

# Financial Performance of Local Government in Limpopo Province, 2010-2012

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**Abstract:** Governance problems mar local government in South Africa's Limpopo Province, especially in relation to financial management. The province received the highest rate of unsatisfactory audit outcomes between 2010 and 2012 of any province in South Africa. This paper examines the various explanations for this situation and uses the datasets from the Afrobarometer and the audit outcome reports to compare the financial performance of the Limpopo local government and its municipalities with that of other South African provinces. One key finding is that employment recruitment patterns have a major influence on financial performance of the municipalities. In particular, an "informal" cadre recruitment approach has a negative impact on local government's financial performance. The paper thus concludes that the governing African National Congress has used a strategy that disregards competitive recruitment practices and rewards party members and those affiliated with the party with access to employment, especially in local government, which has detrimental effects on financial management of municipalities.

## Introduction

The establishment of democratic local government in South Africa in 2000 decentralized the decision-making powers from the center to the periphery. Municipalities are responsible for their own local planning and the preparation of their budgetary processes. The central government, however, remains responsible for providing resources in terms of funding and training and capacity building programs and continues to monitor local government programs or policy implementation. Despite huge investment in terms of resources (funding and capacity building programs), empirical studies suggest that many municipalities in South Africa, especially rural based local municipalities, are struggling to improve their performance in terms of financial management. For example, only two of the thirty municipalities in the Limpopo Province received "clean audit outcome reports" between 2010 and 2012. The performance of the municipalities also has empirical significance in relation to service delivery (e.g. provision of water, electricity, sanitation, infrastructure, etc.) to the local communities. The questions that this paper tries to answer are: why does the poor performance of the municipalities matter; and, why the variation in terms of financial

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performance between the municipalities in the Limpopo Province and those outside the province?

This paper argues that municipal variation in terms of financial performance within Limpopo and in relation to other provinces can best be explained by the differences in recruitment patterns being adopted by the individual municipalities. That is to say, the municipalities that apply meritocratic recruitment practices to run their administrations tend to be characterized by better institutional performance or quality pertaining to financial management (revenue collection and spending) than the municipalities that adopt a different recruitment approach. It then suffices to say that the two municipalities with clean audit outcomes in the Limpopo Province have adopted a meritocratic recruitment culture, which implies that key municipal officials have appropriate required competencies to discharge their official duties. For example, the Auditor-General has found that key officials in 72 percent of the municipalities in the Limpopo Province lack appropriate competencies and skills.<sup>1</sup> Therefore, the generally poor performance of the province's local government system implies that the national vision of achieving a clean audit by 2014 for all the government institutions including the municipalities throughout the entire South African local government system remains elusive.

### Research Design

Limpopo Province is a rural province with approximately 5.6 million people, according to *Statistics South Africa*, with over 90 percent of the population residing in the rural areas.<sup>2</sup> Limpopo Province's local government has five district municipalities and twenty-five local municipalities. In terms of Section 83(3) of the Local Government: Municipal Structures Act and the South African Constitution, the district municipalities are responsible for building the capacity of local municipalities in their jurisdictions to sustainably delivery services and develop the local economy.<sup>3</sup> The district municipalities are further required to ensure that local municipalities have the necessary capacity to manage their finances in line with the relevant legislation such as the Local Government Municipal Finance Management Act of 2003.

Undoubtedly, Limpopo Province shares many similarities and few differences with some other rural South African provinces. For example, provinces such as the Eastern Cape, Mpumalanga, Kwa-Zulu Natal, the Northern Cape, and the North West are considered as rural and serving mostly rural communities. According to South African Institute of Race Relations, these rural and poor provinces experienced overall higher net out-migration between 2001 and 2011 than net in-migration for the urban provinces of Gauteng and the Western Cape.<sup>4</sup> Rural provinces experience huge net out-migration because their people are attracted to the urban provinces by better prospects of work and a decent standard of living. Many other provinces also have diverse ethnic groups and few provinces like the Eastern Cape (predominantly Xhosa speaking), Kwa-Zulu Natal (predominantly Zulu speaking), and North West Province (predominantly Tswana speaking) seem ethnically homogenous. The differences lie in their sizes in terms of area and number of established districts and local municipalities in each province, but size does not matter in explaining the financial performance of municipalities.

Successive reports of the Auditor-General show that Limpopo and Eastern Cape local governments are often the worst performing municipal institutions as compared to their rural counterpart municipalities.<sup>5</sup> Limpopo Province's local government is chosen as the

study site because the province is politically stable but was placed under “administration” or intervention by the national government in terms of Section 100 (1)(b) of the South African Constitution.<sup>6</sup> However, the levels of service delivery protests in Limpopo Province were relatively low in 2010/11 as compared to provinces such as Gauteng, Western Cape, and Eastern Cape. This does not, however, suggest that there are no problems in the Limpopo Province, especially in terms of service delivery and financial management. Limpopo Province's local government offers rich empirical evidence for scholarly inquiry into recruitment patterns that are implemented at the local level. Furthermore, given its rich ethnic diversity and existence of two major academic institutions, we should expect the province to be able to recruit meritocratically from a pool of skilled and competent graduates to drive public service delivery implementation. Financial performance of all municipalities in Limpopo Province was assessed using the audit outcome reports from the Auditor-General, thus complimenting the existing dataset from the Afrobarometer.

### **The Role of Local Government in Post-Apartheid South Africa**

South African local government consists of two hundred and seventy eight municipalities, which are made up of metropolitans, districts, and local municipalities differing in sizes and scattered across the nine provinces. This simply means that South Africa has a two-tier system of local government, with the first tier being made up of metropolitan and larger district municipalities and the second of small local municipalities. Limpopo Province lacks a metropolitan municipality because it is mostly rural. The legal framework for local government is contained in Chapter 7 of the Constitution of South Africa, which outlines the structure, composition, and object of this sphere of government.<sup>7</sup> Further supporting legislation that elaborates on the structures and mechanisms of local government include the Local Government Municipal Structures Act and the Local Government Municipal Systems Act.<sup>8</sup> Furthermore, the Local Government Municipal Finance Management Act details financial management responsibilities and accountability mechanisms for municipalities.<sup>9</sup> Based on this legal framework and the Constitution, local government has been charged with the responsibility of implementing the local sphere's policies and programs, which are largely drawn from national vision. Thus specifically, local government is responsible for the following, among others: a) providing democratic and accountable government to the local communities, and b) ensuring the provision of quality services to the communities in a sustainable manner.

