

# How are Upgrades to Informal Settlements Financed in South Africa's Metropolitan Municipalities?

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## OVERVIEW

Financing the upgrading of informal settlements in South Africa is complex. However, understanding how this process works is very important because it enables civil society and local residents to engage with all three levels of government on the funding of informal settlement upgrading. Armed with this knowledge, civil society can engage the national government on whether enough money has been set aside for informal settlement upgrading and engage with metropolitan municipalities on whether they have used funding appropriately.

Informal settlement upgrading in South Africa is framed by the national Upgrading of Informal Settlements Programme (UISP). However, it is not completely clear in publicly available policy and budget documents how the UISP should be financed. This brief draws on a review of these documents, as well as interviews with experts, to form an understanding of how the upgrading of informal settlements is funded in metropolitan municipalities in South Africa.

The UISP is primarily funded by two conditional grants from the national Department of Human Settlements, while basic services that are provided as part of the upgrading process are funded by the Municipal Equitable Share. In what follows we first describe the UISP before discussing each of the financing streams for informal settlement upgrading.

# 1. THE UPGRADING OF INFORMAL SETTLEMENTS PROGRAMME (UISP)

The Upgrading of Informal Settlements Programme (UISP) is one of the government's main programs that contributes to subsidized housing development. Other programs, such as the Integrated Residential Development Program (IRDP), have complete houses as their goal, while the UISP only targets basic services and secure tenure as a precursor to the construction of houses. The UISP was initially developed in 2004 as part of the Department of Human Settlement's "Breaking New Ground" plan developing integrated sustainable human settlements.<sup>1</sup> The revised National Housing Code, published in 2009, sets out in detail how the UISP should be implemented. This Code establishes the underlying policy principles, guidelines, norms, and standards which apply to the various housing programs.<sup>2</sup>

The key objective of the UISP is to facilitate the structured *in-situ* upgrading of informal settlements, which means upgrading that takes place on the site where the community currently resides. The UISP only provides for relocation and resettlement as a "last resort" in "exceptional circumstances." It also emphasizes the need for extensive and active community participation in the upgrading process and makes it clear that funding should specifically be made available to support community participation in the process.

According to the Housing Code, the UISP has three "policy objectives."<sup>3</sup>

1. Tenure security: recognizing and formalizing the tenure rights of residents within informal settlements.
2. Health and security: facilitating the provision of affordable and sustainable basic services and the municipal engineering infrastructure required to provide such services to those living in informal settlements.
3. Empowerment: establishing participative processes and addressing the broader social needs of the community.

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<sup>1</sup> See the Department of Human Settlements (2004) Breaking New Ground [http://www.dhs.gov.za/sites/default/files/documents/26082014\\_BNG2004.pdf](http://www.dhs.gov.za/sites/default/files/documents/26082014_BNG2004.pdf). (accessed 6 February 2017)

<sup>2</sup> Department of Human Settlements. 2009a. National Housing Code. <http://www.dhs.gov.za/content/national-housing-code-2009> (accessed 6 February 2017); Department of Human Settlements. 2009b. Housing Project Process Guide. <http://www.nwpg.gov.za/HumanSettlements/site/documents/Housing%20Project%20Process%20Guide.pdf> (accessed 15 February 2017)

<sup>3</sup> Department of Human Settlements. 2009a. National Housing Code. <http://www.dhs.gov.za/content/national-housing-code-2009> (accessed 6 February 2017)

The Housing Code describes the UISP as a “phased development approach” with the goal of providing serviced stands, not complete houses. The Code also describes what should happen in each of the phases, with serviced stands being in place by the end of the third phase. Housing consolidation (i.e. the provision of top structures) is a separate fourth phase and is facilitated through the Department of Human Settlement’s other housing subsidy programs, such as the IRDP or the Peoples’ Housing Process.<sup>4</sup>

The National Housing Code, however, emphasizes the connections between the four phases and that the UISP should provide serviced stands suitable for the eventual construction of houses. In the next few paragraphs we describe in greater detail these four phases of housing delivery as envisaged by the Housing Code.<sup>5</sup>

