 4800	250050	14013	83666	178563	24567	20687	57304	19905	648754
R 4801 - R 9600	377518	21911	148597	313249	40148	29872	101695	33373	1066364
R 9601 - R 19 600	1008067	65178	313165	666436	81767	62186	202442	76000	2475240
R 19 601 - R 38 200	1337038	78462	297272	646119	81423	69482	159223	71575	2740596
R 38 201 - R 76 400	1216800	62221	132000	311872	38523	33400	53913	30508	1879235
R 76 401 - R 153 800	1047159	51125	56426	131002	14624	9565	14960	10796	1335657
R 153 801 - R 307 600	902317	44739	24489	53488	6099	2775	6651	4733	1045292
R 307 601 - R 614 400	618194	30061	8969	18122	2869	1230	3427	2493	685364
R 614 001 - R 1 228 800	250837	12184	1348	2637	446	228	686	568	268934
R 1 228 801 - R 2	71598	3809	1041	2024	410	217	487	310	79896
R 2 457 601 or more	40913	2347	774	1549	277	155	359	219	46593
Unspecified	619	40	14	16	2	-	7	2	700
<b>Total</b>	<b>8242924</b>	<b>442481</b>	<b>1266102</b>	<b>2786068</b>	<b>360703</b>	<b>297847</b>	<b>748592</b>	<b>305444</b>	<b>14450161</b>

The broad definition in the Framework is thus not necessarily the most practical and useful to municipalities when developing their indigent policies. Review and revision of policy positions of sanitation and indigent policies need to clarify who the beneficiaries of sanitation infrastructure subsidies are and how these individuals should be delineated.

The 2001 White Paper on Basic Household Sanitation introduced the Equitable Share subsidy to allow the local government sector to overcome the burden of service delivery to the very poor. In particular, it is calculated to ensure that the **operating cost of basic services can be covered**. The Local Equitable Share (LES) allocation to local government, and thus to households, is determined annually by the Division of Revenue Act (DoRA). DoRA outlines how the national revenue is divided among the national, provincial and local spheres of government to ensure that they all receive an equitable share. The LES makes use of household income as the criteria to determine those households that should benefit from the basic service subsidy.

<sup>4</sup> DoRA affordability threshold. See following section for description of this threshold

The DoRA Bill (2013) acknowledges the difficulty with defining and identifying beneficiaries of the Local Government Equitable Share (LES) operation and maintenance sanitation subsidy, and provides details as to how local government should apply an “affordability threshold” to calculate beneficiaries of the subsidy (see Box 2 below) (see Section 5.2.1. for more details on the LES) (South Africa, 2013). According to the DoRA Bill (2013), the 2001 Census was used to determine beneficiary household in the original LES formula, using a household income level of R800 per month as an affordability threshold (South Africa, 2013). Estimates in 2001 showed that approximately 47% of households in the country fell below this threshold and qualified for free basic services (South Africa, 2013). Assuming a similar affordability threshold would be used after the 2011 Census, the equivalent household income level in 2011 would be approximately R1 500 (inflation adjusted from 2001). However, the LES in 2013 has utilised a new affordability threshold of R2 300 per month, which is substantially higher in real terms than the approximated R 1 500 (see Box 2 below for explanation for the new LES affordability threshold) (South Africa, 2013). This higher affordability threshold will result in more households in the country qualifying for subsidised basic services, with the DoRA Bill (2013) estimating 59% of households in the country falling below the threshold and thus qualifying for inclusion in the LES formula (South Africa, 2013). The DoRA Bill indicates that R2 300 will be the official poverty line in the country and should be utilised by municipalities to determine indigent households in their jurisdiction (South Africa, 2013). Local government is not obligated to provide all households under this poverty line with free basic services. They will, however, be required to provide clear reasons, after consultation with communities, as to why they are not including all the households under the poverty line in the LES formula (South Africa, 2013).

**Box 2: Extract from the 2013 DORA Bill related to the use of affordability thresholds to determine beneficiaries of basic service subsidies (South Africa, 2013).**

*This component helps municipalities to provide free basic water, sanitation, electricity and refuse removal services to households that fall below an affordability threshold. During the consultation process it emerged that municipalities would prefer the formula's affordability measure (used to determine how many households should be targeted for free basic services) to be based on the level of two state old age pensions. When the 2011 Census was conducted, the state old age pension was worth R1 140 per month, two old age pensions were therefore worth R2 280 per month. A monthly household income of R2 300 per month has therefore been used to define the formula's affordability threshold. Statistics South Africa has calculated the number of households in each municipality that fall below this income level in the 2011 Census.*

There is a need for:

- national regulations and guidelines, annually, to determine the criteria of beneficiaries of subsidised sanitation;
- standards for minimum acceptable levels of a basic sanitation services to ensure that the country meets the constitutional right to an environment that is not harmful to the health of all people; and
- The consideration of policy provisions for conditional grants to support the operation and maintenance of VIP latrines and other sanitation technologies.

## 4.2 Policy position on Free Basic Sanitation Subsidy

### **Current Policy Position**

2001 White Paper on Basic Household Sanitation introduces the policy position that *current government policy requires that the **very poor** be given access to a **free basic level** of service.*

There has been no change to the 1994 New Housing Policy and Strategy for South Africa: White Paper policy positions that **communities should pay for the operational and maintenance costs** but the White Paper does go on to take the policy positions that *poor should pay a life-line or social tariff*, i.e. a reduced, transparently cross-subsidised O&M tariff.

Change in policy position in the 2001 White Paper on Basic Household Sanitation related to the introduction of the Equitable Share subsidy to allow the local government sector to overcome the burden of service delivery to the very poor. In particular, it is calculated to ensure that the **operating cost of basic services can be covered**.

### **Strategy**

SFWS highlights *that if a basic service is to be provided free to the poor the costs of providing the service must be covered by the local government equitable share and/or through cross-subsidies*. In addition *subsidies for free basic sanitation should cover the hygiene promotion costs and the operating costs per household per month by settlement type and technology used*.

The BNG Housing Plan indicates that, related to enhancing funding flows for operation, *discussions will also be required with DPLG (now CoGTA) to harmonise transfers linked to the long-term operational costs of the social and economic infrastructure which is to be provided*. *Discussions will also be held with DPLG (now CoGTA) in order to clarify municipal indigence plans and the provision of free basic services*.

The 2001 Sanitation White Paper introduces the policy position of providing a free basic service to very poor households. Difficulties with applying this policy position are the same as those discussed above, namely that the White Paper does not provide a policy position on who is, or how to, delineated 'very poor'.

Similarly, the Strategic Framework for Water Services recommends that *if the basic service is to be provided free to the poor then the water services authority must ensure that the costs of providing the service are covered by the local government equitable share (LES) within the water services authority area*.

In March 2009 the Free Basic Sanitation (FBSan) Implementation Strategy was approved by the Minister of Water Affairs. The Strategy was developed to guide WSAs in *providing all citizens with free basic sanitation by 2014* and to implement their own FBSan policies in line with national policy (DWAF, 2009). The Strategy indicates that *'free' sanitation means that the poor household does not*

*have to contribute towards the cost of providing the service initially (capital) and managing the service in the long term (operating).*

Unlike the Free Basic Water Implementation Strategy (DWAF, 2002) which is clearly defined as the monthly provision of a free volume of water to poor households (funded through LES), the Free Basic Sanitation Strategy has the confusing definition of free sanitation – including both the capital subsidy and the O&M subsidy in the definition. The Free Basic Water Implementation Strategy clearly separates the capital funded water infrastructure subsidy from the free monthly volume of water provided by LES, hence any discussions around the FBW is clearly focussed on LES funding and a volume of water for a household (DWAF, 2002). This simplifies the understanding of FBW (DWAF, 2002).

Conversely, stakeholders in the sanitation sector do not have this clarity when debating the FBSan available to households, with much of the debate and discussion related to whether a volume of water should be provided for ‘flushing’ (LES funded), the subsidy amount that should be available for infrastructure (MIG funded capital subsidy), whether subsidies for health and hygiene programmes are included and the level of subsidy provided for these (MIG funded capital subsidy) and subsidy amounts for ongoing operation and maintenance cost (LES funded). The FBSan Strategy should revisit these issues and simplify the definitions, which will make it easier to update sanitation policy in future.

Some of the key recommendations of the FBSan Implementation Strategy are provided below.

Key recommendations of the FBSan Implementation Strategy (DWAF, 2009):

Free operation and maintenance support for waterborne systems includes **providing water for flushing**, recommended to be 15 litres per person per day. For a household of 8 people this will amount to 3 to 4 KL above the amount provided for in terms of the free basic water (6KL). This amount will be more in the case of people who are at advance stages of AIDS.

In situations where such authorities do not have access to sufficient subsidy funds to provide a free service, the authority may place a **cap on its free basic sanitation grant** and require the beneficiaries to contribute in cash or kind. This capping may **not** however result in people receiving sanitation below the minimum basic level.

WSA must begin to think in terms of **targeting free basic sanitation grants in line with the national poverty line**, defined as households with insufficient monetary income to attain a basic minimal standard of living – enough to purchase a nutritionally adequate food supply and provide other essential requirements.

**Rehabilitation of infrastructure (a capital item) may be provided free, except** in the case of the sanitation components within the property/yard, which remains the responsibility of the household. In the case of waterborne systems the household must ensure that the water pipe work and flushing systems are fully functional. In the case of dry sanitation, exception may be made for the rehabilitation costs of on-site pits or tanks that cannot be emptied and must be relocated, or in the case of rehabilitation of collapsed pits.



**Households are responsible for the day-to-day operating and maintenance costs of the 'in yard/on property' component of the service**, including providing anal cleansing material, cleaning the facility, all repairs to pits, tanks, pipes, pedestals, flushing mechanisms and buildings in which the toilet is housed.

Where it is not possible for the household to manage the sludge or compost that is produced by a sanitation system, the water services authority may arrange for a **free sludge or compost removal service** to the household.

This shows that there is a need for:

- national standards for minimum acceptable levels of a free basic sanitation services in an economically sustainable manner, i.e. balancing cost recovery against affordability of cross-subsidisation.
- Policies to be aligned on the principles of free basic services.

#### **Current Policy Position**

No change to the 1994 White Paper on Water Supply and Sanitation Policy positions that:

- *In urban areas, the cost of internal services and reticulation within a township's boundaries are generally considered to be part of the development costs of the property.*
- *Additional costs of connector, bulk and treatment services of both water and sanitation (not covered by the housing subsidy), are the responsibility of the agency responsible for services in urban areas to:*
  - *ensure that all households within their areas of service are provided with at least basic service; and*
  - *facilitate the provision of higher service levels through appropriate financing and tariff mechanisms, whilst ensuring the financial viability of the water and sanitation sector.*

2001 White Paper Basic Household Sanitation Policy is focussed on rural sanitation, hence the policy positions in this policy apply in rural areas.

The 1994 New Housing Policy and Strategy for South Africa: White Paper does not mandate specific policy positions related to sanitation services providing with housing in the rural and urban areas.

#### **Strategies**

The SFWS provides recommendations as to the level of service to be provided based on settlement type. However, neither the SFWS nor the BNG plan focuses on aspects of subsidy use in rural or urban areas.

### **4.3 Sanitation subsidies for rural vs. urban areas**

The White Paper on Water Supply and Sanitation Policy (1994) has the position that the *Department's policy on the financing of water and sanitation in rural areas is that basic minimum services may be subsidised by the Government, within the constraints of finances available to the State* (DWAF, 1994). The minimum service at the time was the subsidisation of the capital cost of the construction of a VIP toilet. The 2001 White Paper on Basic Household Sanitation confirms this policy position, indicating that at the time the total cost of services provision in rural areas, even the higher levels of service, with the exception of electricity, was subsidised (DWAF, 2001).

The provision of adequate sanitation in growing urban informal settlements poses a specific sanitation challenge in South Africa. According to a recent report by DWA et al. (2012) this is the single greatest challenge facing the water and sanitation sector in the country. The latest data shows that, of the 1 to 2 million households living in informal settlements, the sanitation subsidy challenges relate to the high density of these settlements, insecurity of tenure and complex community dynamics that make it extremely difficult to plan and implement standard sanitation infrastructure solutions in these areas.

The White Paper on Water Supply and Sanitation (1994) also take the policy positions that in urban areas, the cost of internal services and reticulation within boundaries are generally considered to be part of the development costs of the property, and is thus a household responsibility (DWAF, 1994). Since internal services and reticulation remain a household's responsibility, not local governments, the White Paper could be read to suggest that subsidised sanitation services to peri-urban households of the country may not be a legitimate use of subsidy. Additional costs of connector, bulk and treatment services of both water and sanitation, which are a local government responsibility, are also not covered by the housing subsidy. This policy position is contradicted by the introduction of the Free Basic Sanitation services to urban areas of the country, where the operation and maintenance cost of sanitation to poor households is subsidised. The Implementation Strategy for Free Basic Sanitation states that where rehabilitation of infrastructure is required (a capital item), it will be provided free except in the cases of rehabilitation of buildings, pedestals and pipework of 'on-site' infrastructure, which will remain the responsibility of the household (DWAF, 2009). Similarly the current use of the capital subsidy in urban areas contradicts the White Paper's policy position on this issue.

There are also gaps in the national policy with regards to guidelines for the provision of basic sanitation services in dense urban informal settlements. In the context of people living on private land, MIG funding can be used to provide basic services but this is not necessarily applicable to households that do not have security of tenure.

This shows that there is a need for:

- Consistency in policies regarding provision of subsidised services in urban, peri-urban and rural areas. These policies also need to consider issues of provision of subsidised services under various forms of land tenure.
- Policy clarity on the use of MIG funds in urban and peri-urban areas of the country.

#### **4.4 Summary of key policy considerations**

- The RDP identifies the provision of infrastructure for services such as housing, water supply and sanitation as one of the key elements of developing the South African economy along this new path.

- The policies, which underpins sanitation-related legislation in South Africa, remain the:
  - 1994 White Paper on Water Supply and Sanitation (WS&S) Policy,
  - 1994 New Housing Policy and Strategy White Paper
  - 1997 White Paper on a National Water Policy and
  - 2001 White Paper on Basic Household Sanitation (BHS).
- The 1994 White Paper on Water Supply and Sanitation introduces the need for the development of a state subsidy for the provision of a minimum basic sanitation to poor household, but which would not cover operating and maintenance costs.
- The New Housing Policy and Strategy White Paper introduces targeted end-user subsidies, implemented as the national housing programme, which includes the *provision of water, sanitation, roads, storm water drainage and domestic energy to housing developments* but does not cover operational and maintenance costs.
- There are a number of key policy-related contradictions that confuses the provision of sanitation services in South Africa.
- Review and revision of policy positions of sanitation subsidy beneficiaries and indigent policies are needed.
- The FBSan Strategy should revisit the definition of the free basic sanitation subsidy and simplify the definitions. The sanitation subsidy sector needs to clarify what is implied by the 'free' component (i.e. project management, institutional development costs, health and hygiene, capital) and the sources funds for each.
- Consistency in policies is required regarding provision of subsidised services in urban, peri-urban and rural areas. These policies also need to consider issues of provision of subsidised services under various forms of land tenure.



## 5 SANITATION PROVISION WITHIN SUBSIDY (GRANT) PROCEDURES (AS OF 2013)

The Strategic Framework of 2003 introduces a new financial framework for the water services sector. This framework has been revised and refined by various promulgations of the Division of Revenue Act, with the 2013 framework taking the structure shown in Figure 2. Although there is a wide number of additional funding sources for sanitation services in the country, such as through the Department of Rural Development and donors, the funding streams shown in Figure 2 represent the chief sanitation funding sources to household in the country.

