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Assessing the Impact of Conditional Grant Under-Expenditure on Municipal Service Delivery and Sustainable Local Government in South Africa

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Abstract:

Conditional grants play a critical role in supporting the development and sustainability of local government and infrastructure provision in South Africa. However, over time, evidence has shown that municipalities are plagued by administrative inefficiencies that lead to under-expenditure and grant forfeitures, thereby negatively impacting service delivery. This paper adopted a qualitative research approach to examine the impact of conditional grant under-expenditure on municipal service delivery and sustainable local government in South Africa. The paper relied on secondary data from academic literature, government reports, Auditor-General findings, and policy documents. The findings revealed that weak administrative capacity, poor financial management, ineffective planning, governance deficiencies, and delays in project implementation contributed to the under-utilization of conditional grants, delaying the delivery of essential services such as water, sanitation, housing, roads, and electricity, thereby undermining social and environmental sustainability. The paper concluded that conditional grant under-expenditure is not merely a financial management problem, but a systemic governance and institutional challenge that undermines sustainable local government and developmental service delivery in South Africa. The study further recommends adopting an Integrated Municipal Conditional Grant Management Model to strengthen institutional capacity, governance accountability, expenditure performance, and intergovernmental coordination within municipalities.

Keywords:

Administrative Capacity, Financial Accountability, Fiscal Sustainability, Grants, Intergovernmental Fiscal Relations, Service Delivery.

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Introduction

Conditional grants constitute an important component of South Africa's intergovernmental fiscal system and are intended to support municipalities in delivering infrastructure and essential public services such as water, sanitation, electricity, roads, and housing. The National Treasury of South Africa allocates conditional grants to municipalities to address developmental inequalities, reduce infrastructure backlogs, and promote developmental local government through targeted financial support. Over the years municipalities have received grants such as the Municipal Infrastructure Grant (MIG), Human Settlements Development Grant (HSDG), and Urban Settlements Development Grant (USDG) as grants that are designed to improve the quality of life in poor communities and strengthen municipal service delivery (Oosthuizen & Thornhill, 2017; Manuel & Erasmus, 2024). However, despite this move, a significant number of municipalities across South Africa continue to experience persistent service delivery failures, infrastructure deterioration, and financial instability.

Moreover, reports indicate that many municipalities are unable to fully utilize allocated grants within prescribed timeframes, resulting in substantial under-expenditure and forfeiture of funds to the National Treasury. In the 2024 fiscal year alone, municipalities reportedly spent only 29.1% of their R44.1 billion direct conditional grant allocations, which led to the return of hundreds of millions of rand intended for essential infrastructure and services (Madubela, 2025). These reports further show that South African municipalities returned approximately R1 billion in unspent water infrastructure grants over a five-year period despite ongoing national water crises and severe infrastructure backlogs (Mabuza, 2026). More concerningly, this problem of under-expenditure in South African municipalities appears to be becoming systemic. This is exemplified by the Nelson Mandela Bay Metropolitan Municipality, which has repeatedly forfeited conditional grants due to severe underspending. In 2024, the municipality lost an estimated R542 million in grant funding after expenditure fell below 40% of allocated funding. This concern is also demonstrated by the eThekwini Metropolitan municipality, which forfeited nearly R1 billion in conditional grants between 2019 and 2023 due to delays in spending infrastructure and disaster recovery grants (Xulu, 2023; Ellis, 2026).

