



The role of local governance in achieving political stability: A joint public-private effort towards sustainable development

By Pranish Desai, Monique Bennett and Christine Dube

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Executive Summary

In a recent address to newly elected mayors, South African President Cyril Ramaphosa stated that deficiencies in local government have had a “direct and material impact on economic growth”.¹ These governance failings also pose a risk to political stability and therefore have significant implications for businesses and the investor community:

- Good Governance Africa’s 2021 Governance Performance Index (GPI)² reveals that municipalities across South Africa’s nine provinces struggle with two essential aspects of governance – administration and service delivery provision.
- Citizens in better-run municipalities consistently vote at higher rates in national and local elections, enhancing accountability. In turn, better-run municipalities also do better on development indicators such as poverty reduction.
- Concerningly, worse-performing municipalities are more prone to political instability, with these areas experiencing substantively higher proportions of rioting.
- As the social unrest of July 2021 showed, such disruptive events pose a risk to both immediate and long-term business interests especially those with operations in high-density urban areas.

- Mitigating these risks requires businesses and investors to play a critical role as long-term development partners who help municipalities build institutional capacity.
- In our case study on the Greater Kokstad local municipality, we found that the existing public-private partnership legislation does not adequately encourage municipalities to undertake collaborative partnerships with the private sector.
- Effectively supporting local governments to find solutions is a key channel through which businesses can demonstrate that they take Environmental, Social and Governance (ESG) performance seriously.³

Call to Action

Companies with operations in ailing municipalities can only secure the long-term future of their investments if they are proactive in helping to improve governance within these municipalities. In particular, the private sector should focus on helping to enhance administrative capacity and service delivery supply chains in municipalities located in rural areas.

1 Ramaphosa, C. (2022). “Keynote address at the SALGA Council of Mayors.” East London International Convention Centre. September 08, 2022. Available: <https://www.thepresidency.gov.za/speeches/keynote-address-president-cyril-ramaphosa-salga-council-mayors%2C-east-london-international-convention-centre>

2 Good Governance Africa. (2021a). “Governance Performance Index – South Africa 2021”. Available: <https://gga.org/governance-performance-index/>

3 Good Governance Africa. (2021b). “Greenwashing under growing regulatory scrutiny”. Available: <https://gga.org/intelligence-report-greenwashing-under-growing-regulatory-scrutiny/>

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Impact

- Political instability, lower levels of democratic accountability, and uneven development in weaker municipalities represent a hazard to business sustainability for companies operating in these areas.
- The social upheaval of July 2021 was a clear demonstration of the immediate effect of inadequate governance, as hundreds of businesses were deemed irrecoverable, and the overall economy lost billions of dollars.⁴
- Over the long term, the multiplier effect comes into play as a weak economy will further strain South Africa's already limited tax base. At the same time, global inflationary pressures and a depreciating currency have induced the Reserve Bank to hike interest rates, further reducing the country's attractiveness to investors.

Recommendations

Improving local governments' performance is vital because it is the governance sphere that is closest to local communities, local businesses, and local economic activities. It is in the best interest of companies operating in municipalities to play an active role in ensuring that their host municipalities can effectively deliver services, maintain infrastructure and plan for the future, thereby catalysing sustainable development. This will not only benefit municipalities and businesses but communities at large. In the interest of good local governance, we recommend the following:

- Parliament and the Department of Co-Operative Governance & Traditional Affairs should review relevant local government legislation to enable the private sector to adopt a more proactive and collaborative approach in dealing with local authorities.
- In line with Chapter 13 of the National Development Plan's (NDP) call for the professionalisation of the public service to prevent the politics of patronage, incumbency, and personal accumulation⁵, the state should prioritise efforts to depoliticise local public services and institutionalise professionalism at all levels of government.
- Linked to this, national government and provincial governments must ensure that adequate infrastructure exists in local municipalities. The focus should be on ensuring supply capacity for water and sanitation services, with municipalities then assigned the responsibility of maintaining this infrastructure.
- While the enhanced powers of the office of the Auditor General of South Africa (AGSA) demonstrate confidence in public accountability, there needs to be recourse, either punitive or remedial, for repeated material irregularities in local government financial management.
- The private sector can help to build administrative and financial capacity at the municipal level by sponsoring training for municipal staff through workshops with a focus on best practices in financial reporting and infrastructure management.⁶
- The state needs to expand the capacity of law enforcement structures at the local level to deal with both coordinated and un-coordinated forms of disruption. This should encompass investment in effective training for the police and intelligence services on how to better manage crowds.
- To foster better relationships between law enforcement officials and the communities they serve, the private sector can help fund community policing forums with representation assigned to both parties.
- To address youth unemployment, businesses can budget for internships and apprenticeships. Municipalities can gather and disperse information about these opportunities and use their communication departments to encourage young people to apply for these opportunities.
- To increase the uptake of Public Private Partnerships (PPP), the government should prioritise simplifying the legislative framework, increasing time-frame horizons beyond three years, and providing resources to enhance the management of PPPs at the municipal level.

