

Municipal reform for economic revival: Unlocking local potential

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Please refer to the glossary on the BER's **website** for explanations of technical terms.

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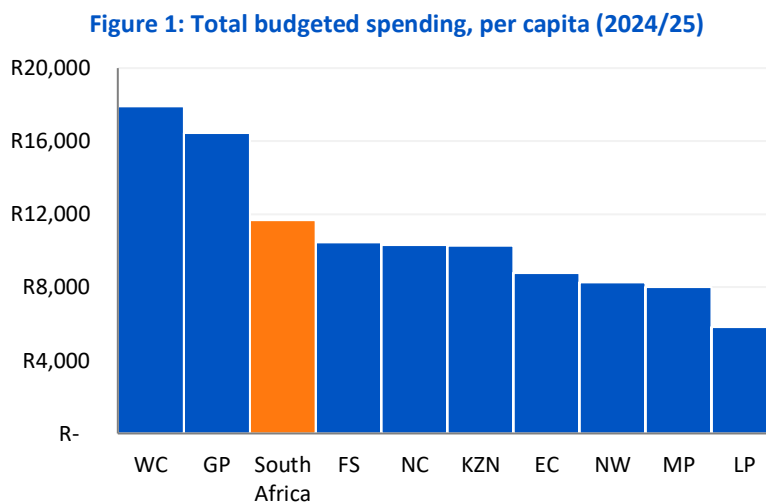
PROBLEM STATEMENT

South Africa has 257 municipalities: 205 local, 44 district, and eight metros. Municipalities are key service delivery agents, but if done right, they can do much more to accelerate economic growth and create jobs.

Shortly before South Africa’s 2021 local elections, the BER published a research note exploring the challenges in the local government sphere, available for download [here](#). Local municipalities are again in the spotlight, with the second phase of Operation Vulindlela (OV2.0) – the joint initiative by the Presidency and National Treasury to accelerate structural reforms – focusing on fixing local municipalities to “achieve rapid, inclusive growth”.¹

Before making specific recommendations, we must acknowledge several facets of the local government landscape.

First, municipalities do not all face the same challenges. A municipality’s financial position is impacted by its constituents’ income level and the cost of service delivery, which varies widely between urban and rural areas. As a result, a ‘one size fits all’ solution to poor performance in local government is unlikely to be successful. There is also a considerable variation in how well municipalities are resourced: Figure 1 illustrates that, on average, municipalities will spend a budgeted R11 678 per person in 2024/25.² The Western Cape’s budget allocates R17 920 per person, three times more than Limpopo (R5 838 per person). Local government reform should keep these resource and capacity constraints in mind.



Source: National Treasury Local Government Database, Stats SA Community Survey 2016

Second, the objectives of metros and cities differ from those of rural local governments. A ‘one size fits all’ reform strategy might not be adequate. As long as three decades ago, Edward Glaeser demonstrated how urban density and the concentration of industries contribute significantly to economic growth.³ Cities have the potential to deliver innovation and

¹ President Ramaphosa, Opening of Parliament, 2024.

² Local government Operating and Capital Budgets for 2024/25 MTREF

³ Glaeser, Edward L., et al. “Growth in Cities.” *Journal of Political Economy*, vol. 100, no. 6, 1992, pp. 1126–52. *JSTOR*, <http://www.jstor.org/stable/2138829>. Accessed 25 Nov. 2024.

productivity enhancements difficult to replicate in a rural environment. With this in mind, metro municipalities and local governments of South Africa's *Secondary Cities* (urban areas / intermediate city municipalities smaller than metros but larger than towns) should go above and beyond basic service delivery. These governments are uniquely positioned to connect business networks, different levels of government, and education and training institutions. They should work closely with businesses to identify investment opportunities. Housing and infrastructure supportive of a thriving business and investment climate should be prioritised to foster positive sentiment and attract more investment. Faster economic growth in urban centres will filter into rural towns by creating a growing demand for inputs like food, tourism, etc.

Third, the current structure of intergovernmental transfers does not support effective service delivery. The national government provides local municipalities with two main revenue streams: local government equitable share transfers and conditional grants. Municipalities are expected to raise additional income, but for some—especially in poorer, rural regions—it's easier said than done.

'Equitable share' transfers are for basic services and to help municipalities perform their constitutional functions. The grants are allocated based on the number of poor households in a region, the cost of service delivery, and a municipality's revenue-raising ability. They are unconditional, so municipalities can choose where and how to spend them. However, many lack the administrative and technical capacity to do this well or are plagued by mismanagement and corruption. Later in this note, we recommend accelerating the reform of trading services to ensure that basic service delivery is done through viable, standalone entities.

