Shuaib Suleman –

Business Economics - Final Assignment

Part A

I have been a Public Sector executive since 2015 as finance director for the Environment and Infrastructure Services Department with the City of Johannesburg (COJ). As a finance professional, I have ascribed to strategic thinking and leadership, managing a complex financial environment, balance sheet restructuring, leading large infrastructure projects, and treasury management.

Since January 2021, as project director of Lanseria Smart City, this role has included collaborating with the office of the Presidency and Gauteng Premier and adjacent Municipalities to establish a cooperative planning venture to deliver the Lanseria Smart City. As an executive team leader, develop the business strategy with associated financial, risk management, and operational plans to achieve objectives and obtain, prioritise, and schedule funding to support the program.

The COJ is a metropolitan municipality in South Africa established in 2001, part of local government with about 35 000 full-time employees, consisting of several regional branches, departments and municipal-owned entities to improve service delivery across the City. The City's total budget in 2019/20 was approximately R65.6 billion, with R8.3 billion in capital spending R57.3 billion in operating expenditures. The City's total budget for 2019/20 was just over R66 billion, with a market value of approximately R56 billion. Despite the issues of Covid-19, the City's current debt-to-revenue ratio is healthy, falling below the National Treasury's 45 percent threshold. Still, there is little room to borrow more. (COJ, Group Annual Financial Statements – year end 30 June 2020).

Part B

The City's mandate is to guarantee that residents within its boundaries have appropriate access to essential services and infrastructure. Competition is forbidden by law for the City of Johannesburg (COJ), a government agency that is the sole provider of a specific product or service. The government grants the City the exclusive right to provide products and services. The City has control over the vital resources necessary for the supply and delivery of services. Government regulation also controls abuse and gives the exclusive right of providing essential services to local government, creating a barrier to entry. The company manages the critical resource, thus holding the final price in the market. Because the government believes that the City's product or service is necessary for the public's welfare, the organisation is not permitted to exit the market. Government regulation ensures that the company meets the bare minimum of service standards. The government regulates the market in the following manner:

- Restricting price increases
- Merger control

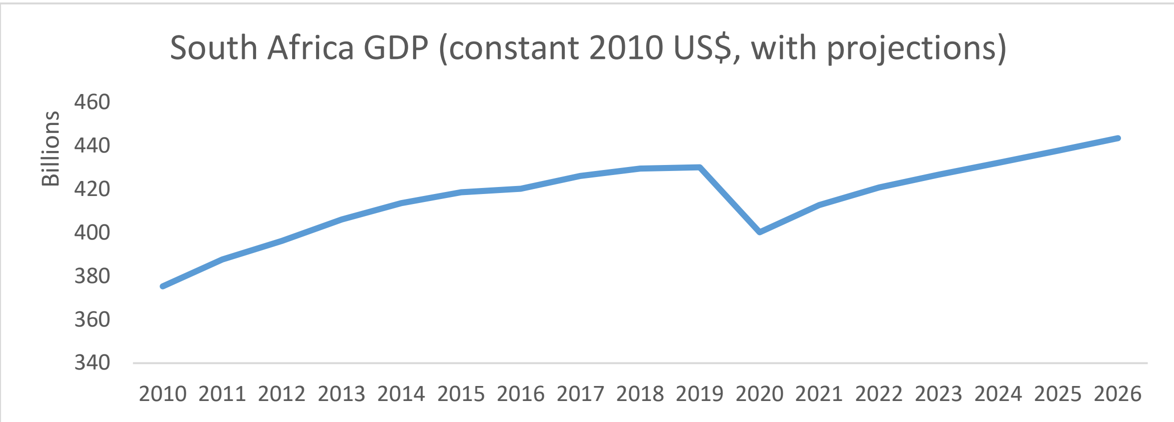
- Monopoly separation
- Conducting investigations into unfair practices and cartels
- Government ownership

