

# **What has trust got to do with it?**

## **Non-payment of service charges in local authorities in South Africa**

Odd-Helge Fjeldstad

**WP 2003: 12**

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**Chr. Michelsen Institute** *Development Studies and Human Rights*

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“The symptoms of our spiritual malaise are only too familiar. They include the extent of corruption in both public and private sector ... and the extent of evasion of tax and refusal to pay for services used.” Then President Nelson Mandela, opening the Morals Congress in 1997.

“...we [i.e., the Government, my comment] regard addressing the issue of non-payment for services as fundamental to the challenge of creating effective, accountable, developmental local government.” Sydney Mufamadi, Minister for Provincial and Local Government (*Business Day*, 4 December 2002:11).

## ***1 Introduction\****

This paper examines factors determining compliance behaviour with respect to service charges in local authorities in South Africa. Local authorities rely to a large extent on user charges - especially utility fees on electricity and water - to obtain the revenues that are needed to finance their operations (RSA 2001). However, a major financial problem is inadequate collection of revenues, mainly due to widespread non-payment. The results are year-end deficits, a reduction of local government services to balance the budget, and higher fees and taxes for those who do pay. In recent years non-compliance with respect to service charges, fees and rates has worsened (*ibid.* p. 151).

The non-payment of rates and service charges, particularly in African and coloured areas, is, however, not a new phenomenon in South Africa (Bond, 2000; McDonald, 2002a). During the apartheid period, boycotts of rents and user charges became chief weapons against what was considered an illegitimate regime. In the late 1980s, many townships and rural areas in the homelands were already effectively ungovernable (Bardhill *et al.* 1998). With the passing of the apartheid system such boycotts might have been expected to cease, but they did not. Non-compliance with respect to service charges seems to have become an established ‘norm’ in many areas, creating major constraints for the attempts to develop a viable new local government system in South Africa (Timm *et al.* 1998). Moreover, the phenomenon of non-payment, which until recently has been an African one, is likely to spread into other ethnic

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groups in accordance with increasing dissatisfaction with government performance (Mattes *et al.* 2000).

Different arguments are used to explain the extensive and increasing non-compliance. A recent study by the Centre for Development Support (CDS) at the University of the Free State (CDS 2001) concludes that non-payment is primarily an issue of inability to pay. It is argued that the poverty of many households makes them unable rather than unwilling to pay, hence the need for free basic services to the poorer segments of the population and/or a lowering of the rates. This argument is supported by, for instance, Fiil-Flynn (2001) and McDonald (2002b). Other studies, however, claim that widespread unwillingness to pay exists due to the 'entitlement culture' and the 'culture of non-payment' inherited from the apartheid era (Johnson, 1999; Ajam, 2001). It is implicitly assumed that an understanding of the relationship between payment and the provision of services is a critical factor for compliance. Consequently, the prescription is education and political mobilisation of ratepayers, combined with the restoration of law and order.

I do not contest the ability-to-pay argument and the claim that there might exist a 'culture of non-payment'. However, in this paper I argue that the causes for non-payment are more multifaceted and complex. Huge variations in compliance exist both within (poor) communities and between communities that have quite similar socio-economic characteristics. How do we explain such differences? Furthermore, what factors are determining citizens' compliance behaviour with respect to service charges? I argue that the issue of (non-)compliance is not only a question of state-society relationships, but also a question of relationships between citizens and/or between groups of citizens within local communities. In particular, I argue that three dimensions of trust may affect compliance: (1) trust in the local government to use revenues to provide expected services; (2) trust in the authorities to establish fair procedures for revenue enforcement and distribution of services; and (3) trust in other citizens to pay their share of service charges. Considerations of these issues may shed light on the observed differences between and within local authorities with respect to service charge compliance, and factors determining citizens' compliance behaviour.

The paper is organised as follows: Section 2 provides a brief description of the extent and characteristics of non-payment across and within municipalities in South Africa. Can trust affect economic behaviour? This question is the point of departure for section 3 which briefly

reviews the theoretical arguments on how trust between citizens and the (local) government and trust among private parties may affect citizens' willingness to pay. Section 4 focuses on the social, economic, administrative and political factors that are expected to influence citizens' compliance behaviour with respect to service charges. In particular, the section discusses whether trust can explain differences in compliance between local authorities and population groups. Then, section 5 concludes by discussing possible approaches to improving compliance.

## ***2 Local government finances and non-payment of service charges***

Local authorities in South Africa generate, in aggregate, about 92% of their own revenues (RSA 2001:146). The remaining revenues are transfers from the national and provincial governments.<sup>1</sup> However, huge differences exist between municipalities. For instance, metropolitan councils mobilise, on average, 97% of the revenues themselves. In contrast, some smaller municipalities only raise 65% of their revenues through their own sources. Revenue sources also differ between local authorities depending on local circumstances. Figure 2.1 presents the aggregate picture of local government revenue sources in 1999-00.

The prevailing revenue sources are to a large extent similar to the former apartheid tax regime for local government (FFC 1997:16). The most important revenue sources are (1) user charges on services (electricity, water and sanitation); (2) property rates in urban areas; and (3) the Regional Service Council (RSC) levy charged by district and metropolitan councils on staff or labour. Utility fees from trading services comprised 32% of the revenue base of municipalities in 1999/2000, with electricity charges making up the largest share followed by water. Property rates contributed 21% of the aggregate municipal revenues, intergovernmental transfers 8%, RSC levies 7%, and other revenues 32%.<sup>2</sup>

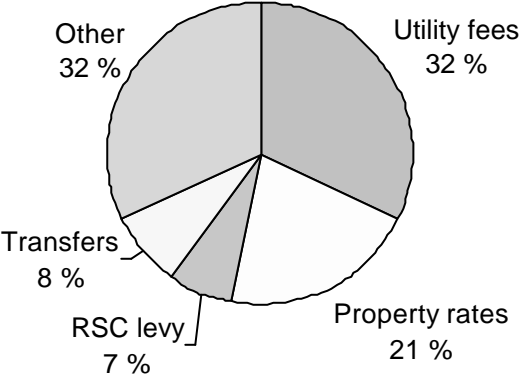
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<sup>1</sup> In December 2000, the existing 843 councils were rationalised into 284 municipalities (RSA, 2003:27). Reliable and comparable financial data is difficult to come by. For instance, it is difficult to compare the financial information of the pre-demarcation councils with that of the 284 new ones. Furthermore, in many councils the budgeting and accounting systems are outdated and inconsistent. Financial management, including billing, is also weak in many municipalities (RSA 2001:143).