4 Ngqwala, Sixolile. (2021). "The after effects of South Africa's unrest and its meaning for the economy". Good Governance Africa. <https://gga.org/the-after-effects-of-south-africas-unrest-and-its-meaning-for-the-economy/>

5 South African Government. (2014). "National development Plan 2030." Available: https://www.gov.za/sites/default/files/gcis_document/201409/devplan2.pdf

6 The private sector can enable stronger institutional capacity at the local municipal level. However, it remains critical that the private sector does not simply replace local government or do its job for them, as this would further entrench the systemic problems. To the contrary, correctly designed partnerships can aid mutual benefit that does not conflate rightful roles and responsibilities in the long run.

Analysis

Political stability is a key determinant of an improved investment climate, not least because of the risk that uncertainty poses to both the overall economy and day-to-day business operations.⁷

However, within the South African context, there is a dearth of analysis pertaining to how poor governance breeds instability and in turn an unfavourable investment climate at the level of local municipalities.

It is GGA's considered view that this gap must be filled, especially in the wake of the Expert Panel Report on the July 2021 civil unrest, which noted that deficiencies in local governance capacity were a key reason behind the extent of disruption caused.⁸

The Governance Performance Index (GPI)

The GPI is a scoring and ranking instrument that GGA crafted to provide a clear picture of the state of local government effectiveness in South Africa. The most recent report⁹ was published in October 2021, ahead of local elections. It scored South Africa's local municipalities on 17 indicators in 3 governance categories: Administration, Planning & Monitoring and Service Delivery provision.

Figure 1 maps the performance of South Africa's 205 local municipalities on the 2021 index.¹⁰ The data used in creating the indicators was collected between 2016 and 2021.

Recognising that Chapter 7 of South Africa's Constitution¹¹ identifies service delivery as the core responsibility of local