This ongoing forfeiture of conditional grants has negative implications for governance and sustainable service delivery, as communities that depend on municipal infrastructure projects are directly affected when grants intended for water, sanitation, roads, housing, and electrification are returned to the National Treasury. Delays in delivering these essential services not only weaken municipal performance but also undermine social and environmental sustainability by limiting equitable access to basic services, compromising public health, exacerbating infrastructure backlogs, and reducing the resilience of local communities. Currently, numerous studies focus on municipal finance and service delivery challenges in South Africa; however, few have specifically examined the relationship between conditional grant

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under-expenditure and sustainable local government. Existing studies focus on grant allocation and infrastructure financing, with less emphasis on how governance instability, administrative inefficiencies, weak procurement systems, and poor financial management undermine the developmental objectives of conditional grants (Maake, 2017; Moloto & Lethoko, 2018; Rangwato et al., 2022). Scholars in Public Administration argue that weak institutional capacity and ineffective accountability mechanisms continue to compromise municipal performance and infrastructure delivery (Kanyane, 2014; Thornhill, 2012; Oosthuizen & Thornhill, 2017). Therefore, this paper examines the impact of under-expenditure on conditional grants on municipal service delivery and sustainable local government in South Africa. This study contributes to the literature on municipal finance and local government by explaining conditional grant under-expenditure as a governance challenge and proposing an Integrated Municipal Conditional Grant Management Model to improve sustainable local government.

Literature Review

Theoretical Underpinning

This study is guided by Fiscal Federalism Theory and Systems Theory. These theories are suitable because the study examines both the financial transfer system between spheres of government and the internal municipal weaknesses that contribute to under-expenditure on conditional grants.

Fiscal Federalism

Fiscal Federalism as a theoretical model provides a primary theoretical foundation for this study because it explains the financial relationships between different spheres of government and the distribution of fiscal responsibilities in a decentralized governance system. This theory was founded by Richard Musgrave, who introduced the concept through his work on public finance and resource allocation. Through his seminal work Musgrave (1971) posits that national governments are responsible for macroeconomic stability and income redistribution, while local governments are responsible for delivering services that directly affect local communities. Over time, the model was refined by influential scholars such as Wallace Oates, Jonathan Rodden, Barry Weingast, and Anwar Shah (Oates, 1972; Oates, 1999; Rodden,2002; Weingast, 2009; Shah, 2007). This theoretical model primarily promotes the notion of decentralization, which refers to the transfer of financial and administrative responsibilities from the national government to lower levels of government (Shah, 2007). The model assumes that local governments are more responsive to local needs because they operate closer to communities (Oates, 1999). The second aspect is that the model promotes intergovernmental fiscal transfers, where national governments allocate resources to subnational governments to support development and public service delivery (Musgrave, 1971). In the context of this study, this is reflected through the conditional grants,

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which are an example of such transfers because they are allocated to municipalities for specific developmental purposes such as infrastructure and service delivery.

Thirdly, this theoretical approach emphasizes efficiency and accountability in public expenditure. Local governments are expected to utilize allocated resources effectively to improve service delivery outcomes and promote development (Rodden, 2002). Moreover, this model rests on the assumption that local governments understand community needs better than national governments; decentralization is fundamental in ensuring efficiency and responsiveness in service delivery. However, it is also important to note that these assumptions have been met with heavy criticism from contemporary scholars who believe that weak governance and institutional inefficiencies often undermine decentralized systems. For example, Rodden (2002) argues that excessive reliance on grants without robust accountability mechanisms may foster inefficiency and weak fiscal discipline. In this context, Oates (2005) argues that decentralization may fail when local governments lack administrative capacity and effective financial management systems. Some of the major debates in the body of knowledge on Fiscal Federalism are on whether decentralization improves service delivery and governance outcomes. Scholars who are for argue that decentralization promotes efficiency, responsiveness, and local participation (Oates, 1999). However, scholars on the opposite side argue that decentralization may worsen governance challenges where municipalities lack technical skills, institutional stability, and accountability systems (Rodden, 2002; Tanzi, 2008). These conversations have escalated to aspects such as reliance on intergovernmental transfers. As some scholars believe that over-reliance on conditional grants may reduce municipal financial independence and weaken incentives for municipalities to improve revenue generation and financial management (Rodden, 2006). Others argue that conditional grants may create bureaucratic inefficiencies due to strict spending conditions and reporting requirements (Shah, 1998). These conversations are relevant to South Africa because many municipalities continue to experience under-expenditure, grant forfeitures, and service delivery failures despite receiving substantial financial transfers from the National Treasury (Wehner, 2000; Oosthuizen & Thornhill, 2017).