Based on the above constitutional mandate for local government, it is clear that local government is the central government's service delivery arm. This suggests that the central government remains responsible for setting the national developmental agenda or vision for implementation by both provincial and local governments and to monitor their activities. To reiterate, the center remains solely responsible for funding local government to enable public goods provision at the local level. In other words, power is decentralized to the municipalities to implement the national development agenda. In similar vein, van der Waldt and Thornhill concur that local government is at the center of public good provision since it is often the first point of conduct between an individual or communities and the central government or even the provincial government.<sup>10</sup>

### **Theoretical Explanations for the Variations in Local Government Institutional Performance**

Local government performance can be explained and evaluated from several perspectives. The first line of thinking emphasizes citizen engagement and participation.<sup>11</sup> Proponents of citizenry engagement and participation theory argue that without involvement and participation of local communities in governance affairs, public institutions like the municipalities, for example, are less likely to improve their performance in terms of provision of public goods and services as well as managing public funds. While community engagement and participation is emphasized in democratic contexts for promoting institutional performance, in African contexts of hybrid democracies it can contribute to ensuring accountability in the use of public resources by government institutions and the consolidation of democracy at the local level.

As Grosso and van Ryzin correctly point out, public institutions inform citizens about their financial performance through mechanisms such as annual reports, the media by reporting on incidents of financial mismanagement, press releases, word of mouth, or public hearings. However, citizens normally do not engage or scrutinize these financial statements contained in the annual reports of public institutions like the municipalities.<sup>12</sup> This is because of the complicated structure of the annual reports of the government institutions, especially with the financial statements, which are often difficult for an ordinary person with a limited educational background, especially in finance or financial accounting, to understand and follow. To understand the language contained in the annual reports, one needs to have been appropriately trained to grasp and understand the meaning of the financial concepts or jargon used in the financial statements. The same holds for the language or concepts always used by the auditors when giving an opinion about the financial statements of state institutions. Undoubtedly, ordinary citizens are not afforded the opportunity to be capacitated or trained by, for example, the Auditor-General in order to understand audit language. Although the theory of citizen engagement and involvement is applicable to public institutions like municipalities, it cannot be applied to a private institution to analyze its performance in relations to financial management. Another theory limitation for the public sector is that citizens are often involved in the conceptualization and the early planning phases such as budget preparations of development programs and not during policy or program implementation. The implementation phase is always left to the officials of the municipalities with the “technical know-how.” Even though the theory is directly applicable to public sector institutions, it cannot be used to explain the variations in terms of financial performance within and between municipalities in Limpopo and elsewhere in South Africa.

Another perspective on local government performance theorizes that cadre deployment or what is commonly known elsewhere as the political appointment system enhances the performance of public institutions like municipalities.<sup>13</sup> As noted by Kopecky, cadre deployment is normally brought about by the governing political party or parties.<sup>14</sup> It must be understood that government is constructed and consolidated by political parties, which means that they directly influence the performance of government institutions. When the governing political party or parties enter, construct, and consolidate their own government identity, they usually do this by dispensing political patronage via state jobs for their party supporters and party loyalists to bargain over policy output. Empirical research shows that patronage politics or simply a political appointment system is a global phenomenon or an

inherent feature of all governing political parties worldwide. Various reasons are provided for this recruitment approach by the governing political parties. From the cadre deployment perspective, the system helps to mitigate the risk of intra-party rebellion in the face of electoral defeat or unpopular decisions made by the governing political party.

Moreover, cadre deployees or simply political appointees provide checks and balances on the formulation and implementation of the policies of the governing party within all government institutions including the municipalities. In other words, political appointees serve as the eyes and ears of the governing party or parties, thus always monitoring the level of support for the governing party's policy goals within state institutions. According to this theory, cadre deployment assists to minimize potential harm to government policy vision by public servants, especially from those who might be supporting the opposition political parties. However, Kanyane, Muller, Picard, and Africa and Mosiane have vigorously criticized this theory for promoting and tolerating mediocrity, power struggles, patronage politics, corruption, and nepotism in the civil service, thus resulting generally in the poor performance of the government institutions.<sup>15</sup> Similarly, Kopecky argues that cadre deployment provides party leaders with the means to maintain party organizations by distributing "selective incentives" to party loyalists or activists and party elites in exchange for organizational loyalty or other benefits.<sup>16</sup> In similar vein, Butler concurs that the growth of political appointments and deployment of under-qualified or inappropriately qualified political loyalists to public service positions in all spheres of government including local government undermine the effectiveness of the South African state.<sup>17</sup>

Further criticisms are leveled against the cadre deployment system in that this recruitment approach politicizes rather than professionalizes local government throughout South Africa. Lack of competencies on the part of municipal officials is well captured thusly: "The greatest injustice is committed when patently incompetent and unqualified people are deployed into administration as municipal managers, chief financial officers, and head of ...technical services."<sup>18</sup>

Cadre deployment as a recruitment pattern is not a legislated policy of the South African government. This means that the system is not a formal state policy but rather a policy of the governing African National Congress. It thus suffices to suggest that the cadre deployment system is an "informal" recruitment approach used mainly by ruling political parties not only in South Africa but also elsewhere in the world. Similarly, Dahlstrom et al gives an example of a Spanish mayor who between 2001 and 2003 replaced "merit-recruited" state officials with political appointees. As a consequence, the mayor coordinated with ease his corruption intensions with the people he himself had appointed based on political patronage.<sup>19</sup> Undoubtedly, this works against state performance in public goods provision and fiscal management, especially when one party remains in power for extended periods of time and/or dominates both the legislative and executive branches of government. This is true as well as if there is frequent turnover. In the former situation, the governing party or parties becomes accustomed to accessing privileges, while in the latter where they come and go or their political term in government is very limited, there is a greater incentive to benefit in the short term. Wasilenski, for example, illustrates two similar versions of cadre deployment as a recruitment pattern in Poland in the 1970s and 1980s, prior to the collapse of the Soviet Union.<sup>20</sup> According to Wasilenski, the first recruitment pattern required a job candidate's commitment to the ruling party's dominant and operating ideology, which took precedence over anything else. The second recruitment pattern, which replaced the first approach, was known as "party-specialist." With the party-specialist

approach, a job candidate was first expected to be a card-carrying member of the political party and at least a diploma or degree holder but political requirements were of greater importance than educational credentials that were treated just as a pure formality.