Fourth, debt relief will fail if the underlying financing problems are not addressed. A significant part of the equitable share is meant to subsidise services for indigent households to ensure that those who cannot afford to pay have access to basic services. Under South Africa's Free Basic Electricity (FBE) programme, indigent households are entitled to a monthly allocation of a minimum of 50kWh of free electricity but are charged for further consumption. However, the average South African household is estimated to consume 200kWh of electricity per month.⁴ Indigent households who cannot pay for higher usage contribute to some municipalities' financial strain, compounded by a culture of non-payment in some regions.⁵ As a result, many municipalities have seen an upward trend in debt impairment. The National Treasury's Medium Term Expenditure Framework estimates a 73.7% increase in debt impairment between 2023/24 and the 2024/25 budget.⁶ A vicious cycle transpires when this translates into poorer service delivery, affecting municipal revenue when businesses and households disinvest.

Electricity service charges are a significant source of income for most municipalities, and electricity is one of the largest components of operational expenditure. We estimate that, in 2023, almost half of local municipalities (73 out of the 158 for which we have data) made a loss on the sale of electricity – up from a quarter in 2019.⁷ Municipalities owe Eskom ±R78 billion in

⁴ <https://mybroadband.co.za/news/energy/565506-truth-about-electricity-usage-in-south-africa>

⁵ Murwirapachena, Genius & Kabange, Martin & Ifecho, Christopher. (2022). Non-payment culture and the financial performance of urban electricity utilities in South Africa. *Development Southern Africa*. 40. 1-17. 10.1080/0376835X.2022.2051438.

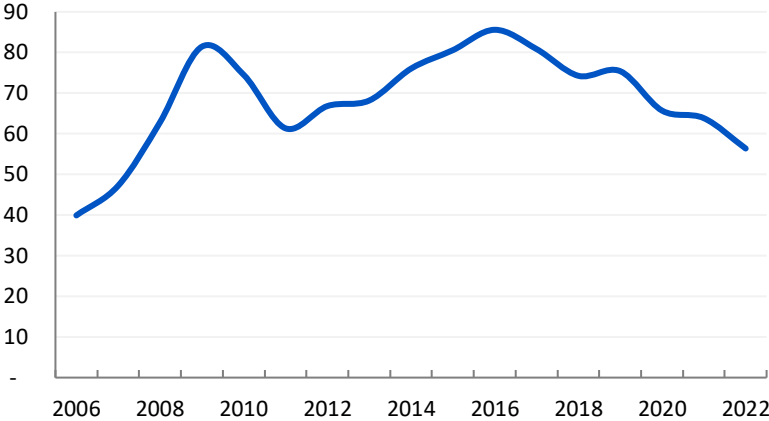
⁶ The National Treasury (2024). Local government adopted operating and capital budgets for 2024/25 MTREF, Media Statement, Annexure A, B & C. Table 14. Published 6 November.

⁷ Stats SA Financial Census and Quarterly Financial Statistics of Municipalities, Quantec; BER calculations

debt.⁸ The National Treasury introduced a debt relief programme for municipalities in November 2023 that allows debt to be written off over three years, subject to certain conditions being met. There has been little success so far: Seventy-two municipalities signed up, but only 14 complied with the conditions by October. It suggests the underlying causes of municipalities’ debt traps are not being addressed.

Fifth, too little is spent on infrastructure. The projected capital expenditure by municipalities for 2024/25 is just over a tenth of total local expenditure. Real aggregate municipal capital spending has declined since 2016, and capital expenditure as a proportion of total expenditure is expected to fall further over the Medium Term Revenue and Expenditure Framework (MTREF) period.⁹ In real terms (i.e. adjusting for inflation), total municipal capital spending in 2022 was lower than a decade ago, and the underlying data shows an especially striking drop in metros. A slowdown in infrastructure investment in South Africa’s centres of economic activity is of particular concern.

Figure 2: Total capital spending by municipalities
 RAND BILLION (CONSTANT 2023 PRICES¹⁰)



Source: Stats SA, P9101 – Capital Expenditure by the Public Sector

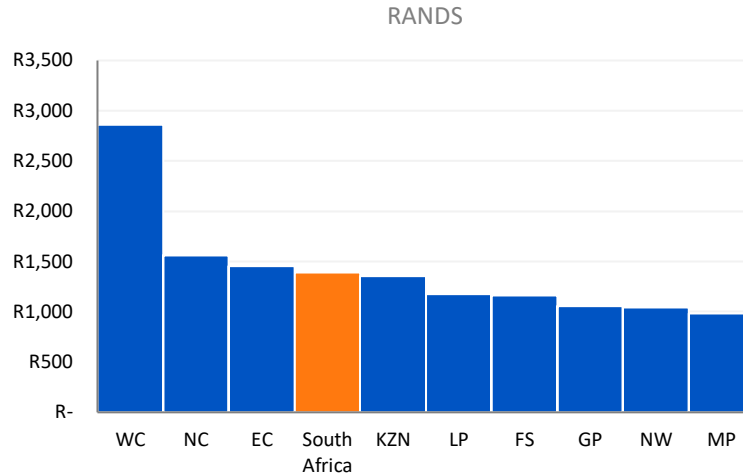
Capital spending varies considerably between municipalities. In the Western Cape, municipalities will spend an average of R2 860 per person on capex in 2024/25. Gauteng, at R1 055 per person, will spend less than half of this amount, especially concerning in light of Gauteng’s looming water crisis.