This theoretical model and the debates thereof have shaped the existence of theories such as Second-Generation Fiscal Federalism, Decentralization Theory, and Intergovernmental Relations Theory, which strengthen knowledge on how governance systems and institutional arrangements influence municipal financial management and service delivery outcomes. This theory is relevant in South Africa because the country operates under a decentralized governance structure comprising national, provincial, and local spheres of government (Wehner, 2000). The South African Constitution recognizes local government as a distinct sphere responsible for delivering essential services and promoting developmental local government (Calitz & Essop, 2013). In the same context, municipalities receive conditional grants, such as the Municipal Infrastructure Grant (MIG), the Urban Settlements Development Grant (USDG), and the Human Settlements Development Grant (HSDG), to finance

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infrastructure and developmental projects (Oosthuizen & Thornhill, 2017). However, persistent under-expenditure and the forfeiture of these grants by municipalities such as Nelson Mandela Bay, eThekwini, and Tshwane metropolitan municipalities raise important questions about the effectiveness of fiscal decentralization and municipal governance. Lastly, this model plays a critical role by providing a framework for understanding why municipalities receive conditional grants, the developmental purpose of intergovernmental transfers, and how failures in municipal expenditure affect service delivery and sustainable local governance. The paper uses Fiscal Federalism Theory to argue that although conditional grants are intended to improve infrastructure development and municipal service delivery, weak governance systems, administrative inefficiencies, and poor financial management continue to undermine the effectiveness of South Africa's intergovernmental fiscal system.

Systems Theory

The study uses systems theory as a complementary theoretical foundation for this study because it explains how organizations function as interconnected systems whose components depend on one another for effective performance. This theory was founded by Ludwig von Bertalanffy through the development of General Systems Theory during the 1940s and 1950s (Von Bertalanffy, 1972). Systems Theory was later refined and expanded by scholars such as Johnson, Kast, and Rosenzweig (1964), Luhmann (2013), and Poole (2014), who applied systems thinking to management, organizations, governance, and communication systems. The model argues that organizations operate as complex systems consisting of interconnected subsystems that influence one another (Whitchurch & Constantine, 1993).

In addition, Johnson et al. (1964) contend that a system can function effectively only when all components work together in a coordinated, integrated manner. This means that failure in any component of the system negatively affects the entire organization. In the context of municipalities, systems such as financial management, procurement, governance, planning, project implementation, technical capacity, and accountability are interconnected and collectively influence service delivery outcomes. This model is grounded in interdependence as a core pillar, suggesting that all parts of an organization rely on one another for effective functioning (Lai & Lin, 2017). Another principle is holism, which argues that organizations should be understood as complete systems rather than isolated units (Whitchurch & Constantine, 1993). The theory further emphasizes adaptability, which means that systems must continuously adjust to internal and external changes to survive and remain effective (Stichweh, 2010). Lastly, Systems Theory emphasizes feedback mechanisms, where information and performance outcomes are continuously monitored to improve organizational effectiveness (Poole, 2014). This theory assumes that weaknesses in one subsystem affect the entire organization. and institutional effectiveness depends on cooperation, communication, and accountability between different components of the system (Johnson et al., 1964; Bertalanffy, 1972).

