

The Macro Research Desk



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2016 Local government elections under the spotlight

Background

Having grown steadily since the 2000 municipal elections, this year has seen a record number of political parties contesting the 2016 local government elections. In a display of rising multiparty democracy, a record 203 political parties submitted applications on time (a 69% increase on 2011), with over 61 000 candidates (a 12% increase on 2011) participating according to the Independent Electoral Commission (IEC). The vote was based on a mixed system which is a combination of the “winner takes all” and “proportional representation” approaches.

Chart 1: Explanation of the mixed system

Example: If there are 10 seats available in a municipality – five ward seats and five proportional representation (PR) seats:

- Party A, with 50% of votes, has a right to five seats: if they win four wards, they will get one PR seat.
- Party B, with 30% of votes, has three seats: if they win one ward, they will get two PR seats to end up with three seats.
- Party C, with 20% of votes, earns two seats: if they did not win any wards, they still get two PR seats to make up their total.

Source: IEC

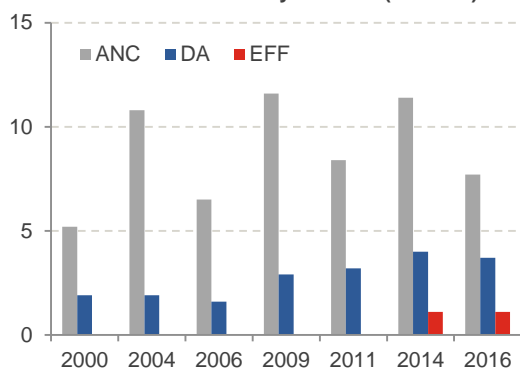
Voter turnout marginally exceeds previous local government election in 2011

With 98% of the votes counted at the time of writing, voter turnout in the 2016 local government elections appears to be the highest in municipal election history, increasing from 57.6% in 2011 to 57.8% (from 26.3 million registered voters) in 2016. Nonetheless, this compares less favourably to the 73.5% voter turnout in the 2014 national elections and undershoots expectations outlined by the South African Social Attitudes Survey (SASAS) conducted in late 2015 by the Human Sciences Research Council (HSRC). The survey established that 6% of respondents said that they were not sure if they would vote, 12% refused to answer and a tenth said they would not vote. The remainder (72%) said that they would vote if there were a hypothetical election the next day.

According to Standard Bank research, the Democratic Alliance (DA) enjoyed consistent growth in the number of voters between 2006 and 2014, whereas the number of voters for the African National Congress (ANC) appears to have fluctuated between national/provincial and local government elections (see chart 2). The research suggests that the ruling party in any political system faces greater complacency amongst its supporters relative to that of their opposition. Consequently a low voter turnout would generally be more damaging for the ruling party.

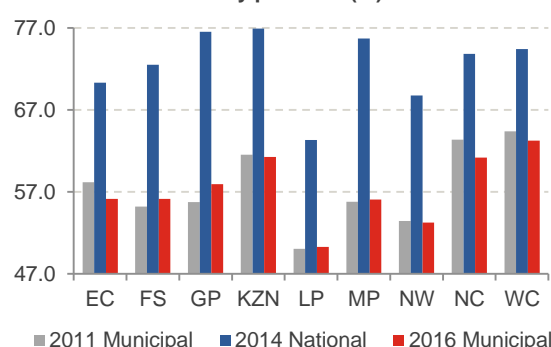
The number of spoilt votes equated to around 1.6% of the total vote. According to the IEC spoilt ballots are votes which cannot be counted since the voter's intention (deliberate or unintentional spoiling) is unclear. The IEC claims that voters have the democratic right to spoil their ballot paper if they “feel there is no party or ward candidate they wish to support”.