## 1.1 PHASE 1

During Phase 1 of the UISP a municipality applies to the relevant provincial department of human settlements for funding for the upgrading project and submits an interim business plan. This phase also includes assessments of the availability of land and bulk infrastructure. Importantly this phase focuses on community participation to make sure that the relevant community is involved in all aspects of the upgrading project. Prior to this phase, a municipality is expected to have completed identification, categorization, and prioritization of informal settlements on a municipal wide basis, but this seldom happens in practice.<sup>6</sup>

## 1.2 PHASE 2

Phase 2 includes land acquisition where necessary, as well as planning, geotechnical investigation, and the provision of interim engineering services to deal with any immediate or emergency need for access to basic services, such as potable water, sanitation, and electricity. This means that residents living in informal settlements where the UISP is being implemented should be provided with temporary basic services during this preparatory phase.

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<sup>4</sup> Department of Human Settlements. 2009a. National Housing Code. <http://www.dhs.gov.za/content/national-housing-code-2009> (accessed 6 February 2017); Department of Human Settlements. 2009b. Housing Project Process Guide. <http://www.nwpg.gov.za/HumanSettlements/site/documents/Housing%20Project%20Process%20Guide.pdf> (accessed 15 February 2017)

<sup>5</sup> [http://www.nuspresources.com/?page\\_id=560#section321](http://www.nuspresources.com/?page_id=560#section321) (accessed 21 February 2017)

<sup>6</sup> Communication with Monty Narsoo, a private consultant specializing in South African housing policy

## 1.3 PHASE 3

Phase 3 focuses on the security of tenure for residents (specifically formalizing land occupational rights) and the provision of permanent basic services through the installation of permanent municipal engineering infrastructure. Social and economic amenities, such as community halls, parks and sports facilities, are constructed during this phase. This phase also includes detailed town planning, overall project management, as well as assistance with relocation if the circumstances preclude *in-situ* upgrading.<sup>7</sup> Relocation assistance includes the provision of grants to households for removal costs associated with the project, as well as welfare services, food support, and assistance with registration for schools.

At the end of the three phases, the beneficiaries of the UISP would have received access to land (including security of tenure), basic municipal services, and access to social amenities and services, such as sports fields and community centers. It is important to remember that this happens on an incremental basis and not all at once.

## 1.4 PHASE 4

Phase 4, called the housing consolidation phase, is when the actual construction of houses or other top structures takes place. This phase is implemented in terms of the relevant national housing subsidy program. This means that households have to apply for a housing subsidy under a housing subsidy program. Their applications are evaluated against a number of criteria, including income, marital status, and whether they will live on the property bought with the subsidy.<sup>8</sup>

# 2. FUNDING THE UISP IN METROPOLITAN MUNICIPALITIES

As mentioned above, the funding arrangements for the first three phases of housing delivery under the UISP are different from the fourth and final phase. The UISP is also funded differently in metropolitan and non-metropolitan municipalities. In metros, our primary focus in this brief, the Urban Settlements Development Grant provides funding for the first three phases, and the Human Settlements Development

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<sup>7</sup> In some cases the decision about whether upgrading is possible in a given site is not a simple one: it can be based on cost, soil conditions or ownership of the relevant land. For example, certain soil conditions make the provision of permanent sanitation infrastructure in the form of full flush toilets more expensive in the short term, but cheaper in the long term than the provision of temporary services. For more information on this example see <http://www.cornerstonesa.net/reports/2016%20Khayelitsha%20Sanitation%20Costing%20Report.pdf>

<sup>8</sup> See <https://www.westerncape.gov.za/dept/human-settlements/services/852/17479>

Grant provides funding for the fourth phase. In what follows we discuss each of these funding streams in greater detail.

## 2.1 THE URBAN SETTLEMENTS DEVELOPMENT GRANT (USDG)

In the eight metropolitan municipalities, the main source of funding for the UISP is the Urban Settlements Development Grant (USDG). The USDG is a conditional grant from the national Department of Human Settlements given only to metropolitan municipalities. These municipalities are supposed to use the grant for the provision of basic services infrastructure (for the provision of water, sanitation, electricity, etc.) and the development of integrated human settlements.<sup>9</sup> While the UISP itself is not explicitly mentioned in either the Division of Revenue Bill or the Division of Revenue Act (DoRA), metros are expected to use the USDG to fund activities under the first three phases of the upgrading program.<sup>10</sup> This is discussed in materials of the National Upgrading Support Programme.<sup>11</sup> The DoRA specifically mentions some of the outputs to be funded by the grant, including the following aspects of informal settlement upgrading:

- Increase in bulk infrastructure capacity.
- Increase in land provision for informal settlement upgrading, subsidy housing, or mixed use developments in support of approved human settlement catalytic projects.
- Increase in access to public and socio-economic amenities.
- Increase in number of serviced sites in informal settlements upgrading and/or in-situ projects and green-fields and/or infill developments.