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Like other theoretical models, this theory has been criticized in the past, with some scholars arguing that it focuses heavily on system stability and coordination while paying less attention to issues such as power relations, political conflict, corruption, and inequality in institutions (Luhmann, 2013). Others argue that organizations may not always operate rationally as systems because political interference and administrative instability often disrupt coordination and efficiency. Despite these perspectives, this theory remains relevant in public administration studies because it provides a framework for understanding how institutional weaknesses affect organizational performance. In South Africa, municipalities operate through interconnected governance and administrative systems that include budgeting, procurement, infrastructure planning, financial management, project implementation, and political oversight. Moreover, this theory is relevant to South Africa because many municipalities continue to experience administrative inefficiencies, weak procurement systems, governance instability, lack of technical capacity, and ineffective accountability mechanisms. These challenges contribute to under-expenditure on conditional grants and delays in infrastructure development. Municipalities such as Nelson Mandela Bay, eThekwini, and Tshwane demonstrate how weaknesses in municipal systems contribute to grant forfeitures and poor service delivery. Importantly, the theory allows the study to examine how poor planning, weak governance, procurement delays, lack of skilled personnel, ineffective financial management, and weak accountability mechanisms interact to produce under-expenditure and service delivery failures. Lastly, Systems Theory helps the study to advance the notion that conditional grant under-expenditure is not caused by a single factor, but rather by interconnected institutional and governance weaknesses in municipal systems.

Methods and Data

Research Approach

This study adopted a qualitative research approach to examine the impact of conditional grant under-expenditure on municipal service delivery and sustainable local government in South Africa. A qualitative approach was considered appropriate because it facilitated an in-depth understanding of governance challenges, institutional weaknesses, financial management practices, and service delivery outcomes within municipalities. Furthermore, it facilitated the interpretation of complex intergovernmental fiscal relations and administrative processes by analyzing existing literature, policy documents, government reports, and documented municipal experiences.

Research Design

The study employed a Narrative Literature Review (NLR) as its primary research design. According to Rother (2007), a narrative literature review provides a descriptive and critical discussion of existing literature by examining, interpreting, and synthesizing scholarly arguments, empirical findings, policy

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debates, and theoretical perspectives relating to a particular research topic. Unlike systematic literature reviews, which follow rigid methodological procedures and statistical synthesis, narrative reviews allow researchers to interpret, analyze, and synthesize literature thematically and contextually, thereby providing greater flexibility in examining complex social and governance issues (Ferrari, 2015). The Narrative Literature Review was considered appropriate for this study because it examined complex governance, municipal finance, institutional capacity, and service delivery challenges associated with conditional grant under-expenditure in South African municipalities. Narrative reviews are widely used in Public Administration because they enable researchers to critically engage with governance issues, institutional dynamics, policy implementation challenges, and public sector performance (Baumeister & Leary, 1997). The approach also facilitated the identification of recurring patterns, contradictions, and gaps in the existing literature while supporting the development of conceptual and analytical arguments regarding the causes and consequences of conditional grant under-expenditure and its implications for sustainable local government. The flexibility of the Narrative Literature Review enabled the integration of evidence from diverse secondary sources, including peer-reviewed journal articles, government publications, Auditor-General South Africa reports, National Treasury documents, parliamentary reports, policy documents, and contemporary municipal case studies. This comprehensive synthesis provided a contextual understanding of the governance, institutional, and financial management factors influencing conditional grant expenditure and municipal service delivery in South Africa.

Data Collection

The study relied on secondary data from academic journal articles, books, government reports, Auditor-General findings, National Treasury publications, parliamentary discussions, policy documents, and media reports on municipal conditional grant expenditure and service delivery in South Africa. The use of secondary data was appropriate because it provided access to existing empirical evidence, governance reports, and documented municipal experiences relating to grant under-expenditure and service delivery failures.

Literature Search Strategy

To improve the transparency of the review process, a structured literature search was undertaken to identify relevant secondary sources. Literature was retrieved from Google Scholar and official publications produced by South African public institutions, including the National Treasury, Auditor-General South Africa (AGSA), the Government Technical Advisory Centre (GTAC), and the Parliament of the Republic of South Africa. Additional sources were identified through reference lists of relevant publications and included peer-reviewed journal articles, doctoral dissertations, policy documents, and documented municipal case studies.

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The search employed combinations of the following keywords: conditional grant under-expenditure, municipal conditional grants, Municipal Infrastructure Grant, municipal finance, municipal service delivery, municipal governance, fiscal federalism, intergovernmental fiscal relations, municipal financial management, sustainable local government, and South African municipalities.