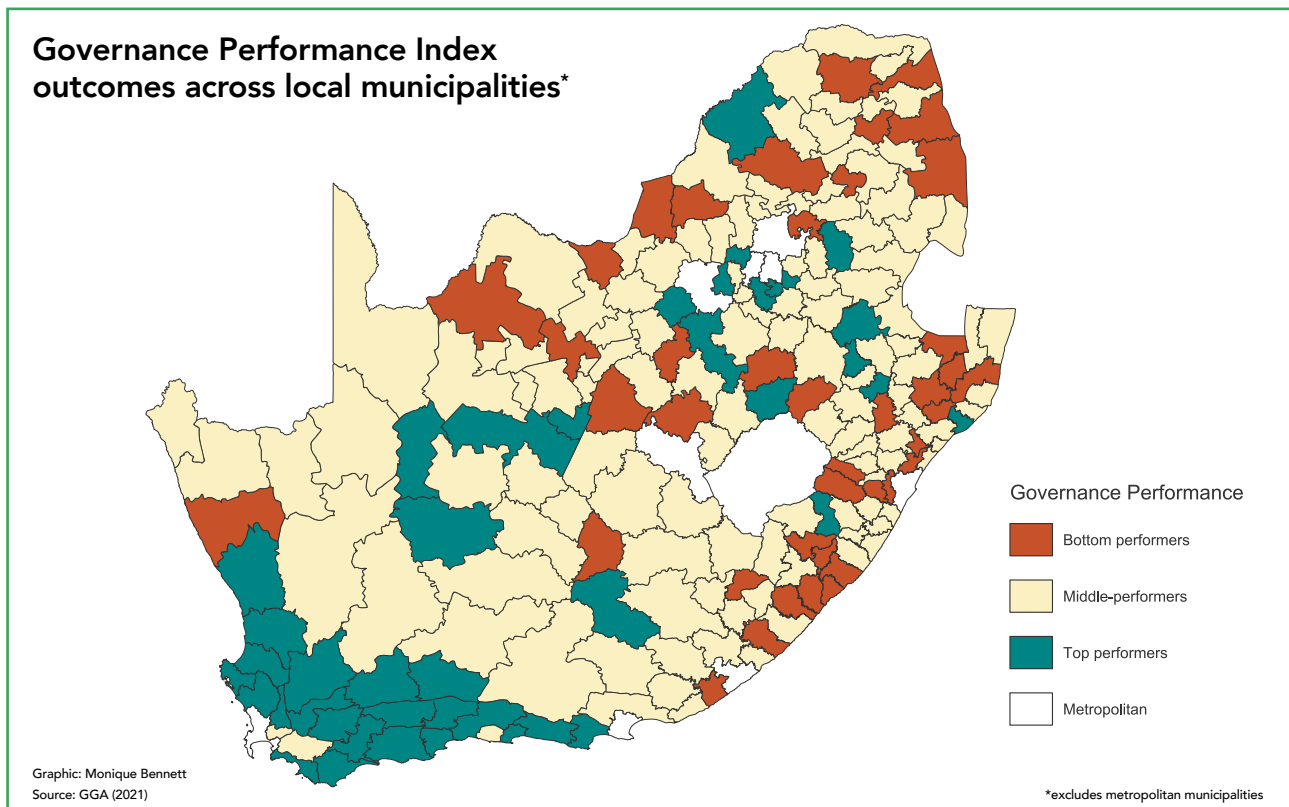


Figure 1: Governance Performance Index outcomes across local municipalities – South Africa

7 Laker, B & Roulet, T. (2019). "How Companies Can Adapt During Times of Political Uncertainty". Harvard Business Review. Available: <https://hbr.org/2019/02/how-companies-can-adapt-during-times-of-political-uncertainty>.

8 The Presidency of the Republic of South Africa. (2022). "Report of the Expert Panel into the July 2021 Civil Unrest".

9 Good Governance Africa. (2021a).

10 The analysis in this report focuses on South Africa's 205 local municipalities. District municipalities and the eight metropolitan municipalities are excluded.

11 The Department of Justice. (1996). "The Constitution of the Republic of South Africa".

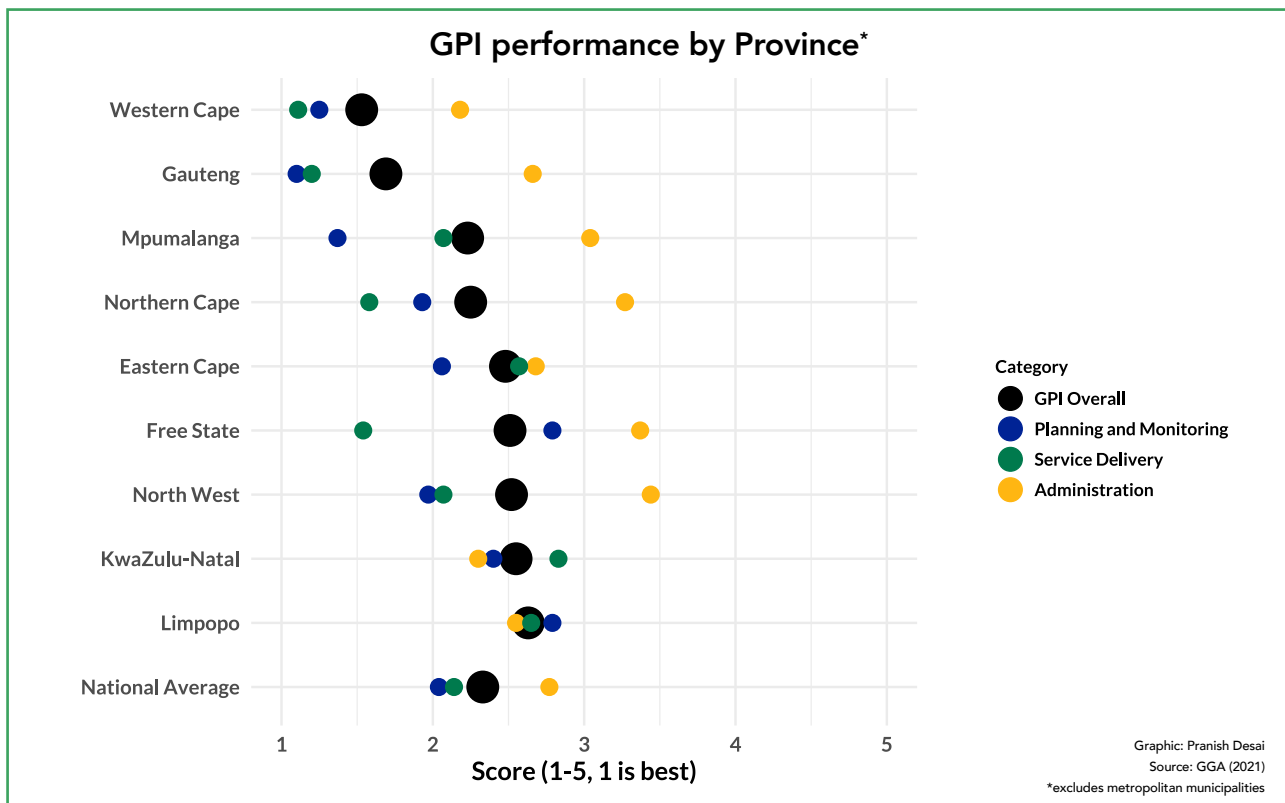


Figure 2: GPI performance by Province

government, this is the category weighted most heavily. A key source for the administration category is the annual municipal finance report produced by the Auditor-General.¹²