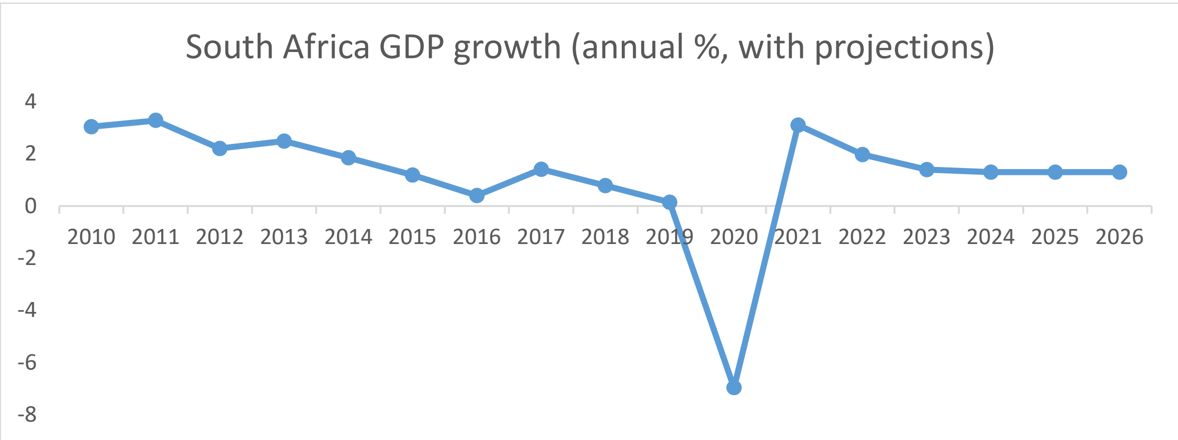
Because there is no competition, the COJ's prices will be the market price. A single supplier regulates a monopolistic market. As a result, the demand for a firm's product or service is the market demand for that product or service. THE DEMAND CURVE IS DOWNWARD SLOPING AND INELASTIC because COJ has great market power and is a price setter. There is no supply curve because changes in demand can cause uncorrelated price changes. As a result, I have classified COJ as having a monopolistic market structure.

Part C

Most economists agree that economic development and growth impact four factors: human capital, physical capital, natural resources, and technology.

Real GDP





Source: Worldbank

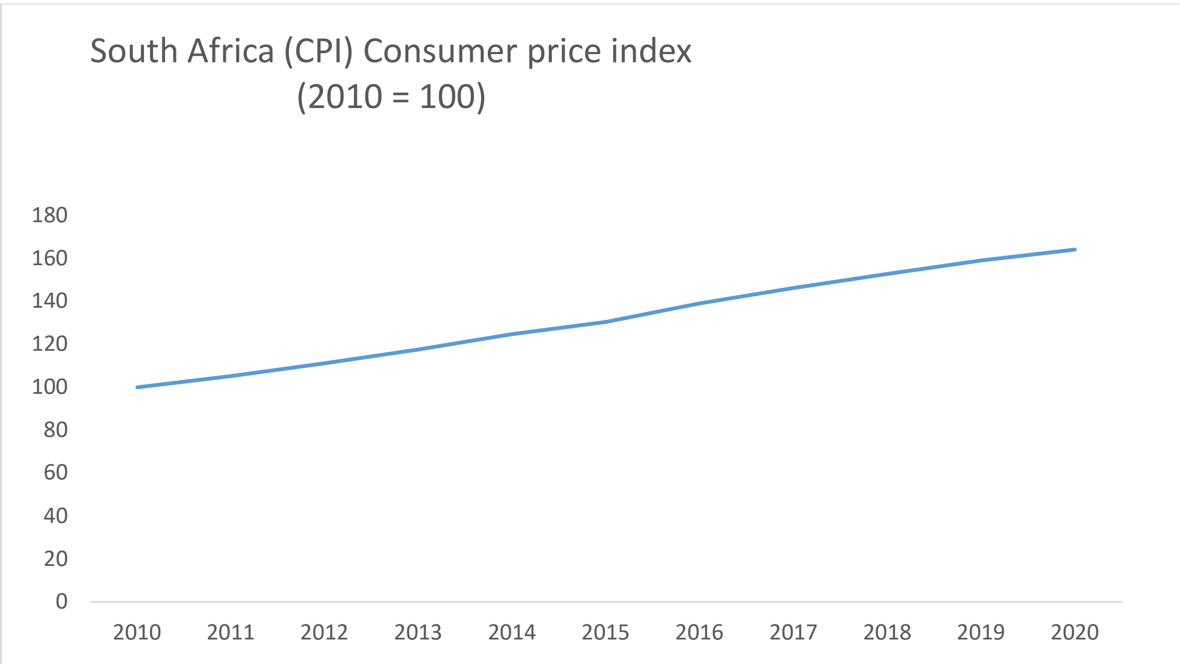
GDP is an essential indicator of a country's economic strength, whilst real GDP is a critical indicator of economic growth. After several years of declining and low economic growth, South Africa succumbed to the pandemic despite real GDP, which increased from 375 billion to 430 billion over the decade. The economy grew by 0.2 percent in 2019 (0.8 percent in