<sup>2</sup> RSC levies are collected from business and comprise two components: One is based on company turnover and makes up two-thirds of the total levy. The second component is based on the annual value of the company's payroll. According to government regulations, the RSC-levies should be used to fund capital infrastructure. The levy is based on self-assessment by businesses, and paid monthly to district municipalities and metros. *Other revenues* include interests on investments, non-trading services, fees and charges (e.g., recreation and burial fees), and fines.

A major financial problem for local authorities is poor compliance and inefficient collection of revenues, in particular with respect to electricity and water charges. The most recent figures from the Department for Provincial and Local Government (RSA, 2003:43-44) show that since 1994 municipalities have accumulated a total of ZAR 24,3 billion of consumers' debt due to non-payment. This compares with budgeted municipal operating expenditure for 2002-03 of ZAR 61,4 billion (ibid. 32-33). Moreover, the level of outstanding debtors as a percentage of annual billing in many municipalities has steadily increased in recent years (RSA 2001:150). For instance, in George the outstanding debtors as a percentage of annual billing were approximately 44% in FY 1997/98, and increased to 61% in FY 1999/00. The corresponding figures for Johannesburg are 24% and 36%, respectively. Furthermore, revenue collection levels, measured as the amount collected as a percentage of the amount billed, have worsened in many municipalities in recent years. For instance, in Johannesburg metro, revenue collection levels decreased from around 74% in FY 1997/98 to 65% in FY 1999/00.

**Figure 2.1 Local government revenue sources, 1999-2000**



Source: RSA (2001)

The Ministry responsible for local government has been unwilling to issue an overview of those communities that are regarded as chronic non-payers of service charges. But, based on



available statistics, Yorke (2003) estimates that approximately 63% of consumer debt is owed to the six metropolitan councils. As three of these are in Gauteng, the level of consumer debt is highest in this province. Moreover, according to Johnson (1999:2), roughly one third of all African townships are 'chronic' non-payers, another one third are 'partial' payers and the remaining are 'reasonable' payers. Available data also indicates that huge differences in compliance levels exist between communities that have fairly similar socio-economic characteristics (Solomon 1998). Also in some very poor areas some people continue to pay for the services they receive even when they could get away without doing so.

### *2.1 The Masakhane campaign*

To heighten citizens' awareness of issues associated with local government finances and service provision, the Masakhane campaign was launched by the Government in February 1995 (Timm *et al.* 1998:123).<sup>3</sup> The overall aim of the Masakhane campaign, meaning 'let us build together', was to normalise governance and the provision of basic services at the local level.<sup>4</sup> The campaign has a broad set of objectives, including (i) accelerating the delivery of basic services and housing; (ii) stimulating economic development in both urban and rural areas; (iii) promoting the resumption of rent, service charge and bond payments; and (iv) creating conditions for large-scale investments in housing and service infrastructures and local economic development. However, the Masakhane campaign has been seen as a general and narrowly focused programme to 'get people to pay for services', while the importance of delivery has not received adequate attention (*ibid.* p. 124).

Although the campaign has had a substantial budget and administrative structure, the general view of a cross-section of people at national and provincial levels is that it has not been successful (Cashdan 2002:159). On the positive side, the campaign may have contributed to increase the awareness of issues associated with local government and service provision. But with respect to improving payment of service charges the results are dubious. A general picture is that the Masakhane campaign contributed to increased payments for either a short period only or not at all (Johnson 1999:65). In some communities non-payment even worsened after the launching of the campaign. For instance, between July 1995 and April 1996 payment levels in Soweto declined from 34% to 23% and in Alexandria from 23% to 13% (*Business Day*, 14 July 1996).

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<sup>3</sup> The campaign was launched by the then Reconstruction and Development Programme (RDP) Office and the Departments of Constitutional Development, Housing and Finance.

<sup>4</sup>The campaign has, however, been run at all three levels of government: national, provincial and local.

## 2.2 Surveys on the determinants of non-compliance

In recent years, several studies have explored the possible reasons behind the limited success of the Masakhane campaign (see, e.g., Cashdan 2002; and Timm *et al.* 1998). Also some citizens' surveys have been carried out to identify the determinants behind the sustained high levels of non-payment of service charges. Two comprehensive national surveys, which explicitly focus on payment of municipal services, have been conducted by the Centre for Development Support (CDS), University of the Free State (CDS 2001) and by the Helen Suzman Foundation (Johnson 1999), respectively.<sup>5</sup>

The CDS (2001)-survey was carried out in 2000 and covered 1600 households in 32 localities across South Africa. Both rural and urban sites were included. The Johnson (1999)-survey was conducted in late 1998 and covered 1754 respondents in various urban councils known to have high levels of non-compliance (795 respondents in Gauteng, 326 in other cities, and 633 respondents in smaller towns). In both surveys, the respondents were grouped according to socio-economic characteristics such as type of housing (ownership), language, size of the household, income, etc. The surveys included questions on service delivery, e.g., changes over time for better or for worse, perceptions on the capacity and effectiveness of municipalities in providing services (implicitly the trustworthiness of the local authorities), the role of community leaders, perceptions on the rate level (i.e., ability to pay), perceptions on why (some) people did not pay, perceptions on others' compliance behaviour (i.e., implicitly trust in others), how to deal with defaulters (i.e., credibility of sanctions), etc.