The conditions attached to the USDG also provide very broad instructions on how the funding should be allocated between the various outputs mentioned above. One condition requires that “a minimum of 50 [percent] of the USDG allocation must be spent on the provision of individual basic services to households living in informal settlements either through in-situ upgrades, relocation or integrated

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<sup>9</sup> National Treasury. 2016a. Division of Revenue Bill. [http://www.treasury.gov.za/legislation/bills/2016/bills2016\\_bill02-2016.pdf](http://www.treasury.gov.za/legislation/bills/2016/bills2016_bill02-2016.pdf) (accessed 7 February 2017)

<sup>10</sup> The Division of Revenue Act (DoRA) divides nationally collected revenue between the national, provincial and local spheres of government and contains the rules and conditions for these transfers. In addition to amounts to be transferred, DoRA therefore also provides information on all grants and allocations to provinces and municipalities, including the outcomes to be achieved with specific grants and conditions attached to the receipt of these grants.

<sup>11</sup> See [http://www.nuspresources.com/?page\\_id=1069#section1123](http://www.nuspresources.com/?page_id=1069#section1123)

development projects.”<sup>12</sup> However, it is unclear what the “provision of individual basic services” entails and whether it includes the provision of all bulk, link, and internal infrastructure for the delivery of basic services or just refers to connections to individual sites. It also fails to explain how temporary or emergency services should be financed and how community participation in the upgrading process, a key aspect of the UISP, should be financed.

In addition, the DoRA does not prescribe how much of the USDG should be used by a metro to fund activities under the UISP. Outputs funded by the USDG that are unrelated to the UISP include the provision of basic services to households living in backyards, increases in bulk infrastructure capacity (not specifically in support of informal settlement upgrading), and the provision of serviced sites and land for other human settlement development projects. DoRA also describes the USDG as a supplementary grant, meaning that metros should provide funding through their own revenues. While the Housing Code specifically states that municipalities should fund at least 10 percent of the capital costs of an upgrading project themselves, the DoRA does not stipulate how much revenue a metro should contribute to projects funded by the USDG.

Table 1 shows the how the total USDG was divided between the metros in the 2015/16 and 2016/17 budgets and the forecasts for 2017/18 and 2018/19. The overall grant amount only increased by 2.7 percent between 2015/16 and 2016/17. The grant is projected to grow by 5.84 and 5.05 percent respectively in 2016/17 and 2017/18. For those three financial years, the National Treasury predicted inflation (measured by the Consumer Price Index) rates of 6.6, 6.2, and 5.9 percent.<sup>13</sup> In other words, the budgeted increases in the overall USDG grant are not high enough to keep up with the expected inflation over those three years. We also know that metro populations, and particularly the population of informal settlements, have been growing rapidly. In contrast, we see tepid growth in the USDG, which limits the ability of metros to provide basic services to poor households and the development of human settlements in metros more broadly.

With the exception of Mangaung in 2016/17, the growth rates in the USDG allocations to the eight metros were the same. As a result, the shares of the metros in the overall grant amount remained the same from 2016/17 onwards, with very small changes between 2015/16 and 2016/17. The rationale behind these uniform growth rates and the stable shares is questionable. Estimates of net migration to provinces such as Gauteng and the Western Cape suggest relatively faster population growth in the metros in those

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<sup>12</sup> National Treasury. 2016a. Division of Revenue Bill. [http://www.treasury.gov.za/legislation/bills/2016/bills2016\\_bill02-2016.pdf](http://www.treasury.gov.za/legislation/bills/2016/bills2016_bill02-2016.pdf) (accessed 7 February 2017)

<sup>13</sup> National Treasury 2016b. National Budget Review. <http://www.treasury.gov.za/documents/national%20budget/2016/review/default.aspx> (accessed 15 February 2017)

provinces.<sup>14</sup> Therefore there is a need for increasing share allocations from the USDG to those metros, as reflected in their Equitable Share allocations (discussed below).