Chart 2: Number of votes by election (millions)*



Source: SBG Securities, IEC, Momentum Investments
 National/provincial elections = 2004, 2009 and 2014
 Municipal elections = 2000, 2006, 2011 and 2016
 *Calculated when 98% of the votes had been counted

Chart 3: Voter turnout by province (%)*



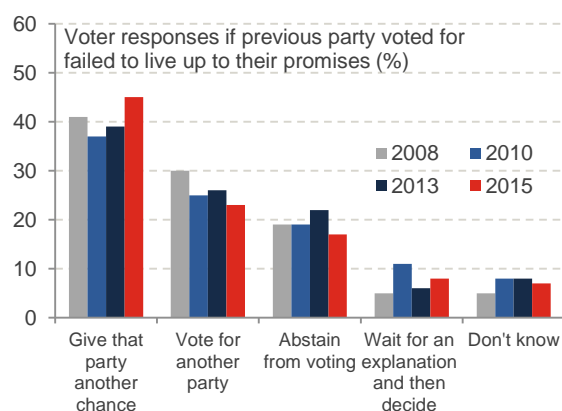
Source: HSRC, Momentum Investments
 EC = Eastern Cape, FS = Free State, GP = Gauteng, KZN = KwaZulu-Natal, LP = Limpopo, MP = Mpumalanga, NW = North West, NC = Northern Cape, WC = Western Cape
 *Calculated when 98% of the votes had been counted

Voter turnout (calculated when 98% of the votes had been counted) was the highest in the Western Cape (although declining from 64.4% in 2011 to 63.3% in 2016, potentially on the back of disciplinary hearings involving the ANC Western Cape provincial chairman), the Northern Cape (decreasing from 63.4% in 2011 to 61.2% in 2016) and KwaZulu Natal (dipping to 61.3% in 2016 from 61.5% in 2011), with Limpopo once again featuring the lowest turnout (see chart 3). Meanwhile, voter participation rose encouragingly by over 2.0% in Gauteng. In 2014, the Institute for Security Studies (ISS) argued that “the exposure of urban voters to more competitive election campaigns and a greater variety of political options has mobilised voters in the provinces with large urban populations to turn out in higher proportions than previously”. The ISS went on to say that opposition party campaigns are less visible in rural areas, “leading disillusioned rural ANC voters who were unable to find an alternative political home to simply abstain from voting”.

Against a fragile economic backdrop and in line with public perceptions of rising corruption, speculation that the current ruling party may have lost support rose in response to soaring unemployment rates and stalling economic growth. As such, one would expect that voter abstention and “vote swinging” may represent the dominant election response to political parties failing to deliver on their mandate. However, survey results in the run-up to the 2016 local government elections suggested that voters are more forgiving.

In a survey (featuring 3 500 respondents) assessing how South Africans would respond in a situation where the party they voted for in a previous election failed to live up to their electoral promises, the HSRC found that 45% of voters would give the party another chance. The HSRC suggests that the trends in chart 4 indicates a decline in the intention of the so-called “swing” vote since 2008 when 30% indicated that they would vote for another party.

Chart 4: Vote swinging not the dominant survey response



Source: HSRC, Momentum Investments

After combining party loyalists (“give that party another chance” = 45%) and those offering contingent support (“wait for an explanation and then decide” = 8%), the HSRC concluded that over half of South Africans remain committed to their party of choice even if that political party failed to meet expectations.

On a demographic and regional split, the HSRC found that party loyalty is strongest amongst those aged 65 and older (63% would vote for the same party even after expectations were not met), while only around 40% of SA's youth (those aged 16-34 years) indicated party loyalty in the event of unfulfilled promises.

Racially, less than a third of White and Indian voters chose loyalty as their preferred response, while the HSRC found a strong correlation between the level of educational attainment and the unwillingness to remain loyal to the party they previously voted for. Regionally, nearly 60% of voters in the Eastern Cape and Limpopo demonstrated a preference for loyalty, while this figure dropped to below 30% in the Free State. Additionally, the HSRC pointed out that "vote swinging" (voting for another political party) is not a common response from SA voters currently, although signs are emerging that the younger generation are more willing to consider switching votes than the older age cohorts.