The review considered literature published between 1971 and 2026, thereby capturing both the foundational theoretical literature and contemporary scholarship on municipal governance and conditional grant expenditure. Greater emphasis was placed on literature published between 2015 and 2026 to ensure that the review reflected recent developments in municipal financial management, governance, and service delivery. The inclusion criteria comprised peer-reviewed journal articles, academic books, doctoral dissertations, government reports, Auditor-General South Africa reports, National Treasury publications, parliamentary documents, policy documents, and municipal case studies that examined conditional grants, municipal finance, governance, institutional capacity, or service delivery in South Africa. Sources were excluded where they duplicated existing evidence, lacked relevance to the objectives of the study, or did not contribute to understanding conditional grant under-expenditure and sustainable local government.

Data Analysis

Data was analyzed through thematic analysis and document analysis. Thematic analysis enabled the researcher to identify recurring themes in the literature, such as administrative inefficiencies, weak governance, financial mismanagement, procurement delays, accountability challenges, and service delivery failures. Document analysis further enabled the interpretation of policy documents, Treasury reports, Auditor-General findings, and municipal case studies relating to conditional grant expenditure.

Ethical Considerations

The study relied exclusively on publicly available secondary data and therefore did not involve human participants. All sources used in the study were properly acknowledged through academic references to ensure credibility, transparency, and avoidance of plagiarism.

Results and Discussion

This section presents and discusses the findings of the Narrative Literature Review. The reviewed literature was synthesized thematically to examine the relationship between conditional grant under-expenditure, governance, institutional capacity, municipal financial performance, service delivery, and sustainable local government in South Africa. The discussion highlights the major factors contributing to under-expenditure and examines their implications for municipal governance, infrastructure development, and sustainable service delivery.

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Conditional Grants, Intergovernmental Fiscal Relations, and Municipal Service Delivery

Conditional grants are an important aspect of intergovernmental fiscal relations across both developed and developing governance systems. On a global scale, intergovernmental fiscal transfers are used to reduce regional inequalities, improve infrastructure, and support decentralized governance through fiscal decentralization. Musgrave (1971) argued that fiscal transfers are necessary because lower levels of government often lack sufficient revenue capacity to provide public goods and services independently. This notion is supported by Oates (1999), who argues that decentralization improves allocative efficiency because local governments are positioned closer to communities and are therefore more responsive to local developmental needs. In South Africa, conditional grants are a critical component of the intergovernmental fiscal system and are intended to support developmental local government through infrastructure financing and targeted service delivery interventions. This notion is reinforced by the views of Oosthuizen and Thornhill (2017), who argue that conditional grants were introduced to address infrastructure backlogs, reduce developmental inequalities, and improve municipal service delivery outcomes. Grants such as the Municipal Infrastructure Grant (MIG), Human Settlements Development Grant (HSDG), and Urban Settlements Development Grant (USDG), therefore, became important instruments for financing local government development and infrastructure expansion.

Studies conducted in South Africa have reached a consensus that conditional grants are important for municipal service delivery in financially distressed municipalities with weak internal revenue-generating capacity. This is exemplified by De Visser (2023), who argues that many South African municipalities remain structurally dependent on intergovernmental transfers because local revenue sources are insufficient to sustain infrastructure investment and basic service delivery obligations. This is also echoed in the work of Manuel and Erasmus (2024), who contend that municipalities with limited tax bases rely heavily on conditional grants to finance developmental projects and maintain infrastructure systems. These arguments demonstrate that conditional grants are not merely supplementary funding mechanisms but rather central instruments that sustain municipal governance and infrastructure development in South Africa. Other studies also demonstrate that grants such as the Municipal Infrastructure Grant contribute significantly to infrastructure expansion and improved access to basic services. Singo (2012), in a study focusing on Tshwane, found that conditional grants contribute positively to sustainable service delivery and improved quality of life where expenditure systems function effectively. In the same way, Matabane (2017) found that the Municipal Infrastructure Grant improved access to basic services in poorer rural municipalities, such as water and sanitation infrastructure. These findings reinforce the developmental importance of conditional grants in South Africa's local government system.