Combined, the two surveys provide an extensive database on citizens' perceptions and attitudes with respect to service delivery, community development and the non-payment of service charges in local authorities in South Africa. Many of these perceptions are consistently shared by the respondents in both surveys. Interestingly, however, the main conclusions of the surveys on the determinants of the widespread non-compliance observed among ratepayers differ. CDS (2001) concludes that non-payment is primarily an issue of inability to pay. It is argued that the poverty of many households makes them unable rather

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<sup>5</sup> To my knowledge, the only other national survey of this nature was conducted in 2001 by the Municipal Services Project ([www.quensu.ca/msp](http://www.quensu.ca/msp)) in collaboration with South Africa's Human Sciences Research Council ([www.hsrc.ac.za](http://www.hsrc.ac.za)). The findings and conclusions of this survey, reported in McDonald (2002b), are congruent to the CDS (2001)-survey.

than unwilling to pay, hence the need for free basic services to the poorer segments of the population and/or a lowering of the rates. Johnsen (1999:101), however, concludes that “[t]he most central problem clearly lies in the complex of issues surrounding ‘the entitlement culture’ and even the ‘culture of non-payment’”. But he does not reject the ability-to-pay argument and emphasizes (ibid. p. 50) that “no one should doubt that there is severe social and economic distress behind such behaviour” [i.e., non-compliance, my comment].

The divergences between the two studies with respect to the key explanatory factors behind the problem of non-payment might, of course, be due to differences in the way the samplings were done (e.g., with respect to localities, language groups, affluent versus poor areas, etc.), differences in the ways the surveys were organised, hypotheses, and so on. The discrepancy may also be due to different theoretical foundations of the studies, as well as the way the survey data is interpreted.

But one observation, which cuts across the surveys, is that huge variations in compliance exist both within communities and between communities that have quite similar socio-economic characteristics, including levels of income. How to explain such differences? The ability-to-pay argument can only be part of the answer, and it might not be the one with the strongest explanatory power. Moreover, why does the ‘culture of non-payment’ differ between communities which are very similar in many other respects? The rich dataset in CDS (2001) and Johnson (1999) indicates that the problem of non-payment of service charges is more multifaceted than inability to pay and the existence of an entitlement culture. In particular, I argue, trust relations between state and society and within local communities may be important determinants for citizens’ compliance behaviour. However, before I start elaborating my arguments, let me first qualify some of the key findings of the surveys with respect to the ‘ability to pay’ and the ‘entitlement culture’ determinants.

### *2.3 Ability to pay*

CDS (2001) finds that the relatively better off ratepayers are the most compliant. According to the survey, “the poverty of many households in low-paying areas makes them unable rather than unwilling to pay”. In particular, inability-to-pay seems to be more acute in rural than in urban settings. This is not surprising, and consistent with findings from other African countries (e.g., Fjeldstad and Semboja 2001). Poverty is a major problem in municipalities in

South Africa. The issue of free basic services (including water and electricity) has, therefore, also been a major theme in recent election campaigns.

This observation is supported by Johnson (1999:72); on the question “why do you believe people are sometimes not paying for their services”, the main reasons given were inability to pay due to unemployment (59% of the respondents) and/or low salaries (69% of the respondents). Moreover, almost 70% of the respondents believed that rates were too high (ibid. p. 56). The claim that charges are too high might, of course, for some be part of a rationale for non-payment. Thus, Johnson (1999:57) reports that while 60% of the households in the sample reporting ‘no income’ said that the rates were too high, as many as 90% of the most affluent households in the sample claimed the rates to be too high. In general, the better off respondents were most likely to say that rates were too high. CDS (2001) also finds that in many urban municipalities many households and individuals who could pay for the services, opt for a free ride.

It is, however, reasonable to assume that there exists a correlation between ability to pay and willingness to pay. Moreover, given limited administrative resources, it is likely that rate collectors maximise yields by concentrating on the most accessible and better-off ratepayers. Thus, ability to pay and accessibility become key variables when enforcement priorities are made. Such mechanisms, in addition to factors related to reliable service provision and small opportunities for non-payment, may explain the relatively high compliance rates in communities dominated by whites. Although the white business community has the economic power in most local authorities in South Africa, the political power rests, in general, with the black majority. Hence, it might be rational for the service providing agencies to focus the rate enforcement on the wealthier, but less politically connected white minority.

#### *2.4 Entitlement culture*

Johnson (1999) refers to the problem of non-payment as the ‘culture of entitlement’ and dependency. This argument is supported by other studies which claim that political moral at the grassroots in South Africa has been undermined by high expectations of big changes following the ANC election victory not being met (Ruiters 1996:121). The liberation promises by the ANC and the fact that township residents themselves directly fought for their own political liberation, weigh heavily in favour of a culture of rights and entitlement (ibid. p. 125). Thus, it is argued, many people believe that public services (i.e., housing, water,

electricity, health etc.) are a basic right (Johnson and Schlemmer 1995). Hence, some observers claim that the underlying cause of the electricity crisis in Soweto, is the “culture of non-payment, not electricity prices that are too high for Soweto consumers ...” (*Focus*, Issue 25, 1<sup>st</sup> Quarter 2002:17).

While entitlement culture certainly plays a role in understanding the non-payment crisis, the explanatory power of this factor is more dubious. Actually, many people seem to understand the relationship between service charges and service delivery. In the CDS (2001) survey, 8 out of 10 respondents realised that if the current trend of non-payment for services continued in the future, a collapse in service delivery would become inevitable (*ibid.*, Table 49). This is consistent with Johnson (1999:72): On the question “Why do you believe people are sometimes not paying for their services?” only 5% of the respondents agreed with the statement that people should not pay for services because they were a basic right. In contrast, the main reason for not paying was said to be inability to pay, reflected by statements that members of the household were unemployed or had low salaries (see section 2.3 above). Secondly, were claims of inefficient or incorrect billing by the service providers, and thirdly, complaints of poor quality of the services.

Both surveys reveal differences between areas and municipalities on this issue. In general, the respondents in Gauteng seem to be more inclined to blame non-payment on poverty (i.e., inability to pay) and on the service-providers (i.e., poor quality of services and/or incorrect billing). Moreover, on the statement that “Government should provide all services free even though that would mean paying higher taxes”, 32% of the respondents in Gauteng agreed, compared to only 16% of the respondents in other cities (Johnson, 1999:70). This might be explained by the fact that non-payment of service charges in recent years has been more organised in Gauteng compared to other provinces. For instance, the Soweto Electricity Crisis Committee (SECC) has actively battled Eskom, by illegally reconnecting households which have been cut off by the electricity provider due to extensive arrears (Fiil-Flynn, 2001).<sup>6</sup>

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<sup>6</sup> More recently, residents of Soweto have developed an informal network of people called *Operation Khanyisa* (‘to light’) that will reconnect consumers to the electricity grid illegally. This open challenge by Sowetan residents has led Eskom to threaten to press charges (see *The Star* 4 June 2001). Eskom is an abbreviation for the parastatal company *the Electricity Supply Commission*.