In the South African local government system, with specific reference to Limpopo Province, the governing ANC has used cadre deployment as a recruitment approach to dispense political patronage to its party loyalists and supporters. The cadre based recruitment strategy, according to the South African Institute of Race Relations (SAIRR), is based on a Marxist-Leninist model of government in which the party card carrying members dominate not only in local government but also in other spheres of government.<sup>21</sup> SAIRR argues that the two systems might have been regarded as formal depending on the historical circumstance during that era, but nowadays these two recruitment approaches may not be formalized in any democratic nation.

This paper argues that a cadre deployment system neither promotes performance of municipalities not only in Limpopo Province but across the country nor assists in building administrative capacity of the municipalities. It is worth noting that the cadre deployment system has been applied in not only Limpopo Province but throughout the entire local government system in South Africa. In spite of the municipal mayors and speakers, for example, empirical evidence suggests that the appointment of municipal managers and chief financial officers is based on party considerations rather than legally prescribed requirements like educational qualifications and competencies. This simply suggests that municipal managers and other senior municipal officials are all politically appointed within the municipal administrations. As noted by Weber, selection of the administrative chiefs (i.e. municipal managers) and his or her immediate subordinate officials by governing political parties usually endangers the expert qualification requirements of the officials as well as the effective functioning of the bureaucratic administration.<sup>22</sup> However, some municipalities within Limpopo Province and other provinces have been performing better in terms of financial management with this recruitment approach in place. The difference, I argue and will provide evidence in this paper, lies in the integrity and merit of individual candidates to lead those municipalities. As a result, we cannot use this theory without modifying it to explain variations in term of financial performance within and between municipalities in the Limpopo and other provinces in South Africa.

The third line of thinking theorizes that ethnic heterogeneity shapes or explains good group performance within or between institutions, while, in contrast, ethnic diversity impedes or leads to under-performance.<sup>23</sup> This theory suggests that ethnically homogenous communities or institutions are more likely to be characterized by better performance. Easterly and Levine argue that ethnically diverse groups are more prone to fraud and corruption and political instability as well as poor institutional performance or quality.<sup>24</sup> These scholars use high levels of ethnic diversity in the United States to explain the lower provision of local public services across municipalities. Furthermore, Alesina et al. argue that different ethnic groups prefer distinct types of public goods and avoid mixing service delivery priorities across ethnic lines.<sup>25</sup> This simply suggests that there is always ethnic competition among diverse ethnic groups that can either limit or enhance the performance of local institutions like the municipalities.

South Africa is a multi-racial and multi-ethnic country, and Limpopo Province's local government has a diversity of ethnic groupings, which include Venda, Pedi, Tsonga, and Ndebele, and racial groups include Africans, Indians, Coloureds, and Whites. This clearly

shows that the province's population is not ethnically and racially homogenous but rather a very diverse one. But, this diversity in terms of ethnicity and race does not better explain the poor financial management performance of the municipalities. Again, at the district level, the Limpopo provincial local government has diverse ethnic groups, but certain ethnic groups tend to be more dominant than others. For example, Mopani district municipality is predominantly populated by Tsonga speaking people, whereas Sekhukhune district municipality is predominantly populated by the Pedi speaking ethnic group, but there are also Venda and Ndebele speakers living and working peacefully within these districts.

It then suffices to argue that there are just no opportunities for homogeneity in terms of ethnicity in Limpopo Province's local government, but the same does not hold for homogeneity in terms race in the province. As Ferree asserts, race has historically been an extremely important indicator of interests in public affairs in South Africa, while ethnicity has not.<sup>26</sup> Thus local ethnic competition is actually quite rare not only in Limpopo but in other provinces, which tend to have a mixture of most of South African ethnic groups, and all these ethnic groups mostly shared or experienced similar apartheid atrocities. Therefore, this paper concludes that ethnic diversity cannot be used as a better explanation for the financial performance variations within and between the municipalities in Limpopo Province and elsewhere in South Africa or that ethnicity cannot be predictive of local government financial performance in South Africa.

Bratton and Sibanyoni correctly argue that citizens' perception on the performance of the municipalities in South Africa is influenced by factors such as race, the demographic profile of citizens, geographical locale, level of education, public participation in municipal affairs, and access to information.<sup>27</sup> Rural and black populations, for example, are less likely to be satisfied with the performance of the local government in relation to financial management and service delivery than are urban dwellers. This is because, according to Bratton and Sibanyoni, the black population see democratization often through the lens of the socio-economic delivery of services. Between 2004 and 2006 and using the Afrobatometer dataset, these scholars examined citizen perception about the performance of the South African local government on financial management (revenue collection and spending). They found that 85 percent of the municipalities in the Limpopo province did not handle their budgets well.

Kellough and Murphy and Cleveland warn that it is often difficult to measure performance of public institutions like the municipalities through subjective public perceptions.<sup>28</sup> The difficulty arises from most of the measurement tools of public sector performance, which are perceptually influenced by different personal factors. For instance, some measurement tools rely on employees' assessment of managerial performance or public opinion on the performance of government institutions. In similar vein, van der Walle agrees that the application of public sector performance indicators is purely subjective based on people's perceptions of very small sample size.<sup>29</sup> Bratton and Sibanyoni also highlight similar limitations of public opinion, thus arguing that subjective public perceptions, rightly or wrongly, guide mass action in democratic societies.<sup>30</sup>

To mitigate this methodological limitation, this paper complemented public perception about the financial performance of the Limpopo Province's local government with institutional audit outcome reports from the Auditor-General, who specifically audits the financial statements or books of all government institutions. The Auditor-General does not only assess the financial management capacity of the municipalities but also the service delivery performance of these institutions in what it is referred to as a "performance audit."