⁸ <https://www.sanews.gov.za/south-africa/municipalities-r78-billion-eskom-debt-urgent-task-ramokgopa>

⁹ National Treasury (2024). Media Statement: Local government adopted operating and capital budgets for 2024/25 MTREF. 6 November 2024.

¹⁰ Adjusted with investment deflator.

Figure 3: Aggregated per capita capital expenditure budgets (2024/25)



Source: National Treasury Local Government Database, Stats SA Community Survey 2016

Capital spending is typically funded through the Municipal Infrastructure Grant (MIG), which was introduced to improve service delivery and address infrastructure backlogs. It is a conditional grant to fund specific infrastructure projects but faces several challenges. Some municipalities fail to spend the funds, while others use it for purposes beyond the intended scope. The underutilisation of the grant is compounded by a lack of consequence management, where officials are not held accountable for mismanagement or not spending the funds. In some instances, weak oversight and monitoring mechanisms allow for misallocation and misuse of resources, further hindering effective service delivery.¹¹ The Treasury also highlights supply-chain management (SCM) and incapacity in the Project Management Offices (such as business forums demanding that 30% of all contracts be procured locally) as contributing factors. SCM and audit processes are essential for preventing fraud and corruption, but they should not impede spending or divert attention from core municipal functions.

A drop in borrowing for capital spending has further constrained infrastructure spending, partly due to the heightened financial risk of lending money to municipalities. Several initiatives could improve borrowing capacity, including ring-fencing projects to improve credit risk.¹² Requiring municipalities to match funds received through the MIG may also improve capital spending trends and help integrate infrastructure spending into the broader municipal planning process.

Sixth, municipalities lack technical skills. In particular, too few engineers are employed at the local government level. Engineers are vital for designing, implementing, and maintaining infrastructure like water systems, electricity distribution, roads, etc. – the foundations of an economy. The shortage of engineering expertise delays capital spending and project implementation and compromises the quality and sustainability of infrastructure projects. Municipalities struggle to plan effectively, oversee contractors, or do maintenance without skilled engineers, leading to escalating costs and backlogs. Engineering skills are needed to ensure that projects are executed efficiently and cost-effectively. We recommend that local governments urgently appoint more engineers to fill this critical skills gap.

¹¹ <https://dullahomarinstitute.org.za/multilevel-govt/local-government-bulletin/archives/volume-19-issue-2-june-2024/the-failure-to-spend-the-municipal-infrastructure-grant-and-the-lack-of-consequence-management>

¹² The Sustainable Infrastructure Development and Finance Facility (SIDAFF) Programme

Seventh, district municipalities seem to fragment responsibilities rather than improve outcomes. There is an urgent need for a focused debate about their role in the intergovernmental landscape, whether these resources can be used better, and whether elevating the functions of secondary cities might be merited.

Section 155(1) of the Constitution creates three distinct categories of municipalities:

- Category A: A municipality with exclusive municipal executive and legislative authority in its area;
- Category B: A municipality that shares municipal executive and legislative authority with a Category C municipality within its area, and
- Category C: A municipality with municipal executive and legislative authority in an area with more than one municipality.

The Constitution also dictates that national legislation must establish the criteria for determining when an area should have a single category A municipality (e.g., a metro) or both category B and C municipalities.

The division of power and functions of district municipalities are defined in section 84(1) of the Municipal Structures Act of 1998, with subsection (2) stating “a local municipality has the functions and powers referred to in section 83(1), excluding those functions and powers vested in terms of subsection (1) of this section in the district municipality in whose area it falls”. Importantly, 84(3) states that “Subsection (2) does not prevent a local municipality from performing functions in its area and exercising powers in its area of the nature described in subsection (1)”.

Our cursory reading of the Municipal Structures Act suggests that changing the role of District Municipalities won't require sweeping changes to the legislative environment. District municipalities were intended to enable regional development and support local municipalities, but their effectiveness varies widely and often depends on institutional capacity and the local economy. In the case of secondary cities, in particular, it is unclear if districts add value beyond what a well-functioning local municipality should be able to do and, in some instances, might even hamper the outcomes. We posit that secondary cities might merit being reclassified as Category A municipalities in their own right.

Eighth, data about service delivery outcomes are poor. We do not have high-frequency data about the availability and reliability of basic services across different municipalities. We often rely on the media to learn about problems or repairs. OV2.0 should make tracking progress easier, hold municipalities accountable, and give credit where credit is due. It should also look for creative ways to understand what is happening at the grassroots level. Asivikilane¹³ (meaning ‘Let’s protect one another’ in Zulu) is an excellent example of giving households in informal settlements a voice in helping solve service delivery problems. By training residents in data collection and analysis, Asivikelane empowers communities to advocate for improved services, fostering collaborative solutions with government officials and stakeholders.

The rest of this note makes four recommendations to address some of these problems.

