



The economics of local government

Knowledge Week
November 2009



Overview

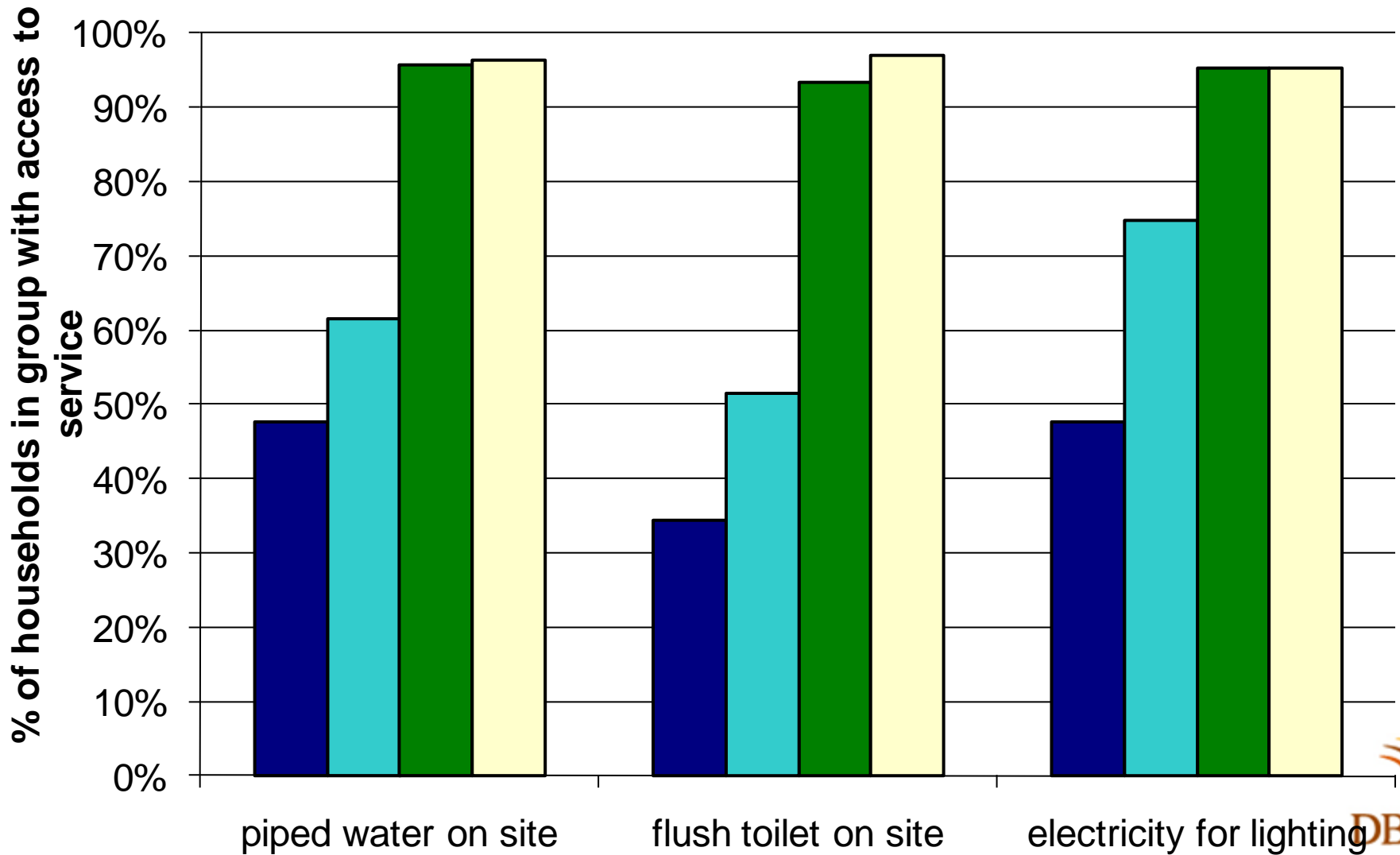
- ❑ The core economic mandate of municipalities is to provide household infrastructure and local government services
- ❑ But the poorest municipalities, in the former Bantustans
 - Face the worst backlogs on household infrastructure
 - Have low revenues because they have virtually no industry and most households cannot afford to pay for services due to high joblessness and low incomes
 - Often have dispersed rural populations
 - Cannot afford sufficiently skilled management
- ❑ Economic downturn will certainly dampen revenues for the next year or two