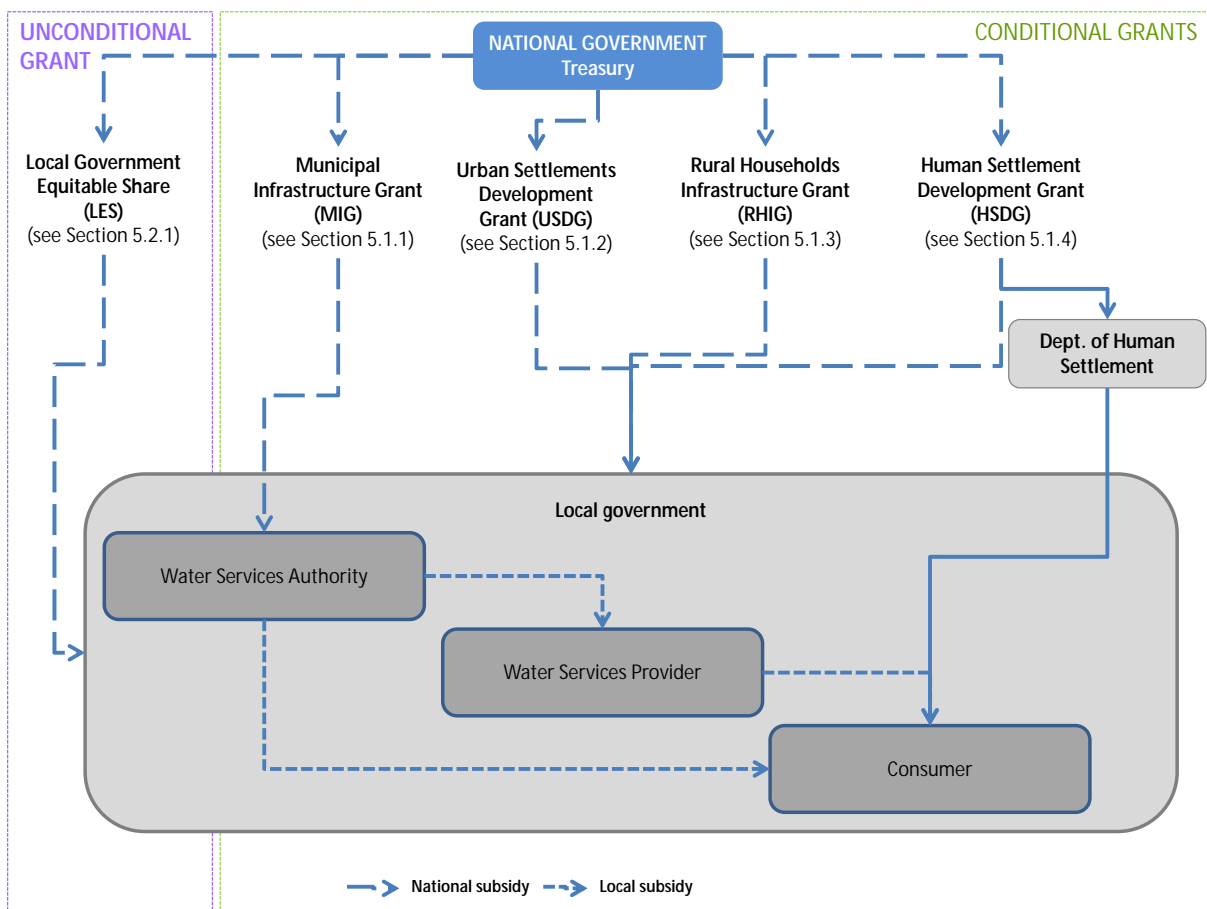


Figure 2: Financial framework for subsidised sanitation services in South Africa (adapted from DWAF, 2003 to reflect 2013 grant funding streams)

The financial framework shown in Figure 2 introduces a number of subsidy mechanisms to address basic sanitation services provision in the country.

The Water Service Act (Act 108 of 1997), in Section 65, provides the Minister with the power to *make grants and loans and give subsidies to a water services institution from funds* (South Africa, 1997a).

- a) *appropriated by Parliament;*
- b) *contributed by individuals or non-governmental organisations; or*
- c) *contributed by other governments and governmental institutions.*

In Section 66 (1) of the Act, the Minister is required to *make regulations relating to financial assistance in term (a) the financial feasibility of the construction, operation and maintenance of water services; (b) the manner in which financial assistance must be applied for; and (c) the terms and conditions where under any grant or loan may be made or subsidy may be given* (South Africa, 1997a).

The Act, in effect, makes the Minister of Water Affairs responsible for the granting of water services loans/subsidies and the developing of the regulations that administer these water services loans and subsidies.

The Constitution (Section 152) assigns the responsibility to local government to ensure the provision of services to communities in a sustainable manner and to promote a safe and healthy environment (South Africa, 1996).

In support of a municipality's ability to perform their water services and other functions, the Constitution (Section 216) provides for national government to transfer resources to a municipality. Annually, in terms of the Division of Revenue Act (DoRA), the national revenue is divided among the national, provincial and local spheres of government to ensure that they all receive an equitable share.

Two types of financial support are provided, through DoRA, to provincial and local government to meet their obligations of water service provision; namely:

1. **Conditional grants:** which are considered in section 214(l)(c) of the Constitution (South Africa, 1996) and currently include:
  - o *Municipal Infrastructure Grant (MIG):* which has the purpose to provide specific capital finance for basic municipal infrastructure for poor households, micro enterprises and social institutions servicing poor communities. This grant can be used for construction of new infrastructure, the upgrading bulk and connector infrastructure, as well as the rehabilitation of existing infrastructure (South Africa, 2013). The grant is transferred directly to local government.

- *Urban Settlements Development Grant (USDG)*: replaces the MIG in metropolitan areas in the country. In the DoRA Bill (2013) this grants has a R30.1 billion allocation in the 2013 MTEF, of which 100% was transferred to metropolitan municipalities (South Africa, 2013).
- *Rural Households Infrastructure Grant (RHIG)*: In DoRA 2013 this funding stream was budgeted at R113,1 million (2014/15) to subsidise on-site sanitation, 100% utilised for providing water supply and sanitation infrastructure in the rural areas of the country (including health and hygiene awareness programmes). The 2012 DoRA Bill indicated that this grant was expected to be gradually integrated into the MIG (South Africa, 2012). However, the DoRA Bill of 2013 indicates that *this decision has been reversed and amounts of R113.1 million in 2014/15 and R118.3 million in 2015/16 have been shifted from the municipal infrastructure grant to restore the rural households infrastructure grant* (South Africa, 2013). The administration of this grant has shifted from the National Department of Human Settlement to local government.
- *Human Settlement Development Grant (HSDG)*: In the DoRA Bill of 2013 this funding stream was estimated to be budgeted at R110 million, 100% transferred to six metropolitan municipalities (South Africa, 2013).

2. **Unconditional grants: which** include the

- *Local Government Equitable Share*: Over the 2012 MTEF, the local government equitable share, including the *RSC/JSB levies replacement grant* and *special support for councillor remuneration and ward committees*, was worth R122.1 billion.

Each of the funding streams is discussed in more detail in the following sections.

## 5.1 Conditional Sanitation Subsidies/grants

These grants have conditions, usually performance criteria, attached to the grant.

### 5.1.1 Municipal Infrastructure Grant (MIG)

The establishment of a consolidated grant mechanism, the Municipal Infrastructure Grant (MIG) was approved by Cabinet in 2003. The details of the grant, strategy for implementation and the basic principles of the grant are outlined in the MIG policy document published by dplg in 2004.

The MIG, which covers infrastructure capital costs, has the overall target of addressing basic municipal service backlogs over a 10-year period. The key principles of the MIG are the following (dplg, 2004):

- Providing infrastructure for a basic level of service. The MIG aims to provide only basic infrastructure.
- Focussing on the poor.

- Focussing on providing infrastructure in a manner that maximises local economic spin-offs.
- Managing at local government level with identification, selection and approval of projects occurring at this level of government.
- **Funding must be used in a manner which provides the maximum improvement to access to basic services at the lowest possible cost, i.e. responsible use of resources.**
- Supporting local, provincial and national development objectives.
- Funding must be provided to individual municipalities on a 3-year basis.

Key to sanitation services provision through the MIG is that the grant will fully subsidise the capital costs of providing basic sanitation services to poor households. The MIG policy does mention that provision of this basic service includes both external and internal municipal services; i.e. *meeting the basic infrastructure needs of poor households, through the provision of appropriate bulk, connector and internal infrastructure in municipal services* (dplg, 2004). The MIG targets beneficiaries based on the criteria shows in Table 4.

Table 4: Municipal service definitions supported by MIG funding (adapted from dplg, 2004)

Infrastructure category	Target consumer group	Services included	MIG funding restrictions
Residential services	Specific households	'Pilot package' including electricity, storm water management, water supply, sanitation, municipal roads, refuse removal and street lighting	Funds are only for basic infrastructure to households with expenditure below R1100 per month (poor households)
Services provided to institutions other than public municipal services	Institutions such as schools, clinics, police stations, prisons, churches and private recreations facilities	'Pilot package'	Funding include only services or institutions which are used extensively by the poor (see above)
Public municipal services: community services	Accessible to all	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	Funding include only services or institutions which are used extensively by the poor (see above)
'Standards services' to business premises	All business	'Pilot package'	Can only be used to provide infrastructure to businesses run by individuals who are poor.

Excluded from these definitions of municipal infrastructure, and thus excluded from support from MIG, are housing related infrastructure.

The 2004 MIG policy makes special mention of coordinating infrastructure grants with housing grants (dplg, 2004). The policy highlights that there is *inconsistency in the way planning is undertaken for housing (which currently includes 'internal' infrastructure) and related bulk and connector infrastructure*. To address this inconsistency the policy suggests that in future the infrastructure component of housing development should be funded from the MIG grant, as is currently recommended in the National Housing Programme funding policy. The land acquisition and 'top structure' provision could then be funded by the housing subsidy.

Sector specific conditions can also be attached to the MIG funding, i.e. conditions attached to the use of the MIG funding for sanitation are determined by the DWA, DHS and DoH. In the case of the DWA these conditions attached to the use of the MIG funding include (dplg, 2006):

1. Funding can only be used for Basic Water Services, i.e. Basic Sanitation Facilities as defined in the SFWS (2003).
2. Funding must be used for projects within the Water Services Development Plan as the Sector Component of the Integrated Development Plan (IDP).
3. Funding should focus on projects that are viable, feasible, acceptable and sustainable.
4. Funding to be used for projects that are sustainable from an operational and maintenance perspective.
5. Projects must be implemented in line with the DWA related policies and Acts.

### **5.1.2 Urban Settlements Development Grant (USDG)**

The USDG was introduced by government in the 2011 Division of Revenue to enable the eight large urban metropolitan municipalities in the country to respond to pressures created by continued urbanisation and growing urban poverty. This new grant funds infrastructure development in metropolitan municipalities to upgrade urban informal settlements (South Africa, 2013). The grant funding is available for provision of basic services that were previously funded through a combination of the funds allocated through the *municipal infrastructure grant* and the basic services portion of the *human settlements development grant* (South Africa, 2013). This shift reflects the importance of government's policy to devolve more housing authority to cities, which will facilitate better coordination of providing basic service and housing to the citizens of these urban settlements.

Municipalities will also receive additional funds through the local government equitable share to strengthen their administration and governance – an important foundation for improving the effectiveness of municipalities.

The USDG provides funds for the purchasing and servicing of vacant land, or upgrading of existing settlements. The USDG essentially separates the funding for land and services from that of top-structures, which will still be provided through the Housing and Human Settlements Development Grant (IHSDG). However, the allocation of IHSDG to cities is unclear. This causes more difficulties to municipalities who are not accredited as the developer for provision of housing, as the two grants effectively separate the funding for the provision of services from the provision of top structures (PDG, 2011).

### **5.1.3 Rural Households Infrastructure Grant (RHIG)**

The Rural Households Infrastructure Grant (RHIG) is a transfer to local government to build on-site water and sanitation facilities in **rural municipalities** where bulk-dependent services are not viable.



The grant also funds training for beneficiaries on health and hygiene practices and how to maintain the facilities provided.

The grant sees a shift in the administration in 2013/14 from the National Department of Human Settlements to local government (South Africa, 2013). The grant fund will thus become a direct grant to municipalities in 2013/14, where funds will be transferred directly to municipalities for these projects. These sanitation projects have significant community consultation processes, hence directing the funds directly to local government will facilitate this consultation process. Since maintenance of this infrastructure is also often the responsibility of local government, their management of this grant will provide local government with a much greater incentive to include maintenance planning in their annual budget planning processes.

#### **5.1.4 Human Settlements Development Grant**

The *human settlements development grant*, which is the primary source of funding of the subsidised housing programmes in the country, has the purpose to establish habitable, stable and sustainable human settlements in which all citizens have access to social and economic amenities (South Africa 2013).

In 2013 the grant funding will be transferred to six metropolitan municipalities, with funds for human settlements development in these municipalities being transferred directly to them. The human settlement development grant allocation in other municipalities will be administered by the national and provincial offices of the Department of Human Settlements.

The implementation of National Housing Programmes using the Human Settlement Development Grant is determined by the specific provisions of individual programmes (see Appendix 1).

Ensuring security of tenure remains a key principle of these programmes with all beneficiaries of programme acquiring tenure through ownership, deed of grant or formal rental arrangements, and non-ownership forms of tenure (DHS, 2010).



The annual Housing Subsidy Quantum is announced by the Director-General of the National Department, which addresses the annual allocation of national and provincial housing subsidies and

programme grant amounts (DHS, 2009a). The provincial housing institution then reserves and allocates funding to each of the Human Settlement Development Grant subsidy instruments from their provincial allocation. For example, in 2012 the housing subsidy amounts were as follows (DHS KZN, 2013):

Income category	Municipal Services	Top Structure	Subsidy
<b>Institutional Subsidies</b>			
R0 to R3 500	R 25 696	R63 666	<b>R 89 362</b>
<b>Farm Resident Subsidies and Rural Subsidies</b>			
R0 to R3 500	R 25 696	R63 666	<b>R 89 062</b>
<b>Enhanced People's housing Process</b>			
R0 to R3 500	R 25 696	R64 666	<b>R 64 666</b>
<b>Consolidated Subsidies</b>			
R0 to R1 500		R64 666	<b>R 64 666</b>
<b>Individual Subsidies</b>			
R0 to R3 500	R 25 696	R64 666	<b>R 96 362</b>
<b>Project Linked Subsidies</b>			
R0 to R3 500	R 25 696	R64 666	<b>R 90 362</b>

Of note is that the Housing Subsidy Amount for 2010/2011 also indicated that, as a last resort, internal municipal engineering services may be financed from the housing subsidy. An additional subsidy amount of R25 969 per stand is made available for this purpose. DHS KZN (2013) indicates that this internal municipal engineering services subsidy is estimated to include R 6 218.48 for sanitation reticulation.

According to the DHS (2009a) certain of the assistance measures require beneficiaries to contribute toward their housing product, as a pre-requisite to being part of the National Housing Programme. This contribution may be financial or an 'in kind' contribution.

The National Housing Programme is administered through the Housing Subsidy System by the Department of Human Settlement. All recipients of a subsidy are recorded on the National Housing Subsidy Database to prevent an individual benefitting more than once from the subsidy.

## 5.2 Unconditional Grants

In this type of grant, no conditions may be attached to how funds are used and thus allows the recipient to fully determine how funds are spent.

### 5.2.1 Local Equitable Share

The Local Equitable Share (LES) is provided by national government to the local government as an unconditional grant. The grant is based on estimates of national revenue raised annually in the country and is divided among the country's 278 municipalities using a formula, with one of the key components of this formula being the basic services component. The basic service component is worth 99.1 per cent of the value of the equitable share and provides for the cost of free basic services for poor households, as well as municipal health services (South Africa, 2012).

During 2012, the National Treasury, the Department of Cooperative Governance and SALGA, in partnership with the FFC and Statistics South Africa, reviewed the local government equitable share formula. As a result of the review, the DoRA Bill of 2013 indicates that *the local government equitable share has been increased to address the rising costs of providing free basic services to poor households* (South Africa, 2013). A new LES formula (see Box 3) has been developed, which uses demographics and other data to determine each municipality's share of the local government equitable share.

The LES formula has three parts, made up of five components (South Africa, 2013), the chief sanitation subsidy component of the formula being the *basic services component*. The basic service component of the LES formula assists municipalities to provide free basic water, sanitation, electricity and refuse removal services to households that fall below an affordability threshold<sup>5</sup>. According to South Africa (2013), *the basic services component provides a subsidy of R278 per month in 2013/14 for the cost of providing basic services to each of these households. The allocation to each municipality is calculated by multiplying this monthly subsidy by the number of households below the affordability threshold in each municipal area. The free basic services subsidy includes funding for the provision of free basic water (6 kilolitres per poor household per month), energy (50 kilowatt-hours per month) and sanitation and refuse (based on service levels defined by national policy)*. Sanitation allocations per household amount to R72.04 per household per month for each household in a municipality that falls below the affordability threshold (South Africa, 2013).