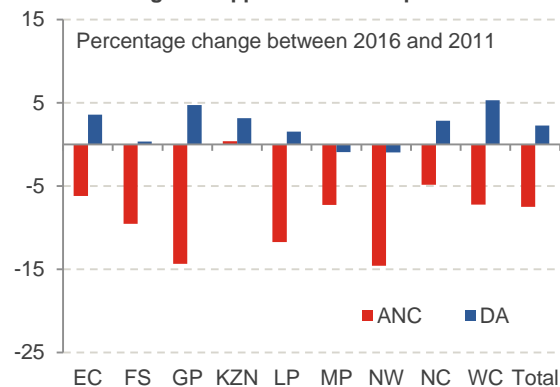
Nevertheless, voter action (based on the number of votes obtained per party in the 2016 local government elections) attests that the losses endured by the ANC were largely tilted towards voter abstention rather than voters switching their support to an opposition party as indicated in the HSRC survey results, where a higher proportion of respondents favoured voting for another party over abstaining from the vote altogether.

Voter results show a broad-based decline in support for the current ruling party

The ANC will likely emerge as the overall winner of the 2016 local government elections, winning 54.2% of the vote at the time 98% of the votes had been counted. However, relative to 2011, they lost around 7.5% of the vote, partly owing to the DA and Economic Freedom Fighters (EFF) continuing to make inroads into the voter base. The largest decline in confidence in the current ruling party (see chart 5) was evident in the North West (from 74.0% in 2011 to 59.4% in 2016), Gauteng (from 59.7% in 2011 to 45.6% in 2016) and Limpopo (from 80.6% to 68.8%). Support for the DA increased the most in the Western Cape (from 57.7% in 2011 to 63.3% in 2016) and Gauteng (from 33.4% in 2011 to 37.7% in 2016), but decreased by around a percent in Mpumalanga and the North West.

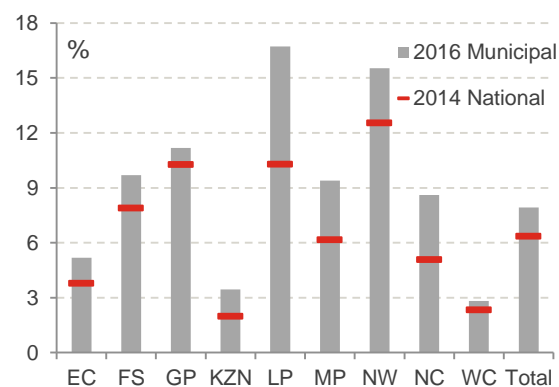
The Congress of the People (Cope) lost support across all nine provinces, with the sharpest drop in the voter share seen in the Northern and Eastern Cape. Meanwhile, the Inkatha Freedom Party (IFP) regained prominence in KwaZulu-Natal (from 15.7% in 2011 to 18.4% in 2016) thanks to the ANC suffering some slippage in the region.

Chart 5: Change in support across the provinces*



Source: IEC, Momentum Investments
*Calculated when 98% of the votes had been counted

Chart 6: EFF makes inroads*

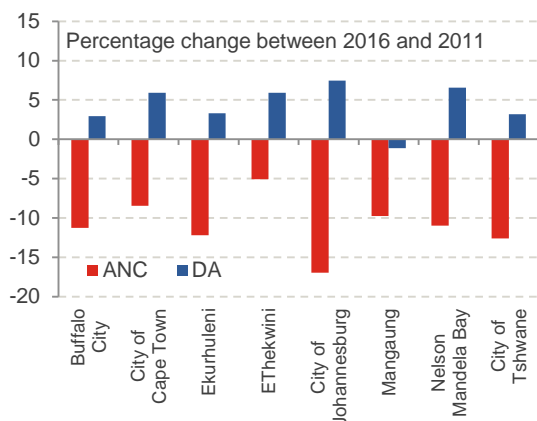


Source: IEC, Momentum Investments
*Calculated when 98% of the votes had been counted

With this being the first local government elections that the EFF have participated in, we have compared the latest local government election results (at the time that 98% of the votes had been counted) to those of the 2014 national elections. The EFF have made significant inroads into Limpopo (capturing 16.7% of the total vote), the North West (15.5%) and Gauteng (11.2%), with the EFF's total share of the country's vote increasing to around 8.0%. Although voter support for the EFF increased across all provinces, overall support for the party came in significantly lower than market expectations of between 12% and 15%. According to JP Morgan's analysis, limited gains for the EFF may alleviate concerns that a radical policy shift to the left is desired by an increasing share of the voter base.