### ***3 Can trust affect economic behaviour?***

In the standard economic model of taxpayer behaviour, the perceived quality of government does not influence the level of taxes remitted. The basic behavioural assumption is that people are free riders; - no one will voluntarily contribute to the government unless the threat of punishment makes it sensible (Allingham and Sandmo 1972). But, an increasing amount of evidence from experimental studies and survey data reveals that the rate of contribution to a public good is affected by factors such as citizens' trust in others and perceptions of the trustworthiness of the government (Slemrod, 2003).

As Scholz (1998:137) points out, without trust, there is little basis for social co-operation and voluntary compliance with laws and regulations that could potentially benefit everyone. Thus, without trust, coercion provides a reasonable guide for governance. The temptation not to comply even if others comply defines the free-riding problem that is endemic in collective action situations in private as well as public institutions (Hardin 1982). Why should the ratepayer not take advantage of the opportunity to a free ride? In this perspective, Levi (1998) argues that citizens are likely to trust the government only to the extent that they believe that it will act in their interests, that its procedures are fair and reasonable, and that their trust of the state and others is reciprocated. She stresses that government trustworthiness, plus the perception that others are doing their share, can induce people to become 'contingent consenters' who co-operate even when their short-term interest would make free-riding the individual's best option.<sup>7</sup> Accordingly, citizens' willingness to pay service charges voluntarily rests on the existence of the local government's capacity to provide services and its demonstrated readiness to secure the compliance of the otherwise non-compliant. This is the perspective I will apply in this paper.

It should, however, be acknowledged that the conceptual framework needed to study service charges is to some extent different from the standard model of tax evasion referred to above, which typically focuses on the declaration of taxable income when detection is probabilistic. In contrast, local authorities and service providers can, in principle, observe the fraction of non-payers of service charges. Service users cannot hide their liability except by hiding their existence or migrating to a municipality which provides services free of charge or which

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<sup>7</sup> The analytical distinction between trust and trustworthiness is clarified in Levi (1998:80): "Only persons can trust or be trusting, but trustworthiness can attach to either individuals or institutions." She writes that

imposes the charges at a lower rate. In so far as sanctions are probabilistic it is because the revenue administration's capacity to bill and to effectuate sanctions is questionable. It seems, however, reasonable to suppose that a service user's perception concerning the likelihood of being prosecuted and the severity of penalties will affect his or her choice between paying the charge or not.

#### ***4 What has trust got to do with it?***

In this section I examine factors that may influence citizens' decisions whether to pay service charges or not in municipalities in South Africa. Following the analytical approach suggested by Levi (1988, 1997), the relationship between a ratepayer and the local government includes at least three elements. First, there is an element of *fiscal exchange*, as payment of service charges and the provision of services may be interpreted as a contractual relationship between ratepayers and the local government. A citizen's decision to pay derives from her perception that the local government is trustworthy. Second, there is an element of *coercion*, as represented by the enforcement activities of rate collectors and the penalties imposed on those detected for non-payment. The credibility or trustworthiness of the revenue administration's sanctions against defaulters is important in this context. A third element is the impact of *social influences* and norms on the ratepayer's compliance behaviour. For example, attitudes toward the government may affect the ratepayer's normative commitment to comply with the laws. An individual's perceptions, in combination with her opportunities, may thus determine her current choice of whether or not to be a non-payer.

##### *4.1 Fiscal exchange*

Compliance can be motivated by the presence of government expenditures. Individuals may pay service charges because they value the goods provided by the government, recognising that their payments are necessary both to help finance the goods and services and to make others contribute (Andreoni *et al.* 1998; Cowell and Gordon 1988). Hence, a ratepayer may be seen as exchanging purchasing power in the market in return for government services. Fiscal exchange, however, requires trade-off gains that may be seen as prerequisites of voluntary compliance (Levi 1988:56). The existence of positive benefits – measured according to quantitative and qualitative criteria – may therefore increase the probability that ratepayers

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institutional trustworthiness implies procedures for selecting and constraining the agents of institutions so that they are competent, credible, and likely to act in the interests of those being asked to trust the institution.

will comply voluntarily, without direct coercion. Most ratepayers are, of course, not able to assess the exact value of what they receive from the government in return for charges paid. However, it can be argued that the ratepayer has general impressions and attitudes concerning her own and others' terms of trade with the government. If this is the case, then it is reasonable to assume that a ratepayer's behaviour is affected by her satisfaction or lack of satisfaction with her terms of trade with the government. In psychological terms, an unfair rate system could lead people to 'rationalise' cheating. Thus, if the system of user fees is perceived to be unfair, non-payment may, at least partly, be considered as an attempt by the citizen to adjust her terms of trade with the government.

The survey data reported in Johnson (1999) and CDS (2001) do not support this proposition. Actually, the majority of the respondents in both surveys said they were satisfied with the delivery of services. In Gauteng, about 80% of the respondents said they were satisfied with water delivery, compared to 70% in smaller towns (Johnson 1999:27). The corresponding figures for electricity were 79% and 71% (ibid.). Since the problem of non-payment is worst in Gauteng, it may seem striking that the same area showed the highest levels of satisfaction with service delivery both for water and electricity. CDS (2001:Table 60) provides corresponding results; more than 80% of the respondents said they were satisfied with the core services delivered to their households, such as electricity, water supply and refuse removal. Respondents in low-paying areas were, however, slightly less satisfied than respondents in high-paying areas.

Nor does the quality of services seem to be a major cause for non-payment. For instance, less than 25% of the respondents in Johnson (1999:46, Table 26) reported leaking taps and pipes and broken toilets as problems in the area. Interestingly, given Gauteng's relatively higher incidence of non-payment, significantly fewer respondents there reported such problems compared to respondents in other cities and towns. Moreover, when asked whether they agreed or disagreed with the statement that "people should not pay for services until they have been improved", only about 30 % of the respondents agreed (Johnson 1999:70, Table 49).