Challenges

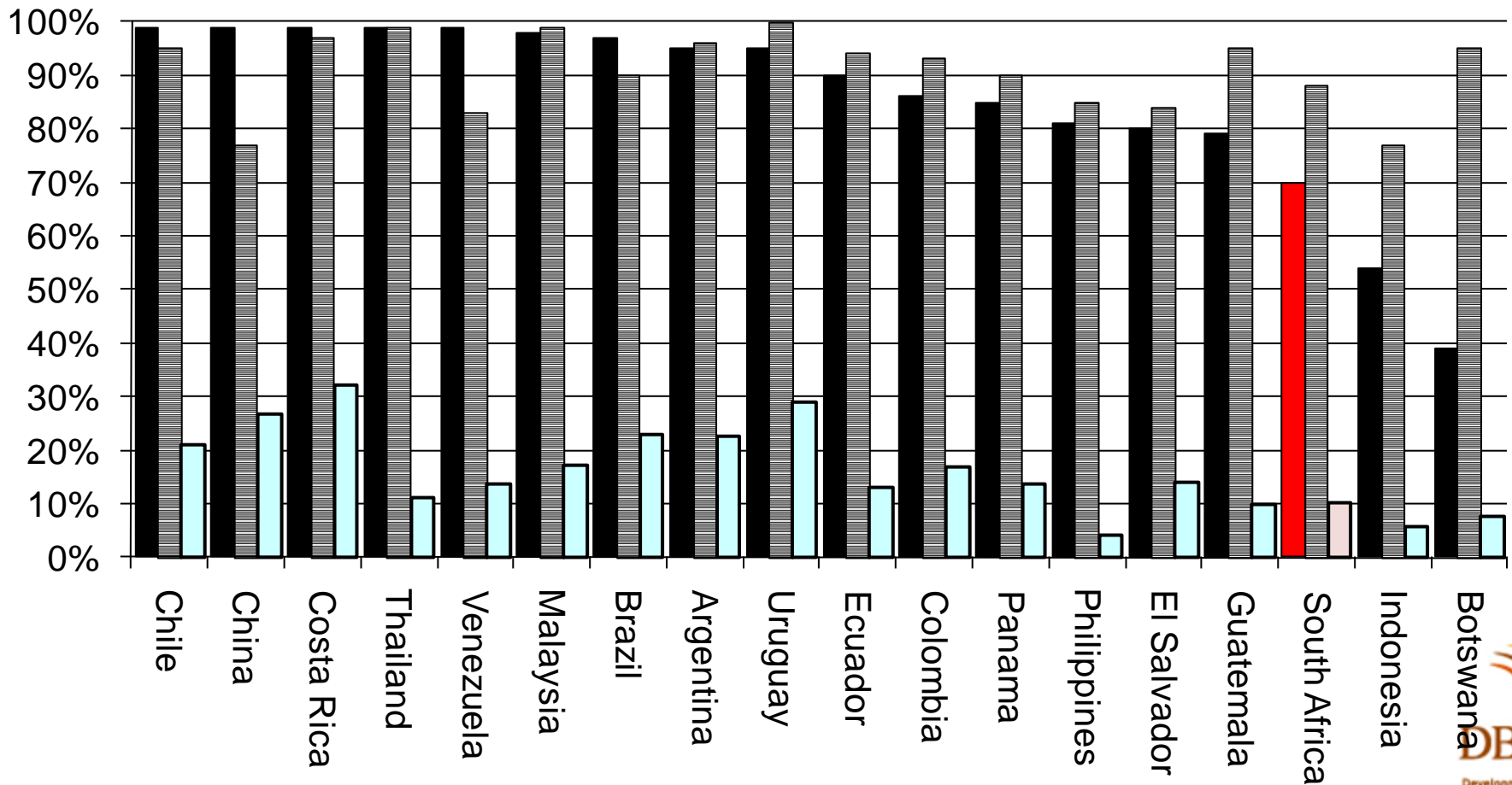
Backlogs by race

■ African 1996 ■ African 2007 ■ non-African 1996 ■ non-African 2007

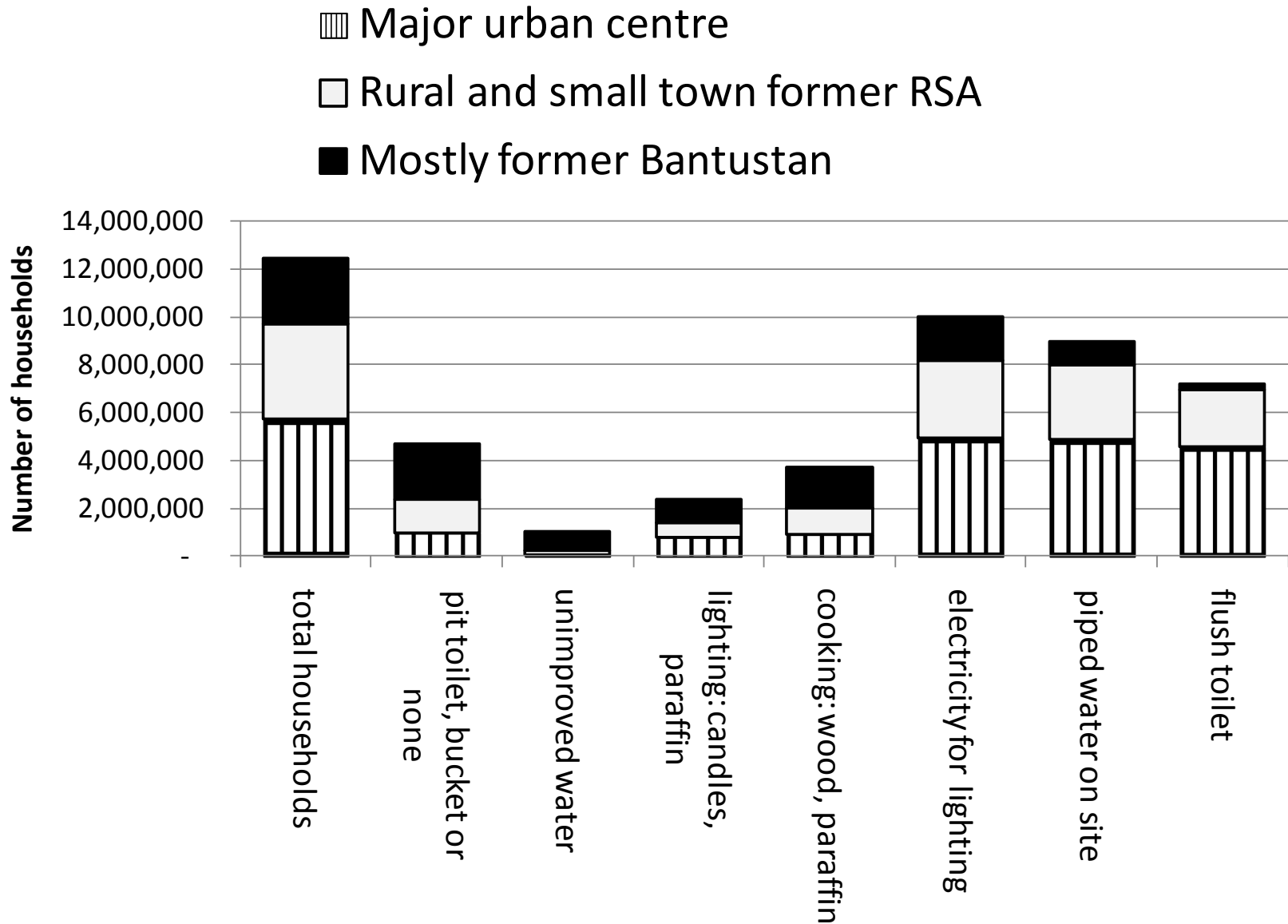


Backlogs compared to other countries

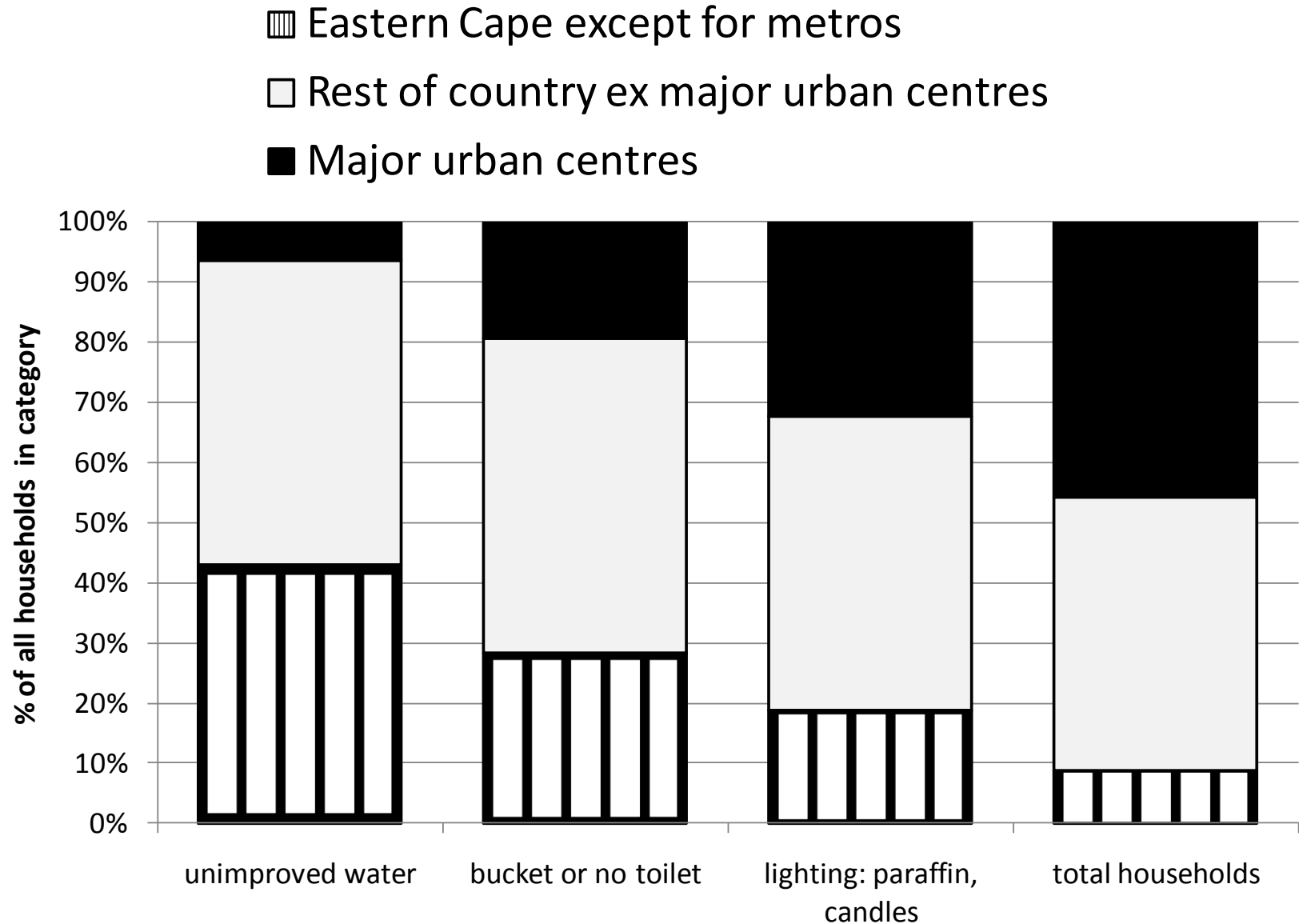
- Electricity per household
- ▨ Improved water per household
- Telephone land lines per person