**TABLE 1. BUDGET ALLOCATIONS OF THE URBAN SETTLEMENTS DEVELOPMENT GRANT (USDG) TO THE EIGHT METROPOLITAN MUNICIPALITIES**

Urban Settlements Development Grant											
Metro	Budget Estimate		Budget Estimate								
	2015/16	Share	2016/17	Share	Growth Rate 2015/16-2016/17	2017/18	Share	Growth rate 2016/17-2017/18	2018/19	Share	Growth Rate 2017/18-2018/19
	R'000		R'000			R'000			R'000		
Buffalo City	713,132	6.76%	731,499	6.75%	2.58%	774,202	6.75%	5.84%	813,335	6.75%	5.05%
City of Cape Town	1,387,760	13.15%	1,423,504	13.13%	2.58%	1,506,605	13.13%	5.84%	1,582,760	13.13%	5.05%
City of Johannesburg	1,731,220	16.40%	1,775,809	16.38%	2.58%	1,879,476	16.38%	5.84%	1,974,478	16.38%	5.05%
City of Tshwane	1,500,683	14.22%	1,539,334	14.20%	2.58%	1,629,196	14.20%	5.84%	1,711,548	14.20%	5.05%
Ekurhuleni	1,842,887	17.46%	1,890,352	17.44%	2.58%	2,000,706	17.44%	5.84%	2,101,836	17.44%	5.05%
eThekweni	1,838,336	17.42%	1,885,685	17.40%	2.58%	1,995,766	17.40%	5.84%	2,096,646	17.40%	5.05%
Mangaung	693,847	6.57%	725,003	6.69%	4.49%	767,326	6.69%	5.84%	806,113	6.69%	5.05%
Nelson Mandela Bay	846,480	8.02%	868,282	8.01%	2.58%	918,970	8.01%	5.84%	965,421	8.01%	5.05%
<b>Total</b>	<b>10,554,345</b>	<b>100.00%</b>	<b>10,839,468</b>	<b>100.00%</b>	<b>2.70%</b>	<b>11,472,247</b>	<b>100.00%</b>	<b>5.84%</b>	<b>12,052,137</b>	<b>100.00%</b>	<b>5.05%</b>

Source: National Treasury. 2016a. Division of Revenue Bill. [http://www.treasury.gov.za/legislation/bills/2016/bills2016\\_bill02-2016.pdf](http://www.treasury.gov.za/legislation/bills/2016/bills2016_bill02-2016.pdf) (accessed 7 February 2017)

## 2.2 FUNDING THE TOP STRUCTURES UNDER THE UISP: THE HUMAN SETTLEMENTS DEVELOPMENT GRANT

A joint review of local government grants by the National Treasury, the national Department of Cooperative Governance and Traditional Affairs, the South African Local Government Association, the national Department of Planning, Monitoring and Evaluation, and the Financial and Fiscal Commission specifically highlights the difficulty of understanding how funding is allocated to informal settlement upgrading. The review finds “Informal settlements funding also sits awkwardly in both grants without clear

<sup>14</sup> Statistics South Africa. 2016. Mid-year population estimates. Statistical release P0302. <http://www.statssa.gov.za/publications/P0302/P03022016.pdf> (accessed 22 February 2017)

policy guidelines over which grant is for which aspect of informal settlement upgrading – as evidenced by inputs from metros.”<sup>15</sup>

As mentioned, while the UISP only provides funding for the first three phases of upgrading, it does include planning for the fourth phase. The funding for the fourth phase comes from the Human Settlements Development Grant (HSDG), a conditional grant transferred by the national Human Settlements Department to the nine *provincial* Departments of Human Settlements. The HSDG is also the main source of funding for the UISP in non-metropolitan municipalities. Therefore, in metros the HSDG only provides funding for top structures (houses), whereas in non-metro municipalities it funds all four phases of the UISP.