However, there seems to be an increasing perception that the quality of services is declining (Johnson 1999). In Gauteng, for instance, as many as 40% of the respondents said that services had deteriorated since the election in 1994/95 (ibid. p. 25, Table 5). In smaller towns, more than 60% of the respondents gave this answer (ibid.). If this perception continues and



are strengthened, this may have impacts on citizens' future compliance behaviour. An indication of this development is the increasing non-compliance observed among the white, more affluent segments of the population. In interviews, whites are complaining about deteriorating public services, - and also that they consider it unfair to pay when a large majority of others do not pay. For instance, the ratepayers association in Worcester, Western Cape, has organised actions involving non-compliance. Their main arguments are that it is not 'fair' that the white community shall bear the whole tax burden and that services are deteriorating. These actions are considered to be legitimate within the white community.<sup>8</sup>

But, at present the survey data does not provide clear correlations between fiscal exchange and compliance with respect to service charges. This observation is supported by other studies. For instance, Hlope and Friedman (2002:68) argue that South Africa today provides little support for theories linking compliance with public obligations to a 'social contract', in which the government earns its legitimacy by demonstrating a capacity to meet citizens' instrumental needs. They argue that, as in most other African countries, a liberation movement like the ANC turned into a ruling party largely earns its legitimacy and trustworthiness because it is a liberator responsible for the sense of freedom among the previously dominated. Thus, what the ruling party did in the liberation period counts more than its performance in government.<sup>9</sup>

#### *4.2 Coercion*

Trust and coercion are closely linked in the new perspective on compliance and governance (Scholz 1998:163). The government is sometimes crucial in establishing levels of trust among citizens that make possible a whole range of social, political and economic transactions that would otherwise not be possible (Levi 2002:20). Critical to this task is its use of coercion to ensure that non-compliers are punished. As argued by Scholz (1998), no law can reshape behaviour without the backing of an effective enforcement agency. On the other hand, an effective enforcement agency does not deter each citizen from breaking the law but instead tries to provide a basis for trust by ensuring that non-compliers will be made to obey the law.

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<sup>8</sup> Personal interviews with representatives from the business community in Worcester, Western Cape (November 2000).

<sup>9</sup> Though liberation legitimacy may have a lengthy lifespan, it is not eternal, as history has shown in a number of other African countries

At the same time, agencies concerned with trust would minimise the use of ruthless enforcement techniques on trustworthy citizens and ensure that enforcement procedures are perceived by the broader public as reasonable, fair and in accordance with accepted standards of the society. Therefore, in the long run, trust-enhancing enforcement cannot be separated from legal processes and contents of the law, since trust-based compliance is dependent on long-term social gains that make up for compliance costs (Scholz 1998:163). With reference to service charges, this implies that factors expected to affect payment are the knowledge that basically all other people have to pay, that fair and reasonable enforcement mechanisms ensure that there is no way of avoiding payment, and that failure to pay will be punished with fines or eventually the cut-off of services.

The survey data support to some extent the proposition that the credibility of the enforcement mechanisms and the penalties imposed on defaulters affect citizens' compliance behaviour. Johnson (1999:60, Table 30) found that in Gauteng only 27% of the respondents believed that people who did not pay were worried about getting into trouble for not paying. The corresponding figure for other urban areas in the sample was about 50%. In addition to differences between geographical areas, the study also found differences between income and language groups. When comparing the responses of different income groups, a smaller share of the highest income group (47%) compared to the lowest income group (57%) said people would get worried (*ibid.*). Why? One possible explanation might be that the relatively more affluent households are more cynical about compliance. Moreover, a larger share of Xhosa-speakers (66%) said they believed non-payers were worried, compared to less than 40% respondents from other language groups (*ibid.* p. 61, Table 37). The difference between Xhosa and others may be due to the fact that Xhosa-speakers are more loyal to the government's policies on service delivery.<sup>10</sup>

The majority of the respondents did not consider the sanctions against those in arrears of payment to be credible. This might be due to the widespread practices of illegal connections to water and electricity supplies in many black and coloured areas.<sup>11</sup> In particular, the water account seems to be the easiest to cheat upon, partly because water authorities are unlikely to

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<sup>10</sup> In an analysis of data from a national survey of adult South Africans, Lieberman (2002) found that citizens' evaluations of their obligations to the state, including tax compliance, were largely conditioned by feelings of closeness or affinity towards other groups included in the state's definition of the national political community.

<sup>11</sup> See Fiil-Flynn (2001) and McDonald and Smith (2002) for more detailed accounts of re-connections after service cutoffs.

turn off the water completely (Johnson 1999:82). Informal reconnections are practiced in many townships when water and/or electricity are cut off by the municipality due to massive non-payment. For instance, when the electricity in the township of Katlehong in the East Rand was cut off in April 1997, the council discovered that about 80% of all households still had electricity (ibid. p. 15). According to some reports, syndicates in the East Rand carried out illegal reconnections for ZAR 50 flat payment. This was clearly a bargain for any household. Even if the reconnection was discovered, one was likely to get the benefit of far more than ZAR 50 worth of electricity in that time. With respect to water supply, a recent study in Cape Town found an illegal reconnection rate of 60% after cutoffs were implemented by the Tygerberg Municipality (McDonald and Smith, 2002).