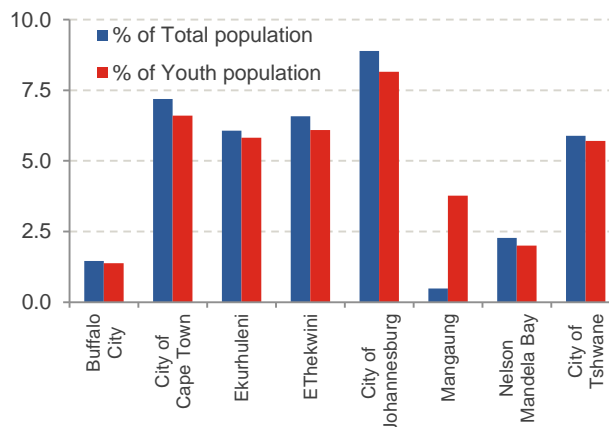
Voter patterns have also shifted markedly across SA's key eight metropolitan municipalities (see chart 7) which constitute 39% of SA's population (see chart 8). The urban popularity vote for the presiding president has dwindled amid corruption scandals, a rise in unemployment and unrelenting crime in a downtrodden economy. The sharpest decline in voter share for the ruling party (calculated when 98% of the votes had been counted) was seen in the City of Johannesburg (from 58.6% in 2011 to 41.6% in 2016), the City of Tshwane (from 55.3% in 2011 to 42.7% in 2016) and Ekurhuleni (from 61.6% in 2011 to 49.4% in 2016).

Chart 7: Ruling party loses grip in key metropolitan municipalities*



Source: IEC, Momentum Investments
*Calculated when 98% of the votes had been counted

Chart 8: Key metropolitan municipalities account for 39% of SA's total population



Source: Stats SA, Momentum Investments

Entering an era of coalition politics

Given that the DA were unable to secure an outright majority vote in Nelson Mandela Bay, a coalition government is likely to form. This could either take place in the form of a DA and EFF coalition or more likely a partnership between the DA, Cope and the United Democratic Movement (UDM), excluding the EFF. In Tshwane, the DA has an opportunity to join forces with the EFF which poses a risk to the ANC given the potential for the DA to gain control over the metro, leaving the legislative and administrative capitals in the control of the DA.

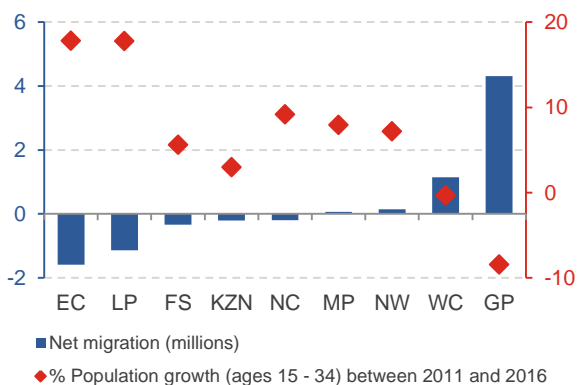
At the time of writing not all of the votes have been counted in the City of Johannesburg. As such, it is possible for the ANC to regain a marginal lead. However, with the EFF claiming just over 10% of the vote, the party will play a strategic role in forming a coalition government in the metro.

Comments have been made by senior EFF officials in interviews that there was “no possibility” of coalitions with the ANC, whereas the DA have stated that the party will assess each council, separately, where a coalition might be necessary.

Rising urban dissatisfaction

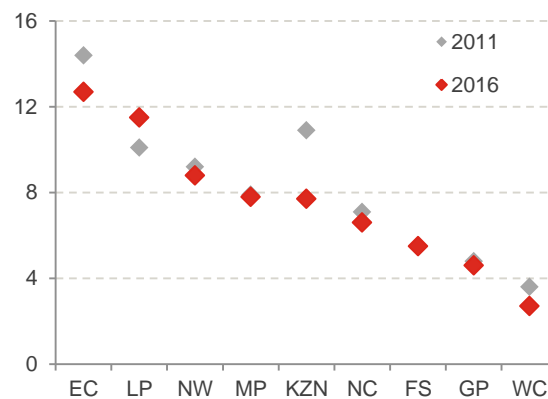
Population growth in the age cohort 15 – 34 years has surged in some of the more rural-oriented provinces, including the Eastern Cape, Limpopo, Free State, Northern Cape and Mpumalanga (see chart 9), fuelling outward migration as educational needs and the lack of job prospects drive urbanisation trends within SA's borders.