Backlogs by type of municipality



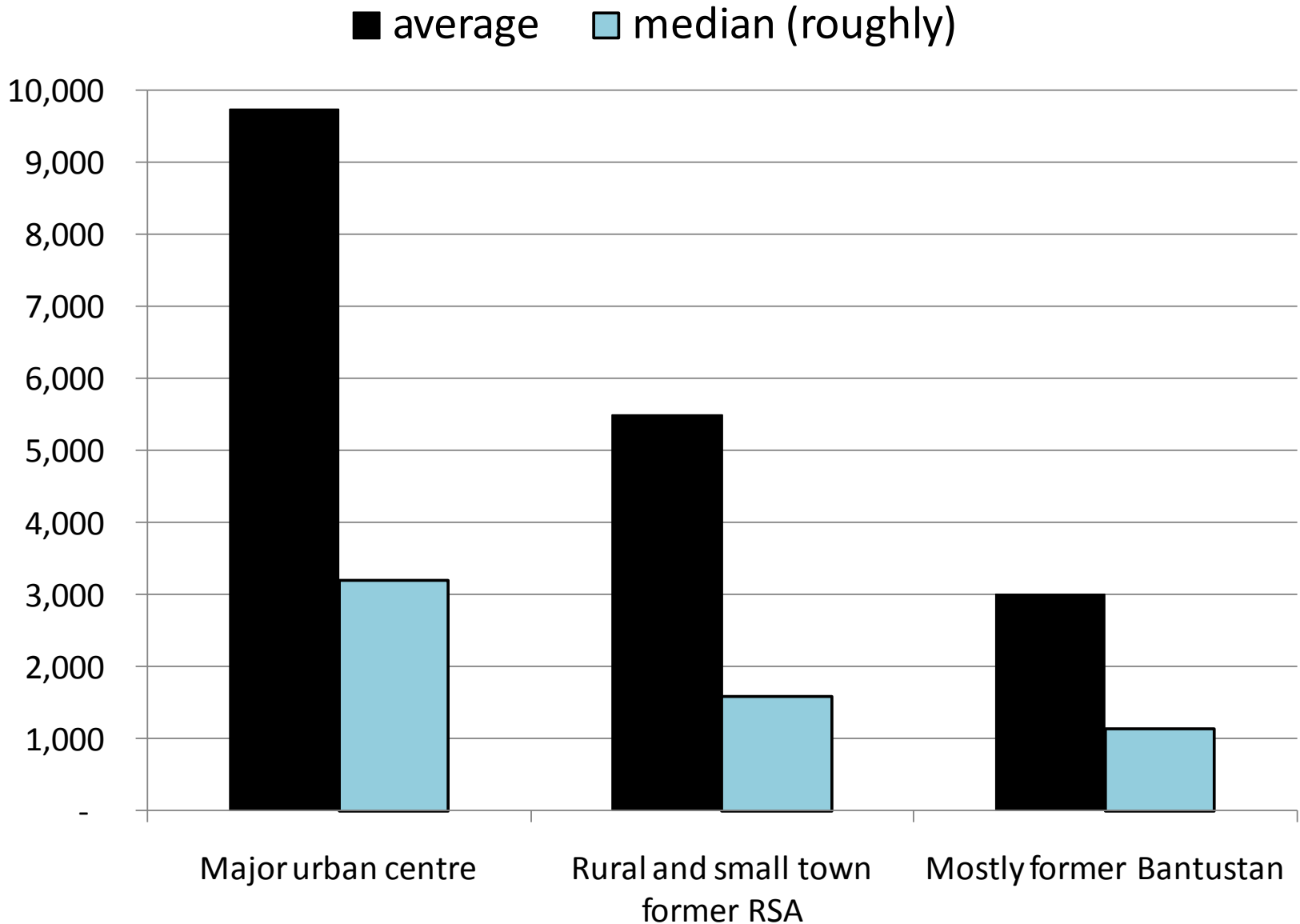
The Eastern Cape problem



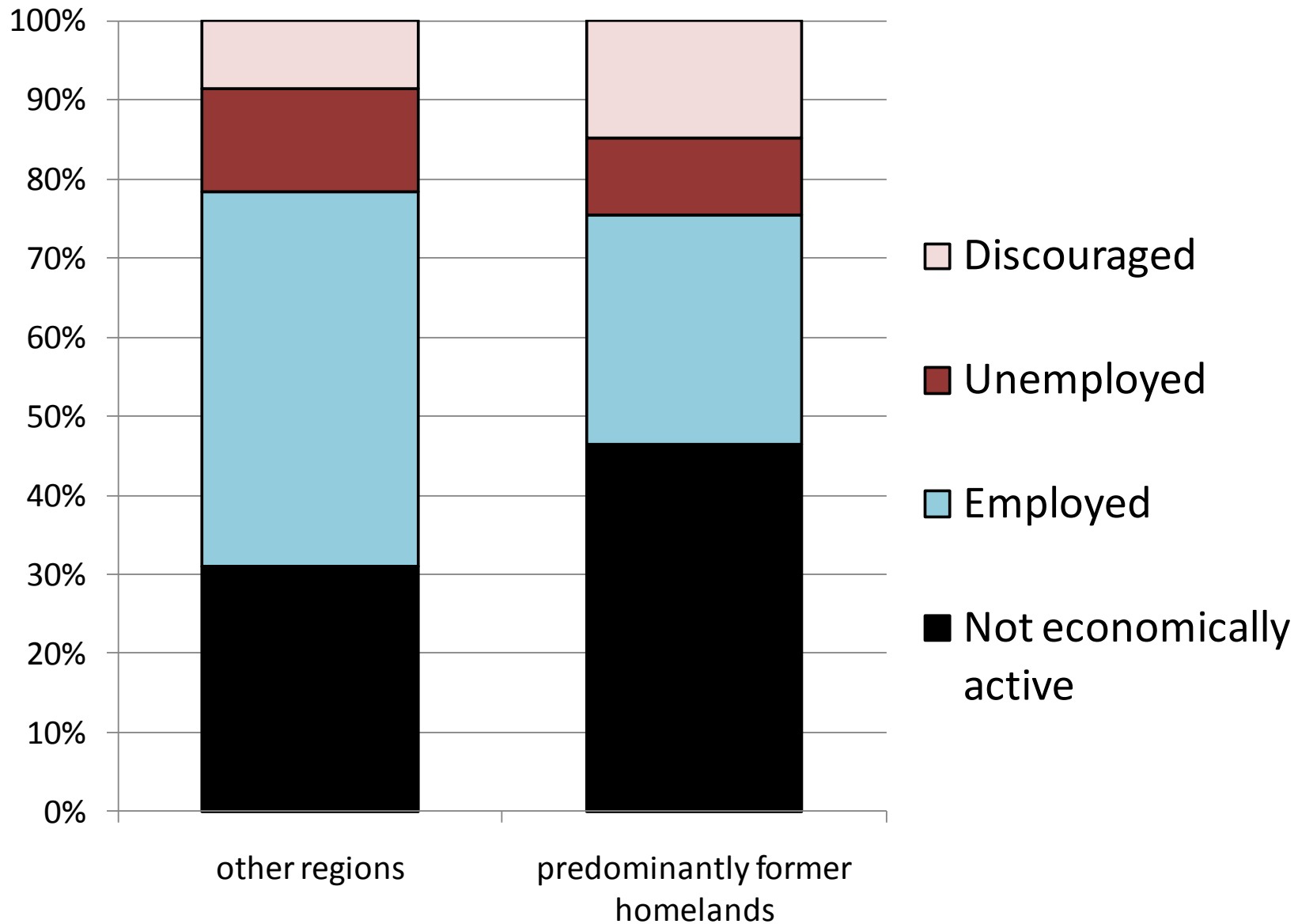


The economic context