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In addition, while conditional grants are intended to promote developmental local government, municipalities frequently struggle to utilize allocated funds effectively due to administrative inefficiencies, governance instability, and institutional capacity limitations. Munzhedzi (2022) argues that excessive top-down control in South Africa's intergovernmental relations system may weaken municipal ownership and responsiveness, which contributes to delays in implementation and poor expenditure performance. However, other scholars caution that stronger national oversight remains necessary, as weak accountability systems in municipalities may lead to financial mismanagement and ineffective service delivery. This disagreement reflects broader debates of fiscal federalism on the balance between decentralization, accountability, and institutional capacity. The literature, therefore, demonstrates that conditional grants remain central to developmental local government and municipal infrastructure delivery in South Africa. However, persistent governance weaknesses, expenditure failures, and institutional instability increasingly undermine the effectiveness of intergovernmental fiscal transfers in achieving sustainable service delivery outcomes. Although substantial literature exists on fiscal decentralization and municipal finance, few studies critically examine how persistent under-expenditure on conditional grants undermines sustainable local government and developmental governance in South African municipalities. Existing literature discusses municipal finance, service delivery, and governance challenges in isolation, with limited integration of these issues into a broader analysis of under-expenditure on conditional grants and municipal sustainability. From the perspective of Fiscal Federalism Theory, these perspectives demonstrate that conditional grants are intended to promote fiscal decentralization by enabling municipalities to deliver infrastructure and essential public services that address local development needs.

Under-Expenditure, Conditional Grant Forfeitures, and Municipal Financial Performance

Under-expenditure of conditional grants has become a common challenge in municipal financial performance and infrastructure delivery in South Africa. Although conditional grants are designed to improve developmental local government and support infrastructure projects, many municipalities continue to fail to spend allocated funds in prescribed financial periods. According to the National Treasury (2015), all unspent conditional grants revert to the National Revenue Fund in terms of the Division of Revenue Act (DoRA), which reinforces the "use it or lose it" principle. This is exemplified by the forfeiture of approximately R3.8 billion in unspent conditional grants between the 2012/13 and 2014/15 financial years, due to weak expenditure performance and implementation failures. Existing studies argue that under-expenditure is due to weak planning systems, procurement delays, institutional instability, and poor project implementation capacity. Maake (2017) found that poor project readiness and procurement inefficiencies contributed significantly to unspent Municipal Infrastructure Grant (MIG) allocations. This is also captured in the work of Rangwato et al. (2022), who argue that weak financial

management and administrative inefficiencies continue to undermine municipal expenditure performance and infrastructure delivery. This is also confirmed by government reports, which show that several municipalities continue to underperform in infrastructure grant expenditure despite increasing service delivery demands. Along with these reports, the National Treasury (2025) reported that several infrastructure grants performed below 40% expenditure levels during the 2024/25 financial year, while the Government Technical Advisory Center (GTAC, 2025) identified procurement delays, weak planning, and inadequate technical capacity as major contributors to under-expenditure. The effects of under-expenditure are visible in municipalities such as Nelson Mandela Bay and eThekwini. Studies show that Nelson Mandela Bay forfeited approximately R1.2 billion in conditional grants due to persistent underspending and governance instability, while eThekwini faced the suspension and possible forfeiture of infrastructure and disaster recovery grants due to procurement delays and poor expenditure performance (Pegram, 2026; Naidoo, 2023). These cases demonstrate that persistent under-expenditure delays infrastructure projects, weakens municipal financial sustainability, and undermines developmental service delivery. Although the existing literature discusses municipal finance and infrastructure expenditure, few studies critically examine how recurring conditional-grant forfeitures undermine sustainable local government and long-term municipal resilience. The literature, therefore, reveals a need for further research examining the relationship between under-expenditure on conditional grants, governance failures, and sustainable municipal service delivery in South Africa (Moloto & Lethoko, 2018; Manuel & Erasmus, 2024). These findings support Fiscal Federalism Theory by demonstrating that although conditional grants are intended to improve local development through intergovernmental fiscal transfers, their effectiveness is undermined when municipalities lack the administrative and financial capacity to utilise allocated resources efficiently.