As Figure 2 shows, there is a strong regional component to understanding municipal performance in the GPI, with municipalities in the Western Cape and Gauteng tending to perform best. By contrast, municipalities in Limpopo and KwaZulu-Natal scored the weakest. There is a historical dimension to these outcomes, although infrastructure maintenance has been deteriorating in most provinces. While municipalities across the country generally scored well in Planning & Monitoring, there were clear struggles in the Administration and Service Delivery categories.¹³

Governance, Accountability and Development

In *The Narrow Corridor*, economists Daron Acemoglu and James Robinson argue that a society's prospects

for long-term development improve when both an effective state and citizen accountability are present and grow simultaneously.¹⁴

Adapting this approach to the municipal space, we can see a clear relationship between better municipal governance, greater citizen accountability, and higher levels of economic development. In terms of democratic accountability, municipalities which ranked in the top 20% on the GPI reported average voter turnout that was nearly five percentage points higher in national and local elections held between 2016 and 2021 compared to municipalities ranked in the bottom 20%.¹⁵

It is also unsurprising that these municipalities score better on critical measures of development. Looking at data adapted from Statistics South Africa¹⁶, top-ranked municipalities score between 15 and 30 percentage points

¹² Auditor-General of South Africa. (2022). "MFMA General Reports". Available: <https://www.agsa.co.za/Reporting/MFMAReports.aspx>

¹³ The reduction of municipal staffing vacancies is another component of Administration. We note that provinces such as Limpopo and KZN perform better on this indicator in large part due to the extensive patronage networks which exist in each province

¹⁴ Acemoglu, D & Robinson, J. (2019). "The Narrow Corridor: States, Societies, and the Fate of Liberty". Penguin Press.

¹⁵ Electoral Commission of South Africa (IEC). (2022). "IEC election results portal". Available: <https://results.elections.org.za/home/>

¹⁶ Statistics South Africa. (2022). "Statistics by Indicator". Available: https://www.statssa.gov.za/?page_id=593