Box 3: Structure of the local government equitable share formula (South Africa, 2013)

$$LGES = BS + (I + CS) \times RA \pm C$$

where

**LGES** is the local government equitable share

**BS** is the basic services component

**I** is the institutional component

**CS** is the community services component

**RA** is the revenue adjustment factor

**C** is the correction and stabilisation factor

*The basic services component*

<sup>5</sup> See section 4.1. for discussion on affordability thresholds in SA

The Local Authorities' own revenue may also be used to cross subsidise between "rich" and "poor" households. A broad assessment of municipal income in rural areas, (the areas with the greatest sanitation need), indicates that, currently, direct cost recovery is applied only to electricity (City of Cape Town).

The local authority has discretion in deciding the composition of the service delivery packages, the levels of services and the manner in which these are funded (City of Cape Town).

### **5.3 Summary of key funding considerations**

- The Minister of Water Affairs is responsible for the granting of loans/subsidies and the developing of the regulations that administer these loans and subsidies.
- Two types of financial support are provided, through DoRA, to provincial and local government to meet their obligations of water service provision; namely conditional grants and unconditional grants.
- Conditional grants include the MIG, USDG, RHIP and HSDG, all of which have conditions attached to them. As the regulator the DWA has attached the conditions to the MIG funding that (1) funding only being used for a basic service; (2) funded projects must fall within WSDPs of an IDP; (3) funded projects must be viable, feasible, acceptable and sustainable (4) funded projects must be sustainable from an operational and maintenance perspective and (5) funded projects must be implemented in line with the DWA related policies and Acts.
- Unconditional grants include the LES, which do not have conditions attached and allow the recipient (municipality) to determine how these funds are utilised. However, National Treasury has provided a formula that determines the fund allocated to a municipality. This formula includes a basic service component to provide free basic services to households that fall below the affordability threshold of R2 300 (as of 2013).





## 6 MAXIMISING EFFECTIVE AND RESPONSIBLE USE OF SANITATION SUBSIDIES

To ensure effective and responsible subsidised sanitation in South Africa it requires good governance.

Good governance, according to De la Harpe (undated), *involves constructive co-operation between the different sectors where the result is responsible use of resources, responsible use of power, and effective and sustainable service provision*. Such good governance would only be achieved where all stakeholders are engaged and participate in the subsidised sanitation sector in an inclusive, transparent and accountable manner to accomplish better services free of corruption and abuse, and within the rule of law (De la Harpe, undated).

The subsidised sanitation sector, as mentioned earlier in this guideline, is a complex and often weakly understood sector and thus often demonstrates poor governance. However, this does not mean that the subsidised sanitation sector should not continue to strive towards good or 'good enough' governance, in order to achieve sustainable services (de la Harpe, undated). The basic characteristics of good governance to which the sector should strive, according to De la Harpe (undated) include that:

- there is **participation** of all stakeholders;
- decisions are taken in terms of rules and regulations in a **transparent manner**, with all information freely available and accessible to those who are affected by decisions;
- there is **equity and inclusiveness** of all members of society in development, particularly the most marginalised, with an emphasis on ensuring that the interests of women and men are included;
- **fair legislation** (rules) is implemented objectively with full protection of human rights;
- services are **responsive** so that the needs of consumers are addressed within a reasonable time period;
- broad **consensus** is achieved about what is in the best interests of the community, and how to achieve sustainable services;

- the needs of society are met **competently and effectively**, with sustainable use of national resources where the institutions of government are capable; and
- there is **accountability** for decisions taken and implemented, so that stakeholders involved in decision-making are accountable to those affected by decisions.

Since provision of subsidised sanitation services in South Africa is the responsibility of local government, it is imperative that good governance be achieved at this level (although this does not exempt national and provincial governments from striving for good governance of the sector). Figure 3 shows some of the requirements for good governance at a local level, which would be requirements for good and effective governance of the subsidised sanitation service provision in South Africa.

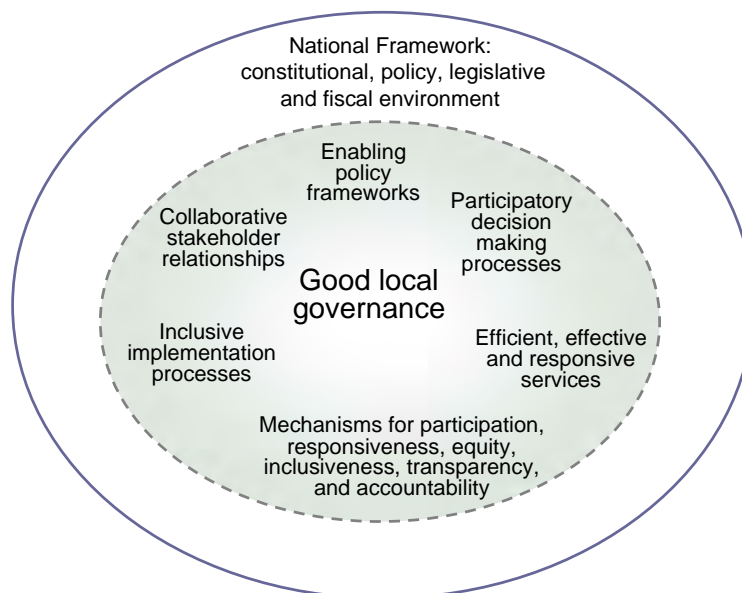


Figure 3: *Requirements for good local governance (taken from De la Harpe, undated)*

In a review of the requirements for good sanitation governance in South Africa, Mjoli (2013) indicated that good governance of sanitation at local government level will require the meeting of the following criteria:

- A local level development planning process, which includes community participation, is in place and has been adopted by local government.
- A strategy and plan for inclusion of community, traditional leaders and other stakeholders in local development planning process has an assigned budget, is in place and is being implemented.
- The extent of stakeholder engagement and ward committee contribution to decision-making processes and development priorities are being measured and monitored.
- A functional audit committee is in place in the municipality.

One of the critical failures in implementing subsidised sanitation policy intents is that, despite these policy positions having the very best intentions, they are rarely followed by a sound means of determining when and how the position will be met.

This section of the guideline provides some indication of how it is envisaged that the effective and responsible governance of sanitation subsidy can be measured and thus how progress towards achieving efficiency and effectiveness in the subsidised sanitation sector can be measured.

Figure 4 provides a hierarchical framework for the key strategic objectives and interventions that are required to achieve the **Goal: Universal access to equitable and sustainable sanitation services**.

The hierarchy shows Strategic Objectives (SO) for each of the terms in the Goal, namely:

- **Universal** – the SO related to this term is: - *all households below the affordability threshold (indigent or below the poverty line) in South Africans have access to a basic sanitation service*. This SO focusses on universal sanitation to poor (indigent) individuals as this population group should be the target of the sanitation subsidy.
- **Access** – the SO related to this term is: - *a subsidised sanitation service is available 365 days of the year*. This SO focusses on access, in that poor (indigent) individuals have sanitation services throughout the year.
- **Equitable** – the SO related to this term is: - *the sanitation subsidy is provided to poor (indigent) households in an equitable manner, i.e. address the needs of gender, age, race, etc*. This SO focusses on the sanitation services that address national equity imperatives.
- **Sustainable** – the SO related to this term is: - *subsidised sanitation services are environmentally and economically appropriate*. The SO focusses on environmentally and economically appropriate subsidised sanitation services. It assumes the three other SOs deal effectively with the social appropriateness of the service.

It should be noted in Figure 4, that the guide refers to provision of a sanitation *services* with the subsidy, which implies provision of subsidy to these households to address the capital, operation, maintenance and hygiene communication costs.

Effective and responsible use of sanitation subsidies would contribute to achieving all four of the SOs shown in Figure 4. A number of interventions are required (shown in the lowest level of the hierarchy) to achieve effective and responsible use of the sanitation subsidy.

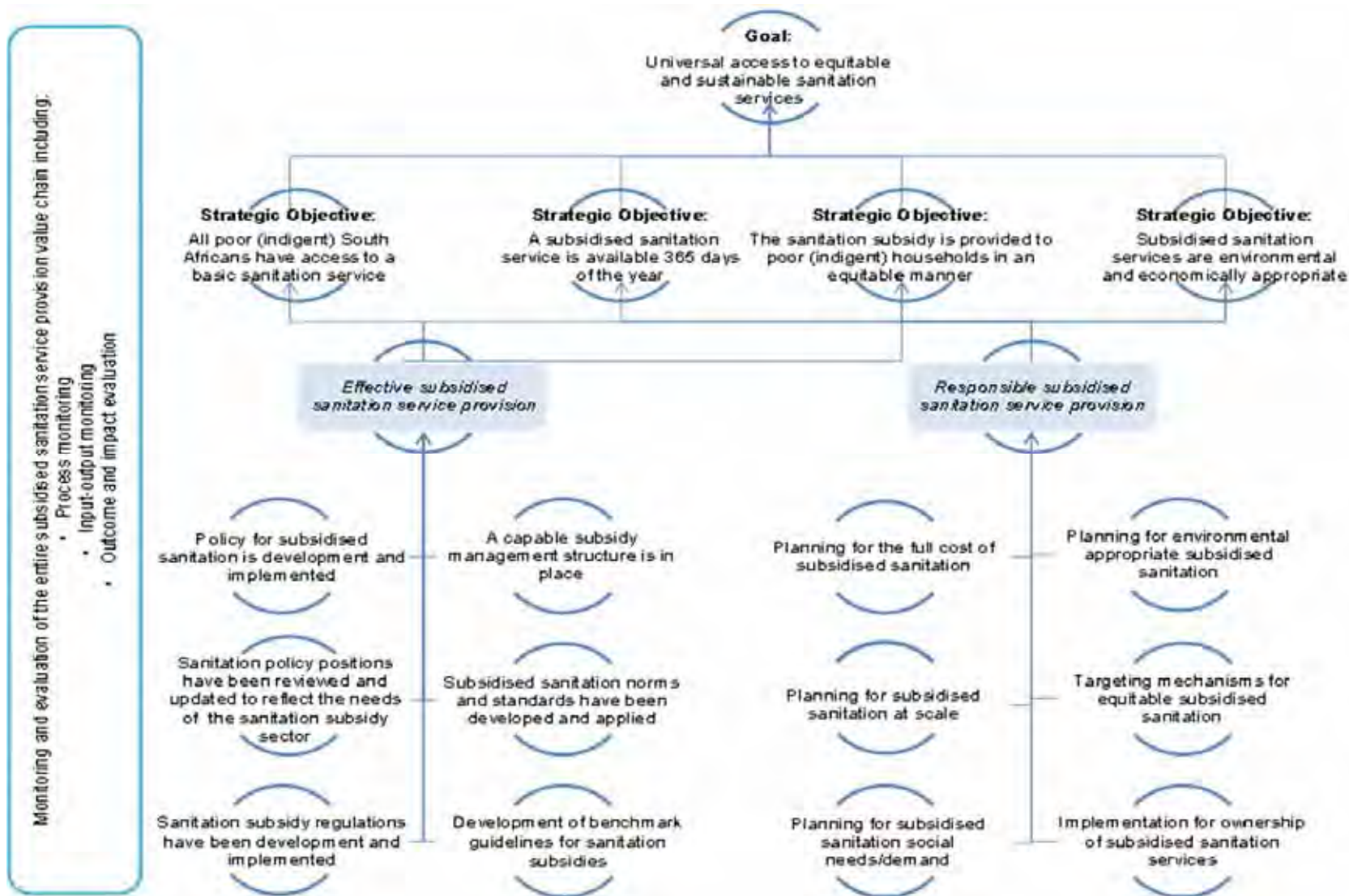


Figure 4: Hierarchical roadmap of the key interventions required to address effective and responsible use of sanitation subsidies and how achieving these can contribute to key strategic objectives and an overall goal for subsidised sanitation in South Africa. The hierarchy should be read from the bottom up.



The following sections of the guideline discuss each of these interventions in detail and provide some guidance and recommendations on implementing these interventions.

## **6.1 Effective Subsidised Sanitation Requires: - *doing the right thing***

Effective subsidised sanitation services in South Africa require a rigorous enabling environment to ensure the country is *doing the right thing* with reference to this basic service. To create this good governance and a sound enabling environment, which relates chiefly to having the correct and targeted policy, resources and skills, the following additions to the current sanitation subsidy environment are required:

1. An unambiguous and irrefutable sanitation subsidy policy and legislative environment, including review and update of the policy positions to reflect the needs of the sanitation subsidy sector.
2. Sanitation subsidy regulations have been developed and implemented.
3. A capable subsidy management structure is in place.
4. Subsidised sanitation norms and standards have been developed and applied.
5. Benchmarks have been developed to guide and inform the sanitation subsidy sector.

### **6.1.1 *Subsidy and Sanitation policy positions and legislation that are unambiguous and irrefutable***

The main obstacles to the effective delivery of acceptable subsidised sanitation services in developing countries have been the lack of political buy-in; the lack of clarity on the roles and responsibilities of the various role players; and specifically, a lack of consistency of policy, funding and implementation between the different spheres of government and between different national government departments responsible in various ways for addressing the sanitation problem. These obstacles have specific consequences to the sanitation subsidy environment of South Africa.

South Africa made ground-breaking strides between 1994-2001 in the course of developing sanitation-related policies and legislation. The country opted for the unique policy positions, at that time, of making sanitation a basic human right and providing sanitation subsidies to address this right. Rightly so, the sector shifted in 2001 from policy and legislative development to one of delivery and implementation. However, this led to the lack of ongoing review and update of policy and legislation to keep these in line with an ever-changing sector. Hence, sanitation policy and legislation, which provides clarity on the direction and regulation of a sector, has not modernised to reflect recent developments and changes in the sanitation sector, both locally and internationally. This is particularly true for new developments in the sanitation subsidy sector.

Although the early policies were clear on sanitation being universal to **all** South Africans, it is less clear on who would benefit from the sanitation subsidy. In addition, there is little clarity on policy

issues, such as the sanitation subsidy itself; sanitation subsidies and tenure; subsidies for workers living on privately owned land; subsidy variations between urban and rural areas and prevention of double subsidisation through household and housing initiatives, to name but a few.

Added to this problem is that sanitation itself remains a low priority amongst households, as well as at all levels of government, with a few exceptions. South Africa requires an urgent, national and coordinated response to sanitation subsidies within its policies and legislation.

The following are **recommendations** to address the policy omissions and gaps in effective and responsible use of sanitation subsidies:

- The development and implementation of a sanitation subsidy policy, or strong sanitation subsidy positions being amended in current policy, will go a long way to directing effective and responsible use of subsidies in this sector.
- Sanitation policy positions need to be reviewed and updated in all sanitation-related policies (rural development, housing, water, local government), followed by legislative updates to:
  - Clarify **basic definition and terms** related to sanitation and sanitation subsidies, i.e. policy needs to include definitions similar to those outlined in the SFWS. There is also continued confusion and thus separation of waterborne sanitation and sanitation policy positions, regulation and stakeholder roles and responsibilities. These need to be clarified and integrated in the new policy positions.
  - Clarify **who the beneficiaries** of capital subsidies for sanitation are, i.e. poor, very poor, all
  - Clarify who should be **targeted** in the free basic sanitation subsidy, i.e. indigent, poor, very poor, all.
  - Clarify costs that are addressed by the sanitation subsidy in urban and rural areas, i.e. capital, communication of hygiene; operation and maintenance; replacement and/or rehabilitation.
- Provide a policy position on issues such as sanitation subsidies on private and rental properties. The provision of interim basic services in informal settlements is critical, and services should be provided regardless of whether there is a long-term plan for upgrading the settlement or not, or whether the settlement is situated on state- or privately-owned land.
- Policies should make provision for regulations to ensure ring-fencing of sanitation financing, including the long-term operation and maintenance funding of on-site and other sanitation systems by municipalities.
- Policy guidelines are needed for the integration of water conservation and water demand management strategies into the delivery of basic sanitation services and appropriate economic and legal instruments for enforcing compliance.
- A coordinated strategy for sanitation subsidies, mandated by policy, should be developed to guide implementation at local level.
- Policies and guidelines to allow the various forms of private sector participation in the provision of basic sanitation should also be adopted.