Administrative Inefficiencies, Institutional Capacity, Governance, and Political Instability

Administrative inefficiencies, weak institutional capacity, governance failures, and political instability remain among the most significant factors that contribute to conditional grant under-expenditure and poor municipal performance in South Africa. Studies suggest that municipalities struggle to effectively utilize conditional grants due to weak procurement systems, poor planning, inadequate technical capacity, financial mismanagement, and unstable governance structures. These institutional weaknesses often delay infrastructure implementation, weaken expenditure performance, and undermine municipal service delivery outcomes. Studies identify procurement and project management failures as major contributors to under-expenditure in municipalities. For instance, Maake (2017) found that poor project readiness, weak planning, and procurement delays contributed significantly to unspent Municipal Infrastructure Grant allocations. This is supported by Rangwato et al. (2022) who argue that weak financial management systems and administrative inefficiencies negatively affect infrastructure

implementation and expenditure performance. Government reports further confirm that municipalities continue to experience delays in procurement processes and infrastructure implementation due to weak institutional systems and inadequate administrative coordination (GTAC, 2025).

On the other hand, Institutional capacity limitations also undermine municipal performance and service delivery. Oosthuizen and Thornhill (2017) argue that municipalities often lack the technical and administrative capacity necessary to effectively manage infrastructure projects and conditional grant expenditure. Additionally, Enaifoghe (2022) found that shortages of skilled personnel, weak municipal administration, and ineffective governance systems significantly contribute to declining service delivery performance in South African municipalities. Marawu and Utete (2026) also argue that municipalities' lack of political and administrative capacity negatively affects governance effectiveness and municipal service delivery. These institutional weaknesses are linked to declining state capacity and ineffective local governance systems. Governance failures and weak accountability mechanisms also intensify municipal expenditure challenges. Auditor-General South Africa (2025) reports identify irregular expenditure, weak internal controls, poor financial oversight, and inadequate accountability systems as recurring challenges affecting municipalities. Kanyane (2014) also argues that weak governance and failures of accountability contribute significantly to declining municipal performance and to service delivery protests across South Africa. Mamokhere (2022) further contends that corruption, political-administrative interference, institutional instability, and weak governance systems collectively undermine municipal service delivery and institutional effectiveness. These findings suggest that persistent under-expenditure cannot be separated from broader governance and financial management failures in municipalities. Moreover, political instability also emerged as a major factor that undermines municipal governance and expenditure performance. Tsagae (2023) argues that political instability disrupts government institutions, weakens governance continuity, and negatively affects local government efficiency and service delivery. Mboneni (2023) found that political instability and unstable political-administrative relations significantly contributed to ineffective service delivery in local municipalities. Studies on Nelson Mandela Bay indicate that governance instability and political disruptions contributed significantly to persistent under-expenditure and infrastructure delays (Pegram, 2026). In the same vein, governance and procurement instability in eThekwini delayed infrastructure and disaster recovery expenditure (Naidoo, 2023). These cases demonstrate how political instability weakens institutional coordination, expenditure management, and municipal service delivery outcomes. Although the existing literature extensively discusses governance failures, institutional capacity challenges, and political instability in municipalities, few studies examine how these interconnected factors collectively contribute to under-expenditure on conditional grants and unsustainable local government. The findings strongly reinforce the assumptions of Systems Theory, which argues that organizational performance depends on the effective interaction of interconnected components.