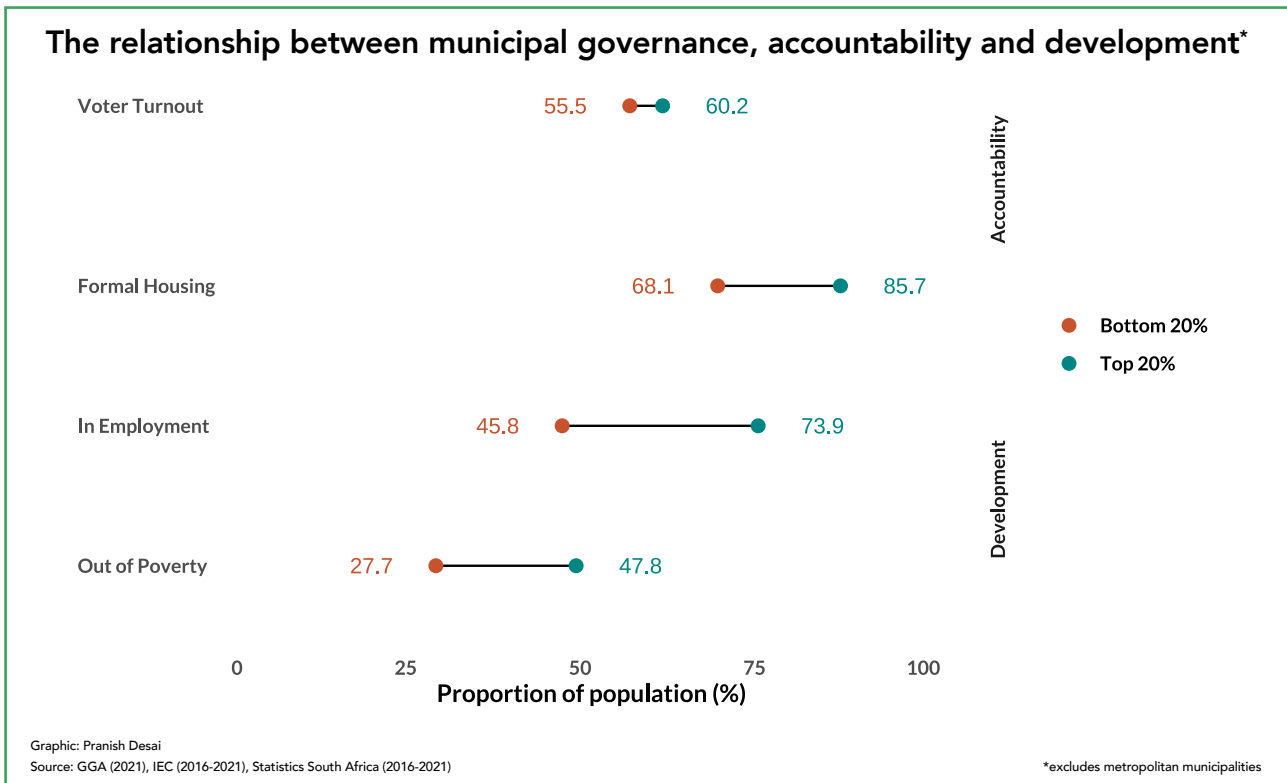


Figure 3: The relationship between municipal governance, accountability and development

better in levels of employment, formal housing, and the proportion of the population living out of poverty.

Figure 3 illustrates the stark disparities between better-run and worse-run municipalities on these critical measures of accountability and development.

The risk of poor governance

The risk posed by political instability gained renewed attention in the aftermath of the July 2021 unrest, which cost the South African economy over R50 billion, primarily due to destructive rioting.¹⁷

However, it is also important to understand how deficiencies in local governance contribute to political instability over a more extended period. To demonstrate this relationship, we matched our most recent GPI rank with data collected from the Armed Conflict Location & Event Data Project (ACLED).¹⁸

ACLED collates dated and location-coded information about conflict, political violence, and protest events from across the world. Our focus was on what ACLED terms “Demonstration Events” which occurred in South Africa between 1 January 2017 and 31 December 2021.¹⁹ The two main event types were protests – including peaceful protests – and riots.²⁰ Across local municipalities, 2,666 events occurred in local municipalities during this period, of which 51.4% were riots.²¹

As shown in Figure 4, higher-density, more urban areas in provinces such as Gauteng and KwaZulu-Natal are more likely to experience demonstrations of any kind. By contrast, less dense provinces such as the North West and the Northern Cape are less prone.

Notably, as Figure 5 displays, the best-run municipalities in the country are the only place where protests account for the majority of events. In the bottom 20% of municipalities,

¹⁷ The Presidency. (2022).

¹⁸ Armed Conflict Location & Event Data Project (ACLED). (2022). “Data Export Tool”. Available: <https://acleddata.com/data-export-tool/>

¹⁹ ACLED. (2022). “ACLED Codebook”.

²⁰ ACLED codes protests and riots as distinct events – so a protest is not counted as a riot and vice versa. The amount for protests also includes peaceful protests which are a normal part of a democratic society. This report’s focus is on riots, which ACLED’s Codebook defines as: “violent events where demonstrators or mobs engage in disruptive acts, including but not limited to rock throwing, property destruction, etc. They may target other individuals, property, businesses, other rioting groups or armed actors.”

²¹ Ibid.