## **6.1.2 Development and application of sanitation subsidy regulations**

### **6.1.2.1 National regulation of sanitation subsidies**

Sanitation regulations are seriously lacking in South Africa and are non-existent in the sanitation subsidy sector.

The implementation of economic instruments for sanitation services provision in South Africa raises the issue of the legal basis that underpin these instruments. If they are supported by existing constitutional bases, the questions of who is to be taxed, what is to be taxed, how the tax is to be calculated, and how tax revenue will be used, will be defined at the level of the law (Kaufmann-Hayoz et al., 2001).

For effective use of the sanitation subsidy, it is particularly important that regulations for these economic instruments be simple and flexible to inform implementation. Regulation for sanitation subsidies will create, limit or constrain the right to the subsidy and will allocate responsibilities to this right. These regulations should take the form of legal restrictions promulgated by a government. In its legal sense, sanitation subsidy regulation can and should be distinguished from primary legislation on the one hand and customary law on the other.

State-mandated sanitation subsidy regulation also provide the framework for outcomes that might not otherwise occur in the subsidised sanitation sector, produces or prevents adverse outcomes in the sector, or produces or prevents outcomes in different timescales than would otherwise occur. In this way, regulations can be seen as implementation apparatus for policy positions or statements.

### **6.1.2.2 Regulation of Sanitation Subsidies through By-Laws**

The regulations of sanitation services by local government and the enforcements of these are achieved through municipal sanitation by-laws. The Constitution and the Municipal Systems Act recognise by-laws as the only instrument through which a local government exercises its legislative authority (DWAF, 2005).

According to DWAF (2005) municipal by-laws should include details related to subsidised services, including:

- *A municipal council may implement subsidies, by public notice, for what, in its opinion, is a basic level of service for a particular municipal service. This public notice must contain at least details of:*
  - *the domestic customers who will benefit from the subsidy;*
  - *the type, level and quantity of a municipal service that will be subsidised;*
  - *the area within which the subsidy will apply;*
  - *the rate (indicating the level of subsidy);*

- *the method of implementing the subsidy; and*
- *any special terms and conditions that will apply to the subsidy.*
- *A municipal council may, in implementing subsidies, differentiate between types of domestic customers, types and levels of services, quantities of services, geographical areas and socio-economic areas.*

By-laws should also include details related to subsidised services for Indigent Customers. When the municipalities determine the municipal services and levels of municipal services that will be subsidised in respect of indigent customers, they give public notice of the determination containing at least (DWAF, 2005):

- the level or quantity of municipal service that will be subsidised;
- the level of subsidy;
- the method of calculating the subsidy; and
- any special terms and conditions that will apply to the subsidy not provided for in these by-laws.

A review of 10 municipal sanitation by-laws showed that these regulations have serious gaps and shortfalls with reference to a municipality's enforcement and application of indigent subsidy and FBSan policy.

National subsidised sanitation regulations should inform local government regulations, such as sanitation by-laws.

The following are **recommendations** to address regulation of effective and responsible use of sanitation subsidies at a national level:

- Provide for development, application and enforcement of regulations related to sanitation subsidies that will provide clear direction and limitations to the sector.
- Integrate national sanitation subsidy regulations into municipal sanitation by-laws.

### 6.1.2.3 Regulation for sanitation subsidy ring-fencing

The sanitation subsidy environment suffers from a lack of clarity on the quantity, source and output/outcomes of funding interventions. Many local governments in the country cannot provide details as to the annual budget allocated directly to subsidised sanitation interventions, the various sources of subsidies that were utilised, or the actual output/outcomes of these interventions. This makes it extremely difficult to determine the efficiency of interventions in the country. According to WSP (2011) *in the absence of better financial ring-fencing of the water services function within municipalities, it is difficult to properly understand the financial performance of water services.*

Developing regulations relating to ring-fencing of sanitation subsidy funds and specifying monitoring and reporting requirements linked to these ring-fenced funds will facilitate the sector's understanding of the effectiveness of their use of funds and thus guide future interventions.

**Recommendations** for ring-fencing sanitation subsidies include:

- There is a need for regulations regarding ring-fencing of subsidised sanitation funding.
- These regulations should be supported by guidelines to assist local government in ring-fencing their sanitation subsidy interventions.

### **6.1.3 Development and application of sanitation norms and standards for subsidy use**

The Strategic Framework for Water Services (DWAF, 2003) defines basic sanitation services as the provision of a basic sanitation facility, the sustainable operation of this facility and the communication of good sanitation, hygiene and related practices. The Strategic Framework also outlines that a sanitation facility is a system for disposing of human excreta, household waste water and refuse, which is acceptable and affordable to the users; safe, hygienic and easily accessible; which does not have an unacceptable impact on the environment, and promotes appropriate health and hygiene awareness and behaviour. These definitions provide the norms and policy imperatives to comply with, but not necessarily the unit design standards or national building codes.

Research has shown that many of the households in South Africa, which have a subsidised sanitation service, have inadequate and deteriorating facilities due to the quality of construction, ineffective operation and maintenance, lack of refurbishment and/or upgrading and pit emptying that is neglected. Sanitation services providers often provide inappropriate services as current technologies can be environmentally, socially or economically inappropriate for an area/household, or the design specifications or building codes for the sanitation technology is based on 'first world' design requirements. The choice of service is often a trade-off between finances and demands, and not focussed on quality of construction, affordability, capacity for operation and maintenance, life-cycle costs, consumer acceptability and environmental impact. This results in households, in essence, receiving an inappropriate level of sanitation services, which leads to services failure and services delivery breakdowns, indicating ineffective service provision and money wasted.

Social, environmental, bio-physical, economic and political considerations (thus the context) need to be taken into account together with the technical/engineering options/facilities in order to use subsidies effectively, competently and sustainably. Relevant and appropriate design standards and building codes for technical options/facilities, which will provide on-going basic levels of services that are consistent across subsidy mechanisms, are crucial.

**Recommendations:**

- There is a need for national norms, standards and building codes for minimum acceptable level of a subsidised sanitation services that meet the requirements of constitutional right to an environment that is not harmful to the health of all people.
- These norms and standards need to be consistently applied to sanitation provided through any subsidy process, i.e. household; housing; rural development; donor funding, etc.

**6.1.4 Strong and evident management structure of sanitation subsidises****6.1.4.1 National and provincial management structures**

One of the main gaps in subsidised sanitation policy is the lack of clarity regarding roles and responsibilities between departments involved in the sanitation services delivery process.

From a national and provincial perspective, sole responsibility for regulation and implementation initially (1994 and 2001) rested with the Department of Water Affairs and Forestry. Administration and monitoring of funding later moved to the Department of Provincial and Local Government in 2001, as responsibility for implementation of sanitation devolved to local government. In 2009 the National Sanitation Programme Unit (NSPU) was moved from the DWA to the Department of Human Settlements, with the DWA retaining certain responsibilities in the sector, including regulation, information management, and high level planning and management of the Bulk Infrastructure Grant.

At a provincial level, supervision of the implementation sanitation services provision now rests with the Department of Human Settlements, but with certain links to the Departments of Health, Water Affairs, Education and Public Works. This fragmentation and the lack of a single national body taking the lead in the sector has resulted in serious challenges in terms of coordination of subsidised sanitation services initiatives and the monitoring and regulation of compliance to norms and standards (DWA et al., 2012).

It is recommended that the sanitation functions related to infrastructure, software, education, policy, regulation, etc. be consolidated under a single authority, either national or provincial. The requisite knowledge and skills to understand and address the complexities of sanitation services delivery, beyond the scope of simply providing a facility, should be developed.

A national/provincial sanitation authorities' responsibility for the subsidised sanitation sector should provide a platform and framework for coordinated national efforts. Subject to any specific legislative provisions to the contrary, the authority should be a governing body, carrying out functions and powers on governments behalf, and should be responsible for oversight/supervision and monitoring of operations and performance of the sector. An example of the use of provincial authorities can be found in the environmental sector (see Box 4).

**Box 4: Example of use of a provincial authority for management and protection of natural resources.**

Like water resources in South Africa, the State and hence the Minister through the organs of state (i.e. DEA) is the trustee who manage, conserve and sustain South Africa's biodiversity and the protected areas of the country. The environment, like housing in South Africa, is constitutionally the concurrent responsibilities of national and provincial government.

Five provinces have established public entities (agencies or boards) with the specific mandate to plan for and manage biodiversity conservation in their province. These provincial entities have very clear and specific legal mandates, and have ring-fenced budgets provided through the DEA. Entities and their biodiversity conservation mandates include:

**Mpumalanga Tourism and Parks Agency**

- Mandated by the Mpumalanga Tourism and Parks Agency Act of 2005, to provide conservation management of the natural resources of Mpumalanga.

**CapeNature**

- CapeNature's mandate is to promote and ensure nature conservation in the province.

**Ezemvelo KZN Wildlife**

- Mandated by the KwaZulu-Natal Conservation Management Act (No. 9 of 1997) to conserve biodiversity and manage protected areas in the KZN province (Ezemvelo, undated)

**North West Parks and Tourism Board**

- Mandated by the North West Parks and Tourism Board Act (Act No. 3 of 1997), to regulate, plan and manage provincial Nature Reserves in the North West province.

**Eastern Cape Parks and Tourism Agency**

- Mandated by the Eastern Cape Parks and Tourism Agency Act (Act No. 2 of 2010), to develop and manage protected areas in the Province.

DEA's responsibility remains to regulate the sector, while these entities assist with this national mandate but also have a role to play in the oversight/supervision and monitoring of the use of biodiversity and the management of provincial protected areas.

Where Constitutional responsibility differs in the environmental and sanitation sector, is that water services to households are the responsibility of local government. This does not limit the sanitation sector from adopting a similar provincial entity approach discussed above. The roles and responsibilities of these provincial entities would, however, need to be clear and explicit to ensure no infringement of the Constitutional responsibility of local government.

At a national scale, this National Sanitation Subsidy Authority (NSSA) could set the agenda for sanitation services delivery through subsidies in South Africa by contributing to policy, articulating unmet need and setting performance targets.

The NSSA should be a legally formulated coordinating body consisting of government departments, NGOs, research and academic institutions, the private sector and international agencies (UN agencies and other), which could become the platform and centre for credible sources of knowledge and information regarding subsidised sanitation through ensuring the following:

- A situational analysis is conducted, and updated on an ongoing basis, of sanitation subsidies in South Africa with statistical data regarding backlogs; who has benefited, i.e. everyone, poor, very poor; financial requirements to meet the MDGs, etc. and who should benefit (beneficiary waiting list).
- A sector profile and database of all the players in the subsidy sector, their specific mandates, contributions and resource strengths are developed and updated on an ongoing basis.
- A jointly determined, and agreed by the key sector players, prioritisation for sanitation services delivery through subsidies.
- A coordinated and nationally integrated programme and process for subsidised sanitation that is monitored and measured by results.
- Contribution to policy and regulation development, interpretation, monitoring and enforcement.
- Reporting on progress and accountability for subsidy to Cabinet and the public.
- Provision of a conduit and platform for international subsidy expertise and interests coming into South Africa.

These and other processes should become synonymous with the NSSA. Through secretariat and convenor leadership, the NSSA should position itself both politically and from a delivery perspective as a credible and indispensable resource regarding subsidised sanitation.

The institutional structure and coordination function of sanitation subsidies should also be entrenched in the National Sanitation Policy and future Acts.

To ensure effective use of sanitation subsidies, the NSSA would urgently need to:

- Develop a national strategy that aligns and coordinates all subsidy mechanism and funding streams for sanitation. The strategy would address the gaps and overlaps, provide a structure and process, call for the development of appropriate guidelines on national and local levels and link timeframes to achieving alignment and collaboration between key departments.
- Participate in and/or call for research and development processes through piloting and other means to inform good practice, to develop current capacity, to introduce innovative subsidy methods and to research affordable and sustainable subsidy solutions for rural, urban and peri-urban environments.
- Mobilise the sanitation sector and establish a learning network that should facilitate the following:
  - direct linkages with local government structures on the ground providing support, information and advice on subsidised sanitation delivery at the community interface.
  - sharing of best practices in using sanitation subsidies.
  - sharing of and tracking the outcomes of subsidised sanitation services delivery.
  - sharing of statistical data, prioritisation of needs, current government strategies and other on sanitation subsidies.
  - linking international expertise and knowledge on subsidies to local sanitation sector players.
  - providing constant updates of progress, results and products achieved in the field through sanitation subsidies.



- Advocate for an enabling environment for effective and responsible use of sanitation subsidies in South Africa and invest time and energy in redefining sanitation subsidy allocations, mechanisms, definitions and systems.
- Develop a national sanitation subsidy information system (SSIS) that would be informed and enriched by a learning network. The information system could include geographic information (GIS), statistical data and other situational analysis data of unmet need and backlogs in sanitation in the country.
- Provide a series of guidelines aimed at national, provincial and local government, which should be updated and made available on a regular basis depending on need and current challenges.

Collaboration with other stakeholders and role players on national as well as provincial/ regional level will have to include the following:

- *Planning*: this should be the level at which collaboration on sanitation services provision through subsidies is strengthened in order to achieve integration.
- *Repositioning of resources*: within the collaboration format, both HR and infrastructure resources should be shared, with partners focusing on specific areas where possible.
- *Regulatory Framework with monitoring and evaluation*: issues emanating from the Constitution and relevant local government, as well as Water Services legislation, will provide the overall reference with regard to a sanitation mandate.

#### 6.1.4.2 Local government management structures

Institutional arrangements, especially the use of subsidies, affect the nature of the relationship between government, sanitation agencies and communities, which in turn affects the provision of sanitation services. The improvement of sanitation is everybody's business and should not be seen as a government-sponsored top-down programme. The role players who should contribute towards the use of sanitation subsidies are householders and communities (first and foremost), community-based contractors, local government, provincial government, national government, the private sector (including funding institutions, consultants, contractors and materials and equipment suppliers) and non-governmental organisations.

Local government needs to be on board from the outset of any policy and/or strategy development. However, getting local government on board will take more than roll-out and more than just consultation. It will need a carefully targeted campaign, which will need to include project visits, materials, workshops, etc. aimed at changing mind-sets and approaches to using subsidies for sanitation improvement and providing new services. A strategy will not succeed without implementation and the capacity in local authorities to execute the policy.

Local government is crucial to the delivery of subsidised sanitation services as this is the sector of government mandated to provide basic services and is also the government structure that is closest to the communities benefitting from the subsidy. Decentralisation is a key principle of water management in South Africa; hence local government is responsible for water services delivery.

The recommendations for strengthening the decentralisation of the management of sanitation subsidies are the following:

- Capacity should be built in local government to make objective and well-informed decisions regarding the use of subsidies for sanitation. There is a need to identify critical learning areas as far as subsidised sanitation is concerned.
- Ensure that implementation processes/procedures are well understood by all.
- Apply lessons learnt from history at the various government levels.
- The subsidy needs to focus on the most needy communities and local municipalities.

### **6.1.5 Development of benchmark guidelines for sanitation subsidies**

Measuring and monitoring performance of subsidised sanitation and applying the results from these performance measures to build the capacity to effectively utilise sanitation subsidies are crucial to the development of the sanitation sector of South Africa. Current monitoring of the performance of the subsidised sanitation sector is, however, largely focussed on measurement of financial inputs to the sector (although poorly tracked and monitored) and the measurement of the number of sanitation facilities constructed (outputs). Performance outcomes and impacts of subsidised sanitation are mostly not measured or monitored and are not linked to monitoring of inputs and outputs. This makes it difficult to measure and monitor the efficiency of subsidised sanitation interventions.

The cost of sanitation services can vary significantly due to location, site conditions, number and type of hygiene interventions; type of sanitation technology, etc. As indicated by Swartz et al. (2013) in the water supply sector, experience has also shown that cost estimates for subsidised sanitation development projects seldom use the same costing factors, planning norms and design criteria (Swartz et al., 2013).