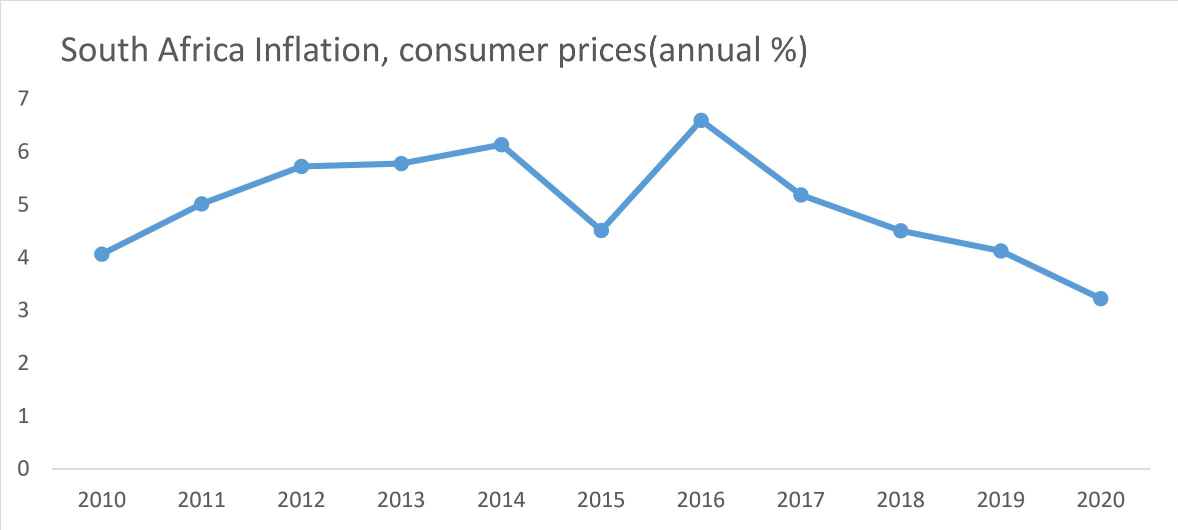
2018). South Africa's real GDP has declined over the decade and fell by 6.96 percent in 2020 compared to the previous year. Finance, real estate, and business services are South Africa's largest industries and have been contributing more and more to the country's economy over the years. The government is the second-largest contributor to our economy, accounting for 17% of total GDP. Manufacturing, one of our more prominent industries, saw a significant drop in its contribution to GDP. It has struggled to regain momentum since 2010, partly due to lower demand for goods and the resurgence of load shedding caused by operational and financial challenges at the energy utility, which supplies more than 90% of the country's electricity (Winning A, 2020). The economic losses due to power interruptions are estimated to cost between one and five percent of a countries' GDP (Trace S, 2020), as can be observed from the low levels of growth. Over the last few years, the electricity, gas, and water industries have contributed less value to the South African economy.

Gross domestic product growth is predicted to return to around 2% in 2021. Commodity prices remain critical for South Africa because the country is a significant net exporter of minerals but a net importer of oil. Domestic growth has slowed, owing to structural issues largely. Growth has been limited by skill shortages, infrastructure constraints, particularly in the energy industry, and policy uncertainty.

DUE TO ONGOING STRUCTURAL CONSTRAINTS, real GDP growth will slow to 2% in 2022 and then to 1.4 percent in 2023. Public debt could exceed 90% of GDP in the medium term, with projections of it stabilising at 95% in 2026. Due to underperformance, key fiscal measures such as debt to GDP and the cost of debt to GDP have been endangered. As a result, nearly the same set of people has borne the tax burden. There is a desire to shift spending away from consumption and build infrastructure that will sustain growth.