Once the Auditor-General completes the auditing process based on facts and performance evidence presented to the auditors, he/she then gives an opinion in accordance with international auditing standards. These audit outcome reports are highly trusted and used by oversight bodies such as the legislatures through their parliamentary oversight committees in provincial government and local government as practical tools to measure the financial performance of all government institutions.<sup>31</sup>

At the local government level, the audit outcome reports from the Auditor-Generals are usually used mainly by politicians or the municipal councils through the Municipal Public Accounts Committees (MPACs) to hold the municipalities financially accountable. The Standing Committee on Public Accounts (SCOPA) is responsible for holding the executive financially accountable at the provincial and national levels. Nevertheless, in the Limpopo Province's local government, we cannot assume that these parliamentary structures were effective in discharging their oversight function because they were established towards the end of 2011 and the beginning of the 2012. Although 100 percent of the municipalities in the province by mid 2012 had created the MPACs, the municipalities were still in the process of developing and building the required capacity of these oversight structures to operate effectively. Moreover, many members of municipal councils were still new to the local government system after the 2011 local government elections and thus still receiving training or being inducted in order to build and strengthen their capacity with regard to oversight and lawmaking functions.

The last line of thinking emphasizes building the administrative capacity of the institutions from the foundation up to improve performance through instituting pure meritocratic recruitment practices. The theory of meritocracy stems from the notion of "bureaucracy" conceptualized by Max Weber in the nineteenth century. Admittedly for Weber, how institutions are designed and internally configured remains critical to either promote or stifle organizational performance and growth.<sup>32</sup> For Weber rational-legal institutions are designed to promote the rationalization of institutional tasks and goals. As such, the basis for a rational-legal institution like a municipality, for example, is "expert-officialdom" or simply meritocracy. Kranze and Slomczynski as well as Bell define the concept of meritocracy in terms of educational achievements since they talk about "educational meritocracy."<sup>33</sup> These scholars choose this criterion not because they believe merit equals education but simply because education plays an important role in the discussion of meritocracy. Education and training, for example, provide a foundation upon which the development of competency rests. Merit-recruited officials always enter the office with an understanding that office holding is a vocation. According to Weber, this is first shown in the requirement of a firmly prescribed course of training, which demands the entire capacity for work and in the generally prescribed and special examination, which are prerequisite for employment.<sup>34</sup> In other words, the possession of educational certificates is usually linked with the qualification for municipal office. Moreover, such officials understand that office holding is a source not to be exploited for rents or emoluments but is an acceptance of specific obligations of faithfulness in return for a secure existence.

This paper strongly argues that the above theory can better explain the financial performance variations within and between the municipalities in the Limpopo Province and elsewhere in South Africa. I argue that the theory of meritocracy or meritocratic recruitment provides the most compelling explanation of local government performance, especially in relation to financial management. To reiterate, expert-officialdom simply means that access



to bureaucratic office is dependent upon lengthy training in a field of specialization, usually certified by public examination and possession of a university or college degree.<sup>35</sup> From Weber's analytical framework, we can interpret clearly that he was promoting hiring and promotion of organizational candidates based on technical competency acquired through education and training processes, of which some scholars such as Rauch and Evans would emphasize as critical and necessary for the local state to become developmental.<sup>36</sup> Conspicuously, expert-officialdom requires that recruitment and selection practices within both private and public sector institutions should be based solely on merit rather than political patronage politics as is the case with a cadre deployment system.

Expert-officialdom or meritocracy is clearly similar to the recruitment approach termed "loyal-expert technique," formally adopted by Poland in the 1990s to improve and sustain the performance of government institutions.<sup>37</sup> This type of recruitment approach became formal in many developed and newly industrialized countries and was legislated through government policies and/or constitutions. Chang and Fukui and Fukui illustrate that the recruitment and the appointment of the public servants in Japan, for example, is made on the basis of a legally binding national examination system.<sup>38</sup> The same examination system holds for the public servants in Australia.<sup>39</sup> The theory of meritocracy is what this paper is emphasizing to first build the administrative capacity of Limpopo provincial local government in order to sustainably improve performance not only in relation to financial management but also to other service delivery areas (e.g. infrastructure, housing, electricity, roads, water, sanitation, etc.). With meritocracy as the formal recruitment approach, political engagement and involvement as well as the political preference of job candidates are not to be a subject matter of recruitment and appointment procedures, as long as the potential candidate has the required skills and knowledge and declares his or her allegiance to the country's constitution. Weber points out that in every sort of recruitment of officials by deployment, political parties naturally give decisive weight not to expert considerations but to the political activism a follower renders to the party bosses.<sup>40</sup>

In contrast, expert-officialdom or meritocracy as a recruitment pattern undeniably promotes the professionalization of institutions rather than politicizing them. Fortunately, this has been recently realized by the South African state in 2011 through the Local Government: Municipal Systems Amendment Act.<sup>41</sup> Undoubtedly, the state is aimed at professionalizing municipalities by providing that professional qualifications and experience become the criteria for governing the recruitment and appointment processes, especially for all senior municipal officials. In other words, personnel appointments at the managerial level in municipalities are now supposed to be merit-based instead of party-based. The Act further provides that senior politicians at any level of the political party or parties structures are not to be appointed to the apex of the institutional structure of local government as officials. However, the Act made an exemption for municipal officials, especially politicians, who were already in the municipal administrations as officials in the sense that the Act's provision did not apply to them when it took effect. Interestingly, the Act harshly disciplines the municipal officials who are deemed corrupt by declaring that re-employment of any dismissed municipal official, especially in cases of financial misconduct, is unlawful for a period of ten years. The impact of this necessary reform in local government may be undermined by non-compliance, which is major problem in the South African local government system, on the part of the local politicians and officials who for many years treated municipalities as their fiefdoms.<sup>42</sup>

Notwithstanding the above Act, Ritzer correctly points out that professionals or specialists contribute to the rationalization of rational institutions much as rationalizing institutions conversely contribute to the development of the profession.<sup>43</sup> A professional is distinguished, as Max Weber argues, from a non-professional person by his or her professional equipment of specialized knowledge, fixed doctrine, and vocational qualifications.<sup>44</sup>

The simple question becomes: why do various scholars emphasize promotion and enforcement of meritocracy in the state institutions? This is because well-trained and competent persons can multi-task, analyze a very complex situation, and apply rational decision making to address the identified challenges at hand. Weber correctly states that if a specialist is in charge of each work function, the executive manager would be certain that an educated and expertly trained person is responsible for that work function.<sup>45</sup> Implicitly the importance of individual persons comes into play in the discussion of meritocracy. People, not the machines, structures, or technology, bring knowledge, expertise, and competencies to bureaucratic organizations. All these important individual attributes are, of course, acquired through formal education and training but also through informal training; hence we speak of tacit knowledge. Similarly, Macaulay cited in Muller argues that through education and training individuals acquire conceptual knowledge (knowing what), procedural knowledge (knowing how) and strategic knowledge (knowing what to do when).<sup>46</sup> These different attributes are used to describe human capacity or competence in office. Arguably possession of individual capacity is in turn used to describe institutional capacity, not the other way round. However, institutional capacity is not only understood in terms of individual capacity, as Levin and Chikane correctly argue, but also in terms of bureaucratic structures, protocols, systems, and technology.<sup>47</sup> While this is true, it is people through their expertise and competence who develop good organizational structures, strategies and put in place good systems and processes to drive organizational development and performance in order to maximally achieve its goals.