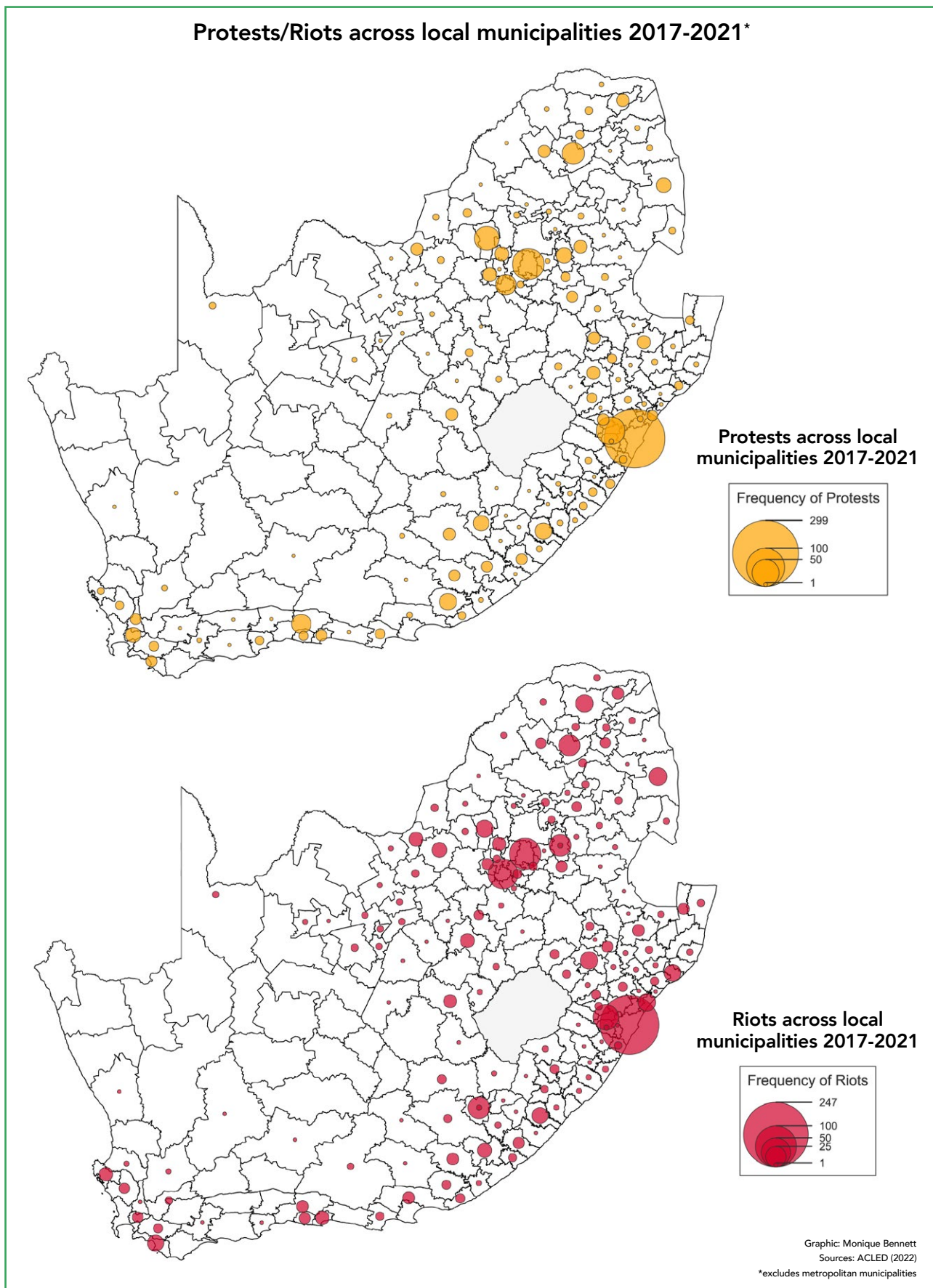


Figure 4: Protests/Riots across local municipalities 2017-2021.

nearly six in every ten “events” were riots. Municipalities which scored outside of these two groups were also more likely to experience riots than protests – a finding which demonstrates that the risk rises the less well-governed a municipality is.

Businesses are a frequent target of riots in urban areas. As such, the private sector can reduce the likelihood that they experience such events by helping local municipalities build and maintain their institutional capacity.

Case Study: Stability equals opportunity

The Greater Kokstad local municipality, located in KwaZulu-Natal, has a population of 89 178 and covers an area of 2 682m². Greater Kokstad placed 9th overall in our GPI local municipality ranking (out of 205) and was the top-ranked municipality within the KwaZulu-Natal province. Although predominantly agrarian, the municipality connects Durban to East London via the National N2 route, acting as a provisional gateway to the Eastern Cape. Crucially, Greater Kokstad acts as an important centre for administrative, commercial, trade and financial services for surrounding wards within the Harry Gwala district and towns within KwaZulu-Natal province.

In 2019, the South African Local Government Association (SALGA) conducted a study on violence in local government municipalities. Their research found that the main sources of threats and violence from community members were motivated by poor municipal service delivery.²² Although violence and civil unrest is concentrated within metropolitan cities, there remain significant occurrences across local municipalities within provinces like KwaZulu-Natal, especially in higher-density areas. Violence towards municipal officers and the destruction of infrastructure and property creates a negative feedback loop for the economic and social development of a municipality.

As seen in Figure 6, Greater Kokstad has had no recorded incidents of violence or civil unrest since 2017. This is unusual in the case of KwaZulu-Natal which was the scene of the most volatile rioting during July 2021. Moreover, this turmoil was not an isolated period of unrest with the province – which scored second worst overall on the GPI - accounting for more than 22% of all riots which occurred in South Africa between January 2017 and December 2021.