Inflation

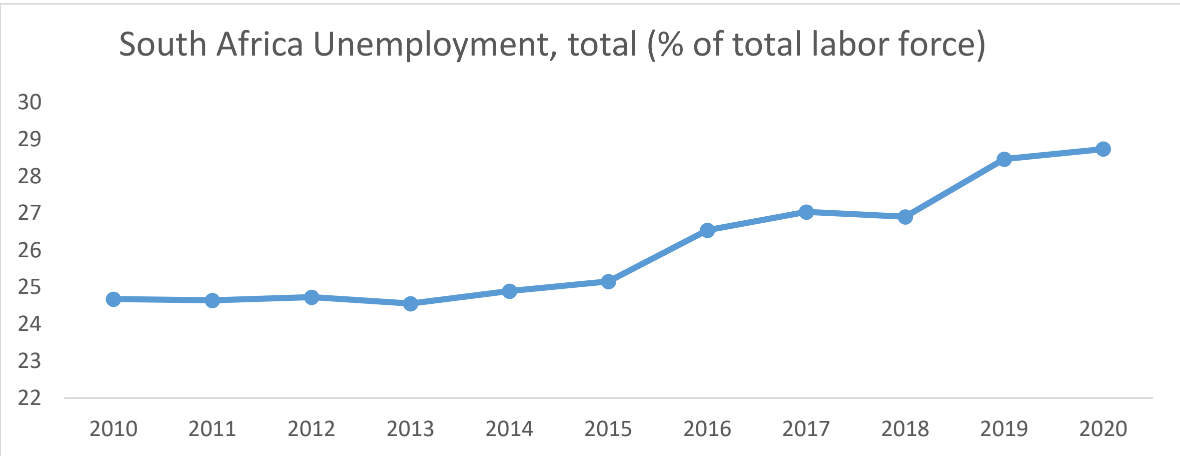




Source: Worldbank

In South Africa, inflation has been relatively constant in recent years, ranging between 3.2 and 6.6 percent. It is likely to remain stable at roughly 4.5 percent in the future, remaining within the target range of 3 to 6 percent set by the reserve bank. With a GDP of R420 billion, South Africa's inflation rate peaked at more than 6 percent in 2016. Underlying inflation was not being driven by increased consumer spending as inflation of semi-durable and durable goods remained very low. Thus economic growth suffered due to weak demand and an uncertain political future which triggered a crisis. Then-President Jacob Zuma was removed from office in 2018 due to allegations of fraud and mismanagement, and since then, inflation, GDP, and economic growth appear to have stabilised.