Lastly, according to this theory, meritocracy promises equal opportunity to every job candidates irrespective of ethnicity, race, gender, class, geographical region, etc., and protection from an arbitrary dismissal. In a similar tone, Weber and Andreski argue that meritocracy in organizations ensures that a middle class or peasant educated person has the same job opportunity of entry into an employment contract as does an upper class or wealthy person.<sup>48</sup>

### **Variations in Financial Performance on Municipalities Among Provinces**

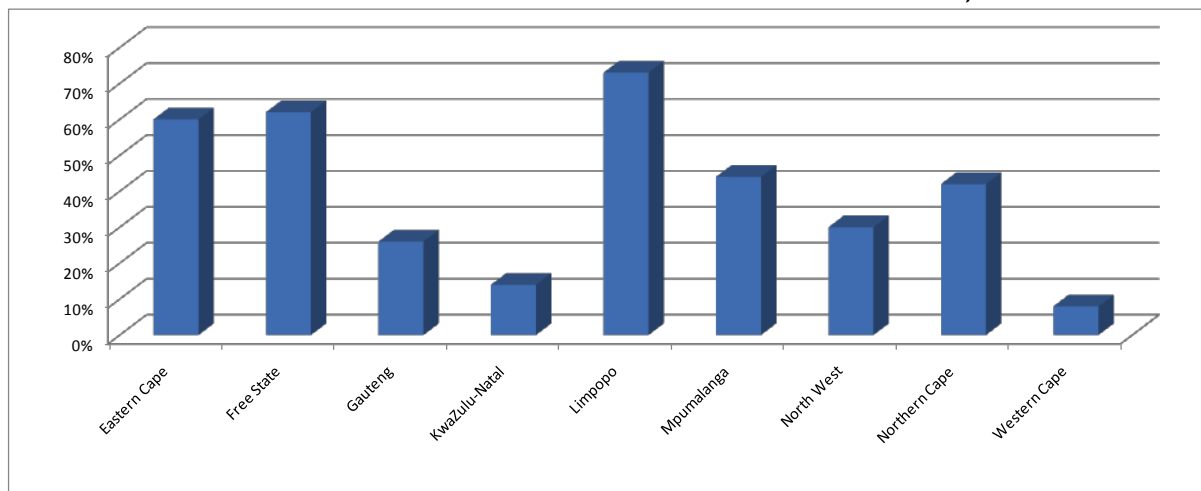
Municipalities are expected to develop effective financial management systems to ensure efficient and effective use of monetary resources in such a manner as to accomplish institutional objectives and financial sustainability. The purpose in the public sector is to prevent financial waste (e.g. overspending, a persistence of negative cash balances) and other avoidable expenses (fruitless and wasteful as well as irregular expenditures) when providing public goods and services to the citizens. Since there is high demand for financial accountability in the local civil service through the Local Government: Municipal Finance Management Act, local government is expected to keep all payments and receivables transparent. Therefore, financial performance is the process of measuring the results of the institution's policies and operations in monetary terms. In local government the audit process is used as tool to measure the municipality's overall financial health over a given

period of time. The audit process is further used to compare similar municipalities across the local government system or to compare the sector in aggregation with regard to financial management and public goods provision.

There are various and interested actors involved in analyzing the financial performance of local government in South Africa, and these actors include the national and provincial legislatures, municipal councilors, the general public, creditors, auditors, tax authorities, and other spheres of government. To measure or analyze the financial performance of a municipality, we use financial statements. Although financial statements do not reveal all the information related to the financial position of a municipality, they do however provide some useful information. Such information highlights two important factors of financial soundness and sustainability. Development of sound financial management systems and effective internal controls within the system of local government not only in South Africa, but elsewhere requires the appointment of competent candidates with appropriate skills and expertise to plan and control the finances of the municipalities. The area of financial management is a much specialized area of which not every person can run with without appropriate and lengthy training and education.

Therefore, from the audit outcome reports of the Auditor-General, there are serious variations in terms of financial performance between Limpopo Province's local government and municipalities in other provinces. Empirical evidence suggests that the Limpopo's local government performs more poorly in financial management (revenue collection and spending) than other provinces. These variations amongst the provinces are illustrated by Figure 1 below:

**FIGURE 1: UNSATISFACTORY MUNICIPAL AUDITS BY PROVINCE, 2010-2011**



Source adapted: Deloitte & Touche. *The Local Government: Achieving the Elusive Dream of Sustainable Turnaround and a Clean Audit.*<sup>49</sup>

Figure 1 shows that the governance problems mar the Limpopo Province's local government regarding public goods provision and financial management more than many other provinces. Limpopo Province topped the list of provinces with the highest percentage of "unsatisfactory audit outcomes" at 82 percent in the 2010/11 financial year, and this increased to 93 percent of unsatisfactory audit outcomes in the 2011/12 financial year. In other words, the financial performance of the municipalities increasingly regressed rather than improving. Unsatisfactory audits mean that local government experiences high levels of irregular expenditure, unauthorized expenditure, and fruitless and wasteful expenditure.

The Auditor-General found the root causes of the problem in Limpopo Province are that key municipal positions remain vacant and also key officials within the many municipalities lack the appropriate competencies and skills. That makes it difficult for almost 73 percent of the municipalities to produce credible financial statements and performance reports.<sup>50</sup> In addition, a lack of consequences for poor performance and transgressions of the applicable laws contribute to poor audit outcomes for municipalities.