The DoRA only divides the HSDG between the provinces while provincial budgets allocate funds to individual projects in specific metros and municipalities. One of the conditions for the HSDG stipulates that a “minimum of 30 percent of the HSDG must be allocated for the upgrading of informal settlements programme with targets segregated by province.”<sup>16</sup> But it is unclear how much of this share should in turn be allocated to the housing consolidation phase of UISP projects in metros, where the first three phases are funded by the relevant metro itself through the USDG.

## 2.3 EQUITABLE SHARE FUNDING FOR THE PROVISION OF BASIC SERVICES TO INFORMAL SETTLEMENTS UPON CONCLUSION OF PHASE 2

As discussed above, Phase 2 of the UISP includes the provision of temporary or emergency basic services if necessary, while Phase 3 includes the provision of permanent basic services. This means that by the end of Phase 3 all infrastructure (bulk as well as internal) should be in place to enable access to basic services by the beneficiaries of a UISP project.

The actual provision of free basic services (water, electricity, sanitation, and refuse removal) to poor households should be funded by the municipal Equitable Share. In metropolitan municipalities, the provision of free basic services to qualifying households who benefitted from a UISP project should be funded by that metro’s Equitable Share. A National Treasury formula is used to divide the Municipal Equitable Share between all the municipalities in South Africa. The local government Equitable Share

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<sup>15</sup> See the Review of Local Government Infrastructure Grants – Draft Report [http://mfma.treasury.gov.za/Media\\_Releases/ReviewOfLGInfrastructureGrants/Documents/Review%20of%20LG%20Infrastructure%20Grants%20-%20Recommendations%20Working%20Paper.pdf](http://mfma.treasury.gov.za/Media_Releases/ReviewOfLGInfrastructureGrants/Documents/Review%20of%20LG%20Infrastructure%20Grants%20-%20Recommendations%20Working%20Paper.pdf)

<sup>16</sup> National Treasury. 2016a. Division of Revenue Bill. [http://www.treasury.gov.za/legislation/bills/2016/bills2016\\_bill02-2016.pdf](http://www.treasury.gov.za/legislation/bills/2016/bills2016_bill02-2016.pdf) (accessed 7 February 2017)

formula does *not* calculate the size of a metro or a municipality's equitable share, but rather what *share* it will get of the overall local government equitable share.

For our purposes, the most important, and also the largest, part of this formula is the basic services component. This component is calculated on the basis of the cost of the provision of free basic services to poor households. Its contribution to a metropolitan municipality's Equitable Share transfer is calculated by taking into account the number of poor households living in that metro.

When the basic services component is calculated, a household with a monthly income of less than R2,300 a month is considered "poor," also referred to as "indigent." In the 2016/17 financial year, the basic services component provided a subsidy of R334.97 per month to municipalities for each of the households it is providing free basic services to. The package of free basic services includes: six kiloliters of water, 50 kilowatt hours of electricity, basic sanitation and refuse removal, and 10 percent of the subsidy is allocated towards the maintenance costs associated with the provision of the services.

To calculate the basic services component of a metro's Equitable Share grant for 2016/17, the total number of poor households is multiplied by the monthly subsidy and then multiplied by 12 to arrive at the total annual amount. The formula used to calculate the basic services component is therefore:

$$\text{Basic services component} = (\text{number of poor households} \times R334.97) \times 12$$

The amount of the overall Equitable Share that is allocated to a municipality is shown in the DoRA. The DoRA does not, however, indicate the size of the basic services component. This means that we cannot use it to see how much money a municipality or a metro has been given to fund the provision of free basic services to qualifying households. It does provide the amount used to identify a poor household (monthly income of less than R2,300 in 2016/17) and also explains how the subsidy (R334.97 in 2016/17) was calculated for a specific financial year. Therefore, if we can find out the number of poor households in a specific metro, we can then calculate how much of the Equitable Share a metro should ideally allocate towards the funding of free basic services.

Using information published in the 2016/16 DoRA, Table 2 shows the budgeted Municipal Equitable Share allocations to the eight metros in 2015/16 and 2016/17, and the forecasts for 2017/18 and 2018/19. The share given is the share of the total Municipal Equitable Share allocated to each metro.

