

Local Municipality Productive Efficiency and Its Determinants in South Africa

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Abstract

The paper assesses the technical efficiency of 231 local municipalities in South Africa for 2007 and investigates the potential determinants of efficiency gaps using the nonparametric Data Envelopment Analysis technique. Efficiency scores are explained in a second stage regression model using a Tobit regression model. To the best of our knowledge, this is the first attempt, using such technique, to assess technical efficiency at the local government level in the African context. The results show that on average, B1 and B3 municipalities could have theoretically achieved the same level of basic services with about 16 percent and 80 percent fewer resources respectively. Furthermore, fiscal autonomy and the number and skill levels of the top management of a municipality's administration were found to influence the productive efficiency of municipalities in South Africa. Perhaps most importantly, the results depict a bleak picture of the democratic behavior at the local level in South Africa. It appears that higher-income and highly educated households do not feel the incentive to be active participants in public decision-making processes. The paper findings raise concerns over the future of local municipalities in the country, especially about their capability to efficiently deliver on expected outcomes on a sustainable basis.

JEL classifications: H11; H71; H72; H77

Keywords: Municipalities, spending efficiency, sub-national government finance, fiscal decentralization; DEA analysis, Tobit.