¹³ <https://asivikelane.org/about/>

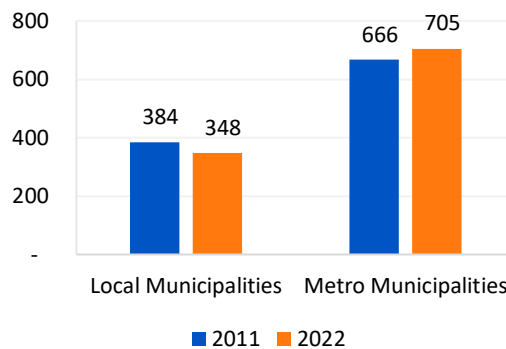
RECOMMENDATION 1: APPOINT MORE ENGINEERS AND FINANCE OFFICIALS

Years of cadre deployment and political appointments interrupted the pipeline of skilled personnel, and many municipalities specifically lack technical skills. We do not have detailed data that approximate employee competency within municipalities. However, the South African Institute of Civil Engineers estimates a striking decline in the number of practising civil engineers in local government since 2005. One of the first tasks of OV2.0 could be to conduct a proper skills audit of engineering capacity at the local government level. Similarly, there is a shortage of senior skills in the financial function of municipalities.

Stats SA's annual Non-Financial Census of Municipalities provides insight into vacancy rates. In 2022 (latest available data), there were 339 163 municipal positions¹⁴ across municipalities, of which 38 363 (11%) were vacant. More than one in ten positions across municipalities remain unfilled.

It is helpful to express municipal capacity (the number of positions) relative to the size of the population in its constituency. On aggregate, metros employ double the number of staff per 100 000 people than local municipalities. Human resources in metros grew between 2011 and 2022, while local municipalities became more stretched over the same period.

Figure 4: Total positions per 100 000 people



Source: Stats SA Non-Financial Census of Municipalities; BER calculations

Several factors¹⁵ can impact the skill levels of municipal employees:

- The level of political stability and factionalism between the administration and council, Office of the Executive Mayor, Office of the Speaker, and Office of the Municipal Manager;
- conducting annual skills audits and the municipal performance management system (PMS);
- motivation and morale levels of employees;
- quality of leadership, supervision, coaching and mentorship;
- availability of resources, equipment and tools, and employees' ability to use them effectively;
- quality of on-the-job and other training programmes;
- retention levels of staff;
- the nature and scope of career paths, mentorship.

Better municipal outcomes require processes that ensure staff (new appointees and current personnel) have the necessary skills and competencies. Current staff lacking the skills needed should be trained, and their performance outcomes should be tracked.

¹⁴ This includes full-time and part time positions.

¹⁵ Van der Waldt, G. 2020. Conducting skills audits in local government. *Administratio Publica*, Vol 28 No 2 June 2020.

This is not to say that no effort has been made to increase employees' skill levels. Amendments to the Municipal Regulations on Minimum Competency Levels were published in 2018 to, among other changes, specify the minimum type of higher education qualifications for staff at specific levels.¹⁶ Other initiatives have also been tested, like organisational structure requirements and adjustments to performance agreements and KPIs. However, as reflected by the current state of local government, these interventions have not (yet?) had the desired outcomes.

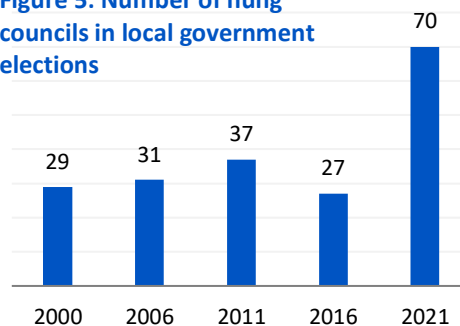
Softer issues are also at play. Public servants must be motivated to conduct their work to the best of their ability. Those who fail to perform their duties effectively must bear the consequences. This requires KPIs that are measurable, clear, and realistic. Dismissal from the public sector is an elaborate process, so disciplinary actions like reprimands or suspension without pay could provide more substantial incentives to improve performance. Administrative actions like frequent performance reviews, revocation of benefits or budget cuts can also create an incentive for better performance.

We recommend a strong focus on merit-based appointments for new staff, better measurement of performance outcomes, practical training, a system that sanctions public servants who fail to perform their duties, and appointing more engineers overall.

RECOMMENDATION 2: REDUCE POLITICAL INTERFERENCE

The 2021 Local Government Election (LGE) showed a substantial increase in the number of 'hung' councils – i.e., those with no outright winner (<50% of seats). It resulted in 70 municipalities with hung councils, up from 27 in the 2016 LGE. As a result, many municipalities are run by (often unstable) coalition governments. This includes large metros, particularly in Gauteng. The City of Johannesburg and Tshwane have coalition governments plagued by political instability, with multiple administration changes.