In contrast to the division of the USDG grant, the allocation of the Municipal Equitable Share unsurprisingly seems to favor metros in provinces with relatively higher population growth rates and larger

informal settlements. The three metros located in Gauteng (Ekurhuleni, City of Johannesburg, City of Tshwane), the Western Cape metro of City of Cape Town, and eThekweni were all budgeted to receive increasing shares of the total allocation over the period. The growth rates in the allocations to these metros also outstrip forecasted inflation rates for 2016/17 to 2017/18. One very important point to remember is that the Equitable Share allocation is unconditional: while the money is intended to provide free basic services (specifically the free basic services component), the municipal government ultimately decides how to spend it.

**TABLE 2. EQUITABLE SHARE ALLOCATIONS TO METROPOLITAN MUNICIPALITIES**

Municipal Equitable Share											
Metro Municipality	Budget		Budget		Forward Estimates						
	2015/16		2016/17			2017/18			2018/19		
	R'000	Share	R'000	Share	Growth Rate 2015/16-2016/17	R'000	Share	Growth rate 2016/17-2017/18	R'000	Share	Growth Rate 2017/18-2018/19
Buffalo City	655,141	1.30%	678,197	1.29%	3.52%	703,602	1.23%	3.75%	760,226	1.23%	8.05%
Nelson Mandela Bay	774,616	1.54%	798,043	1.52%	3.02%	843,509	1.48%	5.70%	921,857	1.49%	9.29%
Mangaung	596,652	1.19%	629,731	1.20%	5.54%	644,493	1.13%	2.34%	709,316	1.15%	10.06%
Ekurhuleni	2,181,182	4.34%	2,381,367	4.53%	9.18%	2,662,137	4.67%	11.79%	2,950,532	4.78%	10.83%
City of Johannesburg	2,864,065	5.70%	3,182,318	6.05%	11.11%	3,607,991	6.33%	13.38%	4,017,148	6.51%	11.34%
City of Tshwane	1,654,390	3.30%	1,864,838	3.55%	12.72%	2,148,143	3.77%	15.19%	2,404,418	3.89%	11.93%
eThekweni	2,115,453	4.21%	2,319,380	4.41%	9.64%	2,576,367	4.52%	11.08%	2,829,662	4.58%	9.83%
City of Cape Town	1,809,797	3.60%	2,012,945	3.83%	11.22%	2,283,323	4.00%	13.43%	2,512,279	4.07%	10.03%
<b>Total Equitable Share</b>	<b>50,207,698</b>	<b>100.00%</b>	<b>52,568,706</b>	<b>100.00%</b>	<b>4.70%</b>	<b>57,012,141</b>	<b>100.00%</b>	<b>8.45%</b>	<b>61,731,845</b>	<b>100.00%</b>	<b>8.28%</b>

Source: National Treasury. 2016a. Division of Revenue Bill. [http://www.treasury.gov.za/legislation/bills/2016/bills2016\\_bill02-2016.pdf](http://www.treasury.gov.za/legislation/bills/2016/bills2016_bill02-2016.pdf) (accessed 7 February 2017)

## 2.4 NATIONAL UPGRADING SUPPORT PROGRAMME (NUSP)

The national Department of Humans Settlements is responsible for the implementation of the National Upgrading Support Programme (NUSP). NUSP provides technical assistance to municipalities, including metropolitan municipalities, for the planning of the upgrading of informal settlements.<sup>17</sup> This includes paying for consultants to assist municipalities and helping them to plan informal settlement upgrades in conjunction with communities. More specifically, NUSP runs capacity building workshops where participants include members of relevant communities. It has been suggested that this assistance should

<sup>17</sup> See [http://www.nuspresources.com/?page\\_id=1069#section1123](http://www.nuspresources.com/?page_id=1069#section1123); National Treasury. 2016c. National Estimates of Expenditure. <http://www.treasury.gov.za/documents/national%20budget/2016/ene/FullENE.pdf> (accessed 7 February 2017)

only be provided for the first UISP project implemented by a municipality, with the community participation in subsequent projects funded by the municipality's relevant operating budgets.<sup>18</sup>

While the NUSP falls under Programme 3 (Human Settlement Delivery Support) of the national Department of Human Settlements, the budget of the department does not specify how much money is allocated to it or how much has been allocated to specific metros or municipalities.<sup>19</sup> The department's annual report does list the consultants appointed during the previous financial year, under the project title (e.g. "Development of informal settlements upgrading programmes in Nelson Mandela Bay Metropolitan Municipality"), and gives the value of the specific contract.<sup>20</sup> It is therefore possible to calculate, at least retrospectively, how much was spent on technical assistance to a specific metro or municipality.

