

Are Municipal Governance Issues Worsening the Effects of Inequality in South Africa?

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In South Africa, inequalities do not exist in isolation but are fundamentally shaped by spatial factors. The legacy of apartheid, which used spatial segregation to enforce exclusionary policies, continues to influence economic and social outcomes today. Traditional economic performance metrics such as GDP often fail to capture the lived experiences of individuals, particularly when measured at a national level. These limitations become evident when considering inequality through the lens of relative deprivation—the perception that others within one's geographical context enjoy a significantly better standard of living. SWB, which reflects an individual's assessment of economic and social conditions, provides a more nuanced understanding of inequality's tangible

effects that become clearer and more actionable. Inequality and SWB vary significantly across regions, as does the quality of governance and across time, which influences both individual and group-based relative deprivation. This raises a key question: How do these factors interact, and to what extent are governance failures exacerbating the subjective well-being of South Africans across municipalities?

METHODS

To investigate this, we utilize the National Income Dynamics Study (NIDS), a world-renowned survey tracking approximately 13,000 South Africans over five survey waves (2007–2017) to assess how changes in district-level governance interact

with individual relative deprivation to shape SWB. Our main independent variables are district municipality audit opinions and inequality as captured by the Yitzhaki's deprivation index. We control for two district level characteristics (log of district population, labour participation rate), and a number of individual characteristics that are expected to correlate with SWB. Recognizing that residential location may correlate with individual characteristics, we acknowledge the challenge of establishing causality without external variation.

In addition, the cross-district municipality spillovers are also explored using exploratory spatial data analysis (ESDA).

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Find out more about this project: <https://www.afd.fr/en/carte-des-projets/measuring-impact-spatial-inequality-and-quality-institutions-subjective-wellbeing>



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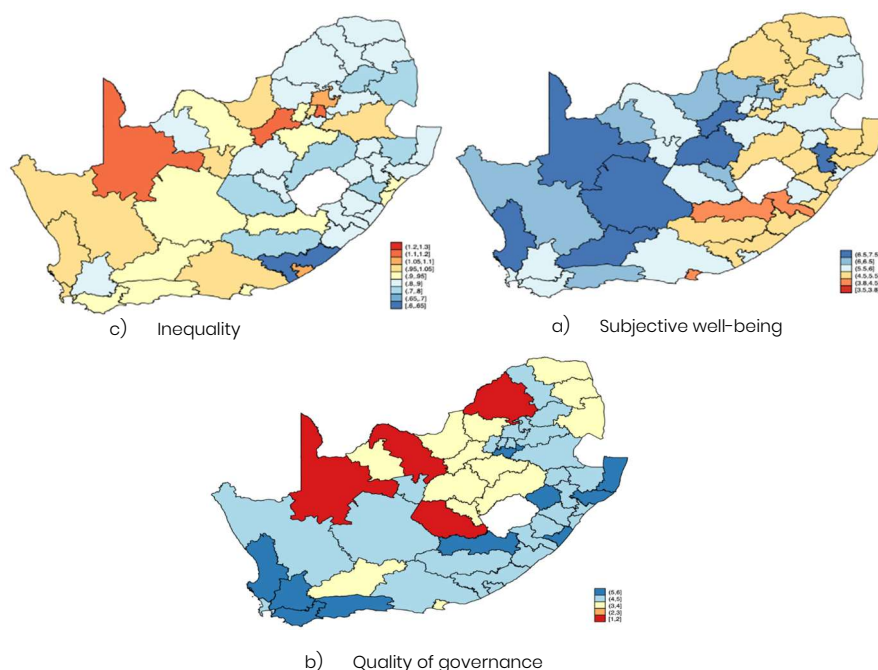


RESULTS

Our findings indicate: (i) Higher inequality is associated with lower well-being, while good governance improves it. (ii) The interaction between relative deprivation and governance is key: improved governance at the municipal level significantly reduces the negative impact of relative deprivation on SWB. (iii) For individuals experiencing the same level of relative deprivation, those residing in well-governed municipalities report 9% higher SWB than those in poorly governed areas. These results suggest that strengthening local governance could help mitigate the lasting effects of apartheid-era spatial inequalities.

Using Exploratory Spatial Data Analysis (ESDA), we uncover additional insights: (i) Districts with high inequality (relative deprivation) tend to cluster together, as do districts with lower inequality. (ii) The clustering of the low inequality municipalities seems to be more

Map of average inequality, quality of governance and SWB across South African districts (2017)



Source : Authors' computations

pronounced than for the high inequality district municipalities. (iii) Spatial autocorrelation in SWB exists, with high-SWB municipalities slightly more pronounced in their clustering, reinforcing the idea that happier

municipalities tend to be around happy municipalities, more than less happy ones tend to be around each other.

RECOMMENDATIONS

- ▶ **Track SWB as a Core Indicator:** Moving beyond national statistics, monitoring individual and reference-group SWB provides deeper insights into relative deprivation and its broader societal impact.
- ▶ **Strengthen Municipal Governance:** Over the past decade, municipal governance quality has declined, with many municipalities placed under administration. Restoring governance efficiency and resilience is critical.
- ▶ **Leverage Positive Spillovers:** Well-governed municipalities should be protected and supported, as their governance quality positively influences neighbouring districts. Their success provides a model for replicating effective governance practices.
- ▶ **Address Negative Spillovers:** Poorly governed municipalities exert negative externalities. Targeted interventions should focus on improving governance while addressing core inequalities to prevent further declines in SWB.
- ▶ By reinforcing local governance and addressing spatial inequalities, policymakers can create more inclusive and resilient communities, mitigating the effects of South Africa's extreme inequality and fostering a more equitable society.