Furthermore, the survey data indicate that ratepayers not only take into consideration the incentive structure of rate payment, including the credibility of sanctions against defaulters, but also the way enforcement is carried out in practice. Accordingly, the trustworthiness of the local government also seems to be a function of whether government agents trust or distrust those whom they are demanding co-operation and compliance from. The hostility of lower-level bureaucrats in the revenue administration seems to be particularly counterproductive.<sup>12</sup> Oppressive enforcement of service charges and harassment of ratepayers by collectors may, thus, induce non-payment which in turn may be interpreted as a strategy of public resistance and opposition against the authorities.<sup>13</sup>

While rarely used prior to 1994, service cutoffs have become a major enforcement mechanism and have been implemented by municipalities throughout South Africa (McDonald, 2002b: 169-170). For instance, in 1997 and 1998 many of the municipalities of Greater Johannesburg took tough action against non-payers (Johnson 1999). These measures included not only disconnection, but actually tearing electricity cables out of the ground to prevent illegal reconnections. Moreover, legal actions were instituted and property and buildings were seized of non-payers in an attempt to recover some of the payment arrears. This ruthless approach had some effect: by May 1998 ZAR 117 million had been recovered (ibid. p. 14). But

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<sup>12</sup> For example, Hardin (1996) argues that the professionalism and morality of public office holders can be an important source of political trustworthiness. Hence, to the extent that citizens and groups recognize that bureaucrats gain reputational benefits from competence and honesty, we may expect that those regulated will expect bureaucrats to be trustworthy and will act accordingly (Levi 1998). Therefore, it might be expected that a competent and relatively honest bureaucracy not only reduces the incentives for corruption and inefficient rent-seeking, but also increases the probability of co-operation and compliance.

although this draconian campaign achieved the objective of raising revenues in the short-run, it also encountered large-scale resistance.<sup>14</sup>

From the standard economic theory on compliance it would be expected that the more severe the sanctions perceived by ratepayers, the higher the compliance (Allingham and Sandmo 1972). Experiences from local authorities in South Africa points in the opposite direction: The more severe the sanctions observed, the more widespread the resistance to pay. The reason for this ‘perverse’ relationship may be due to reciprocity considerations.<sup>15</sup> The reciprocity argument leads to the proposition that the authorities’ unresponsive, disrespectful and unfair treatment of ratepayers foster disrespect for and resistance against local authorities and the service providing agencies - also a kind of reciprocation in kind.

The strength of the possible reciprocity effects on compliance behaviour probably depends on the ratepayers’ experiences with the local authorities and service providers (e.g., Eskom). Those who have been disconnected may have resentment against the authorities and develop a generalised normative response.<sup>16</sup> Those who have not had experience with the authorities may rely on the experiences of others and from their more general perceptions of the service charging system, and of how government officials treat citizens. Since these perceptions typically are less specific than personal experiences, their effects on compliance are likely to be primarily indirect through generalized normative commitments.

Resistance to pay, sometimes also take more violent forms. In Soweto there have been clashes between Eskom-officials and members of the Soweto Electricity Crisis Committee (SECC). On at least one occasion shots were fired, and Eskom-officials were reported wounded (*Focus*, Issue 25, 2002:14). In 1997, four people were killed in rates riots in Eldorado Park,

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<sup>13</sup> Fjeldstad (2001) discusses the impacts on state-society relations of coercive tax enforcement in local authorities in Tanzania.

<sup>14</sup> According to McDonald and Smith (2002), close to 100,000 households in Cape Town had their water cut-off for non-payment between 1996 and 2001. Fiil-Flynn (2001) reports that in Soweto up to 20,000 homes a month had their electricity cutoff by Eskomin early 2001.

<sup>15</sup> Sugden (1984) refers to the response of reciprocating behaviour as a “cross-societal norm of reciprocity: a norm both in the sense of a universal regularity and a moral responsibility”. The reciprocity norm evokes an obligation for individuals to make a concession to someone who has made a concession to them. Hessing *et al.* (1992) provide insights on the effects of deterrence on tax compliance based on experimental studies.

<sup>16</sup> According to a SABC Special Assignment documentary in 2001, accumulated total disconnections in Soweto were 58,000. Moreover, a citizens’ survey carried out in Soweto in August 2001 by the Municipal Services Project at the University Witwatersrand, found that more than 60% of the households interviewed had experienced cut-offs by Eskom during the past 12 months (Fiil-Flynn, 2001). Of the households experiencing

Johannesburg's largest coloured township (Cashdan 2002:161). In Kwa Thema, east of Johannesburg, three councillors' homes were burned down, and in Tembisa, residents destroyed thousands of pre-payment electricity meters (*ibid.*). Moreover, in 1998 in Tsakane on the East Rand, 30,000 non-payers stoned the police to prevent the seizure of their goods.

If the proposition on reciprocity is correct, it may contribute to explain the widespread non-compliance observed in some townships. Oppressive enforcement of service charges, including cut-offs and harassment by revenue collectors may induce non-compliance which in turn may be interpreted as a strategy of public resistance and opposition against the authorities. Fierce enforcement is considered to be a problem in many townships, not least by politicians. During election campaigns local government politicians usually deliver the message that rate collectors should relax on enforcement and not harass citizens. Hence, as the 1999 election approached, it was noticeable that such hard-line attempts to achieve payment ceased. According to Johnson (1999:14) this was because ANC mayors and councillors were under instruction "not to ruffle the electorate too much".

#### *4.3 Social influences*

The importance of social interactions in forming tastes and actions has long been stressed by sociologists and social psychologists (see, e.g., Hessing *et al.* 1988). It is reasonable to assume that human behaviour in the area of whether to pay service charges or not is influenced by social interactions much in the same way as other forms of behaviour. Compliance behaviour and attitudes towards the service charge system may, thus, be affected by the behaviour of an individual's reference group such as relatives, neighbours, friends and political associates. Consequently, we may reasonably argue that if a ratepayer knows many people in groups important to her who do not pay service charges, her commitment to comply will be weaker.<sup>17</sup> On the other hand, social relationships may also help deter non-payment. Individuals can be dissuaded from engaging in evasion out of fear of the social sanctions incurred should their action be discovered and revealed publicly (Grasmick and Green 1980; Grasmick and Scott 1982). Theoretical research on herd behaviour in economic situations

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cut-offs, 45% were without electricity for more than a month and 10% had their electricity cables removed permanently by Eskom (*ibid.*).

<sup>17</sup>One of the most consistent findings in survey research in Western countries about taxpayer attitudes and behaviour is that those who report compliance believe that their peers and friends (and taxpayers in general) comply, whereas those who report cheating believe that others cheat (see Yankelovich *et al.* 1984). Furthermore, it has been found that interpersonal networks act to reduce an individual's fear of governmental sanctions (Mason 1987).