South Africa has conducted a number of costing exercises to determine cost benchmarks for typical sanitation services development projects, the most recent of which is the CoGTA Industry Guidelines of 2010 (CoGTA, 2010). These Guidelines provide broad costing maximums for the various subsidised sanitation infrastructure provided in the country, including the unit costs for material, labour, a construction margin of 15%, and preliminary and generals of 10%. A Community Development costs totalling R445.00 per unit was also estimated. These unit costs maximums for sanitation infrastructure are vitally important in South Africa as they provide the maximum subsidy allocations that may be applied for by local government in the MIG funding process. In other words, if the maximum unit cost for a single pit, fixed top structure VIP toilet is R6,923.28, this is the maximum subsidy that a local municipality may request through applying for the MIG funding for households below the affordability level (unless motivation is provided for higher levels of subsidy).

Unfortunately, these unit costs are focussed on only the MIG-funded capital, project management and hygiene costs of sanitation and thus exclude the full cost of sanitation services (i.e. exclude ongoing operation and maintenance costs, as well as replacement and refurbishment costs). These unit costs

are also broad national estimates, thus not truly reflecting actual costs for subsidised sanitation service provision at a local government level. As a result, responsible use of subsidy and good performance of local government in providing subsidised sanitation services are not measured or acknowledged in South Africa. Subsidy cost performance benchmarking is thus required for local government.

Subsidised sanitation performance benchmarking would enable local government to assess their performance, both internally but also against other municipalities, which would provide motivation for ongoing improvement in the use of sanitation subsidies (WSP, 2010). It would also highlight areas of weakness and strengths in local government subsidised sanitation initiatives.

Performance benchmarking, which places emphasis on monitoring of outcomes, would encourage and facilitate better understanding and thus long-term achievement of these subsidised sanitation outcomes, i.e. provision of subsidies that targets and achieves positive hygiene and sanitation behaviours. Sanitation subsidy performance benchmarks can be utilised as incentives to open up additional funding for local government. For example, those municipalities that perform best in a financial year may have greater subsidised funding available to them in the next financial year, while those municipalities that do not perform well against the benchmarks may have to focus on supporting mechanism in the following year to address blockages or challenges. This should drive performance improvement (see Box 5 for an example of performance benchmarking for rural sanitation in India).

**Box 5: Example of performance benchmarking process for rural sanitation in India (taken from WSP, 2010)**

India has developed a performance monitoring and benchmarking model to strengthen outcome-based management of the rural sanitation sector. This model has been adopted by the Government of Himachal Pradesh to monitor performance across all 12 districts in the state in relation to rural sanitation and to benchmark the same on a monthly basis. The performance benchmarking system for rural sanitation follows a five steps process shown below.



**Step 1: Select indicators and collect data.** For a balanced measurement across inputs, outputs, processes and outcomes, the team finalized eight indicators in consultation with the Government of Himachal Pradesh (see table below).

#	Variable Measured	Indicator Type	Max. Score	Min. Score
1	% Rural Sanitation Budget Spent	Input	5	0
2	% Household Toilet Coverage Target Achieved	Output	15	0
3	% School Sanitation Coverage Target Achieved	Output	10	0
4	Financial Efficiency (cost per ODF community)	Process	15	0
5	Success Rate of NGP Applications	Process	10	0
6	No. of ODF Panchayats	Outcome	20	0
7	No. of NGP Panchayats	Outcome	15	0
8	% NGP Panchayats	Outcome	10	0
<b>CUMULATIVE PERFORMANCE SCORE</b>			<b>100</b>	<b>0</b>

note: ODF = open-defecation free and NGP = fiscal incentives called Narmal Gram Puraskar

**Step 2: assign scores to each indicator.** Each indicator was assigned a weighted score. A higher priority was given to outcomes and processes relative to inputs and outputs. Therefore, the number of fiscal incentive (Nirmal Gram Puraskar (NGP)) *Panchayats* (local government) is given a higher score than the percentage of Total Sanitation Campaign (TSC) budget spent on toilets constructed. Each indicator was assigned a maximum and minimum range for scoring purposes, and the total score was capped at 100.

**Step 3: Sum up scores.** Individual scores on each indicator were added to arrive at a *Cumulative Performance Score*, out of a maximum of 100.

**Step 4: Benchmark districts based on score achieved.** Districts were ranked in descending order on the basis of the Cumulative Performance Score achieved. The scores were divided into four color-coded performance bands based on the scores received. The scores were then presented as a graph and a map showing district performance relative to each other.

**Step 5: Disseminate results at periodic intervals:** On the 10th of each month benchmarking results are sent out to all districts by the Rural Development Department of the Government of Himachal Pradesh. In addition, at the end of each quarter, a cumulative performance trend analysis is sent to capture progress over time. Similar reports are prepared at six months, nine months and annual intervals.

South Africa should consider a similar benchmarking campaign for the subsidised sanitation sector, with a very strong focus on capturing input-output-outcome-impacts (where possible) indicators.

Benchmarking is a management tool that can help to improve the efficiency and effectiveness of procedures and processes of subsidised sanitation in South Africa. It encompasses quantification and qualification of important performance measurements, extensive data collection and analysis, and the development of a process for continuous improvement through identifying strengths and weaknesses, increasing beneficiary satisfaction, prioritizing improvement opportunities, setting goals and developing a culture of continuous change.

Successful benchmarking should be based on a structured approach of conscious efforts to create the right enabling environment and build a culture of continuous learning and improvement. Benchmarks and best practices should also be shared in a timely, accessible, user-friendly and responsible manner.

Benchmarks should be developed for effective subsidisation of the following:

- *Capital costs for sanitation provision:* This component of local government benchmarking of the use of sanitation subsidy need to consider benchmarking of hardware and operational expenditure, the type of sanitation system being built, and consumer demand.
- *Operation and maintenance of sanitation facilities:* Supporting the operation and maintenance of facilities ensures ownership and thus uptake of ongoing responsibility for facility maintenance. Gaining household responsibility for O&M of a subsidised sanitation facility could (1) ensure the long-term sustainability of these facilities but also (2) may facilitate the development of small enterprises that assume responsibility for O&M activities, which can generate income for these enterprises/individuals. Benchmarking of O&M activities and enterprises need to be included in any subsidy benchmarking system.
- *Programme/project management:* benchmarking of project/programme management would include measurement of the maturity of the process (defines the quality, rigor or level of performance of an overall process, thus it measures the quality and capability of a process), process effectiveness (evaluates the usefulness and relevance of the process in supporting the projects being conducted) and project effectiveness (examines the traditional performance measures of schedule, cost and resource effort against project baselines, and whether the project delivered on its expected scope and outcomes).
- *Hygiene education/awareness raising:* The effectiveness and sustainability of sanitation programmes depend on a balance between the technical components (the hardware) and the socio-economic and institutional issues (the software). Benchmarks for health and hygiene promotion should be carefully designed (including objectives, indicators and monitoring and evaluation procedures) and allocated sufficient budget to be effective.
- *Stakeholder participation:* The active participation and involvement of all stakeholders – from the grassroots up to the higher levels – is crucial in rendering effective and competent use of sanitation subsidies. Benchmarking of community involvement from the planning stage, throughout the project cycle, to monitoring and evaluation is compulsory to ensure that subsidy use is transparent and based on the principles of equity and good governance.

The **recommendations** for benchmarking of sanitation subsidies are the following:

- Benchmarks must be created to monitor and report the full cost of subsidised sanitation, this will allow local government to measure their effectiveness in the use of these subsidies.
- Benchmarks need to include the range of costs associated with subsidised sanitation, including hardware and software, project management, O&M of the system, environmental and economic costs.

### **6.1.6 Key considerations in the effective use of sanitation subsidies**

- Policy considerations:
  - Although the early policies were clear on sanitation being universal to **all** South Africans, it is less clear on who would benefit from the sanitation subsidy. In addition, there is little clarity on policy issues, such as the sanitation subsidy itself; sanitation subsidies and tenure; subsidies for workers living on privately owned land; subsidy variations between urban and rural areas and prevention of double subsidisation through household and housing initiatives, to name but a few.

## **6.2 Responsible Subsidised Sanitation Requires: - *do the thing right***

Responsible subsidised sanitation services in South Africa requires rigorous governance of the sector to ensure the country is *doing the thing right* with reference to this basic service. To create good governance and a sound enabling environment for responsible subsidised sanitation in South Africa will require the following additions to the current sanitation subsidy environment:

1. Ring-fencing of sanitation subsidy funds.
2. Planning of sanitation subsidies based on the full cost of sanitation.
3. Planning sanitation subsidies for a delivery of service at scale.
4. Planning subsidies on needs and not on subsidy amounts or budgets.
5. Planning subsidies for environmental appropriate subsidised sanitation.
6. Clear and evident targeting mechanisms for equitable subsidised sanitation.
7. Strategy development for effective and responsible use of sanitation subsidies at local level.
8. Implementation of subsidised sanitation for ownership.

### **6.2.1 Ring-fencing sanitation subsidies for responsible use**

Ring-fencing occurs when a portion of an organisation's funds are financially separated without necessarily being operated as a separate entity. To ring-fence a grant or subsidy may require restrictions being place on the funds, such as that the funds can only be used to subsidise basic sanitation services.

Ring-fencing of funds is the basis for good governance in that it ensures that local authorities would be transparent in their cost for each functional unit provided by the sanitation subsidy, thus allowing the local authority to prioritise effectively and efficiently. In order to "get the basics" right in the subsidised sanitation sector, ring-fencing of funds utilised to provide basic sanitation service is considered a critical starting point towards effective and efficient management of financial and other resources and meeting service delivery needs in a cost effective manner.

Ring-fencing of subsidy fund for basic sanitation services will require local government to embrace the principles that:

1. the MIG funds utilised for the construction of the sanitation facility must be managed and monitored in a strict and financially transparent manner by local government, not leaving this responsibility to the service providers;
2. the MIG funds utilised for other purposes (ISD, project management, etc.) must be managed and monitored as separate line items in the financial statement for the subsidy funds;
3. utilisation of LES funds to support sanitation services (i.e. operation and maintenance) must be separated from other LES funds and managed/reported as part of the sanitation subsidy ring-fenced funds.

Only when these funds are reported and monitored as a collective, ring-fenced fund will local government adequately be able to report the effectiveness and efficiency of use of these funds, and be able to benchmark their performance against other municipalities who are also managing similar funds. The more municipalities that follow this system of ring-fencing of subsidy funds, the better National Treasury will be able to plan and provide budgets to address the needs of poor households and similarly, the better the municipalities can plan their own budgets on an annual basis.

The key element of successful ring-fencing is to manage the process throughout all its phases in order to ensure that deliverables are supplied and that all the objectives are achieved (see Box 6 for the phases of ring-fencing).

**Box 6: Example of the process following in ring-fencing funds (taken from Electricity Control Board, 2003)**

This guideline is based on a phased approach to ring-fencing that comprises the following phases:

- **Phase 1: Planning and mobilisation of resources:** to establish a solid foundation and direction for the ring-fencing exercise – project management of the ring-fencing exercise is critical in each local municipality;
- **Phase 2: Determining what gets ring-fenced:** to identify all activities of the municipality that form part of the subsidised sanitation process;
- **Phase 3: Identifying the focus areas of ring-fencing:** to identify the various focus areas of ring-fencing pertaining to those activities that are considered necessary for the independent and successful operation of the basic sanitation subsidy;
- **Phase 4: The process for collecting, collating and analysing information:** to collect, collate and analyse all the necessary information, in a uniform manner, of each identified activity based on the focus areas identified during phase 3;
- **Phase 5: Validation of information gathered:** to verify the asset, liability, personnel, contracts and other information gathered;
- **Phase 6: Documenting and maintaining the information:** include the design and implementation of an information database for the documentation of all information gathered, that should have accountability for continued maintenance thereof assigned once in operation.

Recommendation for ring-fencing subsidised sanitation funds:

- Subsidised sanitation funds, including those from the MIG, the LES and other sources, need to be ring-fenced to ensure transparency in use of funds and thus effective and efficient use of these resources.
- Sanitation subsidy fund ring-fencing must be linked to the sanitation subsidy benchmarking activities of a local municipality.

## **6.2.2 Planning of sanitation subsidies based on the full supply cost of sanitation**

### **6.2.2.1 Planning for the full supply cost of subsidised sanitation**

One of the most contentious issues related to subsidised sanitation in South Africa is which level of sanitation facility should be funded utilising these resources. Although the policy mandates that a basic sanitation service should be provided utilising a subsidy, the SFWS and other documents have not dictated what type of facility is required as a *basic* sanitation facility. The decision on the level of sanitation service is at the discretion of the water services authority (DWAF, 2003). Thus, sanitation services provided using the subsidy (capital and operational) range from Ventilated Improved Pits toilets (generally in rural areas) to waterborne systems connected to the municipal sewer system.

This has led to a number of perceptions within the sanitation services delivery sector:

1. Despite industry and governmental guidelines recommending a ceiling amount per household for the provision of a basic sanitation service, perceptions are that capital and institutional social development (ISD) costs of provision of basic sanitation services are much higher than this recommended unit cost.
2. There is the perception that subsidised sanitation services are being provided based on poor decisions-making and without understanding the full implications of choosing a particular level of services.
3. There is also a growing perception within the public sector and the sanitation sector that the sanitation subsidy provided to poor households is not being effectively and competently applied.

To ensure that responsible use of sanitation subsidies in South Africa, decisions about the level of service to be provided utilising subsidies should be made based on the full supply cost of the service.

An economic modelling of full cost of subsidised sanitation provision was conducted by the WRC (see the Technical Report WRC Report No. 2136/14/2 linked to this Guide) using the Rodgers et al. (1998) framework for analysing economic charges (Figure 5). Based on the Rodgers et al. (1998) framework, the research categorised the full cost of subsidised sanitation service provision into three chief cost components: the Full Supply Cost; the Full Economic Cost; and the Full Cost (Figure 5).



Each of these costs is defined as follows:

1. *Full Supply Cost*: the costs associated with the supply of sanitation services to the consumer without consideration of either externalities, or alternative uses, of the same resource (Rodgers et al, 1998). It includes the capital cost of infrastructure, operation and maintenance cost for the system and communication of sanitation and hygiene promotion.
2. *Full Economic Cost*: the sum of the full supply costs (above), the opportunity costs associated with the alternative use of the same resources and the economic externalities imposed upon others due to the consumption of water by a specific sector (Rodgers et al, 1998).
3. *Full Cost*: the sum of the full economic cost and environmental externalities.

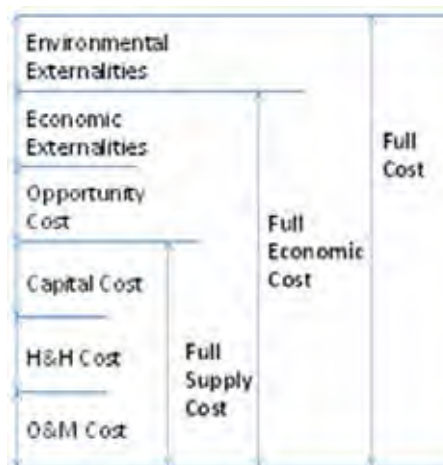


Figure 5: The Full Cost of providing a good/service includes the O&M Cost, Health and Hygiene cost, Capital Charges, Opportunity Cost, Economic Externalities and Environmental Externalities (adapted from Rodgers et al. (1998).

The WRC model estimated the *full supply cost* for provision of the various subsidised sanitation facilities in South Africa as shown in Figure 6. Currently the full supply costs of provision of a subsidised sanitation unit range from R22 800 for a VIP facility to R46 400 for a septic tank system (adjusted to 2012 prices). The management cost is calculated as 5% of the capital/ISD cost of construction, while the O&M cost is calculated as explained in the method above.

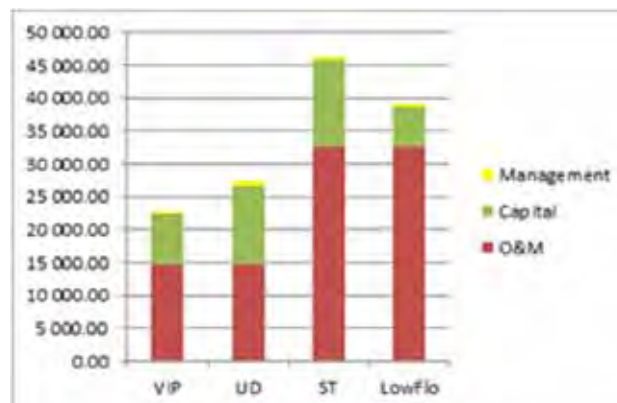


Figure 6: Estimated full supply cost of each of the subsidised sanitation service levels provided in SA (taken from Technical Report WRC Report No. 2136/14/2)

Municipalities, in their planning of subsidised sanitation, need to note these costs when deciding on which level of sanitation service to subsidise in their jurisdiction. Understanding these key needs of the sanitation sector, sanitation and economic policymakers should be in a position to design a subsidy strategy and programmes that reach the intended beneficiaries, provide them with the level of financial support that is necessary, meet the overall budgetary restrictions, and do not waste an excessive amount of funding on administrative costs (Gómez-Lobo et al., 2000).