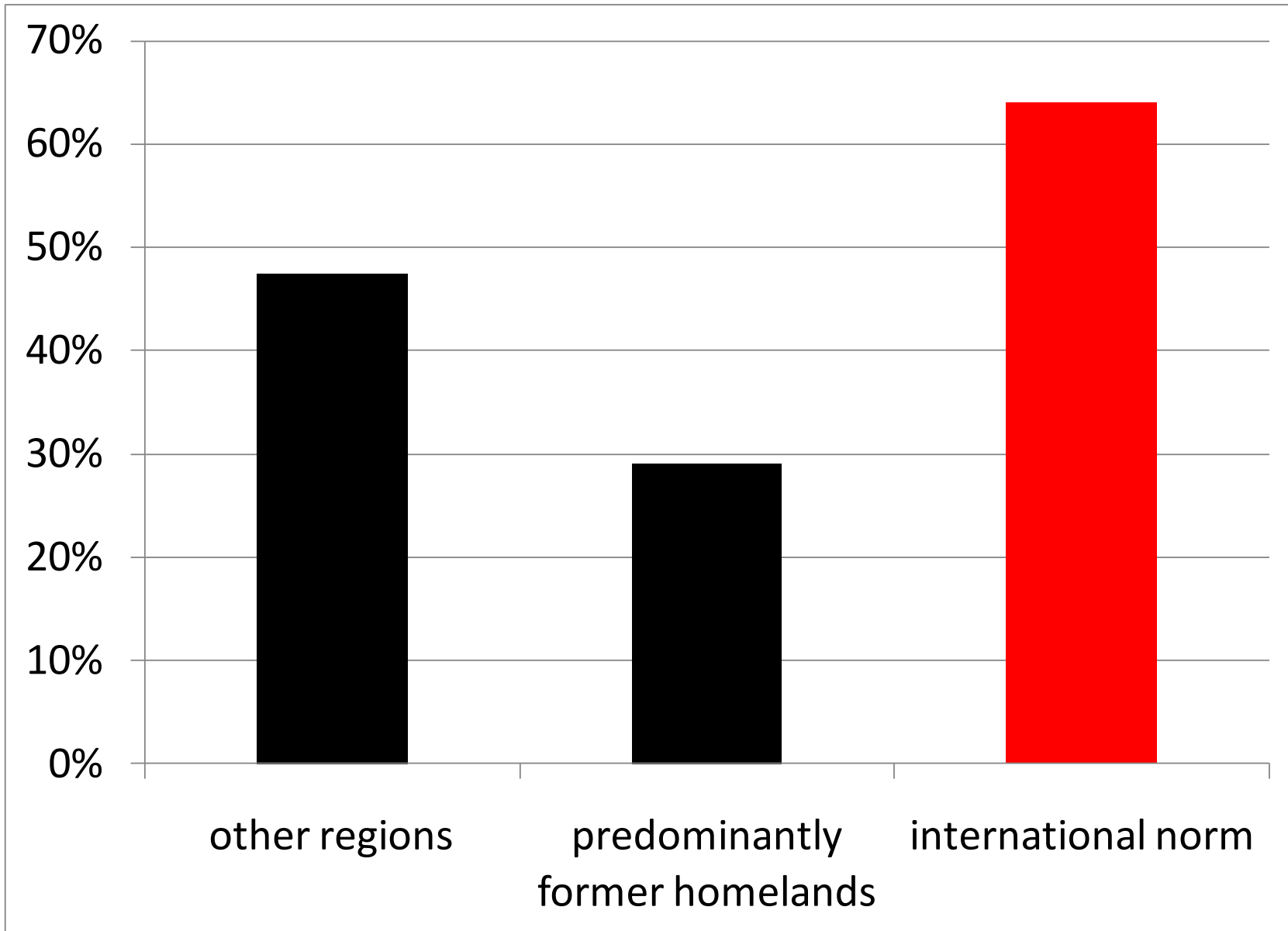
Household incomes



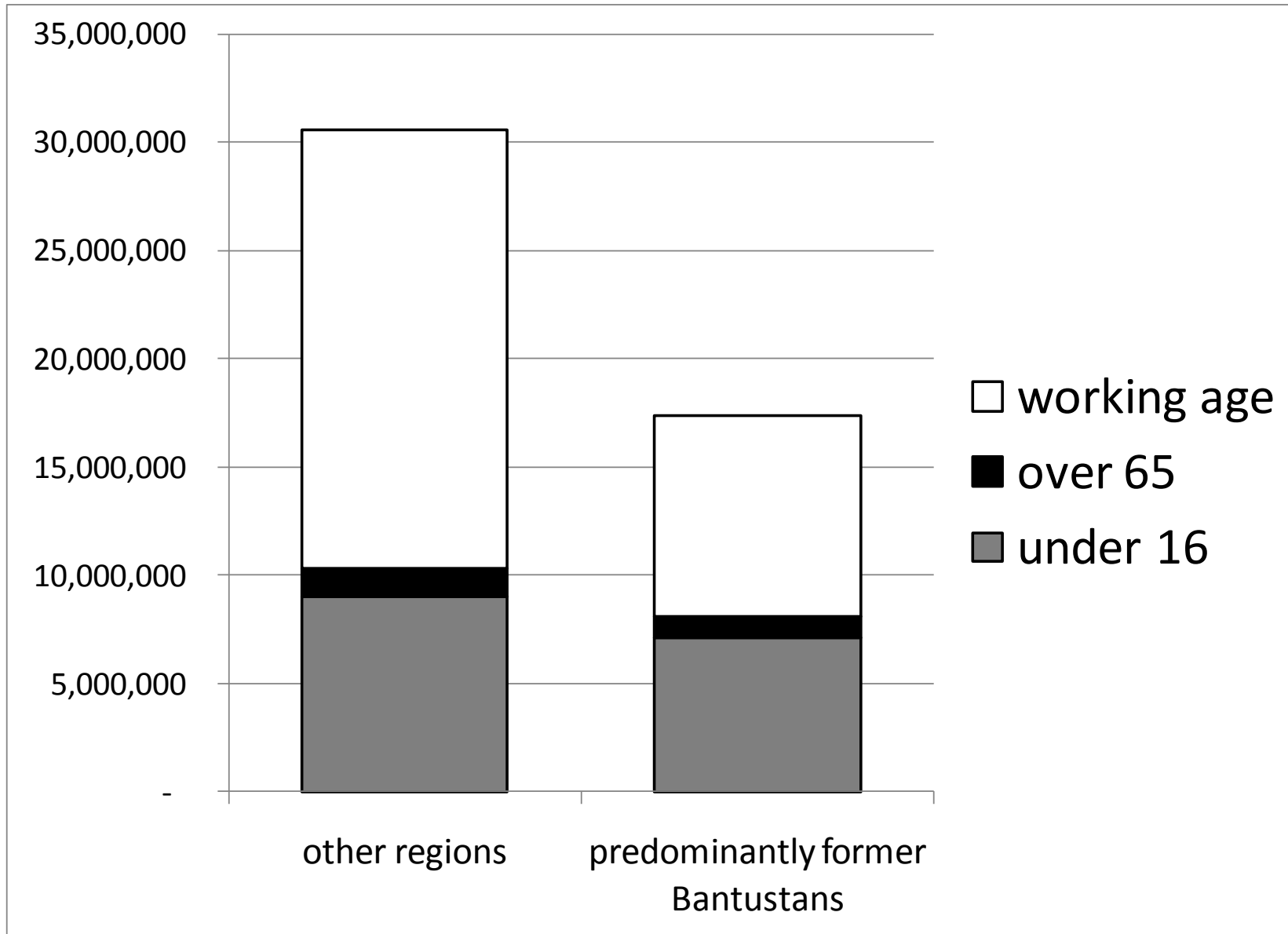
Employment status, 2008



Employment ratio, 2008