## 2.5 INTEGRATED NATIONAL ELECTRIFICATION PROGRAMME

Grant funding is also provided to municipalities and Eskom (the South African public electricity utility) to implement the Integrated National Electrification Programme, some of which benefits informal settlement upgrading. The objective of these grants is to reduce household electrification backlogs and provide bulk infrastructure. It is unclear to what extent this source of funding is used to fund the provision of bulk electricity infrastructure as part of UISP projects. An evaluation of the design and implementation of the USDG conducted for the Department of Monitoring and Evaluation suggests that some metros prohibit the use of the USDG for electricity infrastructure.<sup>21</sup> The conditions for the USDG in the DoRA do not provide clear guidelines in this regard.

## 3. ROLES AND RESPONSIBILITIES

The UISP designates municipalities as the developers of informal settlement upgrading projects and the Housing Code stipulates that grant funding should be provided to municipalities to help them finance the first three phases described above. This means that funding for the UISP is not intended to finance top structures. While the Housing Code prescribes that the final business plan submitted by a municipality for

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<sup>18</sup> Communication with Monty Narsoo, a private consultant specializing in South African housing policy

<sup>19</sup> National Treasury. 2016c. National Estimates of Expenditure. <http://www.treasury.gov.za/documents/national%20budget/2016/ene/FullENE.pdf> (accessed 7 February 2017)

<sup>20</sup> Department of Human Settlements. 2016. Annual Report 2015/16. <http://www.dhs.gov.za/content/annual-reports> (accessed 9 February 2017)

<sup>21</sup> Palmer Development Group. 2015. Report on the Design and Implementation Evaluation of the Urban Settlements Development Grant. <http://evaluations.dpme.gov.za/evaluations/501> (accessed 7 February 2017)

an UISP project should include the information on the planning, commencement and the timeframe for Phase 4, that phase is the responsibility of the relevant provincial department.

According to the Housing Code, municipalities are responsible for identifying informal settlements that should be upgraded under the UISP. A municipality, in collaboration with the relevant provincial Department of Human Settlements, should initiate, plan, and formulate applications for a UISP project and submit them to the political head of the provincial human settlements department. The municipalities first submit a draft, or interim, business plan to the provincial department. The assessment of this interim business plan takes place in Phase 1 of a UISP project.

If the application for an upgrading project is approved, the municipality proceeds with Phase 2. By the end of Phase 2 a final business plan should be submitted to the provincial department. If this final business plan is approved, the municipality receives funding to go ahead with Phase 3. The Housing Code requires that this business plan should also address the planning, commencement, and time frame for Phase 4, including finalizing the planning and project applications.

Note that the Housing Code does not distinguish between the responsibilities of metro and non-metro municipalities. As discussed in more detail above, the USDG is the main source of funding for the implementation of activities under the first three phases in metros, a grant transferred directly from the national Human Settlements Department to the metro. This transfer is dependent on the submission of a Built Environment Performance Plan, a USDG Performance Matrix, and a Service Delivery and Budget Implementation Plan to the national Department of Human Settlements and the National Treasury. This means that metros do not have to submit business plans to the relevant provincial departments of human settlements to implement the first three phases of the UISP.

The implementation of the fourth phase also differs *between* metros. In the City of Cape Town, for example, the city receives funding (according to a pre-approved payments schedule) from the HSDG from the Western Cape Department of Human Settlements. Funding is based on the submission of a single business plan for all its housing development projects, including those that are considered as the fourth phase of a UISP project. Other metros must submit business plans for individual projects in the fourth phase of the UISP to access HSDG funds from the relevant provincial department.

## CONCLUSION

This brief seeks to provide basic information about the financing of informal settlement upgrading in South Africa. This information will allow local residents, civil society organizations, and oversight institutions to engage in the critical debate about how to build integrated and sustainable human settlements in South Africa. As a follow-up to this brief, we plan to look more closely at how informal settlement upgrading is financed in individual metros to help build the foundation for more meaningful debate at metro level.