The ability and the willingness to pay for sanitation in South Africa are limited in many households. Ideally, the provision of sanitation should be in a manner that balances price and willingness to pay and recovers the full cost of providing the service. Where the ability and willingness to pay for sanitation is low, the full cost of the services cannot be recovered directly from the household and is thus supplemented by contributions from the public at large, either money contributed in the form of subsidy or in other forms.

Studies have shown that there may also be other obstacles to full recovery of sanitation costs, including (Waughway and Moran, 2003):

- Political interference
- Low variable income
- Lack of management transparency
- Distrust of the cost collection systems
- Failure of other agencies to cover cost
- Inappropriate project design
- Cultural/indigenous reasons
- Social exclusion issues
- Land tenure issues
- Expense of project
- Flux of population size

**Recommendation** for planning for the full supply cost of subsidised sanitation:

- Subsidised sanitation need to be planned based on the full supply cost of the service, this will include the full cost of construction of the facilities, as well as the long term O&M cost of the facility.

### 6.2.3 Planning subsidies for environmental appropriate subsidised sanitation (full cost)

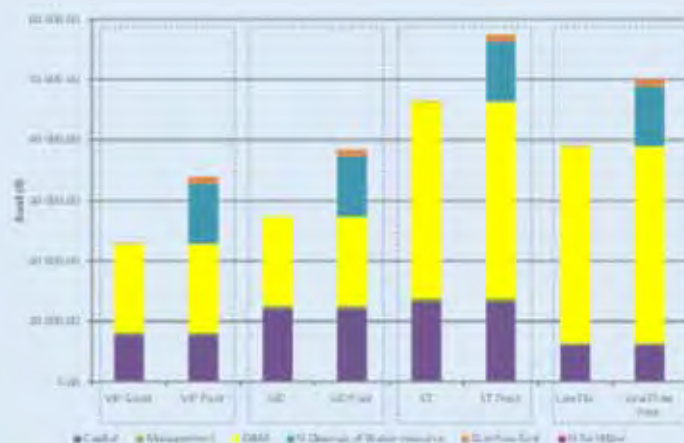
In order for subsidised sanitation to be sustainable the sanitation service has to not only be economically viable, socially acceptable, and technically and institutionally appropriate, but also protect and minimise the use of natural resources.

Environmental sanitation is aimed at developing and maintaining a clean, safe and pleasant physical and natural environment in all human settlements, to promote the socio-cultural, economic and physical well-being of all sections of the population (Government of Ghana, 2012).

The sanitation service provided with the subsidy needs to consider the natural resource required to build and operate the system, as well as the ecological impacts of the system and its content, as ecological impact of the service has financial implications (see Box 7).

**Box 7: Example of the environmental cost of provision of poor sanitation service using subsidy funds (taken from Technical Report WRC Report No. 2136/14/2)**

The assessment of the environmental cost of poor sanitation, shown in the WRC Technical Report (WRC Report No. 2136/14/2) that underpins this guide, indicated in Figure 7 that if the subsidised sanitation services is not provided correctly, or is inadequately and inappropriately operated and maintained, it may results in high environmental risks to the households and the wider population. The risk is chiefly to the households as there may be increased direct exposure to pathogens from poorly constructed and operated toilets and indirect exposure due to contamination of water resources. However, there is also a more global risk in the loss of soil nutrient recycling due to containment of these nutrients in vaults and the global clean-up cost of contaminated water resources, which are usually reflected by the increasing cost of treatment of water by municipalities.



**Figure 7: Full cost of subsidised sanitation service provision in South Africa, showing cost for well-constructed, operated and maintained facilities (good) and cost for facilities for poorly constructed, operated and maintained systems.**

It is important to note that at least 3.2 million households (26%) of South Africans already have poorly maintained sanitation facilities (The Presidency and DHS, 2012). Poorly constructed or inadequately operated and maintained (O&M) sanitation facilities can results in ecosystem degradation, which in-turn impacts on exposure to and transmission of faecal-related pathogens. The environmental effects of provision of incorrect or poorly

maintained sanitation services is thus realised through the effects this environmental contamination have on humans.

This is clearly demonstrated by the full subsidised sanitation costs shown in Figure 7, where the full cost of subsidised sanitation facilities that were incorrectly constructed, operated and maintained is increased with the cost of supplying a subsidised VIP toilet increasing to R33 800, a 32% increase in unit cost. Similarly, UD costs increase to R38 300 (29%) and septic tanks increased to R57 300 per unit (19%). This cost should be a wake-up call and an incentive for municipalities to ensure efficient and effective use of sanitation subsidies in South Africa.

**Recommendation** for planning for the full cost of subsidised sanitation:

- Subsidised sanitation services need to be planned based on the full cost of the service, this will include the full supply cost, economic cost and environmental cost of the service both currently and also in future.

#### **6.2.4 Planning sanitation subsidies for a delivery of service at scale**

A programmatic approach to provision of subsidised sanitation services is perceived to be more cost-effective in avoiding increasing cost of sanitation subsidy. This is attributed to all interventions requiring similar expertise and inputs (i.e. project manager, ISD specialist, material suppliers, health and hygiene trainers, etc.) and hence, is the recommended approach to avoid the escalating cost of the sanitation subsidy. The programmatic approach reduces the cost per household of this expertise since it can be utilised for a larger number of facilities. The programmatic approach may also allow for better bargaining and negotiation power with suppliers (Technical Report WRC Report No. 2136/14/2).

**Recommendation** for sanitation subsidy interventions at scale:

- Subsidised sanitation services provision should be planned at scale as large-scale programmatic interventions can be more cost effective as much of the resources can be shared in these programmes, i.e. personnel, material purchase at scale, etc.

#### **6.2.5 Planning subsidies on needs and not on subsidy amounts or budgets**

One of the suspected drivers of subsidised sanitation supply costs is the subsidy itself. The perception is that since a certain maximum subsidy amount is available for each sanitation unit, it dictates the supply cost of the unit; i.e. if the unit subsidy is R4 500 then no system would be provided at cost lower than the unit subsidy (Technical Report WRC Report No. 2136/14/2). Thus, household cash subsidies in favour of one specified costly design may distort the market and stifle service provision.

A good subsidy, according to a number of authors, is one in which an assessment of the need for subsidy is conducted to (a) the level of 'price' to ensure the financial viability of the service provided; (b) a minimum level of services (consumption of the resource) and (c) the predominant income levels of the consumers.

Based on various data sources, the WRC Technical Report (WRC Report No. 2136/14/2) estimated subsidy amounts (capital/ISD) used to provide the various sanitation technologies in the country between 2002 and 2011 as shown in Figure 8. Figure 8 does show strong evidence of an increase in the capital/ISD cost of subsidised VIP, UD and septic tank sanitation facilities between 2002 and 2008. The increase in cost could likely have been supported by the robust economic growth taking place in South Africa at the time. This would have supported government funded growth in the subsidised sanitation sector as the fiscus was running a surplus. The low economic growth period that emerged post 2008 could very likely have contributed to a decrease in per unit cost for subsidised VIP, UDs and septic tank systems.

There is insufficient data for Low Flush subsidised sanitation systems to draw any definitive conclusion.

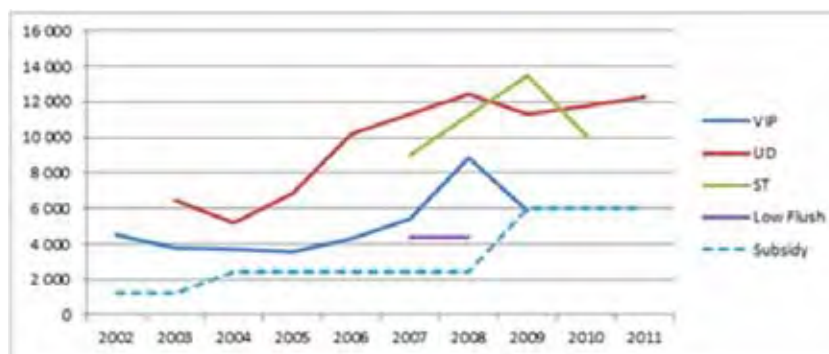


Figure 8: Historic national estimates of full supply cost of the various subsidised sanitation facilities in South Africa, and trends in the costs over time (average cost per facility per year are shown).

Figure 8 also shows the change in sanitation subsidy over time. It does seem that the subsidy is not necessarily a driver of cost, but rather is escalated based on the perceived cost of the systems. However, since the system cost is not necessarily a true reflection of actual cost of the facilities, the subsidy may have, over time, become inflated and overestimated. Local government need to base the planning of subsidy amount based on the actual full cost of subsidised sanitation services. Benchmarking of the subsidy will go a long way in assisting with this process as the true full cost of sanitation can be reflected in this benchmarking effort.

**Recommendations** for planning of the actual sanitation subsidy amounts:

- Sanitation subsidy amounts need to be based on the actual full cost of sanitation services, this subsidy amount need to be based on sound data of the actual cost of supplying a sanitation service.
- Sanitation subsidy amounts need to be based on sound data of the actual cost of provision of this service in various situations – geographic situation, location, etc.

### **6.2.6 Clear and evident targeting mechanisms for equitable subsidised sanitation**

Targeting subsidies to a specific water component or water users has been shown in various cities. Targeted subsidies result in increased revenue collection from those who should be paying for the service and reduced subsidy requirements by limiting the recipients to deserving/qualifying individuals (i.e. the poor). This can substantially improve the financial position of the water authority (Foster et al., 2002). Targeting water subsidies as a volume to households or as a connection subsidy based on a geographical location or housing characteristics can double the share of subsidy expenditure to poor households (Foster et al., 2002).

On the negative side however, targeting water subsidies based on certain criteria have been shown to exclude some poor households, which can be a major drawback if the policy objective is to ensure universal access to water services as is the case in South Africa.

Unfortunately, there is very limited research that has been conducted on targeting of sanitation subsidies. As mentioned previously, South Africa is one of only a very few countries that provide these types of subsidies.

There are several approaches that can be applied to targeting subsidies: (i) self-targeting through geographical location; (ii) self-targeting through the subsidisation of a lower level of service; and (iii) targeting by income (means testing) (Box 8 provides an example of these types of targeting of subsidies).

#### **Box 8: Examples of various type of subsidy targeting**

An example of geographic targeting of sanitation subsidies would be through provision of subsidies to specific geographical areas, i.e. specifically needy rural areas or specific locations within peri-urban areas.

An alternative mechanism of self-targeting is by service level, namely targeting the subsidy for a specific level of service. This is generally the targeting mechanism for the capital subsidy of sanitation in South Africa.

A common example of targeting on the basis of income is through the issue of subsidy stamps or coupons (this targeting mechanism is generally applied in the food subsidy sector). In addition, targeting on the bases of income can occur through a volumetric or connection subsidy to a water authority for deserving (qualify) households, as the Free Basic Sanitation subsidy does in South Africa.

As mentioned earlier, South Africa has sanitation subsidies to address (1) infrastructure costs (2) operational costs and (3) hygiene communication for basic sanitation services to poor household. Each of these subsidies are discussed below, giving guidance on how these subsidies can be targeted to maximise the effectiveness.

#### 6.2.6.1 Targeting Capital Subsidies

The National Framework for Municipal Indigent Policies (dplg, 2005a) recommends that the first step in reaching universal access to sanitation would be by providing physical access to a sanitation service, using the MIG capital grant; i.e. firstly provide the sanitation infrastructure.

There are generally four types of sanitation facilities provided through the household and housing subsidised sanitation (hereafter referred to collectively as subsidised sanitation) processes in South Africa; namely:

- **Ventilated Improved Pit toilets (single or double)**, which operate on the premise of a dry system, where the excreta is collected in a pit below the toilet. Organic matter accumulates in the pit while the liquid component percolates into the substrate where it is 'treated' through biological process. Pits need to be emptied, generally by the municipality, after a number of years of use (generally 5-8 years).
- **Urine Diversion toilets**, which operates on the premise of a dry system, separating urine and faeces at the toilet seat. Urine is generally collected in a soak-away pit and 'treated' through biological process, while faeces are collected in a vault and after a period of dehydration and sanitisation, the dried faecal matter is emptied from the vault and composted, buried or burned.
- **Wet on-site digesters**, including Low-flow on-site (LOFLOS) systems, Aqua-privies or Pour Flush toilets (although these are rarely provided in South Africa). These systems operate on the premise of waterborne sanitation systems, but using minimal water to operate the system. Excreta are contained in a sealed pit, conservancy tank and a soak-away. These pits or conservancy tanks require emptying at some point in time.
- **Full flush toilets with septic tank and soak-away**, which operates on the premise of using water to operate the toilet, however, the sewage is not transported to a wastewater treatment plant via the municipal sewerage but rather contained and treated in a septic tank and soak-away. Again, conservancy tanks require emptying at some point in time.

Targeting of capital subsidies in South Africa makes use of all three targeting mechanisms to provide this infrastructure, namely:

- (i) self-targeting through geographical location where many of these capital subsidies are targeted to a specific area of the country, particularly rural villages and settlements. Sanitation intervention initiatives in the country very often have a rural focus, making subsidies available for provision of sanitation facilities to entire rural villages and settlements, irrespective of household income level or status;

- (ii) self-targeting through the subsidisation of a lower level of service, in which the capital subsidy is utilised for provision of a *basic* sanitation facility. This particular targeting of capital subsidy has, however, become muddled in recent years, as many municipalities prefer the provision of waterborne systems utilising this capital subsidy. This is largely due to a lack of clarity and direction in the policy on this issue, as well as poor understanding of the intent of subsidies by government and individuals in the country;
- (iii) targeting by income, perhaps the least used targeting mechanism in the capital subsidy process. This should perhaps be the most utilised mechanism. Simple overlay of Census income data with sanitation service levels would provide a better indication of needy households when utilising the geographical location mechanism discussed in (i) above. It should be noted that the Human Settlements Development Grant (HSDG), which is a grant to provinces to fund the construction of sustainable human settlements, makes use of this targeting mechanism. Individuals are required to apply for this grant and based on certain criteria, are placed on a waiting list to receive the housing subsidy. The Grant can be used for the construction of housing top-structures, basic services (including sanitation) and basic social and economic amenities.

**Recommendations** for potentially increasing the effectiveness of capital subsidy targeting in South Africa include:

- Development and implementation of a strategy/guideline or mechanism for more effective targeting of the household and housing sanitation capital subsidy;
- Consider alternative process of dispersing these subsidies. For example, instead of dispersing subsidies to projects or programmes for blanket provision of the same sanitation facilities to an area, local government may consider:
  - Making the capital subsidy available to a household, allowing the household to determine the level of sanitation service they would prefer. This will allow households that are willing to contribute additional resource, to choose a different type of facility. Making the capital subsidy available to a household also allows the household to choose the 'service provider' of the facility. This may stimulate healthy competition between facility service providers and may result in competitive 'bidding', which in turn may result in households being able to access a sanitation facility in a more competitive manner. Thus, it would be more beneficial to provide households with a range of sanitation options within a 'free' market environment to allow them to decide on the facility they wish to 'invest' in with their subsidy and to find the most cost effective provider (i.e. contractor) of this service. This would, however, require strong supervision and on-going monitoring of these activities.
  - Toilet construction is just one step and households may require construction of a second toilet once a pit or septic tank is full. Thus, instead of providing cash to households for construction of toilets there is need to financially support viable businesses/employment creation to empower people to address this need and ensure on-going sustainability. A broad range of subsidy options for different parts of the sanitation value chain (not just cash subsidies) should be considered. Inclusive approaches should also focus on stimulating the private sector, banks and local business to serve the poor.
  - Making the capital subsidy available to 'service providers' of facilities. For example, the capital subsidy is made available to a household, in the form of vouchers to purchase materials and the services of the 'service provider' to construct the facility from a sanitation market.