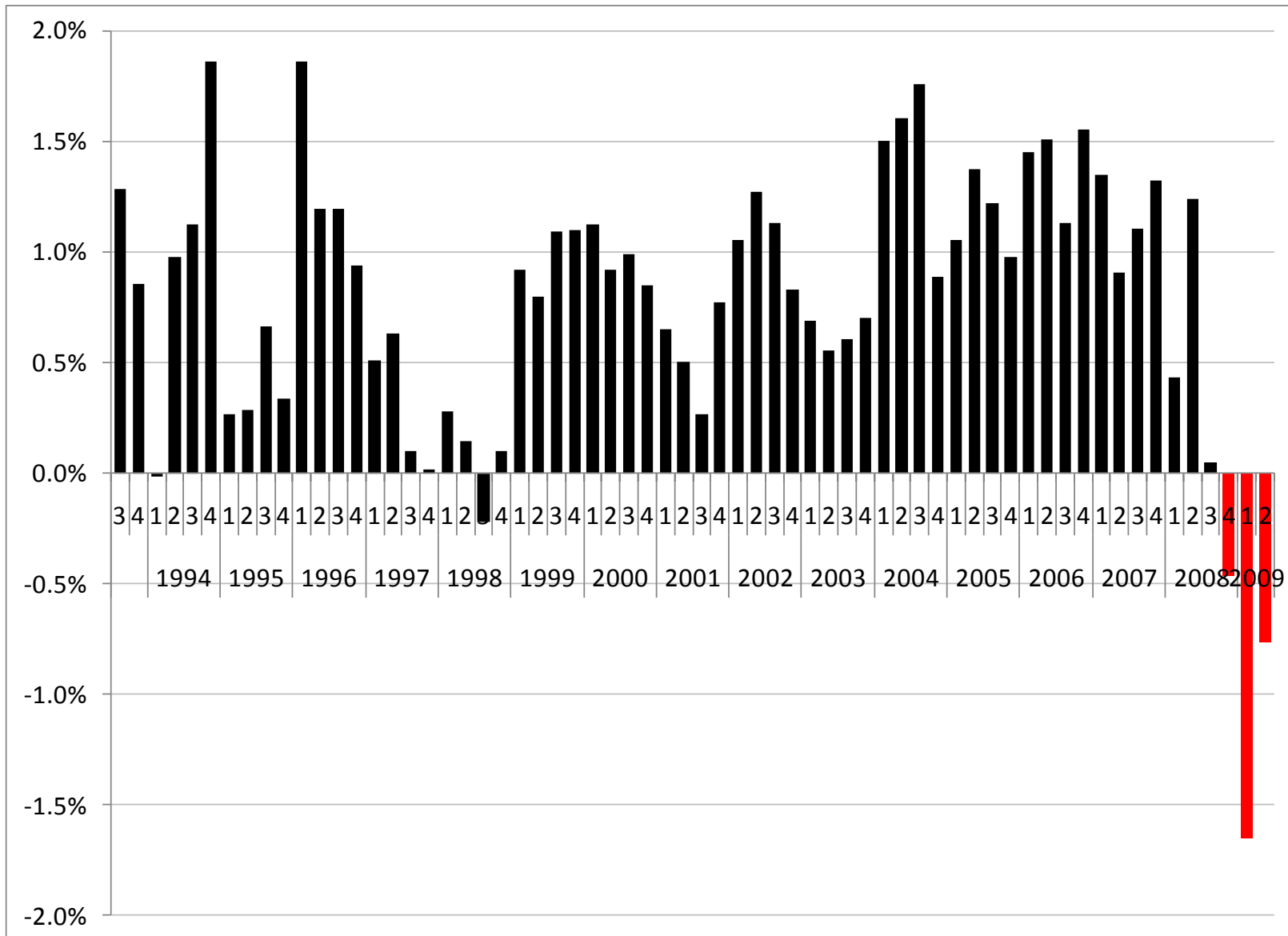
Age by region





The economic downturn

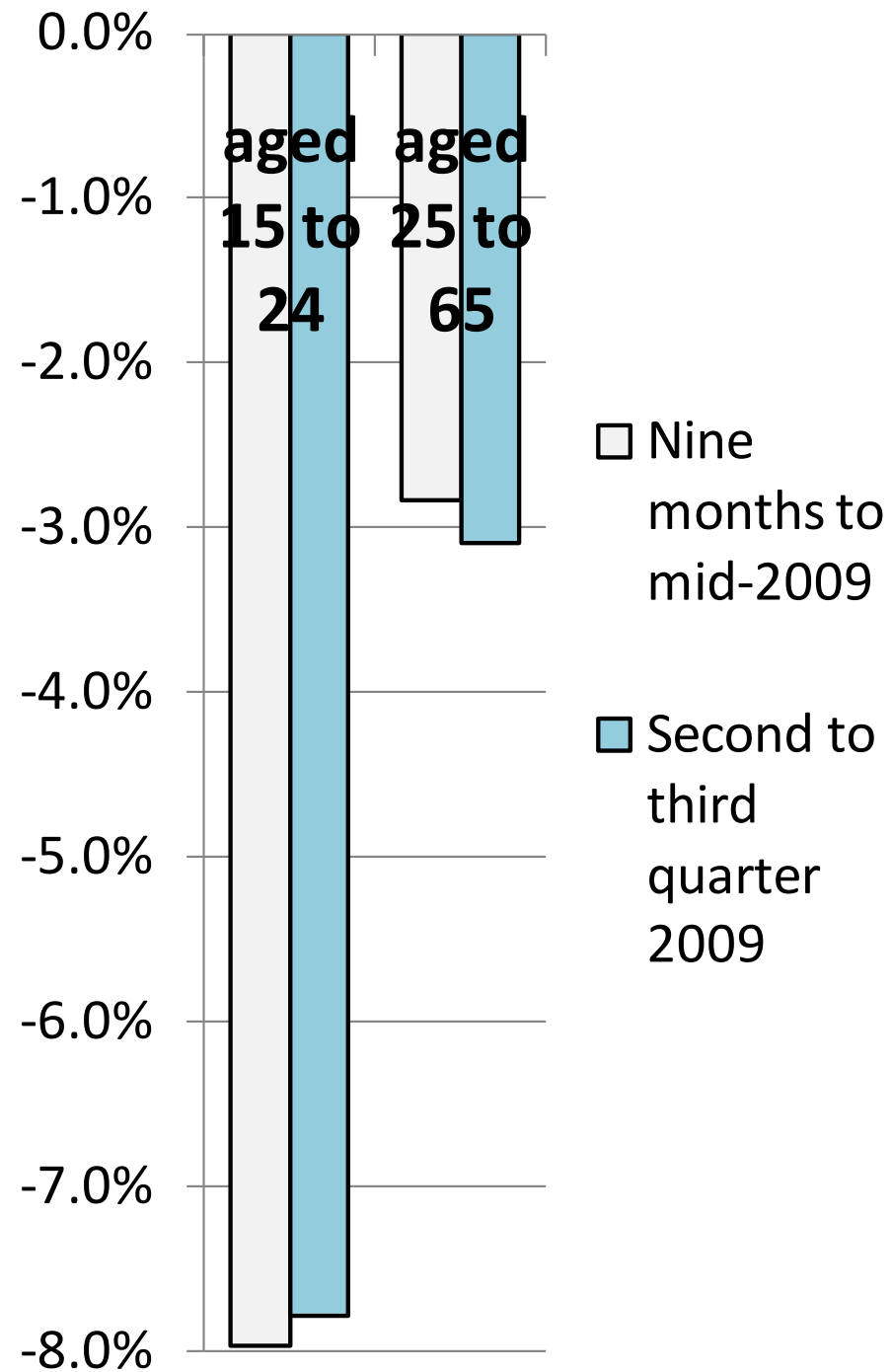
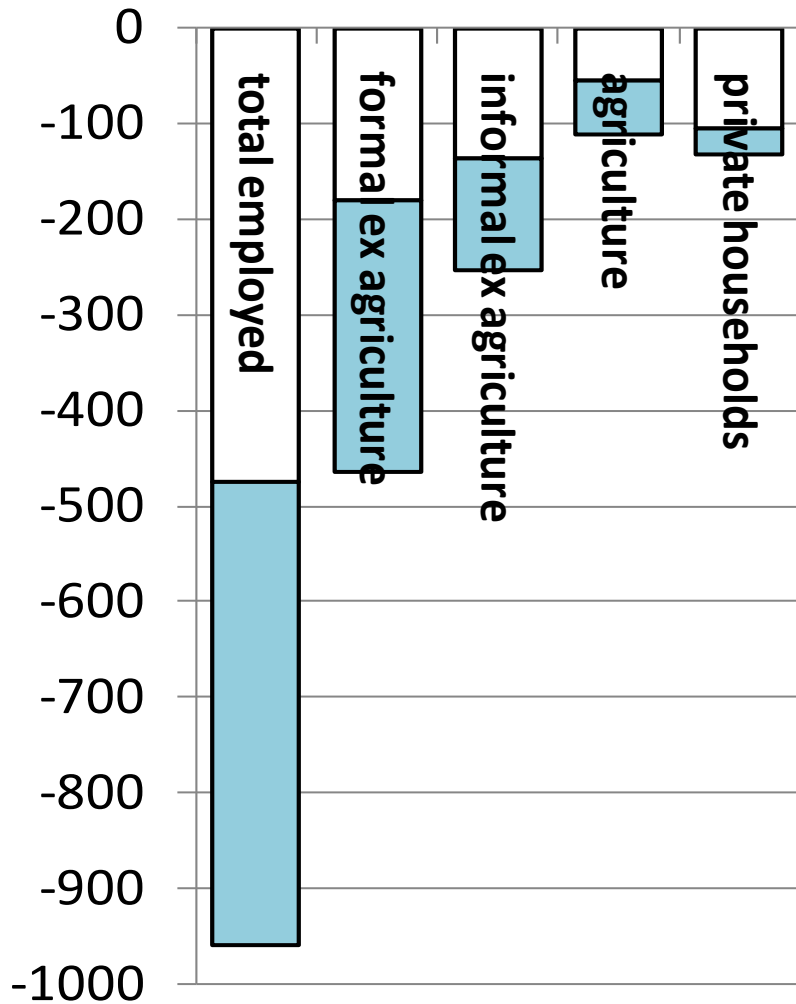
GDP growth