Figure 5: Number of hung councils in local government elections



Source: Independent Electoral Commission

These political dynamics highlight the need to deal with the 'political-administrative interface', i.e., insulating a municipality's administration from the political process. In South Africa, this relationship is often challenged by political interference in administrative processes, blurred lines of accountability, and capacity constraints within the municipal administration. The Municipal Structures Act and the Municipal Systems Act aim to define the roles and responsibilities of politicians and administrators to ensure clear boundaries. However, in practice, tensions frequently arise due to conflicting interests, political pressure, and governance challenges, contributing to inefficiencies and service delivery problems in many municipalities nationwide. Some simple improvements to governance would assist and are included in Table 1.

¹⁶ Government Gazette, 26 October 2018.

Table 1: Reforms to Municipal Systems Act and Municipal Structures Act

Reform Area	Description
Clarify Roles and Boundaries	Further clarify the separation of powers between elected officials and administrators to prevent political interference in administrative functions.
Strengthen Oversight and Accountability	Empower oversight bodies like municipal public accounts committees (MPACs) and audit committees to monitor performance, review financial practices, and enforce accountability.
Professionalise Municipal Administration	Promote merit-based recruitment, ensure strict qualifications for senior roles, and introduce capacity-building programs to reduce politicization of appointments.
Improve Financial Governance	Tighten financial controls, ensure transparency in budgeting and procurement, strengthen audit processes, and enforce consequences for financial mismanagement.
Enhance Public Participation	Strengthen participatory governance by requiring structured, continuous engagement with communities to incorporate public input in municipal planning and decision-making.
Strengthen the Role of the Speaker and Whip	Enhance the authority and independence of the Speaker and Chief Whip to enforce rules, mediate conflicts, and promote accountability within the municipal council.
Introduce Sanctions for Poor Governance	Introduce stronger punitive measures for non-performance, including dismissals or penalties for both political and administrative leaders involved in corruption or poor governance.

RECOMMENDATION 3: ACCELERATE TRADING SERVICES REFORMS

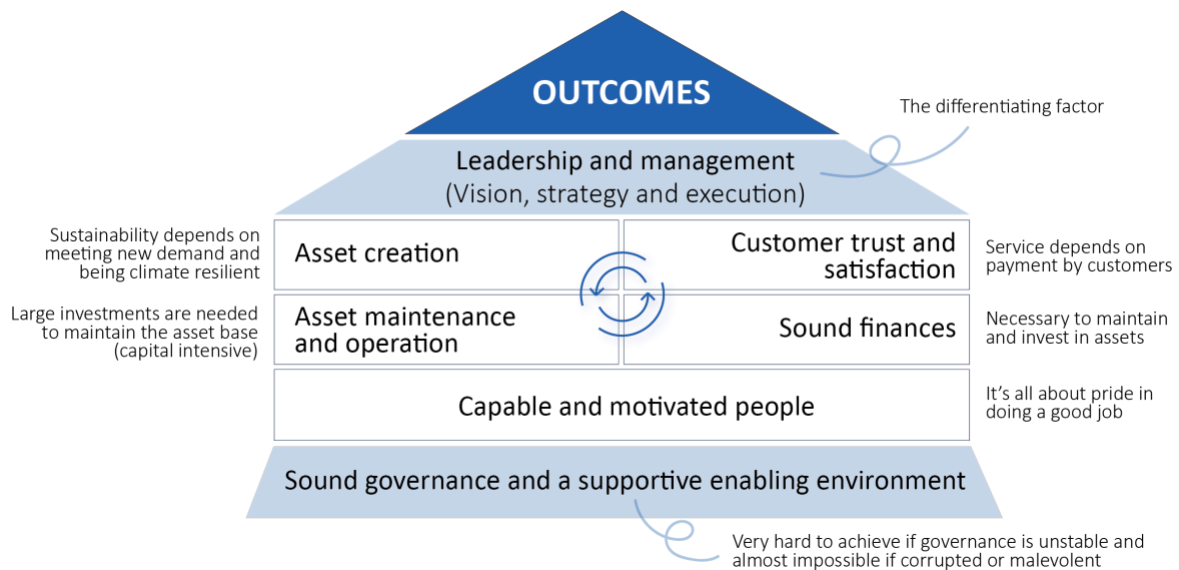
One way to address underinvestment and poor management of municipal water/sanitation and electricity departments is to create viable standalone entities for trading services. These entities should have the appropriate financial strength and can generate sufficient cash flow to ensure long-term sustainability.

The government is implementing a ‘seven-box framework’ for these standalone entities.¹⁷ These seven key areas are:

1. To insulate the day-to-day administration (leadership and management, in particular) from political interference (we discuss this in Recommendation 4 below);
2. Sound governance and a supportive enabling environment;
3. Connecting strong relationships between customers and municipalities as service delivery depends upon customer trust and satisfaction, without which payment rates may suffer;
4. Sound finances to ensure financial sustainability;
5. Asset maintenance and operations;
6. Investing in new assets; and
7. Motivated and skilled staff, underpinned by effective support systems.

¹⁷ National Treasury (2024) Guidelines on municipal trading entity reforms

Figure 6: The 'Seven Box' framework for successful trading services



Source: National Treasury's Cities Support Programme (2024)

These operational reforms must be accompanied by reforms in water and electricity trading services, which include enhancing municipalities' ability to collect payment for services provided. Many municipalities have a poor record of collecting fees, leading to financial instability. In addition, better spending practices will ensure that funds are allocated more efficiently and spending is more closely monitored.