(e.g., Banerjee 1992; Sah 1991) also indicates that social influences may affect compliance, in particular by affecting the perceived probability of detection and punishment. Hence, evidence suggests that perceptions about the honesty of others may play an important role in compliance behaviour.

Furthermore, evidence from behavioural science suggests that greater individual participation in the decision process will foster an increased level of compliance (Lewis *et al.* 1995; Hessing *et al.* 1988). This is partly because participation implies some commitment to the institution and such commitment in turn requires behaviour that is consistent in words and actions. Thus, we may expect that compliance is higher when ratepayers feel that they have a voice in the way their service charges will be spent, for instance, whether a share of the charges paid is retained in the local community. Another dimension by which social commitment may be affected by government actions is related to the level of popular support for the government. A government's lack of legitimacy almost by definition diminishes the moral justification for obeying its laws. In contrast, widespread support tends to legitimise the public sector, and may thus impose some social norm to pay rates.

The survey data supports the proposition that social influences may affect compliance. Three mechanisms seem to be important in this respect: Firstly, little stigma appears to be attached to non-payment in black and coloured communities. To the contrary, non-payment seems to be the 'norm' in some areas. Hence, the majority of the respondents in Gauteng believed that people who could not pay their rates and other service charges would *not* feel uncomfortable about admitting this to their neighbours (Johnson 1999:54). Moreover, only one third of the respondents in any of the major metropolitan areas believed that most of their neighbours were payers, a figure that rose to 44% in smaller towns (*ibid.* p. 85).

Secondly, less than half of the respondents in Gauteng believed that their political leaders really cared about whether people paid their rent and service charges, and an equal number believed they did not care (*ibid.* p. 50). Actually, some respondents believed that their leaders sympathised with those who did not pay (*ibid.* p. 51). Over 90% of the respondents in Gauteng believed that at least some of their councillors were unlikely to pay rates, and two-thirds of them believed that this was true of a substantial number. In contrast, 57% of the respondents in other cities believed that none of their councillors were likely to be non-payers. The corresponding figure for towns was 36% (Johnson 1999:52).

Thirdly, 76% of the respondents in Gauteng said they could not trust the people around them – compared to 58% in smaller towns and 44% in the other big cities. With respect to income, Johnson (1999:44) found only minor differences between income groups except for the very richest group which had a markedly more rosy view of community support than others. A high incidence of non-payment may, thus, encourage non-payment even by those who can afford to pay.

The interaction between social networks and overlapping collective activities may indeed in some instances, such as in Soweto with respect to electricity charges, provide a framework in which it is difficult to comply (i.e., to pay the charges) without provoking punishments from neighbours and other members of the community networks. In other cases, the situation may be reversed where the interaction between peer networks and collective activities provide a framework in which it is difficult to free ride due to community norms. Lieberman (2001), for instance, argues that the ‘culture of payment’ implanted in whites during apartheid, still survives, though most likely in a diluted form. He argues that in spite of the fact that many white South Africans are assumed to harbour deep reservations about majority rule, which might lead to reluctance to pay taxes (and service charges), they are expected to act in one way if they are guided by present sentiment, and quite another if they follow customs and past practice of their community. The same argument applies to their black counterparts, but with the opposite impact on compliance.

### ***5 Concluding remarks: How to produce trust in society and improve compliance?***

While acknowledging obvious weaknesses of an essentially exploratory study, I have argued in this paper that two dimensions of trust seem to affect citizens’ compliance behaviour with respect to payment of service charges in local authorities in South Africa. Firstly, the survey data analysed support the proposition that the trustworthiness of the revenue enforcement mechanisms and the penalties imposed on defaulters affect citizens’ compliance behaviour. However, in a number of cases the way the law is enforced and the severity of sanctions appear to have contributed to undermine trust in local authorities and fuelled resistance. This contradicts the standard economic theory, which tells us that the more severe the sanctions perceived by ratepayers, the higher the compliance expected. Observations from South Africa point in the opposite direction: The more severe the sanctions, the more widespread and

organised resistance to paying rates and charges. The reason for this ‘perverse’ relationship may be due to reciprocity considerations. The oppressive and uncompromising behaviour of service providers (e.g., Eskom) may actually have fostered resistance to pay and disrespect for the laws. Non-payment may, therefore, to some extent be interpreted as a strategy of public resistance and opposition against the authorities.

Secondly, trust in other citizens to pay their share seems to be important. The data support the proposition that social influences affect compliance. In particular, knowledge of the compliance behaviour of others seems to influence the perceived probability of being detected for non-payment. The larger the fraction of the local population that is observed not paying, the lower the perceived risk of being prosecuted. This has impacts on the individual ratepayer’s perception of the credibility and trustworthiness of the revenue administration. Moreover, the attitude of local political leaders with respect to payment seems to be important, e.g., by legitimising non-payment through their own behaviour. Furthermore, the interaction between social networks and overlapping collective activities may in some instances, such as in Soweto with respect to electricity charges, provide a framework in which it is difficult for individuals to pay their charges without provoking reactions from their non-paying neighbours and other members of the community.

The data analysed do not provide clear linkages between payment and service delivery, i.e., the fiscal exchange proposition. However, there seems to be a perception among the respondents that the quality of services has deteriorated in recent years. If this perception persists and is fortified, this may have impacts on future willingness to pay and lead to a further erosion of peoples’ trust in the government’s capacity to provide expected services.

The relevance of the fiscal exchange argument to explain compliance behaviour is, however, questioned by Hlope and Friedman (2002). They argue that for the majority of the population the South African government today earns its legitimacy because it is perceived as a liberator, and not by demonstrating a capacity to meet citizens’ instrumental needs. This argument may first and foremost apply to the national government, and less to lower levels of government. For instance, a survey carried out by IDASA (Taylor and Mattes 1998) found that local government was considered the sphere of government least receptive to citizens’ needs. Moreover, across a range of performance indicators – responsiveness, performance, corruption and trust – local governments in South Africa fared consistently worse than higher



levels of government. Harrison (2002:223) reports that in a series of surveys conducted in Gauteng, a minority of the respondents (less than 40%) believed that local government was interested in them. Furthermore, little trust was found within the communities. More than 70% of the respondents felt that most people were basically dishonest.