Chart 9: High unemployment driving net outward migration from SA's more rural-based provinces



Source: Stats SA, Momentum Investments

Chart 10: Elevated poverty levels behind net outward migration from SA's more rural-based provinces



Source: Stats SA, Momentum Investments

According to research by Citi, there are a potential 6.4 million voters in the 18-29 years age group. With over 50% of these registered voters being from the more urban-based provinces, the urban youth vote has increased in importance, particularly as issues pertinent to this age cohort, including the #FeesMustFall student-led protest movement in late 2015 and high levels of youth unemployment (see chart 11), have come to the fore.

Chart 11: Unemployment rate highest for the younger age cohorts

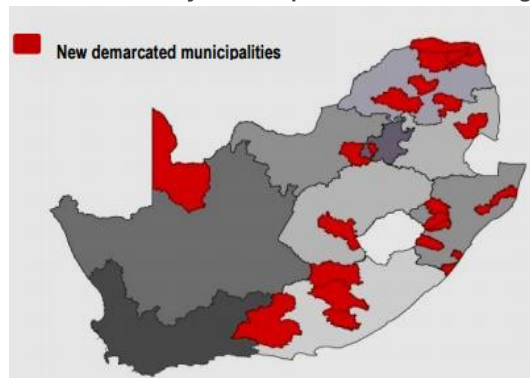


Source: Stats SA, Momentum Investments

Rise in violence as number of municipalities are reduced

National Treasury’s newly demarcated municipalities came into effect on August 3, 2016. The total number of municipalities has been reduced from 278 to 257, making this the most significant boundary change since 2000. Treasury expects the merging of certain municipalities to reduce administration costs and free up resources for service delivery. The demarcation strategy appears to be concentrated in the poorer-performing municipalities, including Limpopo and the Eastern Cape (see chart 12).

Chart 12: Treasury’s municipal demarcation strategy



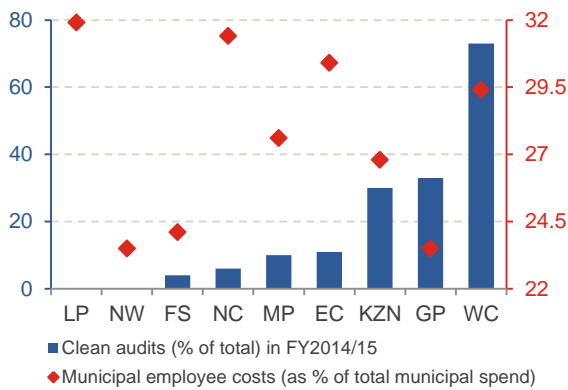
Source: National Treasury, Momentum Investments

Levels of violence have increased in the run up to the 2016 local government elections, partly due to the divisions mounting within parties. Factional infighting has led to disgruntled members killing rivals that were elected for government positions. With fewer municipal positions up for grabs under the redrawn municipal boundaries, levels of violence could remain high even after the election results are announced.

Room for improvement across SA’s municipalities

While the increased level of interest in public office could suggest a rise in multi-party democracy, the HSRC has proposed other (more alarming) reasons for this increase. An opportunity for employment in a low-growth environment may be one such reason, whereas an even more concerning interpretation put forward by the HSRC suggests that the municipal office could be viewed as a means to secure access to public resources for private benefit. The HSRC quotes the Auditor General’s findings that the largest increases in the numbers of aspirant councillors have occurred in Limpopo, North West and the Northern Cape, which are amongst the provinces with the fewest clean audits (see chart 13) for financial year 2014/15.