In **water and sanitation services**, the Department of Water and Sanitation, alongside municipalities, focuses on:

- South African municipalities lose significant volumes of water due to leaks, illegal connections, and other inefficiencies. Reforms aim to reduce these losses and improve water conservation.

Addressing non-revenue water

- Investments in new infrastructure and maintenance of existing infrastructure are prioritised to improve water supply and wastewater treatment.

Upgrading infrastructure

Reforms in the **electricity sector** to transition to more sustainable and efficient energy use:

- Many municipalities owe large debts to Eskom, South Africa's national electricity supplier. Reforms include better financial management of electricity sales and debt repayment strategies.

Addressing Eskom's debt

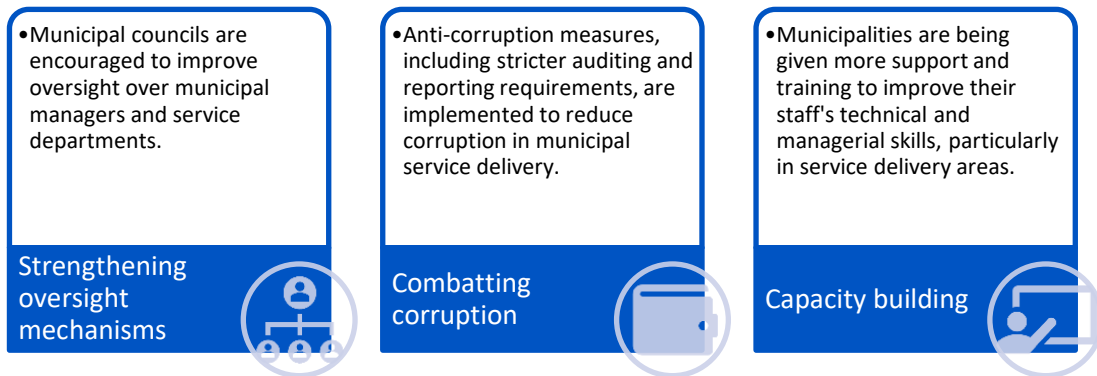
- Municipalities are exploring ways to reduce the impacts of load shedding, including increasing investments in renewable energy and independent power producers (IPPs).

Reducing load-shedding impacts

- Some reforms encourage municipalities to adopt renewable energy solutions, such as solar power, to reduce dependency on Eskom and improve energy security.

Renewable energy initiatives

Reforms to address **governance issues** to ensure more transparent and accountable management:



Many municipalities are exploring partnerships with private sector entities to improve service delivery. Public-private partnerships (PPPs) allow municipalities to leverage private sector expertise, technology, and capital to improve services. These partnerships are seen as a way to enhance trading services' efficiency while reducing the financial burden on the public sector.

BOX: The separation of Water Service Authorities and Water Service Providers

The ongoing water reforms in South Africa aim to define better and clarify the roles and responsibilities between Water Service Authorities (WSAs) and Water Service Providers (WSPs). This will improve the efficiency, accountability, and quality of water service delivery by reducing role confusion, overlapping responsibilities, and gaps in service delivery, particularly in municipalities with limited capacity or resources. It will also allow private sector participation in water at a municipal level.

Clarification of governance and oversight role versus operational role

The first step is distinguishing between the water service *authority* (WSA) role at a municipality and the water service *provider* role (WSP). WSAs focus on planning, regulatory oversight, and ensuring compliance with national water policies. WSPs are tasked with executing the day-to-day operations of water supply and sanitation services.

This distinction will ensure that WSAs are better equipped to monitor and evaluate WSPs' performance and hold them accountable to service level agreements and performance targets. Focusing on regulation, planning, and oversight reduces the conflict of interest that arises when the same entity sets standards and delivers services. The reforms will also strengthen WSAs' skills.

At WSPs, the reforms allow more WSPs to include private sector participation. Already, water for Mbombela is supplied by a concessionaire. This will encourage greater professionalisation, whether they are public, private, or community-based entities. This includes setting minimum standards for operational management, promoting the use of modern technology, and enhancing infrastructure maintenance and customer service practices. By elevating the capabilities of WSPs, the reforms seek to ensure that water service delivery is more reliable and responsive to the needs of consumers.

Private sector participation (PSP) and regionalisation

The reforms also encourage public-private partnerships (PPPs) and the regionalisation of WSPs to improve service delivery. By regionalising WSPs, smaller municipalities lacking capacity can pool resources and share expertise with neighbouring municipalities, ensuring more efficient service delivery.

Similarly, WSPs can bring in private sector expertise and investment to improve the infrastructure and operational efficiency of water services, particularly in areas with limited municipal capacity.

RECOMMENDATION 4: IMPROVE THE FRAMEWORK FOR MUNICIPAL INTERVENTIONS¹⁸

The Constitution provides a framework for municipal interventions that allow the provincial or national government to take control of municipalities that have not met their service delivery obligations or are in significant financial distress.