The low level of trust in many local communities may, as argued by Offe (1999: 54-55), lead to a vicious circle:

*“Those lacking resources (power, wealth, information) cannot afford to trust, as misplaced trust is feared to have disastrous consequences from which actors are incapable of protecting themselves through other means. So they have to spend the severely limited resources they actually have in highly trust-saving and inefficient ways – with the consequence of perpetuating their poverty. The apparent paradox is that those who are most in need of trust-based relations (because they have little else to rely upon) cannot afford the risk involved, while those who need it last enjoy it most.”*

How can local governments move from a low trust situation characterised by extensive non-payment and oppressive revenue enforcement, to a high trust situation where these problems, while existing, are much less severe? As argued by (Williams *et al.* 1995:18), institutions can be changed almost at will, but political memories are long and hence belief systems relatively entrenched. The majority of South Africans have very good reasons to be distrustful of their local government institutions. This is, by and large, an effect of the local authorities’ historical record of being untrustworthy. It may therefore not be the present formal local government institutions as such but the perceived history of how these institutions have acted that matters (see Bardhan 1997:1333). Hence, as North (1998:506) points out, while formal institutions can help to create trust, “it is the informal constraints embodied in norms of behaviour, conventions and internally imposed codes of conduct that are critical”. Apparently, without strong ethical norms against self-interested behaviour, the ‘rule of law’ cannot work as a trust-enhancing institution (Rothstein 2000:483).

In this perspective, a major challenge is to address the existence of a destructive trust within municipalities in South Africa. Conflicts between various groups in the local communities suggest that intimate knowledge of others does not always produce either trust or co-

operation, but can actually generate just the opposite. This observation suggests that government policies which reduce personal interdependencies on friends, family and neighbours and that facilitate exchange among strangers may actually increase trust in local communities under certain conditions (see Levi 2002:15). Thus, by increasing social rights and protection of the poorest segments of the population, the state can play an important role in eliminating risky, personal reliance on another. Moreover, local governments, by constraining their enforcement mechanisms, demonstrating fiscal rectitude and improving the equity of the service delivery system, may gain legitimacy and also enhance social trust among the population. The national government's policy of making service delivery its priority seems to reflect this approach. The two pillars of this policy are to enable local governments to (RSA 2001:131):

- make basic municipal services accessible to all citizens, and
- provide free basic services for poor citizens who cannot pay.

The policy documents stress that the challenge is foremost to ensure that poor households are the primary beneficiaries of the free services policy and associated resources. Since July 2001, every municipality in South Africa is supposed to provide minimum free 'lifeline' supply to households of 6000 litres of water and 50kWh of electricity per month (Pape, 2002:184).<sup>18</sup> However, in addition to the financial constraints, the risky dimension of this policy is due to the fact that affirmative action programmes and special dispensations may inflame those who do not receive the benefits (e.g., free services), and who consequently believe the government is acting unfairly toward them. In particular, this approach may upset segments of the white population who consider the black and coloured to be free riding on their compliance.

To improve service delivery it is of crucial importance to address the broader problem of free-riding (CDS 2001). Many people seem to be in a position to pay, but opt for non-compliance. This observation is also supported by survey data. According to Johnson (1999:73, Table 51), the majority of the respondents (85%-94%) believed that "if everyone else started paying"

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<sup>18</sup> Some observers have raised concerns with the manner in which this 'lifeline' policy has been designed and implemented. Firstly, it is argued that the quantity of the free services provided is too small (Pape, 2002:184). Secondly, since households are not means-tested to see if they qualify for the free services some middle- and upper-income households are benefiting more from the provision than poor households (McDonald, 2002a:28). Finally, there is the problem of delivering free services across the country, particularly in rural area (McDonald, 2002a:28-29).

this was the measure that would have most effect on altering non-payment. The respondents in Gauteng were more convinced about the positive effect of this measure than in other urban areas. However, as discussed above, the mechanisms for enforcing compliance are not indifferent for the outcome. For instance, the fierce and uncompromising way Eskom has approached non-payers in some townships, may actually have contributed to increase the resistance to by ratepayers. Hence, measures to improve the efficiency and effectiveness of the revenue administration are crucial. Relevant measures include improvements to the billing and accounting systems, establishing more accessible and efficient payment facilities, and strengthening the capacity to follow up cases of non-payment through fair and reasonable enforcement.

To summarise, a trust enhancing approach to improving payment of service charges might be based on the proposition that citizens are likely to perceive the local government as reciprocating their trust when they feel they are being treated with respect. Furthermore, as Rothstein (2000:496) points out, it is necessary for the stakeholders to have accurate information about 'the others', i.e., whether they will betray trust or whether they will be trustworthy. The problems of non-payment should therefore be attacked on several fronts, including service delivery, better administration and payment schemes, and community involvement. To achieve this, in depth knowledge and data are required on payment levels for each ward, the proportion of municipal accounts delivered, the number and type of complaints received, living conditions for the poorest segments of the population, including the elderly and unemployed, etc. Moreover, customer care must show that complaining will bring results. Citizens' should therefore be encouraged to report defaults such as leaking taps or streetlights not functioning. The prompt redress of such complaints may help convince people that the municipality means business. Furthermore, citizens' involvement in identifying problems and setting priorities may motivate a greater sense of community involvement. Initially, it might be advisable to link payment directly to visible improvements in services. Finally, the co-operation between local government officials, councillors and community leaders in setting common goals might be a crucial trust-enhancing device.

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# Summary

A major financial problem in many municipalities in South Africa is the inadequate collection of service charges due to widespread non-payment. The prevailing view is that non-compliance is caused by poverty and the existence of an 'entitlement culture'. However, huge variations in compliance exist both within poor communities and between communities with similar socio-economic characteristics. How can these differences be explained? Moreover, what factors determine citizens' compliance? This paper argues that non-payment is not only related to inability to pay and 'a culture of entitlement', but also to whether citizens perceive the local government to act in their interest. In particular, three dimensions of trust may affect citizens' compliance: (1) trust in the local government to use revenues to provide expected services; (2) trust in the authorities to establish fair procedures for revenue collection and distribution of services; and (3) trust in other citizens to pay their share.

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