Chart 13: Higher employee costs are not translating into a rise in municipal efficiency



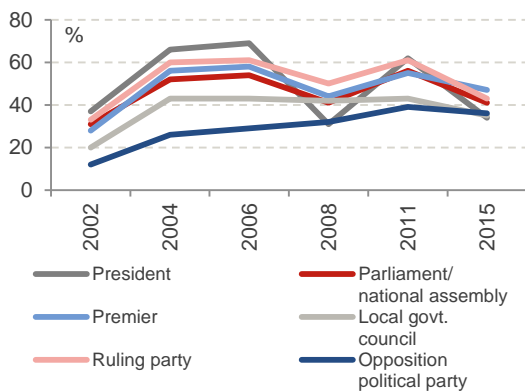
Source: BNP Paribas, Momentum Investments

Eligible voters increasingly dissatisfied

Trust in SA's political leaders and institutions have dipped recently (see chart 14). In a survey conducted between August and September 2015, only 34% of the 2 400 adults surveyed conveyed confidence in the president, with a similar percentage stating they remain confident in their local government council. The largest dip in confidence levels between 2011 and 2015 were for the president (-28%), the ruling party (-18%) and parliament (-15%).

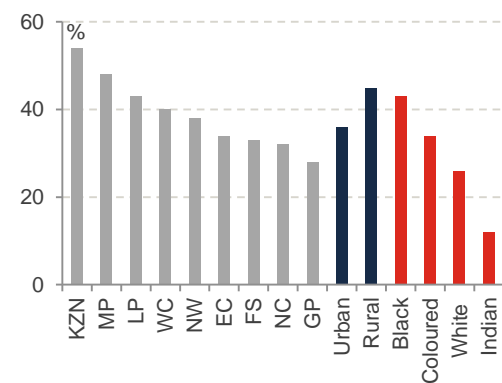
The level of trust in the president, parliament, premier and local government was highest in KwaZulu-Natal, among rural voters and in the Black and Coloured populations of SA (see chart 15). Given that the urban population now makes up a larger percentage of SA, the gap in confidence between rural and urban voters is becoming ever more important.

Chart 14: Level of trust on the decline



Source: HSRC, Momentum Investments

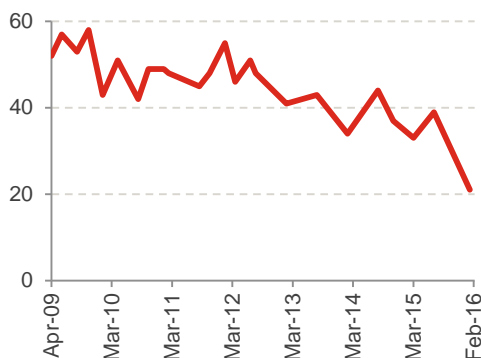
Chart 15: Trust varies across province and race



Source: HSRC, Momentum Investments

A survey capturing responses in the second half of February 2016 indicates a sharper fall in the population's confidence of the president (see chart 16), resulting in many framing these elections as a "referendum" on the president's popularity. The downward shift to 21% of survey participants believing that the president has done a good job since 2009 most likely captures the Constitutional Court's ruling on Nkandla, negative news articles about state capture and the unpopular decision to replace the finance minister in early December 2015.

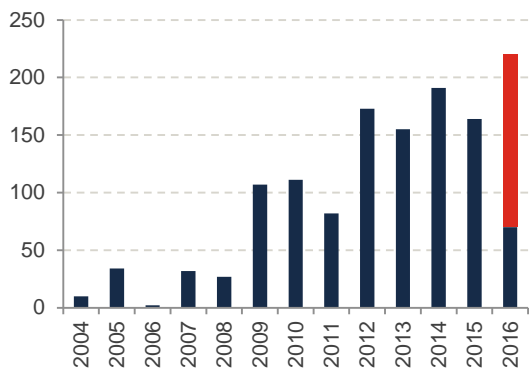
Chart 16: Declining confidence in the president (%)