It then suffices to say that the financial position of municipalities in the Limpopo Province has not drastically changed compared to what Afrobarometer survey found in 2006.<sup>51</sup> For example, in the 2006/07 financial year 85 percent of Limpopo Province's municipalities had received unsatisfactory audit outcomes.<sup>52</sup> This audit evidence suggests that the municipalities in the province are struggling to manage their finances. To reiterate, this is because inappropriately qualified and inexperienced candidates have been appointed as chief financial officers through a cadre deployment system. Undoubtedly, the lack of appropriate skills in the municipalities results in a significant use of consultants to prepare the financial statements of the municipalities. On this aspect, the Auditor-General found that the municipalities neither have a policy on the use of consultants nor do they even monitor and evaluate the consultants' work to ensure the projects succeed in their objectives. The paper further strongly argued that municipalities do not always determine whether the outsourcing of services to consultants is a more cost effective option than creating their own internal financial management capacity in relation to preparations of the financial statements. However, we observed that in 2009 the municipal audit outcomes for the Limpopo Province sharply decreased to 39 percent and we do know exactly what contributed to this sharp improvement. Notwithstanding this improvement, the Limpopo local government failed to sustain this good audit record when it recorded over 82 percent of unsatisfactory audit outcomes in the 2010/11 financial year.

Comparatively speaking, Limpopo Province shares some similarities Kwa-Zulu Natal, Mpumalanga, North West, and Northern Cape. Despite their similarities, empirical evidence, however, suggests that these other rural provinces performed better in terms of financial management than Limpopo Province as illustrated by the audit outcome for the 2011/12 financial year. From Figure 1, it can be deduced that less than 25 percent of the municipalities in KZN received unsatisfactory audit outcomes, while Mpumalanga, North West and Northern Cape received 44 percent, 29 percent and 42 percent respectively during the same period. These results suggest that the other four provincial local governments improved on their financial management more than Limpopo Province's local government, which obviously regressed. It must be noted that the national government intends to achieve 100 percent of clean audits not only at the local government level but also at the other spheres of government by 2014. One does not however believe that this vision is achievable by 2014, given the highest number of unsatisfactory audits in provinces like Limpopo and the Free State, which also received more than 69 percent of unsatisfactory audit outcomes in the 2011/12 financial year. The Auditor-General agrees that the progress towards clean audits is very slow with the number of clean audits remaining at the same low level of 5 percent throughout the South African public service for the past three years. He further remarked: "Limpopo Province's latest local government audit results also showed a number of regressions and an increase in unauthorized and irregular expenditure."<sup>53</sup>

Moreover, it has been found that there is no correlation between municipal integrated development plans (IDPs) and the delivery budget. And now the question is why so many

municipalities in some provinces like Limpopo and Free State receive higher rates of unsatisfactory audit outcomes in terms of financial performance than provinces such as Gauteng and Western Cape? Empirical research shows that although Gauteng and Western Cape Provinces experienced high rates of municipal service delivery protests between 2010 and 2012, they however received high rates of “unqualified audit outcomes.”<sup>54</sup> Therefore, future research may assess why robust financial management by municipalities in Gauteng and Western Cape does not automatically translate into good and quality service delivery on the ground.

Nevertheless, one answer to the above question lies in the greater capacity deficit in some provinces than others, as suggested by Picard, the African Peer Review Mechanisms Report, Nyalunga, and Levin.<sup>55</sup> The issue of capacity deficit brings in the issue of recruitment practices being adopted by individual provinces or individual municipalities. APRM Report argues that capacity deficit within and between provincial municipalities stem from, among other causes, an inability to recruit and retain the requisite personnel, especially in small and rural based municipalities. In addition, the rural municipalities do not always use the opportunities available for skills development of their officials despite huge funding from the national government.

With regard to recruitment patterns, the paper argues that the Limpopo Province's local government has always followed the “party-specialist recruitment approach” or a Marxist-Leninist model to build administrative capacity of the rural based local municipalities. In the party-specialist recruitment approach, political credentials such as the political party membership card more than educational credentials take precedence over anything else when appointments to municipal offices are made. Moreover, the party-specialist recruitment pattern implies that the governing political party dispenses more political patronage in the form of government jobs to its party loyalists and supporters. The Auditor-General Report concurs that most worst performing municipalities were found to have senior municipal officials such as chief financial officers, who could not keep sound financial records and achieve clean audits. These municipalities are characterized by the persistent use of costly external consultants to do the work that “well-paid” municipal officials should themselves be able to carry out. This suggests that chief financial officers of these municipalities did not have a good understanding and knowledge of the financial management principles.<sup>56</sup> As a consequence, municipal officials are unable to detect early critical issues of financial misconduct such as unauthorized expenditures, wasteful and fruitless expenditures, and irregular expenditures.

The Auditor-General makes a similar observation that the worst performing municipalities are unable to identify financial misconduct themselves due to a lack of administrative capacity, since the problem gets revealed only during the audit process. Ramphela argues that it is undeniable that possession of academic qualifications and or prior work experience is regarded as secondary during recruitment and selection processes in local government throughout the provinces.<sup>57</sup> Other political commentators and scholars have also identified as problematic a cadre deployment or political appointment system that is being massively applied in local government especially in rural provinces. Some commentators further argue that being black and or well connected politically is often regarded as sufficient qualification to secure local government jobs, even if one has neither the qualifications nor the competence to perform the job at hand.

The paper however argues that with a cadre system it remains important for politics to justify why a particular chosen candidate has the qualification credentials, competencies,

and abilities to meet the job requirements and how the appointment qualifies as an exception to the competitive recruitment practices. In contrast, Kretzschmar, for example, illustrates that in Western culture a candidate's suitability for a job is assessed mainly on the basis of qualifications, skills, and experience. In short, competence is more important than political connections.<sup>58</sup> In a similar tone, Weber points out that the superior qualification and integrity of federal judges appointed by the US president is well known, but these judicial officials have been selected primarily in terms of party considerations.