### 6.2.6.2 Targeting Operational Subsidies

The second step in providing sustainable sanitation service, once sanitation backlogs have been addressed by the municipality, is the provision of resources to ensure properly functional services in the long term, using the Local Equitable Share to assist indigent households with Free Basic Sanitation.

In general, all households should pay the full operating and maintenance costs of the sanitation services consumed. Exceptions to this should only be made for truly indigent households for which separate welfare support should be sought. Indigent policies need to be reviewed and criteria for determining indigents within the subsidised sanitation sector need to be refined.

The Local Equitable Share grants are available to local government to address the operational cost of sanitation to 'indigent' household. However, this is an unconditional grant where municipalities can decide where these funds should be utilised, i.e. currently no FBSan ring-fencing of grant funding is happening. Since these funds are often utilised to support the basic functions of the smaller municipalities, or are allocated to other municipality priorities, the FBSan grants may often not reach the South African who should ultimately benefit from these, let alone indigents who are the priority beneficiaries of these grants.

The Strategic Framework recommends that subsidisation of sanitation operation cost should be calculated as a subsidy per household per month for each settlement type and technology used (DWAF, 2003). Consideration should be made for the subsidy recommend by the SFWS could be paid to the water service provider or the household (in the form of vouchers). In the case of waterborne systems, operation and maintenance support includes providing water for flushing. It is recommended that 15 litres per person per day should be provided in this regard. For a household of 8 people this will amount to 3 - 4 KL above the amount provided for in terms of the free basic water (6KL). This amount will be more in the case of people who are suffering from the advanced stages of AIDS (DWAF, 2009).

In 2005, the dplg conducted a national review of municipal indigent policies, the key sanitation-related subsidies. Findings included (dplg, 2005b) that most municipalities included in the review applied a household income principle to determine indigents, using household income levels between R500 – R1 500 to classify households as indigent and a relatively large number of municipalities (20%) provided FBServices to all households. Many of the municipalities (50%) in the survey showed that they did not have sufficient finances to support their FBServices initiatives (dplg, 2005b), this is despite 71% of municipalities believing they would be able to sustain their FBServices initiatives. Only 44% of the sampled municipalities indicated they were rolling out FBSan, with at least 32% of municipalities indicating a preference for flush toilets from the provision of FBSan, followed by VIPs (13%) and Septic Tanks Systems (2%).

The most crucial element related to subsidies in the sanitation sector is the financing required for the long-term, or lifespan, of sanitation services provision, i.e. if the focus of subsidies is on household sanitation, then the challenge is to ensure that finance is available for the operation and maintenance and hygiene awareness of these as well. Figure 9 shows that in an assessment of cost linked to provision of sanitation, the operation and maintenance cost of the system (i.e. the Free Basic Sanitation component) make up 64% of the full supply cost of a VIP, 54% of a UD, 70% of the full supply cost of a septic tank and a LOFLOS system. This shows that the current capital/subsidy allocation for households is a relatively small proportion of the long-term subsidy that will need to be allocated to a household to ensure a sustainably functioning system. Municipalities need to make provision for the long-term subsidy for operation, over the 20-year life-span of a system in an indigent/poor/very poor household.

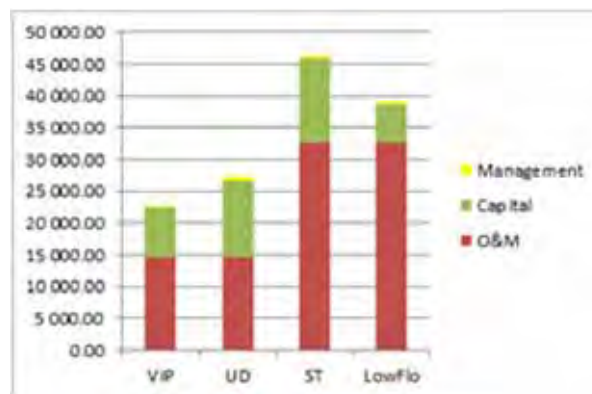


Figure 9: Estimated full supply cost of each of the subsidised sanitation service levels provided in SA ((Technical Report WRC Report No. 2136/14/2)

The review of FBService by dplg (2005b) showed that most municipalities make FBSan (O&M costs) available through the application of a credit to the indigent household's monthly municipal account. The level of this subsidy is determined by individual municipalities, based on their available resources. Municipalities may also waive interest on debits of indigents and may also have a policy of not cutting off the service of an indigent household due to non-payment of accounts.

The approaches used by municipalities to target sanitation subsidies to poor households exclude many of the poorest households as the minimum monthly household income criteria applied to compile the indigent register in many municipalities does not allow for multiple families living together in a single household unit. Backyard dwellers were also excluded from qualifying for indigent subsidies as the municipality recognised a stand as one-household-unit only.

**Recommendations** to address targeting problems related to the FBSan policy of municipalities include:

- The sanitation sector needs to develop a sector-specific policy on how to delineate indigent households that benefit from this FBSan service;
- There is a need for policy to guide municipalities on the ring-fencing of operational budgets for provision of basic sanitation services. Different poverty measures should be considered to ensure equitability access to the sanitation subsidy, including but not limited to:
  - Income surveys (community financial surveys) based on geographical units of the service area, i.e. neighbourhoods with an average income at a defined level;
  - Community self-assessment of individual's ability to pay;
  - Use of past experience in other communities;
  - Willingness to pay surveys;
  - Cost of current coping strategies;
  - Use of wealth indicators, such as transport and purchasing habits; and
  - Other service providers, such as Government Grant databases, i.e. these databases will indicate which individuals are benefiting from the grants and are thus potentially 'indigent'.

Policy and direction is required on defining 'indigent' in the sanitation sector;

Other options of targeting need to be considered to address ineffectiveness in targeting of the neediest households. This should begin with research to determine the effectiveness of municipalities to reach the poorest household with this FBSan and other services, i.e. are we reaching the poorest-of-the-poor. Based on the outcomes of the research, alternative targeting mechanisms need to be recommended;

Due to the large administrative burdens on municipalities to introduce, manage and maintain the FBService policy to indigents, guidelines need to be developed to assist municipalities to achieve effective targeting in a progressive manner. This could include initial targeting of FBSan based on geographic location, i.e. the municipality assumes that households in the rural areas and in certain peri-urban areas are 'indigent' and thus qualify for the FBSan grant. Municipalities would need to note that this initial targeting should only be an interim measure as a number of non-indigent households will benefit from the FBSan grant in this targeting mechanism.

#### 6.2.6.3 Targeting Subsidies for Communication of Sanitation and Hygiene

Confusion remains as to whether this health and hygiene subsidy should be a component of the capital subsidy provided by the MIG or part of the operational subsidy provided for by the Local Equitable Share.

International and local research has shown that sanitation and hygiene behaviours can be equally poor across the income groups of a country. A simple behaviour, such as hand washing at key times, can be as poor in very poor households as in the most wealthy, affluent households. Targeting sanitation and hygiene communication subsidies to poor/very poor/indigent households would contradict the findings of this research and assumes only these households require sanitation and hygiene communication and promotion.

This form of sanitation subsidy is perhaps the most important but the least utilised and understood in South Africa. This is despite a large body of international and local research indicating how important this component is to sustainable sanitation provision in a country. This particular subsidy requires serious review and thought. Effectively, the subsidy should be lifted out of the current subsidy mechanisms, to a national, on-going programme that targets all households in the country.

**Recommendations** for better targeting of the subsidy for communication of sanitation hygiene include:

- Developing and implementing a national guideline on this subsidy. This subsidy, when linked to the above two subsidy schemes should be utilised specifically for assisting households to understand the operation and maintenance requirements of the infrastructure provided with the capital subsidy.
- Sanitation and hygiene programmes, which focus on behaviour change and other hygiene issues, should be targeted at all households and should be provided for through other fiscal means. Innovative mechanisms need to be considered to maximise the effectiveness of health and hygiene promotion interventions in the country.
- Effective sanitation communication requires good information, strategic networking, continuous learning and using information and communications tools and technologies to our best advantage. Effective sanitation communication is broken down by working in isolation, experiencing poor information flows and communications between headquarters and the field, disconnection between agency and external partners, especially civil society organisations, faced with information that is ad hoc or personal, out-of-date and unused, focused internally, using communications channels that are hierarchical and one-way, having difficulty accessing relevant, timely and useable information resources, limited by time, and training and resource constraints to develop and use information systems. Creating an action plan for information, communications and knowledge-sharing will comprise assessing the current situation and setting priorities. Depending on the specific needs and activities of different organisations, the priorities given to various tools and information systems for sanitation will necessarily vary. Knowledge sharing in sanitation needs to be based on concrete information and practical experience and examples concerning subsidised sanitation and hygiene. Case studies, illustrating the effective and responsible use of sanitation subsidies are valuable sources of accurate facts, figures and trends.
- Community mobilisation and hygiene promotion interventions are necessary to maintain the level of services provided through the subsidy. Hygiene awareness and promotion are cornerstones for the sustainability of sanitation services. Training and refresher training is vital for changing bad behaviour and sustaining good hygiene behaviour.

### **6.2.7 Strategy development for effective and responsible use of sanitation subsidies at local level**

Municipalities should develop coherent strategies for effective and responsible use of sanitation subsidies based on national policies, strategies and guidelines. These strategies need to influence practice, i.e. the way sanitation subsidies are allocated and used, how projects are implemented, the way contractors are appointed, managed and monitored, the way IDPs are approved, the way planning is done, etc. Strategies and guidelines need to be developed for the following:

- Executive management at local level and local councillors should be knowledgeable about the principles of effective and responsible use of sanitation subsidies.
- There is a need for decision makers to understand exactly what effective and responsible use of sanitation subsidies are.
- There is a need for decision makers to understand what appropriate technology means and to understand the basic principles of various sanitation options in order to use subsidies effectively and competently.
- Beneficiaries and communities should be made aware of the different subsidy streams and how to apply for a subsidy.
- Municipal by-laws should include all aspects of a basic sanitation service as stated in the policy definition of a basic sanitation service, such as health and hygiene education (H&HE), grey water management in dense urban informal settlements, refuse removal, etc.

### **6.2.8 Implementation of subsidised sanitation for ownership**

More and more evaluations and research studies are showing a lack of ownership by households of sanitation services provided to households in the country. One only has to visit rural areas of the country to see sanitation facilities with damaged or no doors, cracked and damaged ventilation pipes, no fly screens covering vent pipes, toilet seats missing and sometimes very un-hygiene and un-cleaned facilities. Although in some cases this may be due to lack of funding available to make repairs to the facility, many of the problems can also, to some extent, be attributed to lack of ownership of the facility by the beneficiary.

Responses have shown that householders often view these facilities as government property and they are waiting for government to conduct the maintenance and repair to the facility. This results in irresponsible utilisation of national resources, as these beneficiaries effectively remain on the backlog list of the country as they do not have access to a level of sanitation service that meets basic service requirements. The subsidised sanitation services sector needs to shift the sector from the practice of beneficiaries being passive recipients of subsidised sanitation services to one where the beneficiaries are active partners in the process and are viewed as customers that can expect certain levels of service for the subsidy they have been allocated. This shift will require:

#### **6.2.8.1 Planning for ownership of subsidised sanitation service**

Failure to properly involve the community in the sanitation choice, implementation and in health and hygiene education has been shown to result in poor functioning of the toilets. However, the 'need-for-speed' in the implementation processes and the focus on acceleration of services delivery work against the concept of community involvement and participation. The essential interaction between, and integration of, technical aspects and social dynamics contribute to the long-term operation of facilities and the sustainability of services delivery.

Subsidised sanitation services providers need to plan these services with the view that beneficiaries are 'customers' of the service and thus can expect a certain level of service for their allocated subsidy. These customers, which could in future become key paying customers for a service, should be consulted on the type, level and nature of the subsidised sanitation services they will be receiving. This may result in the demand for this service increasing and the subsidised sanitation services being demand driven. At the same time, if the beneficiary customer receives the agreed subsidised sanitation service that was jointly planned, there is greater likelihood that they will take ownership of the service and maintain the service in future.

Appropriateness is the key to sustainability - not only the appropriateness of the technology or toilet in its context, but also appropriateness for the users. Once users have enough knowledge and can make informed choices and decisions, implementation is context-specific with participative decision-making, supported by regular hygiene promotion and maintenance support, eradicating the sanitation backlog and each household having a toilet will become a reality.

Joint planning may, however, not be sufficient in the current service environment in the country. The subsidised sanitation sector could benefit greatly from an awareness campaign as to subsidy 'rights' of beneficiaries and the provision of details on the processes, procedures and beneficiary roles and responsibility in this sector.

#### 6.2.8.2 Coordination of sanitation subsidies for ownership

Effective community participation and buy-in mean beneficiaries are involved in project cycle management, from defining needs to developing and implementing sanitation solutions. Community structures should be consulted on a regular basis to reach agreement on the nature and extent of the sanitation gap and on the most appropriate sanitation solution(s) through subsidies for each project area.

Water services issues (including sanitation) and increases in service delivery backlogs, owing to failures in regulations and planning in responding to the needs of the consumers, have featured as one of the causes for many of the social protests that have multiplied over the last decade. Coordinating sanitation subsidies for ownership, by addressing the social consumption patterns, livelihood aspirations and expectations for service delivery, will alleviate the disjuncture between people's perceptions and institutional responses, thus preventing people's coping and adaptive capacities becoming stretched beyond limits of tolerance and acceptance.

#### 6.2.8.3 Enforcement of subsidised sanitation regulations

The implementation of sanitation-related subsidies, addressing well-defined objectives, requires strict selection criteria, transparent subsidy allocation, control mechanisms and sufficient budget allocation for the implementation period. Enforcement of all policies, legislation, regulations, standards,

procedures, as well as performance management and proper operation and maintenance of sanitation facilities and systems, are crucial for the effective and responsible use of sanitation subsidies.

#### 6.2.8.4 Monitoring subsidised sanitation implementation

The monitoring of subsidies should not only focus on implementation issues, such as targeting effectiveness, but also on key development outcomes of the subsidy programme. Only by rigorously evaluating the impact of a subsidy programme can the value obtained from the public resources expended on the programme be determined. Sanitation subsidies should be regularly assessed and should report on the need for subsidies, their effectiveness (or ineffectiveness) and their costs. Introducing a formal *public burden of proof* on subsidy policies would be a concrete and practical way of increasing transparency in using and allocating subsidies.

#### 6.2.8.5 Evaluation of subsidised sanitation against ownership

The impact of subsidies must be evaluated to assess whether they actually serve their initial purposes, at what cost, how the costs and benefits are distributed and whether subsidies hamper efforts to achieve sustainable services delivery.

Performance benchmarking discussed in section 6.1.5 of this guideline needs to consider benchmarking of subsidised sanitation against 'ownership' criteria. This will link the performance of the provider of the service to the satisfaction of the beneficiary customer of the service.

### **6.2.9 Key considerations in the responsible use of sanitation subsidise**

Key recommendations for the responsible use of subsidised sanitation funds include:

- Subsidised sanitation funds, including those from the MIG, LES and other source, need to be ring-fenced.
- Subsidy ring-fencing must be linked to the subsidy benchmarking activities of a local municipality.
- There is a need for policy to guide municipalities on the ring-fencing of operational budgets for provision of basic sanitation services.
- Subsidised sanitation needs to be planned based on the *full supply* cost of the service.
- Subsidised sanitation services need to be planned based on the *full cost* of the service.
- Subsidised sanitation services provision should be planned at scale.
- Sanitation subsidy amount needs to be based on sound data of the actual cost of supplying a sanitation service in various situations – geographic situation, location.
- A strategy/guideline of mechanisms for more effective targeting of the household and housing sanitation capital subsidy is needed.
- An alternative process of dispersing these subsidies needs to be considered.

- Different options of targeting need to be considered to address ineffectiveness in targeting of the neediest households.
- Develop and implement a national guideline on the sanitation subsidy.
- Subsidised sanitation and hygiene programmes that focus on behaviour change and other hygiene issues should be targeted at all households and should be provided for through other fiscal means.
- Effective sanitation communication that requires good information, strategic networking, continuous learning and using information and communications tools and technologies to the best advantage for all.
- Community mobilisation and hygiene promotion interventions are necessary to maintain the level of services provided through the subsidy.