Source: HSRC, Momentum Investments

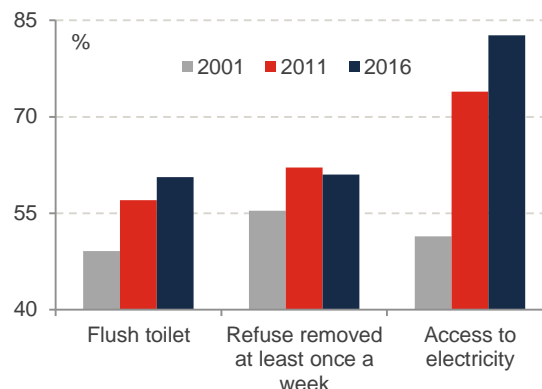
Social delivery protests have rocketed (see chart 17) even though government has managed to extend the rollout of basic services to a higher proportion of the population, including connecting more households to the electricity grid, collecting refuse on a more regular basis and ensuring that households have access to a flushing toilet (see chart 18). If the trend for the first four months of this year is extrapolated for the rest of the year, 2016 could see the highest number of social delivery protests on record since data collection began.

Chart 17: Number of social delivery protests on the rise



Source: Municipal IQ, Momentum Investments

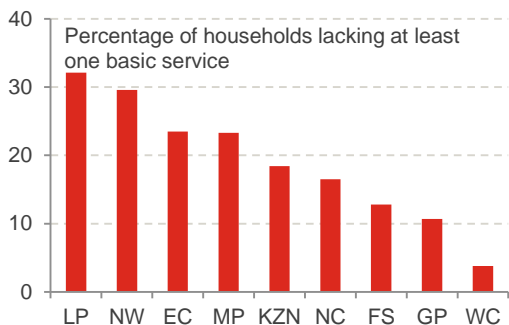
Chart 18: More households with access to basic services



Source: Stats SA, Momentum Investments

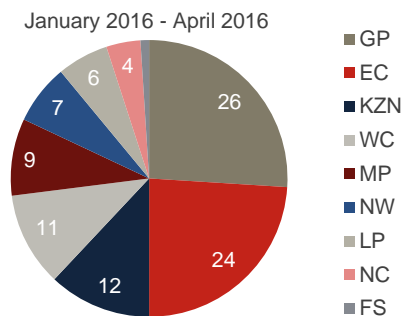
On a provincial breakdown, Limpopo, the North West and the Eastern Cape suffer with the highest ratio of households lacking at least one basic service (see chart 19). More specifically, 3.4% of households in the Eastern Cape do not have a formal electricity connection with over 8% of the population lacking access to piped water, while in Limpopo over a fifth of all households do not own a flushing toilet. These three provinces accounted for 37% of all service delivery protests recorded by Municipal IQ during the first four months of 2016 (see chart 20). Municipal IQ proposed that a high level of inward migration has led to Gauteng registering the highest number of service delivery protests, as many migrants may not find employment and end up living on the periphery of the larger metros in informal settlements, resulting in them becoming marginalised from access to economic opportunity, housing and services.

Chart 19: Access to basic services lacking



Source: BNP Paribas, Momentum Investments

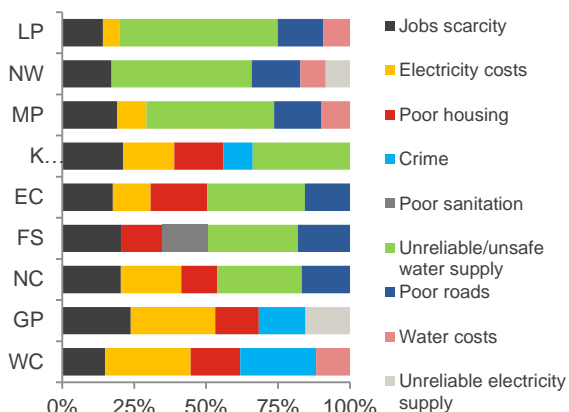
Chart 20: Social delivery protests by province (%)



Source: Municipal IQ, Momentum Investments

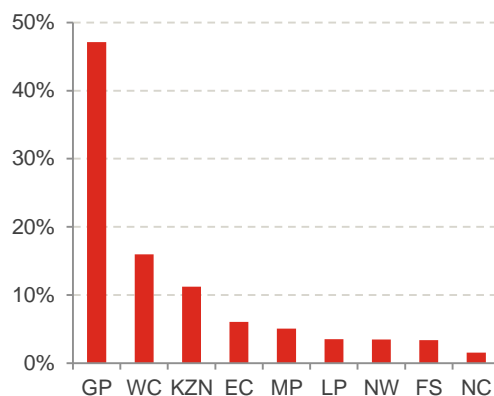
One of the key challenges facing all provinces is the lack of employment prospects (see chart 21). This appears to be particularly high for Gauteng and KwaZulu-Natal which have experienced net immigration from surrounding provinces. The challenge of violence and crime appeared to be highest for the three key provinces contributing to the tax revenue base, namely Gauteng, the Western Cape and KwaZulu-Natal (see chart 22).