### Variations Within the Municipalities in Limpopo Province

The financial performance of both the districts and the local municipalities within Limpopo Province's local government also varies greatly. Only two municipalities, namely Fetakgomo Local Municipality and the Waterberg District Municipality, were able to achieve clean audits between 2010 and 2012. This suggests that the two municipalities were able to handle their budgets well, and they have maintained that status for three consecutive financial years, whereas the rest of municipalities in the province failed to reach this status. In as much as clean audits are a concern, it could be argued that the two municipalities may have adopted "loyal-expert" recruitment pattern, which gives precedent to academic credentials, the competencies, skills, and allegiance to the country's constitution over political involvement or political considerations. Fetakgomo Local Municipality was found to have recruited the youngest and brightest chief financial officer with the relevant financial training and expertise who has introduced good financial management systems and internal control systems within the municipality. The same holds for the Waterberg District Municipality. Table 1 below illustrates the uneven performance of the municipalities within the system of the Limpopo Province's local government between 2010.

**TABLE 1: LIMPOPO MUNICIPAL AUDIT OUTCOMES FOR 2009-10 AND 2010-11**

Audit outcome	Municipalities	
	2009-10	2010-11
Clean audits	1	2
Financially unqualified with findings	8	3
Financially unqualified financial statements	30%	17%
Qualified Opinion	12	12
Adverse opinion	0	3
Disclaimer of opinion	9	7
Number of audit reports not issued by 31 <sup>st</sup> January 2012	0	3
Prior year audit outcomes of 2010-11 audits outstanding		
Financially qualified financial statements	70%	83%
Total number of audits	30	30

Source: Auditor-General Report.<sup>59</sup>

Table 1 illustrates variations in terms of the performance of financial management within the Limpopo Province municipalities. There are both improvements and regressions

in audit outcomes within the municipalities for the 2009/10 and 2010/11 financial years. In the 2009/10 financial year at least 30 percent of the municipalities were financially unqualified with findings. This result suggests that there were areas that required the municipal political leadership's attention through the municipal councils and the municipal administration's intervention in order to improve financial management internal control systems and compliance with applicable laws and regulation. There is also a need to address issues of unauthorized expenditures, irregular expenditures, and fruitless and wasteful expenditures. The slow municipal political leadership response to address the identified root causes of poor audit outcomes in has been highlighted by various reports of the Auditor-General. However, the above percentage regressed to 17 percent in the 2010/11 financial year as the results of the three municipalities receiving adverse audit reports from the Auditor-General. It is clear that the municipalities within the province itself struggle to maintain or sustain their previous year audit status, thus implying that local government's financial performance tends to fluctuate every year.

It has been observed that the financial performance of the municipalities improves where there have been an involvement of consultants to assist in producing credible financial statements but always regress after consultants had left the municipality. This is because the municipalities themselves create no internal capacity through the assistance of the consultants or even allow the consultants to transfer the skills internally. Empirical evidence suggests correctly that many of the external consultants throughout the entire South African local government system are in reality former civil servants who left the public service so as to come back and draw wealth from the government through selling and also benefiting from post-maintenance contracts of their most complicated IT systems and also preparing the state institutions' financial statements. Notwithstanding the consultants, it could be argued that given the financial performance fluctuations there is no transfer of skills during involvement of consultants within municipalities but yet municipalities spend millions of rands on outsourcing services.

Furthermore, and to reiterate, Table 1 suggests that the number of municipalities with a clean audit (financially unqualified with no findings) increased from one (Fetakgomo Local Municipality) in 2009/10 to two to include Waterberg District Municipality in 2010/11. Of course, this improvement is very minimal as it only constituted 3 percent of the total number of the municipalities in Limpopo Province. As noted earlier, the Auditor-General Report concurs that the two exceptional municipalities with clean audits were characterized by a high number of officials in key positions of power and control—meaning at the senior management level with the required minimum competencies and skills to perform their functions and a capacity for high performance—as well as a municipal political commitment or will and political ownership to implement the previous Auditor-General's recommendations.<sup>60</sup> That said, the "loyal-expert" recruitment approach adopted by these municipalities assisted them in building their institutional capacity, which is lacking in other municipalities within the province. Lastly, Table 1 further shows that only three municipalities were not audited for the period of 2010/11 financial year, perhaps because their financial statements were not yet ready for submission to the auditors by the cut-off date for the audit submissions, for which the Auditor-General makes no exceptions. These findings suggest an unpredictable and uneven financial management performance of Limpopo Province's local government. In similar vein, the South African Institute of Race Relations (SAIRR) argues that 27 percent of the municipalities in Limpopo Province are in "financial distress."<sup>61</sup>

While many explanations for the performance variations within local government have been provided, such as a lack of community participation, cadre deployment, and so forth, this paper argues that the lack of meritocracy during recruitment and selection processes is the main reason why so many municipalities within Limpopo Province's local government and elsewhere are performing poorly in terms of financial management. Undoubtedly, the few good and competent municipal officials who have been hired based on merit are often overwhelmed by the high level of the mediocrity of senior municipal officials around them whose appointment might have been based on political considerations rather than merit.

The paper suggests that to improve financial management within the municipalities in Limpopo Province and elsewhere in South Africa, municipal councils should institute and enforce meritocracy through legislation and oversight as mandated by the South African Constitution. It will further take courage from the municipal political principals to completely curb political meddling in the municipal administrations, especially during recruitment and selection processes. In other words, municipalities can only institutionalize loyal-expert or meritocratic recruitment patterns through political will and vigorous oversight. The political leaders need to closely monitor and oversee the implementation of the government laws and regulations, especially the Local Government Municipal Systems Amendment Act, which seek to professionalize the system of local government. Undoubtedly, professionalization of local government and democratic accountability of local politicians to the voters would help to overcome other problems facing municipalities throughout South Africa, such as the inability to prepare credible financial statements, to spend the revenues as budgeted, and curbing corruption. As Butler rightly argues, political consideration in the appointment of senior municipal bureaucrats without required qualifications and skills tremendously weakens the performance of municipalities not only in terms of financial management but also in terms of the provision public goods and services. Contrary to this requirement, in the South African civil service, especially in local government in general, "being black and or well connected politically is often regarded as sufficient qualification to secure local government job, even if one has neither the qualifications, training, expertise nor the competence to perform the job at hand."<sup>62</sup>