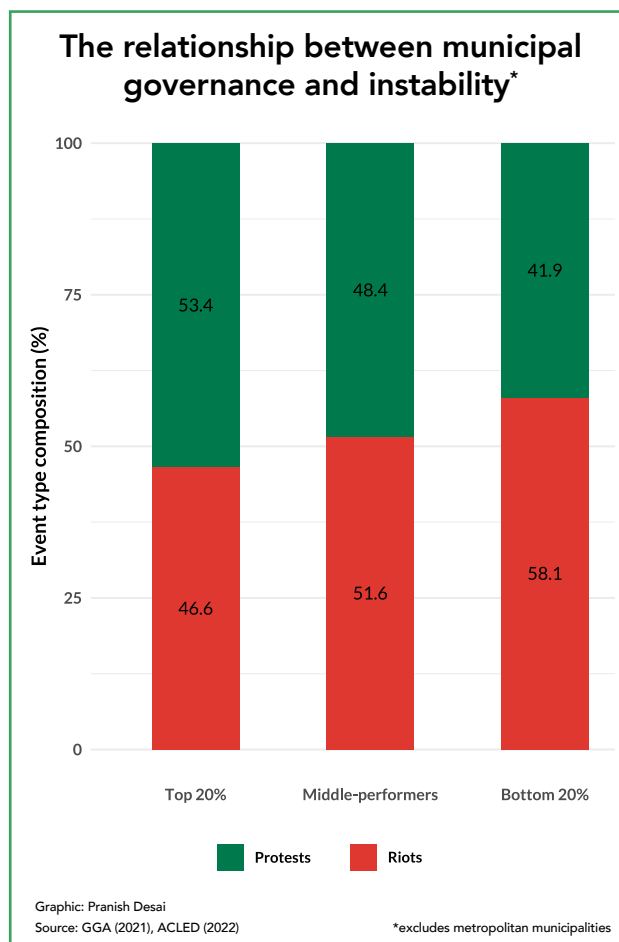


Figure 5: The relationship between municipal governance and instability

A significant reason behind why the stability of Greater Kokstad stands out in the context of KwaZulu-Natal municipalities is the consistent and strong leadership of local leaders. The former mayor, Bheki Mtolo, has been praised for his decisive and intelligent leadership, particularly in service delivery.²³ Newly inaugurated mayor, Lwanda Madikizela, has maintained high service delivery standards as well as addressed land invasion issues. Overall, the municipality has sustained good governance and solid efforts to ensure the sustainability of financial and administrative resources. This demonstrates that sound governance can take root against the odds.

In the municipality’s latest five-year Integrated Development Plan (IDP), it expressed foreseeable basic service delivery challenges such as aging infrastructure,

22 South African Local Government Association. (2019). “Violence in Local Government: A Study on Damage to Property, and Killing of Councillors and Municipal Officers.” <http://www.salga.org.za/Documents/Documents%20and%20Publications/Publications/p20/Violence%20in%20Local%20Government%203%20december%202019.pdf>

23 Moshoeshoe, Andile. 8 August 2022. “Former Kokstad mayor hailed as champion of service delivery”. The Witness. <https://www.citizen.co.za/witness/news/former-kokstad-mayor-hailed-as-champion-of-service-delivery/>