These interventions have largely not achieved their aims. In this section, we provide background to municipal interventions – what they intend to achieve, why these goals have not been met, and propose steps to improve interventions.

Background to municipal interventions

When in significant distress, municipalities can be placed under intervention by (in the first instance) the relevant province. Section 139(5) of the Constitution mandates intervention if a municipality faces a financial crisis. In such cases, the provincial government, with national oversight, can impose financial recovery measures. If these measures fail or are insufficient, the provincial government may dissolve the municipal council and appoint an administrator. These constitutional provisions and the MFMA ensure that municipalities maintain accountability and effective governance while providing provincial and national authorities with a legal basis to intervene when local governments fail to meet their obligations.

Alternatively, if the provincial government does not (or cannot) impose an adequate intervention, the national government must impose the intervention. In the *Lekwa* case, the Court found that the National Government is obliged to intervene.¹⁹ Section 139(7) of the Constitution provides for three scenarios:

- a) Where a province cannot intervene, e.g., due to capacity constraints;
- b) where a province refuses to intervene despite the presence of jurisdictional facts for a section 139(4) or (5) intervention; or
- c) where a province intervenes but does so inadequately.

¹⁸ For a comprehensive presentation on municipalities in intervention, see COGTA here <https://www.cogta.gov.za/index.php/docs/state-of-local-government-progress-on-the-implementation-of-municipal-support-and-improvement-plans-msip/>

¹⁹ Dullar Omar Institute (2021). Local Government Bulletin. Vol 16(3), Sept.

The last scenario took place in Lekwa. Section 139(7) forces the national government to undertake the mandatory intervention as if it were undertaken by the provincial government.

The Municipal Finance Management Act (MFMA) complements the Constitution by providing specific financial oversight mechanisms. Section 136 of the MFMA stipulates that a municipality must take prompt corrective action when it is in financial distress or cannot meet its obligations. If a municipality fails to do so, provincial governments, in consultation with the national government, can invoke Section 139 of the Constitution. The MFMA also mandates municipalities adhere to budgeting, accounting, and reporting requirements. In severe financial mismanagement or insolvency cases, the provincial government can impose a financial recovery plan to restore fiscal stability.

Why have interventions not worked?

The framework for interventions has been in place for several years but has had varying results. In 2024, Eskom took a relatively dramatic step of attaching Emfuleni's bank account due to non-payment. The municipality had been the subject of court action in 2008, *sixteen years earlier*, for almost the same problem²⁰ and, in the intervening years, had been in and out of financial distress, often due to poor financial management.

Ledger and Rampedi (2019)²¹ did a detailed study of 140 attempted interventions undertaken in 143 municipalities over twenty years between 1998 and 2019. Their research is a little outdated, as the National Treasury has subsequently improved its internal capacity by beefing up the Municipal Financial Recovery Service (MFRS)²² in part of the study's findings. However, the study's results are helpful for understanding where and how previous interventions failed. Three factors appear to be critical to the success of an intervention:

- a) the state of the municipality *before* the intervention,
- b) the ability of the *administrator* to address the underlying problems and
- c) what happens when the intervention is *terminated*.

This leads to some clear steps that can be taken to improve interventions

What can be done to strengthen interventions?

Early intervention is critical. Municipalities should be placed under administration as soon as possible. As the Court argues in the *Lekwa* case, the Constitution compels intervention.²³

²⁰ Glasser, M. D., & Wright, J. (2020). South African municipalities in financial distress: what can be done?. *Law, Democracy & Development*, 24(1), 413-441.

²¹ Ledger, T. and M. Rampedi (2019) 'Mind The Gap: Section 139 interventions in theory and in practice'. A PARI report. Johannesburg: Public Affairs Research Institute.

²² MFRS was established in 2007 as a Directorate in the National Treasury within the Office of the Accountant-General - Chief Directorate: Municipal Financial Management Act (MFMA) Implementation as required by section 157 of Chapter 13 of the MFMA. One of the more recent reforms has been to move it out of Accountant-General's office into the Intergovernmental Relations division.

²³ Section 139(5) of the Constitution states: "If a municipality, as a result of a crisis in its financial affairs, is in serious or persistent material breach of its obligations to provide basic services or to meet its financial commitments, or admits that it is unable to meet its obligations or financial commitments, the relevant provincial executive **must** (a) impose a recovery plan... (b) .. dissolve the Municipal Council, if the municipality cannot or does not approve legislative measures, including a budget or any revenue-raising measures, necessary to give effect to the recovery plan... (c) if the Municipal Council is not dissolved in terms of paragraph (b), assume responsibility for the implementation of the recovery plan to the extent that the municipality cannot or does not otherwise implement the recovery plan." (our emphasis).