Chart 21: Top five concerns voiced by households per province (%)



Source: Stats SA, Momentum Investments

Chart 22: Percentage contribution to overall personal income tax by province



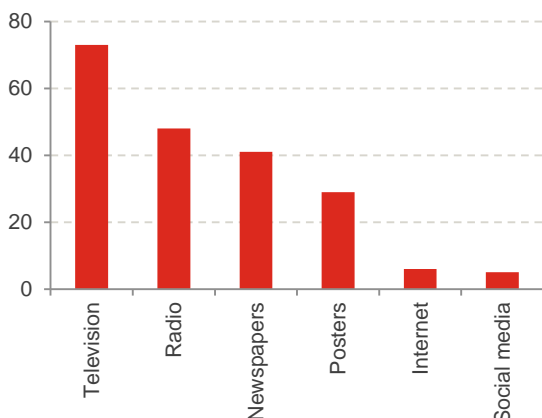
Source: National Treasury, Momentum Investments

The potential for electoral manipulation

The sections of the Constitution dealing with the Electoral Commission are Sections 190 and 191, which state that the Electoral Commission must manage national, provincial and municipal elections and must ensure these elections are free and fair. The IEC has conducted five national/provincial elections, three municipal elections (excluding the most recent one) and numerous by-elections since 1994 which were broadly seen to be credible. However, elections results could be observed with scrutiny this time around, given a number of issues including the expected loss of the ANC’s majority in key municipalities, a rise in election-related violence and a compromised voters’ roll (over 12 million addresses have not been verified).

With 73% of adults receiving voter information via television and 48% receiving voter information from the radio (see chart 23), the public broadcaster’s initial decision (prior to the ruling being overturned) to ban the coverage of violent protests and the destruction of public property has been questioned. According to Standard Bank research, the SABC houses 4 television stations and 18 radio stations which collectively cover between 25 and 30 million people, many of whom are reliant on these avenues to obtain news and information.

Chart 23: Where SA's adult voters get information (% access)



Source: HSRC, Momentum Investments

Market impact and key political events to watch

The market has viewed the election outcome as broadly positive, with the rand strengthening by around 2.3% since the election. With the ANC receiving marginally less than 55% of the national vote (around a 7.5% drop relative to the 2014 national/provincial elections and the 2011 local government elections) and losing power in key metros (including Nelson Mandela Bay, the City of Tshwane and the City of Johannesburg) in addition to the City of Cape Town, market expectations are for the incumbent president's decision power to be limited. Though expectations of a cabinet reshuffle are emerging, political analysts have suggested that the election results will unlikely afford the president an opportunity to change key ministerial positions, including the finance ministry. However, the current ruling party may offer Cabinet positions to senior members of smaller parties in an effort to build coalitions.

Still, the sovereign rating outlook for SA remains heavily reliant on government's ability to fast-track key structural reforms to resolve SA's structural growth issues. These include providing more clarity on the mineral and petroleum resources development amendment (MPRDA) bill and the mining charter, while the implementation of a secret strike ballot, the prevention of violent/protracted strikes and the setting of a national minimum wage still hangs in the balance.

The upcoming June 2017 ANC policy conference and the December 2017 ANC National Elective Conference are likely to provide clues regarding the direction of political power within the ANC and the presidential succession in the country. Although the Constitution limits the president's role to a maximum of two terms, the ANC's internal constitution has no limit on the terms for party president. With SA facing mounting economic challenges, the emphasis placed on government initiatives (such as the National Development Plan) and a commitment to working more effectively with business and labour remain crucial to accelerating economic growth, generating employment and eradicating poverty.

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