Job losses

□ from 4Q 2008 to 2Q 2009

■ from 2Q to 3Q 2009



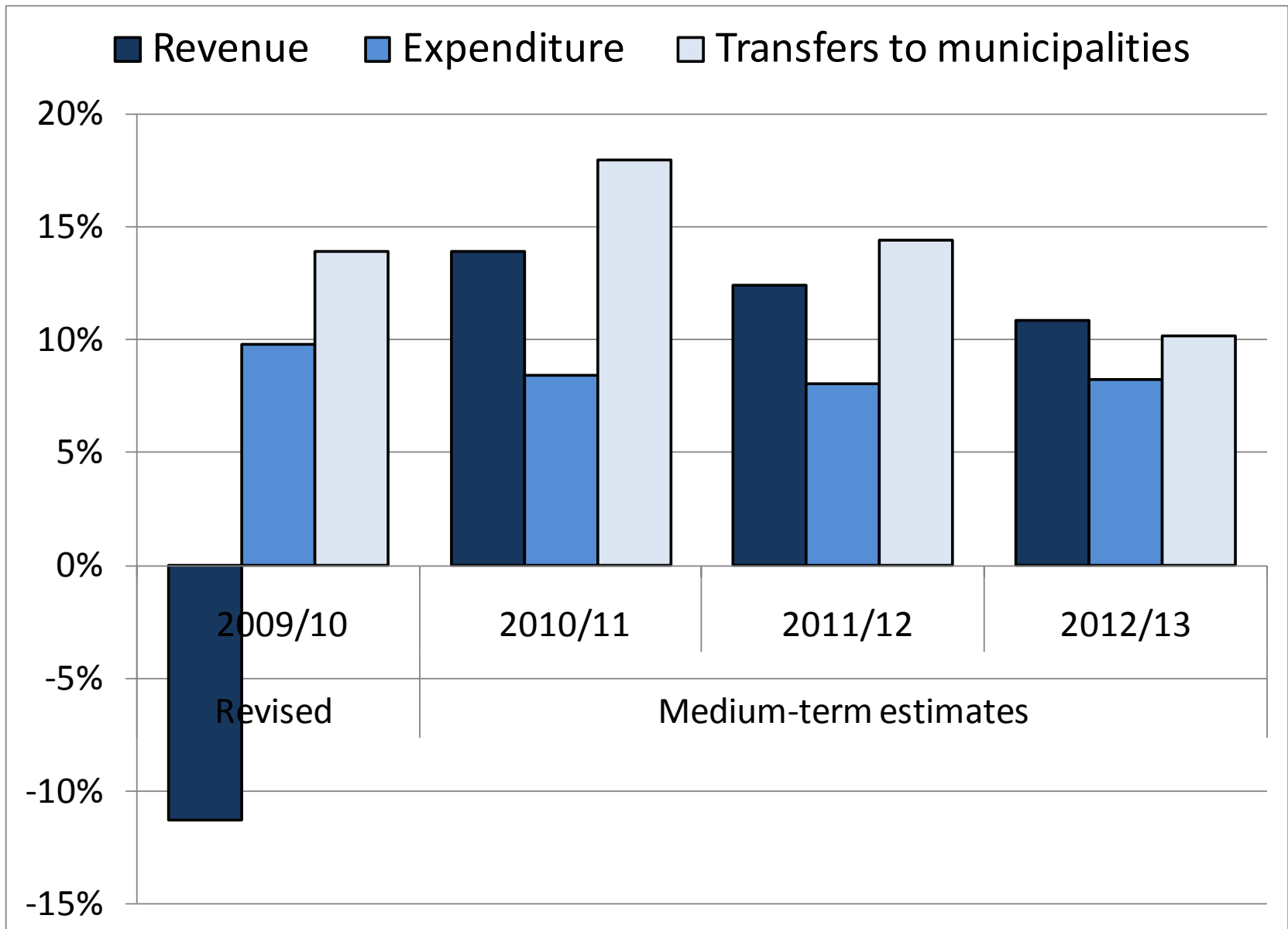
□ Nine months to mid-2009

■ Second to third quarter 2009

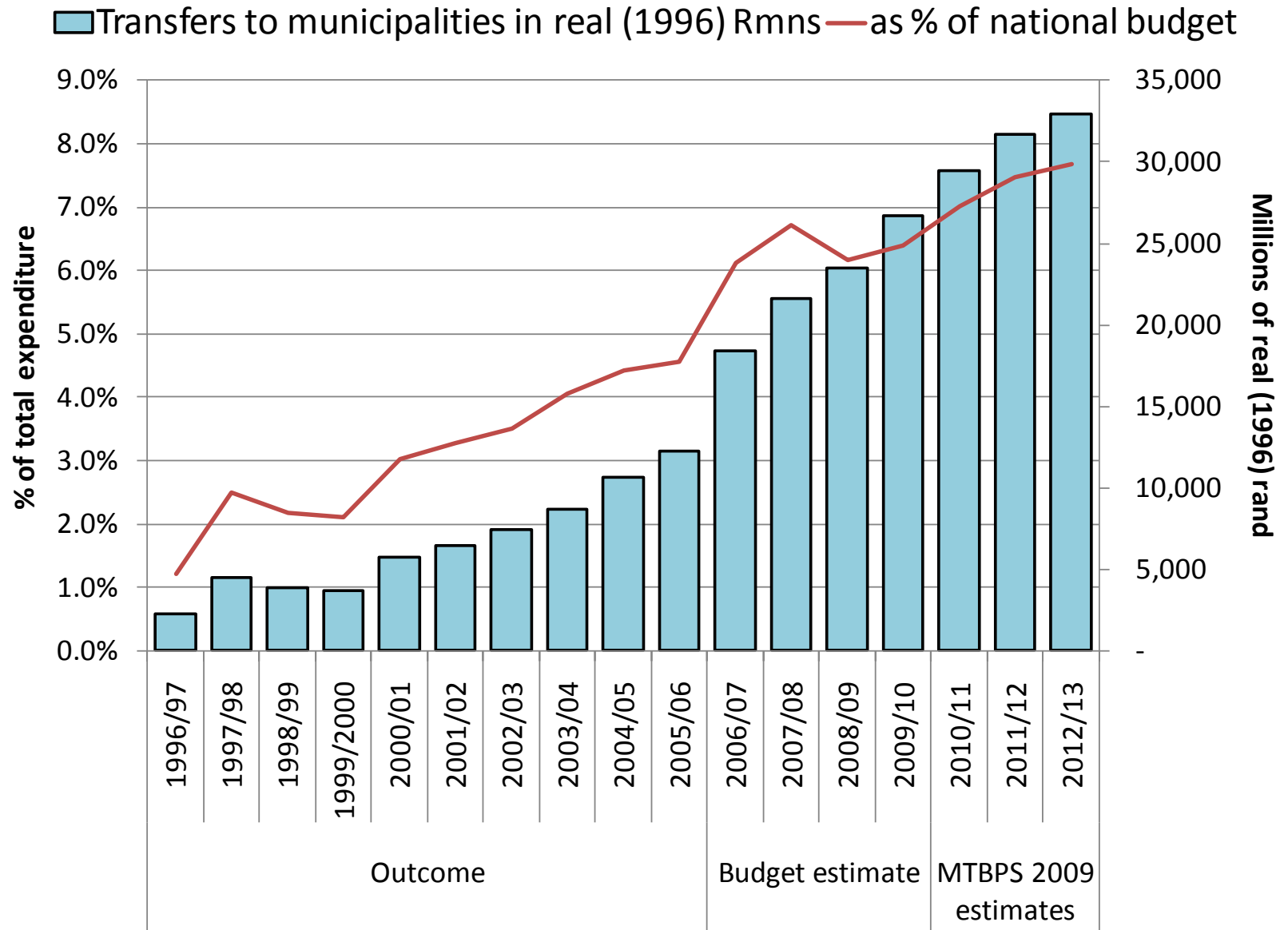


Resourcing

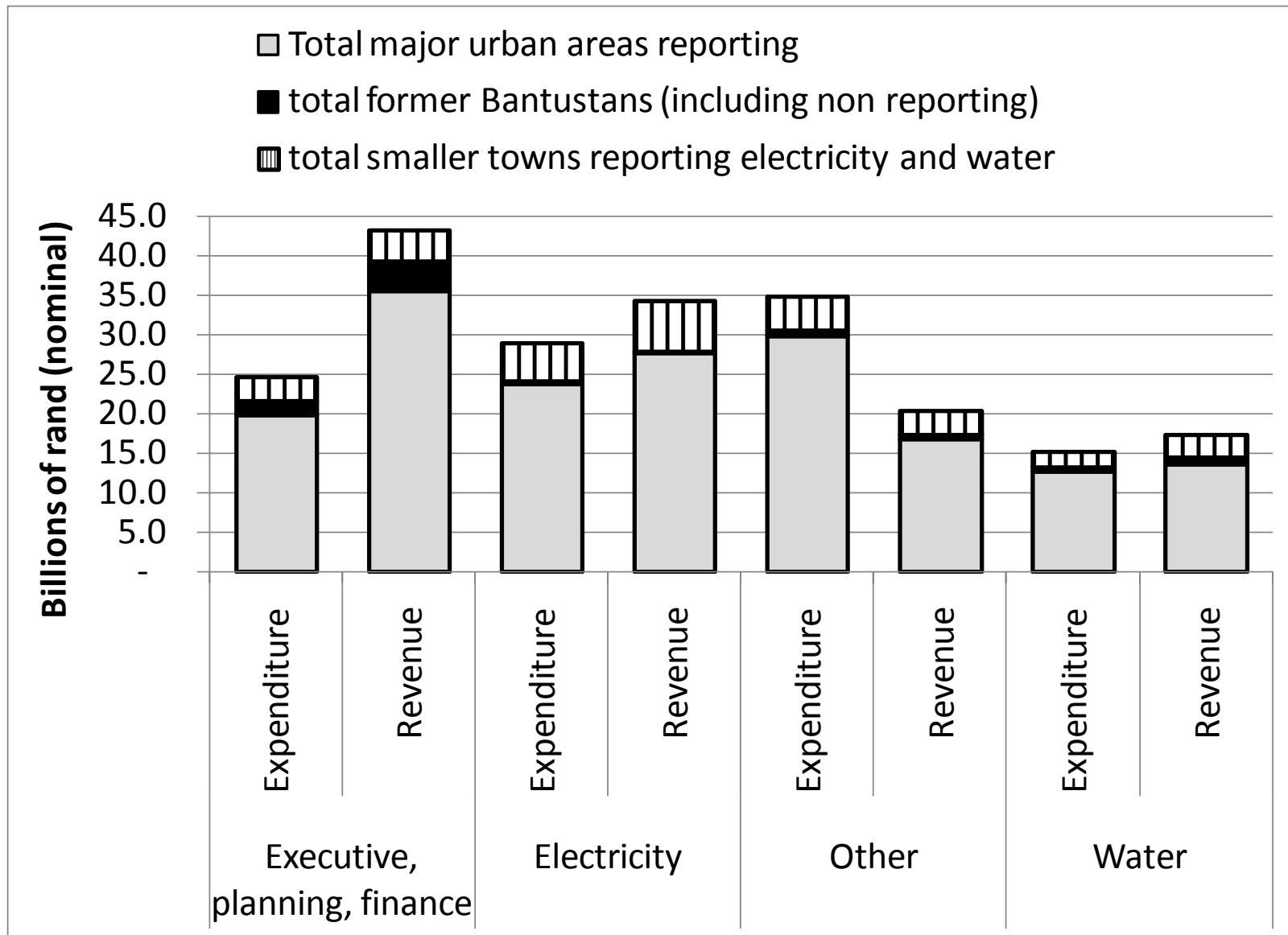
Changes in real terms