The powers and role of the “administrator” need to be clarified. These are often unclear. In almost all the interventions (which were under section 139(1)), the province appointed one person to be the “*administrator*” of the municipality, and this person then assumed full responsibility for all of the executive functions of the municipality, including key areas such as finance, supply chain management and service delivery operations. However, there was still contestation between the administrator and the council in many cases, as the Council was not dissolved in all cases.²⁴

Interventions should remain, as far as possible, technical exercises and should not be politicised. In the case of Kannaland, the municipality argued that it was placed under administration because the DA-controlled provincial government had political scores to settle. Ensuring that a rigorous evidence-based approach is taken to interventions reduces this risk (e.g., using the non-achievement of specific financial metrics such as cash flow as a basis for intervention).

Competent administrators need to be appointed. Ledger and Rampedi note that there are no guidelines / minimum qualifications for administrator appointments. eMalaheni Municipality (previous Witbank) in Mpumalanga, one of the largest local municipalities in the country, had an administrator from April 2013 to March 2015 who did not meet the legislated requirements for a municipal manager. Almost no progress was made under his watch.

It needs to be understood whether a municipality is distressed due to structural, governance or temporary reasons. Structural reasons – e.g., some municipalities face long-term socio-economic challenges (e.g., high unemployment and de-industrialisation) – are not easily solvable in the case of an intervention. That said, poor municipal management may often worsen the situation and well-designed interventions can begin the path of municipal improvement.

Contestation between the National / Provincial Treasury and COGTA needs to be reduced. Ledger and Rampedi (2019)²⁵ discuss the evolution of the different subsections of the intervention framework in the MFMA. They highlight the difference between interventions due to a lack of meeting an “executive obligation in terms of the Constitution or legislation” and interventions due to not meeting required financial metrics (e.g., not tabling budget timeously or inability to meet financial commitments) – the former falls under the auspices of COGTA, and the latter under Treasury. However, the lack of a clear framework for engagement between the two departments makes this difficult.

A clear “exit plan” needs to be devised. When and how municipalities exit intervention must be planned together with ensuring they will not enter into distress.

Strengthening the legal framework for intervention

The legal framework is one area of current interventions where there are weaknesses. Interventions are governed by the Municipal Financial Management Act, which is currently under review. This provides a valuable opportunity to strengthen the framework.

²⁴ Administrators are sometimes refused access to the municipal offices by Councillors and/or officials who dispute the intervention. During the intervention of Indaka in KwaZulu-Natal it was regarded as too dangerous for the administrator to even be in municipality.

²⁵ Ledger, T. and M. Rampedi (2019) ‘Mind The Gap: Section 139 interventions in theory and in practice’. A PARI report. Johannesburg: Public Affairs Research Institute.

However, COGTA has designed a separate process to enhance interventions. The Intergovernmental Monitoring, Support and Interventions (IMSI) Bill is a legislative framework that seeks to formalise the process of monitoring, supporting, and intervening in the governance of South Africa's provincial and municipal governments. It deals with both national interventions in provinces (section 100 of the Constitution) and provincial interventions in municipalities (section 139).

However, the Bill, on the face of it, deals separately with section 139(1) and 139(4&5) interventions. Section 139(1) interventions relate to executive obligations and fall more within the ambit of COGTA, while the 139(4&5) interventions relate to budget matters and fall more within the ambit of the relevant treasury. While these are, in theory, separate types of interventions, in practice, they often go together. For example, a municipality in significant financial distress usually cannot meet its service delivery obligations.

Having two Acts for interventions, one for section 139(1) and one for 139(4&5), will add to the existing complexity. The process of beginning an intervention is already complex, requiring multiple steps. While these steps are often designed to ensure that an intervention is appropriate (and not politically motivated), in practice, they can delay interventions and (as happened in the Kannaland case) cause the intervention to be set aside.

Lessons from interventions would strengthen the sections of the MFMA dealing with interventions. **A single piece of much simpler legislation, preferably an improved MFMA, would significantly enhance outcomes.**

CONCLUSION

South Africa's municipalities play a crucial role in service delivery and have the potential to drive economic growth and job creation. They must offer reliable, quality basic services and infrastructure to do so. Our metros and cities should become engines of economic growth and provide the scaffolding for businesses to prosper and attract investment.

Challenges like inadequate funding structures, technical skills shortages, underutilisation of grants and declining capital spending undermine their effectiveness. Many suffer from a severe shortage of capacity and engineering skills, governance issues, political interference, and financial stress, which have profound social and economic consequences. There are significant disparities in resourcing and urban versus rural priorities, which complicate reform efforts.

These systemic issues require targeted interventions like better planning, improved accountability, and the urgent recruitment of technical expertise. It also requires critically evaluating the current municipal structure, especially regarding secondary cities and district municipalities. Additionally, enhanced data collection to monitor and report on outcomes will be vital to reform efforts.

Our research note provides some practical recommendations to contribute to the discussion on these issues. Municipal capacity and skills must improve, political interference must be curtailed, trading services must be reformed, and the framework for municipal interventions must be refined. Further detailed technical assessments are necessary beyond these interventions as part of OV2.0's effort to improve municipal outcomes. Absent these changes, the economic impact of other structural reforms included in Operation Vulindlela will remain muted.