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Administrative inefficiencies, governance failures, political instability, and weak accountability do not operate independently but collectively undermine municipal performance and expenditure outcomes.

Conditional Grant Under-Expenditure, Sustainable Local Government and Community Service Delivery Outcomes

Under-expenditure on conditional grants has significant implications for sustainable local government and community service delivery outcomes in South Africa. Sustainable local government speaks to municipalities' ability to continuously provide reliable basic services, maintain infrastructure, ensure sound financial management, and promote long-term developmental governance. However, persistent under-expenditure and grant forfeitures undermine municipal sustainability by delaying infrastructure development, which weakens institutional performance and reduces public confidence in local government institutions. Importantly, the effects of this under-expenditure are visible in communities that depend on municipal infrastructure projects and public services. Persistent underspending delays the implementation of projects relating to water provision, sanitation, roads, electricity, and housing infrastructure. Government reports indicate that several municipalities continue to experience infrastructure deterioration and poor service delivery outcomes despite receiving conditional grant allocations (South African Government News Agency, 2025). In municipalities such as Nelson Mandela Bay and eThekwini, recurring grant forfeitures and expenditure delays negatively affected infrastructure implementation and service delivery performance (Pegram, 2026; Naidoo, 2023). These challenges affect community livelihoods, public trust, and the quality of life of residents who depend on municipal services.

Studies suggest that declining municipal sustainability is closely associated with governance instability, administrative inefficiencies, and weak accountability systems. Firstly, Kanyane (2014) argues that poor governance and weak institutional performance contribute significantly to declining public trust and recurring service delivery protests in South Africa. Secondly, Mamokhere (2022) argues that corruption, institutional instability, and ineffective governance systems continue to undermine municipal resilience and the effectiveness of service delivery. These findings demonstrate that sustainable local government cannot be achieved without effective governance systems, institutional capacity, and accountable financial management. Although literature exists on municipal sustainability and service delivery challenges, only few studies specifically examine how under-expenditure on conditional grants undermines long-term municipal resilience and sustainable local government development. he findings demonstrate that sustainable local government cannot be achieved through financial transfers alone. Fiscal Federalism Theory suggests that decentralized funding mechanisms are effective only when municipalities possess the institutional capacity and governance systems necessary to manage public resources efficiently.

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Conclusion

This study critically examined the impact of under-expenditure on conditional grants on municipal service delivery and sustainable local government in South Africa through a Narrative Literature Review approach. The review revealed that although conditional grants remain an important instrument in South Africa's intergovernmental fiscal system, many municipalities continue to experience persistent under-expenditure, grant forfeitures, governance instability, and institutional inefficiencies. These challenges undermine infrastructure development, weaken municipal financial sustainability, and negatively affect community service delivery outcomes. The findings also demonstrated the relevance of Fiscal Federalism Theory and Systems Theory in understanding municipal grant under-expenditure. The study concludes that improving municipal expenditure performance requires more than increased financial allocations. Sustainable local government depends on effective governance systems, institutional stability, skilled administrative capacity, accountability mechanisms, integrated planning, and strengthened intergovernmental coordination. The study therefore recommends adopting an Integrated Municipal Conditional Grant Management Model to strengthen expenditure performance, governance accountability, and sustainable service delivery in South African municipalities.

Recommendation



Figure 1: Integrated Municipal Conditional Grant Management Model

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Statements

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Conflict of Interest Statement

The authors declare that there are no conflicts of interest regarding the publication of this paper.

Data Availability Statement

The data used in this study were obtained from publicly accessible academic literature, government publications, Auditor-General reports, National Treasury reports, parliamentary documents, and institutional publications cited throughout the paper.

Disclaimer

The views expressed in this paper are those of the authors and do not necessarily reflect the official position of the University of Fort Hare or any affiliated institution.

Ethical Clearance Statement

The study relied exclusively on publicly available secondary data, including academic literature, government reports, policy documents, and Auditor-General findings. Therefore, no human participants were involved, and formal ethical clearance was not required.

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