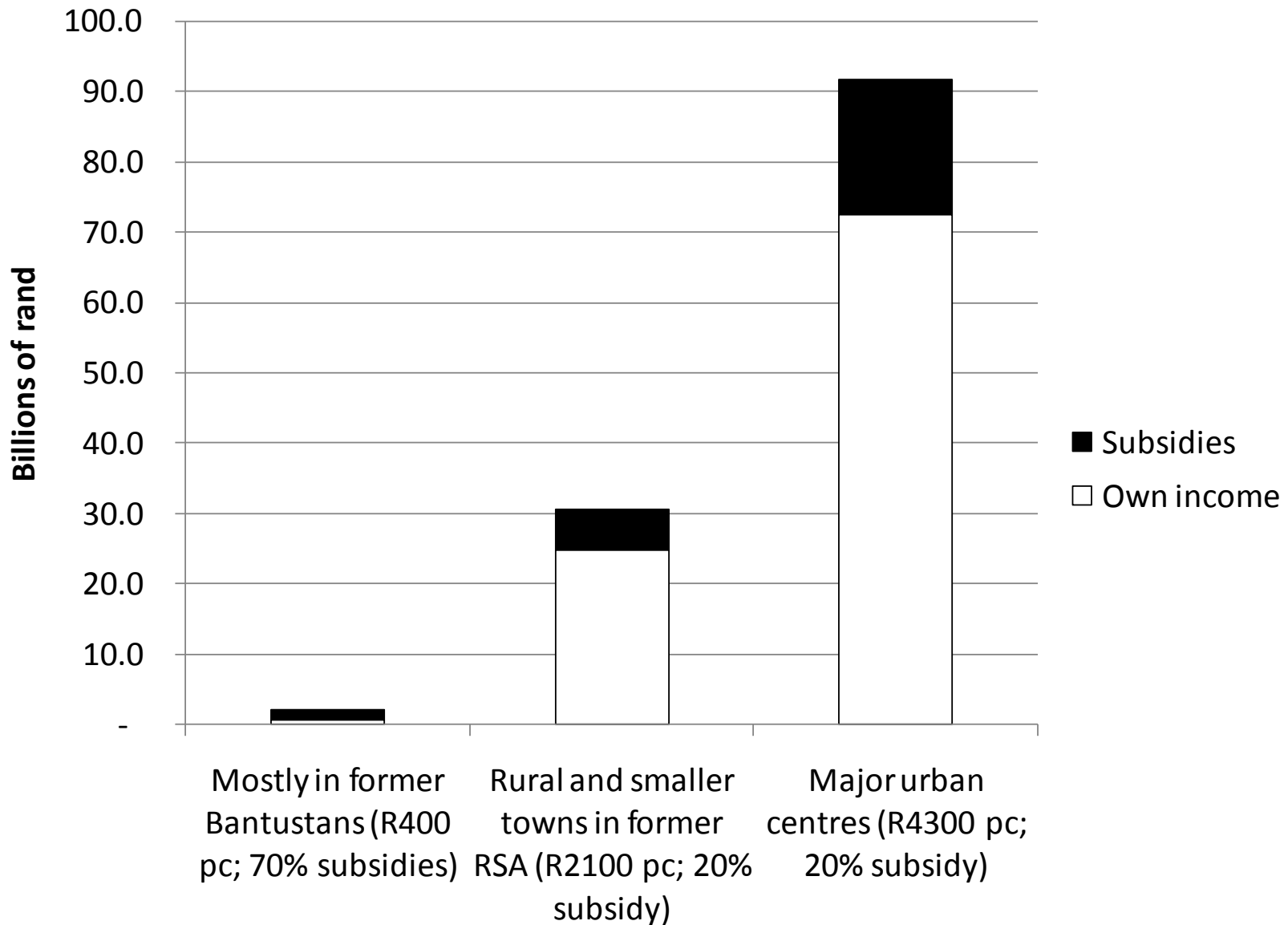
Transfers from national budget



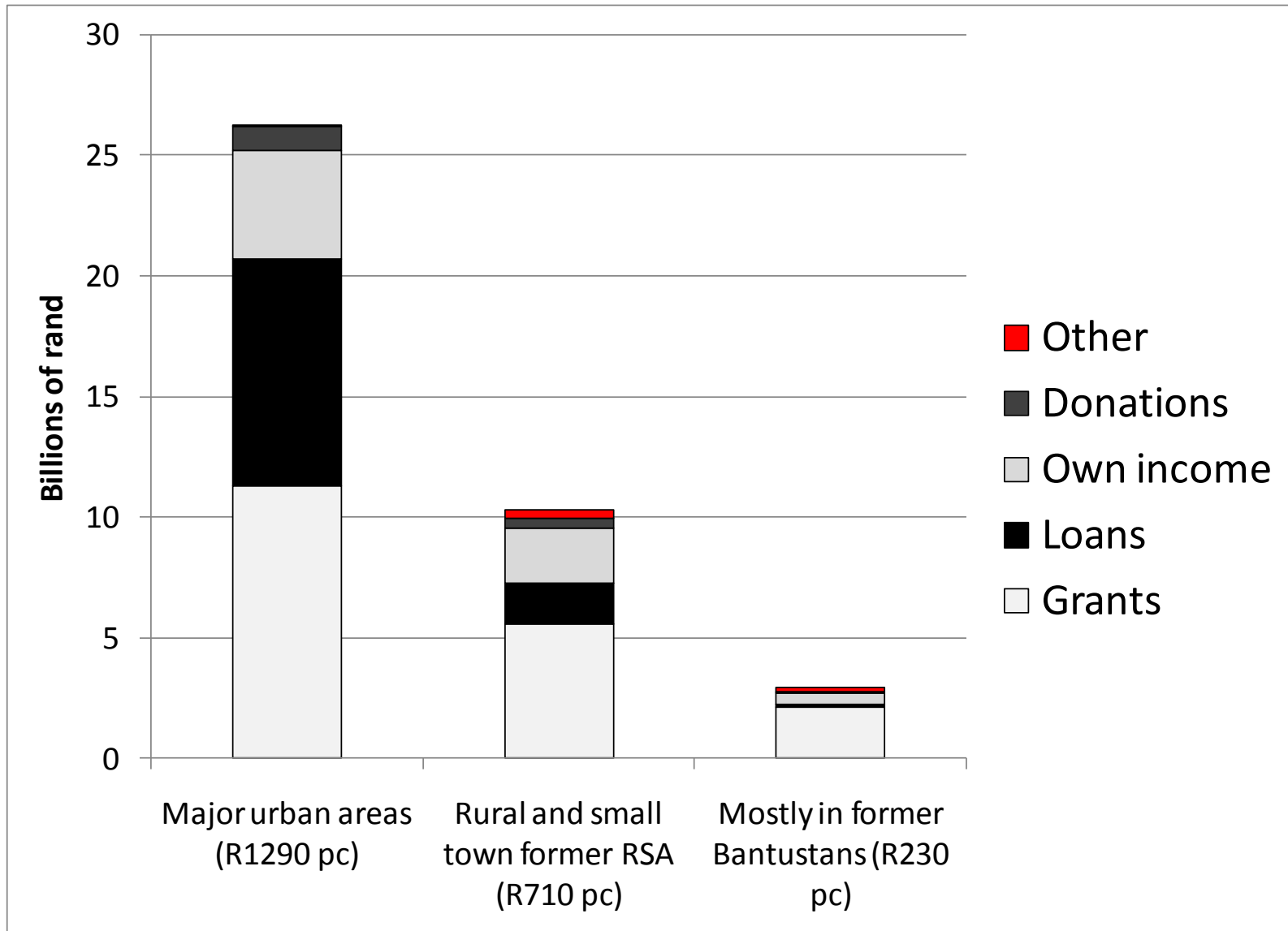
Year to June 2009 by type of service



Operating revenue by type of municipality



Funding of capital expenditure



Implications

- ❑ Addressing backlogs requires a fundamental restructuring of resourcing and governance of municipalities
- ❑ Hindered by
 - Conflicting need to maintain economic centres
 - Uncertainty about long-term settlement patterns
 - The nature of political power
- ❑ Should government focus on employment creation or services?
- ❑ What will be the likely impact of the downturn?