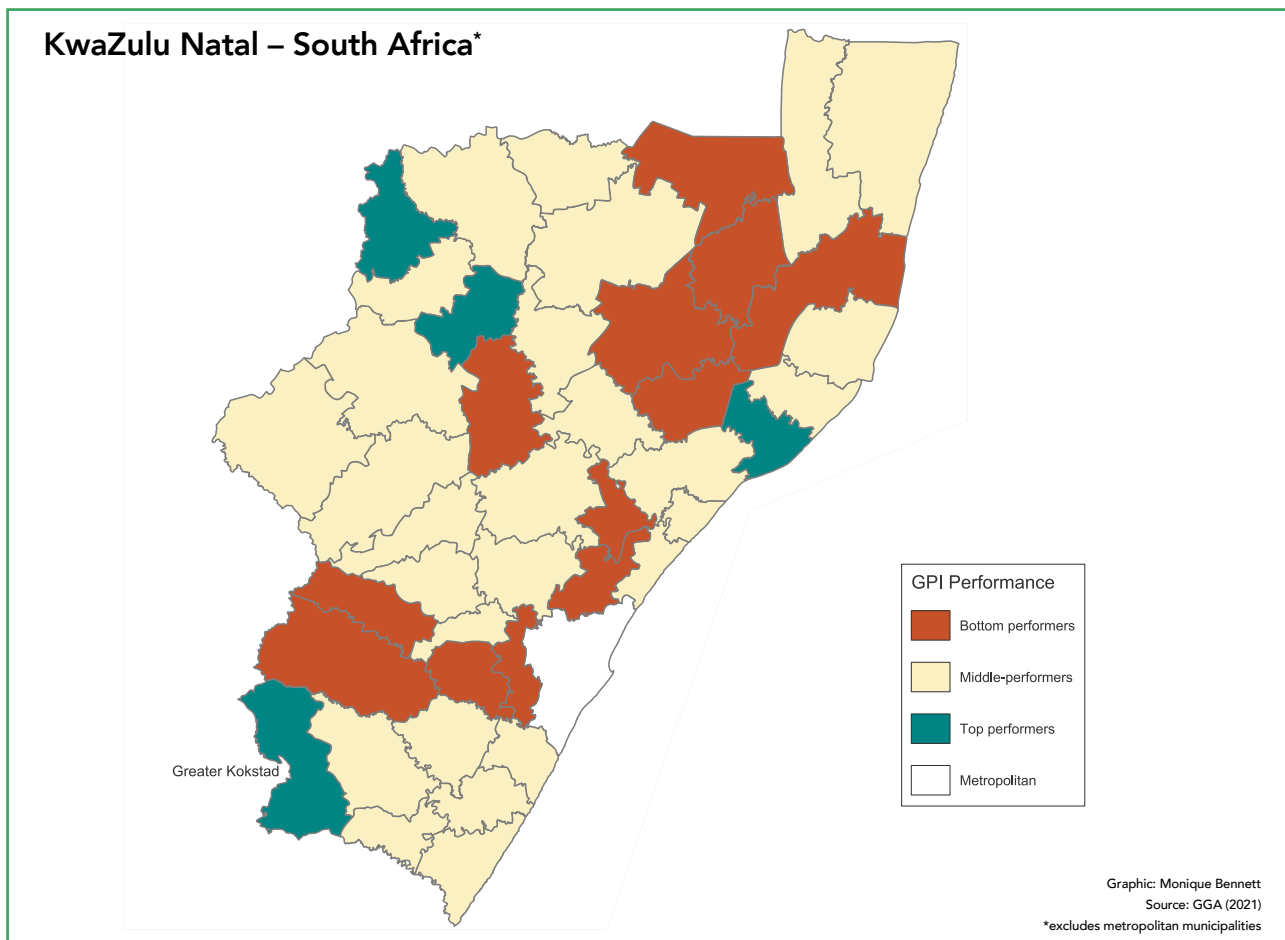


Figure 6: KwaZulu Natal – South Africa

increased demand for water and electricity as well as limited housing available for middle-income families, among others. In the IDP, the municipality expressed a strong interest in using Public Private Partnerships (PPPs) to address some of its key concerns.²⁴

The municipality listed several projects where it seeks assistance and cooperation with private partners, including housing and spatial disparities; value chain improvements for agriculture; private hospital and retirement home developments; renewable energy development and finally continued investment in existing businesses. Evidently, there is opportunity for PPPs with Greater Kokstad, however the architecture that governs these kinds of partnerships is not always straightforward.

A recent SALGA report on the uptake of PPPs suggests there are several benefits and challenges to these types of partnerships.²⁵ Such arrangements exist in other African countries, with the town of Kalumbila in Zambia a notable example of the advantages of this approach.²⁶ Among these benefits are risk sharing, creating an attractive business environment, better access to skills and financing, as well as having a greater freedom to manoeuvre around certain municipal constraints.

However, as SALGA suggests, the process of formalising a PPP in South Africa is frequently “slow and complicated” and many municipalities lack technical, financial or legal expertise to pursue the PPP option. Financial viability is also a concern due to experiences of high advisory fees and cost over-runs.

24 Greater Kokstad Municipality. (2022). “Integrated Development Plan - 4th Generation IDP: 2017/18-2021/22.” <https://www.kokstad.gov.za/index.php/en/annual-reports/kzn433-draft-annual-report-2022/download>.

25 South African Local Government Association. (2020). “The Review of The Public-Private Partnership Uptake by South African Municipalities.” <http://www.salga.org.za/Batch%201%20-%20Latest%20Knowledge%20Products/SALGA%20Study%20on%20Private%20Public%20Partnership%20Uptake%20by%20SA%20Municipalities.pdf>

26 Mining for Zambia. 11 November 2022. “Building more rooms at the inn”. <https://miningforzambia.com/building-rooms-inn/>



Conclusion

The tangible benefits of better local municipal governance in South Africa are clear. Across indicators, better-run municipalities experience enhanced outcomes in measures of democratic accountability, development, and political stability. By contrast, the risk posed by instability is heightened in weaker municipalities. To reduce this risk, it would be prudent for private sector interests to become long-term development partners of municipalities. The focus should be on improving administrative and service delivery capacity in rural areas which are less likely to experience the onset of violence in the first place. Considering the importance of local governance to society as a whole, initiatives of this kind will form a key part of any credible attempt by the private sector to enhance ESG performance.

Signature:	
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