## **7 OUTCOMES-BASED MONITORING OF EFFECTIVENESS AND RESPONSIBLE USE OF SUBSIDIES**

Large-scale subsidised sanitation programmes require regular monitoring and periodic evaluation. These monitoring and evaluation activities need to be outcomes-based where the results of the monitoring process are used to make adjustments in the programme (WSP, 2008). Monitoring the effective and responsible use of sanitation subsidy funds will identify strengths and weaknesses in the programme methodology, implementation arrangements, and cost effectiveness.

The sanitation backlog in the country is growing every year as many sanitation facilities are provided under pressure with a focus on delivery instead of sustainability. For example, a number of individuals that benefitted from subsidised sanitation programmes in South Africa over the past 15 years received VIP toilets, which currently have pits that are almost or completely full (DWAF, 2009). At the time of installation, no consideration was given to the emptying of these pits resulting in these toilets either being abandoned when the pit is full, or the pit being emptied often manually by 'scooping' the excreta out of the pit. The focus on delivery also led to the construction of toilets using a subsidy, especially in rural areas, to be of poor quality and to become un-usable within a year or two. Toilets that are abandoned result in households returning to historically poor sanitation technologies in areas that are considered 'served', in effect joining the backlog again. This, amongst others, indicates that present sanitation interventions are flawed and unsustainable, mainly due to a lack of monitoring the delivery process and evaluating the impact. An incentive and reporting system should be developed, implemented and practised at local level, feeding into the government-wide M&E system at national level to ensure that sanitation subsidies are used effectively and competently.

There is a need for regular monitoring of sanitation, not just the monitoring of inputs-outputs (i.e. funds utilised and toilets built), but monitoring of outcomes such as latrine usage, prevalence of open defecation, handwashing, and the disposal of infant excreta (WSP, 2008). As the global sanitation sector moves into the next phase of the Millennium Development Goals (MDGs) to the Sustainable Development Goals (SDGs), monitoring of outcomes and impacts of sanitation subsidy interventions will become more important.

This is in line with South African Cabinet plans for a government-wide outcomes-based monitoring and evaluation (M&E) system. Outcomes-based M&E not only provides early indications of progress,

or lack thereof, of on-going interventions, achievement of results, goals, objectives or targets, but also provides evidence-based decision-making to support policy, strategy and implementation adjustments.

There are vast and varied ICT options that can be utilised in the design and implementation of this outcome-based monitoring of subsidised sanitation. Monitoring systems vary from the data captured to the reporting phases. For example, data capturing instruments, which are the tools and templates utilised to collect data required by a monitoring system, for collecting indicator data can take a number of formats, including:

- Questionnaires;
- Surveys;
- Indexing;
- Reports;
- Scoring;
- GIS and remote sensing.

It is expected that, in any outcome-based monitoring of subsidised sanitation, data will initially be collected manually using various paper data collection tools and templates. However, in the long-term monitoring of outcome-based subsidised sanitation should strive for the adopting of a system of Electronic Data Capture (EDC). Electronic data capture has been demonstrated to have numerous advantages over paper data collection and it should be relatively simple and inexpensive to convert paper data collection into electronic format and develop an application (App) to capture this data. Current forms of data capture in electronic format are through the use of PDAs or through the use of apps on Smart Phones, with the data being uploaded to a centralised data storage facility.

There is a variety of options for this centralised data storage, including paper storage, electronically on an individual computer or server, or using the Cloud. The monitoring sector has in recent years moved to data storage on the Cloud.

With this in mind, a summary of the advantages and disadvantages of two of the most common means of monitoring system data storage, namely on a server or on the Cloud, is provided in Table 5.

Table 5: Advantage and disadvantages of data storage using a server and the Cloud (adapted from <http://www.clouddrive.com.au/download/www.clouddrive.com.au-WhitePaper.pdf>)

Data storage	Advantage	Disadvantage
Cloud	<ul style="list-style-type: none"> <li>✓ Cheap, virtually unlimited electronic data can be storage in remotely hosted facilities</li> <li>✓ It is accessible via the internet or Wide Area Network (WAN)</li> <li>✓ Does not require specialist installation</li> <li>✓ Does not require a backup and recovery system</li> <li>✓ Does not require energy to power the system</li> <li>✓ Cloud drive data storage is small enough to be used on a laptop, while have enterprise class features to scale to larger organisations</li> </ul>	<p>There are currently several major drawbacks:</p> <ul style="list-style-type: none"> <li>✓ Performance is limited by bandwidth (WAN speeds are typically 10 to 100 times slower than LAN speeds)</li> <li>✓ Availability of cloud storage is a serious issue – relies on network connectivity between the LAN and cloud data storage provider.</li> <li>✓ Incompatible interface – cloud data storage providers use proprietary networking protocols which are often not compatible with normal file services on the LAN</li> <li>✓ Accessing cloud data storage often requires ad hoc programmes to be created a bridge due to difference in protocols</li> <li>✓ Lack of standards – different interfaces need to be created to access different cloud data storage providers</li> <li>✓ Swapping or choosing between providers is complicated as protocols are incompatible</li> </ul>
High capacity electronic storage devices (LAN) (SAN)	<ul style="list-style-type: none"> <li>✓ High capacity electronic storage devices such as servers, Storage Area Networks (SAN) and Network Attached Storage (NAS) do provide high performance, high availability data storage accessibility</li> </ul>	<ul style="list-style-type: none"> <li>✓ Storage of large quantities of data is expensive</li> <li>✓ The device is generally expensive to purchase</li> <li>✓ Device generally has a limited life-span</li> <li>✓ Require back-up and recovery systems</li> <li>✓ Server needs to be placed in a position with particular environmental conditions e.g. Cool, dry area</li> <li>✓ Require personnel to manage</li> <li>✓ Requires power to run</li> </ul>

In effect, decisions related to data storage will often hinge on:

- the needs of the monitoring system;
- the cost of the data storage option;
- access to reliable internet of a sizable bandwidth;
- data storage device that are already being utilised.



## 8 CONCLUSION

South Africa has made significant progress in the past 17 years in the water services sector, having met both the water supply and sanitation Millennium Development Goals of halving the proportion of people without safe water supply and adequate sanitation by 2015. However, recent review of provision of these services to the poor, through the free basic and subsidy processes, have shown that South Africa has a very long way to go to meet the post-2015 Sustainable Development Goals, which could potentially focus on such sustainability issues as use of services and ongoing functioning of services. Meeting the SDGs will no longer be about providing access but rather about ensuring sustainable access and use of this service. This will require that subsidised sanitation provided to poor households will need to ensure that the facility and the service provided are sustainable into the future.

There is a growing recognition of the need for collaborative and harmonised subsidy systems in South Africa. National departments, local government, funding agencies, donors, NGOs and service providers need to cooperate and have convergence in the subsidised sanitation sector on policies, regulations, norms and standards, as well as on definitions, indicators and benchmarks; planning and implementation methods, process and procedures; and most importantly on the management and use of sanitation subsidies effectively and responsibly through benchmarking, ring-fencing of funds and through strong and consistent monitoring and reporting.

Furthermore, large data gaps still exist regarding the effectiveness and efficiency of sanitation subsidies, on practice and behaviour, on inclusion and need, on service delivery models and costs, etc. More emphasis within the sector should be placed on the importance of monitoring subsidised sanitation services delivery, the sharing of best practices, collaboration to avoid duplication, and the demonstration of the usefulness of monitoring results with respect to achieving and sustaining beneficial outcomes, for all.

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## 10 APPENDIX 1: CURRENT NATIONAL HOUSING PROGRAMMES FUNDED BY GOVERNMENT'S HUMAN SETTLEMENT DEVELOPMENT GRANT.

Programme	Description
1 Integrated Residential Development Programme	<p><b>Purpose:</b> to integrate low income settlements on the urban periphery into the larger human settlements.</p> <p><b>Provides for:</b> the acquisition of land for low, middle and high income housing (including servicing of stands) and for a variety of land uses including commercial, recreational, schools and clinics.</p> <p><b>Available to:</b> individuals via projects</p>
2 Upgrading of Informal Settlements	<p><b>Purpose:</b> upgrade the living conditions of people living in informal settlements</p> <p><b>Provides for:</b> provides secure tenure and access to basic services and housing by <i>in situ</i> upgrading of informal settlements, which may require residents to be relocated if the conditions are not suitable for this upgrading. Only finance the creation of serviced stands, with beneficiaries required to apply for housing construction assistance through the other National Housing Programmes (e.g. Individual subsidies, Enhanced People's Housing Process, Social Housing, etc.).</p> <p><b>Available to:</b> individuals via projects</p>
3 Provision of Social and Economic Facilities	<p><b>Purpose:</b> to fund primary social and economic amenities, where funding is not available from other sources. The Programme provides assistance to all municipalities which do not have sufficient financial resources to provide such facilities.</p> <p><b>Provides for:</b> where funding is not available from other sources (i.e. municipal funding), capital funding is provided for the (1) medical care facilities; (2) community halls; (3) community park/playground; (4) taxi ranks; (5) sport facilities; (6) informal trading facilities; and (7) basic ablution facilities for the above. Ownership, operation and maintenance of the facilities provided through this programme reside with the municipality.</p> <p><b>Available to:</b> municipalities via projects</p>
4 Housing Assistance in Emergency Circumstances	<p><b>Purpose:</b> after the National Disaster Relief Fund renders the first line of Government assistance in emergency situations, this programme can be used for temporary housing for disaster victims until such time as they can be provided with permanent houses.</p> <p><b>Provides for:</b> All affected persons who are affected by the emergency situation and are not in a position to address their own housing emergency can benefit from this programme.</p> <p><b>Available to:</b> municipalities via projects</p>
5 Social Housing Programme	<p><b>Purpose:</b> this funding stream is applied to "restructuring zones" which municipalities have identified as areas of economic opportunity and where urban renewal/restructuring impacts can best be achieved.</p> <p><b>Provides for:</b> development of affordable rental in areas where bulk infrastructure (sanitation, water, transport) may be under-utilised. A precondition for receiving the sliding scale capital grants is that social housing institutions need to be accredited and also access own capital contributions.</p> <p><b>Available to:</b> individuals via projects</p>



Programme	Description
<p><b>6 Institutional Subsidies</b></p>	<p><b>Purpose:</b> while the Social Housing Programme focuses mainly on achieving urban integration and upgrading in declared restructuring zones, this programme provides affordable rental accommodation in other parts of settlements. The Programme also provides for the sale of units by the social housing institution after at least four years have lapsed.</p> <p><b>Provides for:</b> provide capital grants to social housing institutions which construct and manage affordable rental units. The Programme also provides for the sale of units by the social housing institution after at least four years have lapsed.</p> <p><b>Available to:</b> beneficiaries then apply to the housing institution to occupy the rental stock.</p>
<p><b>7 Community Residential Units Programme</b></p>	<p><b>Purpose:</b> since the Social Housing and the Institutional Subsidy Programmes do not provide rental accommodation which is affordable to the very poor (and often informally employed), this programme fills this gap.</p> <p><b>Provides for:</b> secure, stable rental tenure to these lower income persons/households. The grant includes funding for the capital costs of project development and future long-term capital maintenance costs.</p> <p><b>Available to:</b> individuals via projects</p>
<p><b>8 Finance Linked Individual Subsidy Programme</b></p>	<p><b>Purpose:</b> assistance to qualifying households to acquire an existing house or a vacant serviced residential stand through an approved mortgage loan. These properties are available in the normal secondary housing market or have been developed, as part of projects not financed through one of the National Housing Programmes.</p> <p><b>Provides for:</b> access to funding for the following two categories; (1) Credit Linked Subsidies for applicants that can afford mortgage loan finance, providing a subsidy that is linked to credit from a financial institution; and (2) Non-Credit Linked Subsidies where the applicant cannot afford mortgage loan finance, the applicant can for a subsidy to acquire an existing house entirely out of the subsidy and may supplement this with other funds that may be available to him or her. Qualifying persons who bought vacant serviced stands may apply for need assistance to construct a house using the Non-Credit Linked Subsidies.</p> <p><b>Available to:</b> individuals via projects</p>
<p><b>9 Rural Subsidy: Communal Land Rights</b></p>	<p><b>Purpose:</b> applies in areas of the country where communal tenure is the normal, requiring that these tenure rights first be confirmed through the processes prescribed by the Minister of Rural Development and Land Reform.</p> <p><b>Provides for:</b> housing development on communal land registered in the name of the state or which will be held by community members subject to the rules or custom of that community. The housing subsidy may be utilised for (1) the development of internal municipal services where no alternative funds are available, (2) house building, (3) upgrading of existing services where no alternative funding is available, (4) upgrading of existing housing structures or (5) any combination of the said options.</p> <p><b>Available to:</b> approved housing development <b>projects</b> and may not be accessed on an individual basis. However, funding can be flexibly applied to meet real needs.</p>

Programme	Description
<b>10 Consolidation Subsidy Programme</b>	<p><b>Purpose:</b> assists individuals who received services sites from housing schemes instituted before introduction of the White Paper on a New Housing Policy and Strategy for South Africa in December 1994.</p> <p><b>Provides for:</b> The programme provides support to cover the cost of:</p> <ul style="list-style-type: none"> <li>• compiling a project application;</li> <li>• the registration of the beneficiary for subsidy purposes;</li> <li>• project management and technical advice; and</li> <li>• construction of a house or the upgrading of an existing house.</li> </ul> <p><b>Available to:</b> individuals via projects</p>
<b>11 Enhanced Extended Discount Benefit Scheme</b>	<p><b>Purpose:</b> support decisions made regarding the transfer of pre-1994 housing stock and are intended to stimulate and facilitate the transfer of public housing stock to qualifying occupants.</p> <p><b>Provides for:</b> occupants of public housing stock the opportunity to secure individual ownership of their housing units.</p> <p><b>Available to:</b> individuals</p>
<b>12 Rectification Of Certain Residential Properties Created Under The Pre-1994 Housing Dispensation</b>	<p><b>Purpose:</b> to improve municipal engineering services where inappropriate levels of services are delivered and the renovation and/or upgrading, or the complete reconstruction of dwellings that are severely structurally compromised.</p> <p><b>Provides for:</b> improvement interventions on residential properties created through State housing programme interventions during the pre-1994 housing dispensation that are still in ownership of the public sector institution and/or that were disposed of to beneficiaries. The Programme thus applies to properties currently owned by a municipality and/or provincial government as well as individual persons.</p> <p><b>Available to:</b> individuals via projects</p>
<b>13 Housing Chapters Of An Integrated Development Plan</b>	<p><b>Purpose:</b> to assist municipalities to compile the Housing Chapter of IDPs.</p> <p><b>Provides for:</b> assistance to all municipalities which do not have sufficient financial and/or human resources for the undertaking of Housing Chapters of IDPs.</p> <p><b>Available to:</b> municipalities annually</p>
<b>14 Operational Capital Budget (OPS/CAP)</b>	<p><b>Purpose:</b> to assist provincial governments to appoint external expertise to supplement the capacity required for housing delivery.</p> <p><b>Provides for:</b> capacity to support the (1) Informal Settlement Upgrading Programme; (2) projects that facilitate the creation of integrated sustainable human settlements; (3) the provision of primary social and economic amenities; and (4) the unblocking of stalled projects</p> <p><b>Available to:</b> provincial governments</p>
<b>15 Enhanced People' S Housing Process</b>	<p><b>Purpose:</b> assists households who wish to enhance their houses by actively contributing towards the building of their own homes.</p> <p><b>Provides for:</b> beneficiaries to establish a housing support organisation that will provide them with organisational, technical and administrative assistance. Training and guidance on how to build houses are also supplied.</p> <p><b>Available to:</b> individuals on a project basis.</p>

Programme	Description
<b>16 Farm Residents Housing Assistance Programme</b>	<p><b>Purpose:</b> address the wide variety of housing needs of people working and residing on farms by providing a flexible package of housing models to suit the local context.</p> <p><b>Provides for:</b> capital subsidies for the development of engineering services- where no other funding is available, and adequate houses for farm workers and occupiers in a variety of development scenarios. Funding available under the Programme will only be available for the provision of basic water and sanitation services as an option of last resort. Such services must be financed from other funding resources.</p> <p><b>Available to:</b> individuals via the farmer</p>