It is also important for the municipalities in the Limpopo Province to retain the most competent municipal bureaucrats since no institution can afford to lose its critical cohort in this competitive performance environment. Glenn argues that the capacity of institutions to recruit and retain highly trained, qualified staff is central to the civil service renewal and success in the twenty-first century.<sup>63</sup> Therefore, the paper further suggests that a program on talent management needs to be initiated in order to build the capacity of the province's municipalities. Talent management, according to Glenn, is a comprehensive approach to human resource management, which integrates the core human resource functions of attraction, retention, development, and transition. Research shows that there are a number of strategies to recruit and retain competent people, and these strategies include the professionalization of the bureaucratic role into a tenured lifelong career and providing adequate compensation in comparison to the private sector. The Japanese state, for example, is praised for highly paying its civil servants and also ensuring that their retirement benefits are more generous at the upper ranks of the bureaucracy than in the private sector, except in the few largest "zaibatsu" conglomerates.<sup>64</sup> A study by the World Bank and Miller reached a similar conclusion that civil servants perform better in terms of service delivery and the budget implementation, become more responsive to citizen concerns and are less corrupt



when the people the state recruit are well paid and have access to internal promotions not distorted by patronage.<sup>65</sup>

## Conclusion

The institutionalization and enforcement of meritocracy or rather expert-officialdom within the municipalities through policy and oversight function remains critical. These processes will help build and enhance the administrative capacity of the Limpopo Province municipalities to better manage their budgets and improve their financial performance. The paper illustrated those variations in terms of financial performance among the municipalities in Limpopo Province and other provinces as well as within Limpopo Province itself. Comparatively, in other words, persistent poor financial performance characterizes Limpopo Province's local government. Its local government receives the highest percentage of unsatisfactory audit reports of any of the other provinces' local government, which clearly suggests a poor financial management capacity of the Limpopo municipalities. The financial performance cannot be explained in terms of the size, race, or ethnic homogeneity or diversity, nor the public engagement and participation, as suggested by some theories of institutional performance. Furthermore, cadre deployment, which is widely applied in all three spheres of government in South Africa, cannot explain the variations in terms of the financial performance in the province's local government, but directly accounts for the capacity deficit within the system. The paper has discussed that where a commitment to the ruling party's dominant and operating ideology and the party-specialist recruitment approach takes precedence over any qualification credentials for candidates to secure government jobs financial performance of the institution suffers. It was only in mid 2011 through the Local Government's Municipal Systems Amendment Act that the central government at least formerly attempted to depoliticize the system of local government in South Africa. The paper concludes that meritocracy is the precondition rather than an outcome for institutional growth and performance and must be institutionalized and enforced within organizations by regulatory and oversight institutions such as the municipal councils and the legislatures.

## Notes

- 1 Auditor-General Report 2012.
- 2 Statistics South Africa 2012.
- 3 Municipal Structures Act 1998, and Constitution 1996.
- 4 SAIRR 2013.
- 5 Auditor-General Report, 2010, 2011, 2012.
- 6 Section 100 (1) states "when a province cannot or does not fulfil an executive obligation in terms of the Constitution or legislation, the national executive may intervene by taking any appropriate steps to ensure fulfilment of that obligation."
- 7 See the Constitution 1996.
- 8 See the Local Government: Municipal Structures Act 1998, and the Local Government: Municipal Systems Act 2000.
- 9 See the Local Government: Municipal Finance Management Act 2003.
- 10 Van der Waldt 2006; Thornhill 2008, p. 492.

- 11 Mathekga and Buccus 2006; Friedman 2011.
- 12 Grosso and van Ryzin 2011, p. 240.
- 13 Plaatjies 2011; Potgieter 2011.
- 14 Kopecky 2011.
- 15 Kanyane 2006, p. 116; Muller 2011, p. 198; Picard 2005; Africa and Mosiane 2011.
- 16 Muller 1989; Panebianco 1988 cited in Kopecky 2011, p. 713.
- 17 Butler 2011, p. 26
- 18 Gigaba in SAIRR 2010, p. 4.
- 19 Dahlstrom et al 2012, p. 656.
- 20 Wasilewski 1990.
- 21 SAIRR 2010.
- 22 Weber 1948, p. 201.
- 23 Habyarimana et al. 2007; Ferree 2004.
- 24 Easterly and Levin in Miguel 2004, p. 328.
- 25 Alesina et al. 1999 in Miguel 2004.
- 26 Ferree 2004.
- 27 Bratton and Sibanyoni 2006.
- 28 Kellough 2002; Murphy and Cleveland 1995.
- 29 Van der Walle 2005.
- 30 Bratton and Sibanyoni 2006, p. 19.
- 31 Auditor-General Reports 2010, 2011, 2012.
- 32 Weber 1968.
- 33 Kranze and Slomczynski 1985; and Bell 1976.
- 34 Weber 1948, p. 198-99.
- 35 Weber 1968.
- 36 Rauch and Evans 2000.
- 37 Wasilewski 1990.
- 38 Chang 2008, p. 70; and Fukui and Fukui 1992.
- 39 Hawthorne 2002.
- 40 Weber 1948, p. 201.
- 41 Local Government: Municipal Systems Amendment Act 2011.
- 42 SAIRR 2013, p. 31.
- 43 Ritzer 1975, p. 628.
- 44 Weber 1968.
- 45 Weber 1968.
- 46 Macaulay in Muller 2011, p. 48.
- 47 Levin 2011, p. 263; Chikane 2011, p. 48.
- 48 Weber 1968; and Andreski 1983, p. 120.
- 49 SAIRR 2012.
- 50 Auditor-General Report 2012.
- 51 Bratton and Sibanyoni 2006, p. 10.
- 52 Auditor-General Report 2010, 2011; SAIRR 2012.
- 53 Auditor-General Report 2012.
- 54 SAIRR 2010; Karamoko 2011, p. 19; Hirsh 2010; Auditor-General 2011, 2012.
- 55 Picard 2005, p. 296; African Peer Review Mechanisms Report 2009, p.20; Nyalunga 2006,

- p. 19; Levin 2011, p. 263.  
 56 Auditor-General Report 2012.  
 57 Ramphele 2001, p.1.  
 58 Kretzschmar 2010, p. 581.  
 59 Auditor-General Report 2011.  
 60 Auditor-General Report 2012.  
 61 SAIRR 2012.  
 62 Butler 2011, p. 26.  
 63 Glenn 2012, p. 30.  
 64 Fukui and Fukui 1992, p. 27.  
 65 World Bank 1997; and Miller 2000.

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