



An economic perspective on the organisation of local government

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Key elements of the fiscal architecture

Three categories of municipalities:

- “Wall-to-wall” Metros, Districts, Local... Plus Traditional Councils
- Water Boards, Catchment Management Agencies, Health districts...

Nationally governed, oversight by national & provincial depts

- Increasing reliance on transfers from the national fiscus
- Accountability to Councils for implementation of statutory responsibilities
- Limited fiscal and borrowing powers

Equitable share – redistributive formula

Conditional grants tied to functional responsibilities

Municipal rates base tied to historic “suburban” and “town” areas

Housing & transport largely intermediated by provincial depts

No clear economic development funding or responsibilities

- “District management model” to facilitate intergovernmental coordination



Can economics help us understand how this system works?

The textbook model:

- Local government as an element of “fiscal federalism”
- Local public goods distinguished from national/overlapping public goods
- Redistribution nationally coordinated
- Grants to supplement funding for local goods with spillover benefits
- Education? Health? Economic development?

The Tiebout hypothesis:

- Cities and towns compete, residents “vote with their feet”
- Diverse preferences are met, administrative efficiency is rewarded

Historical diversion: many of the world’s great cities preceded “national” systems of governance

- *Our fiscal architecture derives in part from colonial centralization tendencies*

Another diversion: Mancur Olson on “roving and stationary bandits”

- *From “construction mafia” to “business forums”*



Towards a reform agenda?

What do we want from local government?

- Efficiency and sound administration
- Growth, investment, jobs
- Improved living standards, progress towards inclusive landscapes

Cities are different – catalysts of modernization & learning

- Cities can create self-reinforcing clusters of specialization

Land use planning and land rights are key levers of urban growth

Municipalities will be overwhelmed by service delivery shortfalls if employment creation is not prioritized

Can reform of the fiscal architecture help?

- Housing and transport are core urban responsibilities
- Matching grants would recognize shared national/provincial and municipal responsibilities
- Redistributive funding shift from municipalities to households?
- Land tenure reform & expansion of the urban zone are critical for revenue growth
- Economic development is a local responsibility ... it is more than local procurement
- Civic and business partnerships have to be rooted in planning and investment promotion
- Private finance is not a substitute for cost recovery from users
- Municipal borrowing for infrastructure: think “patient capital” rewarding sound planning and management





Thank you