Unemployment Rate

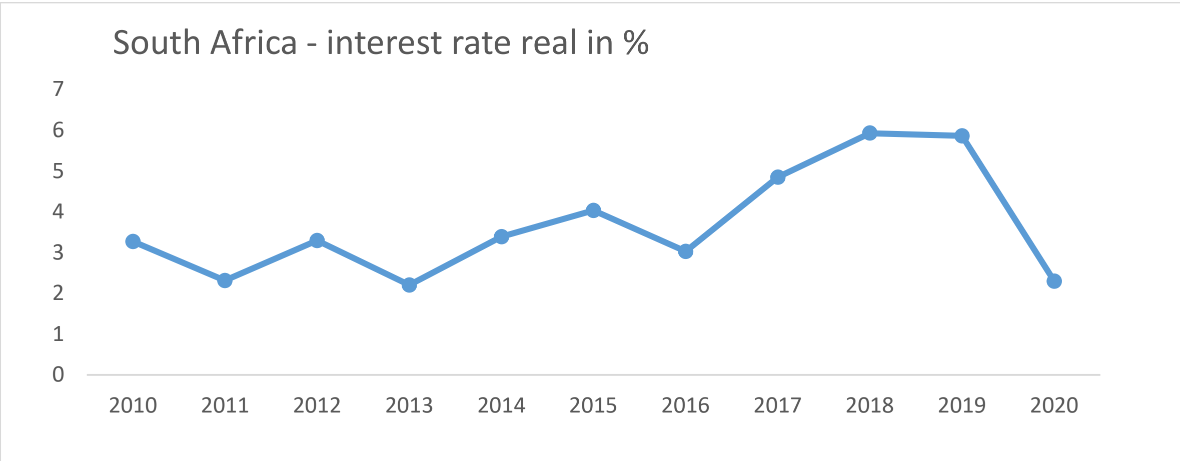


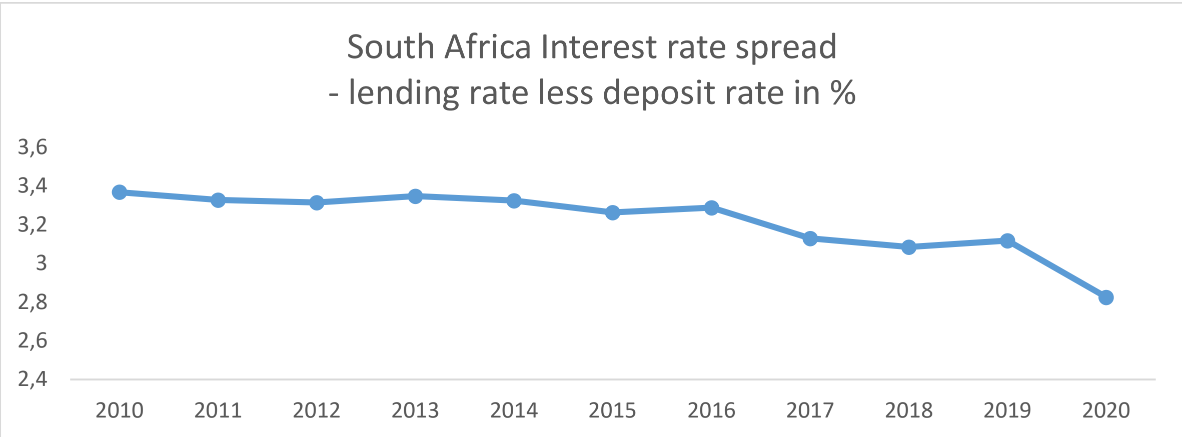
Source: Worldbank

South Africa is beset by high unemployment and poverty, which substantially impedes household welfare progress. South Africa's unemployment rate is expected to be at 28.74 percent in 2020. According to StatsSA data, the unemployment rates for young individuals aged 15-24 and 25-34 were at about 64 percent and 42 percent, respectively. Amongst, the most critical concerns plaguing the economy is youth unemployment. Structural obstacles and slow growth have limited poverty reduction.

The low numbers have been blamed on austerity measures, continuing inequality, and poor government policies, and the COVID-19 epidemic has exacerbated these flaws. High inequality is sustained by a legacy of exclusion and the character of economic growth, which is anti-poor and fails to provide enough jobs. Wealth inequality is greater, and intergenerational mobility is low, implying that inequities are passed down from generation to generation with minimal change over time.

Interest Rate





Source: Worldbank

The real interest rate is the inflation-adjusted lending interest rate calculated by the GDP deflator. Over the previous decade, South Africa's risk premium, or the additional return sought by investors to compensate for greater levels of risk, has climbed dramatically. These show concerns about South Africa's long-term growth and budgetary position, and they imply that the government is paying more to borrow money.

To alleviate the economic effect of weak demand, the South African Reserve Bank steadily decreased the repo rate to 3.75 percent, the lowest since 1973, bringing comfort to indebted citizens but has not been forced to gradually increase rates due to rising inflation. To boost lending, banking regulations have been loosened. Over the last decade, the interest rate spread has contracted to accommodate expenditure inflation and stimulate economic growth. Household spending growth has slowed dramatically, which has been matched by the economy's benefit from low-interest rates but has failed to promote growth. However, given the economic, inflationary, and interest rate cycles, these rates will have to be raised in the future.

In the short term, the economic environment reflects deteriorating public finances, electricity shortages, weak economic growth, and unemployment, which will continue to be critical macroeconomic challenges.

Part D

The City's sustainability strategy should enhance productivity, lower expenses, and guarantee a customer-centric approach.

The City's Financial Development Plan (FDP) is a tool that helps the City manage its financial obligations while staying within its means. It provides a variety of decision-making tools to address various issues of a financial nature. This tool will continually be adjusted with the applied assumptions being improved better to project the future financial position of the organisation.

The City should also:

- Seek new sources of revenue while also attempting to stabilise existing ones. One strategy is to carefully assess how much revenue a community's development patterns generate and use this information to direct infrastructure and operational resources. The development of a community impacts both property taxes and other taxes.
- Charge fees and service charges and structured to reflect the actual cost of service delivery better while avoiding disproportionate impacts on low-income households.
- Refocus expenditure goals and realign spending overtime to solve infrastructure development and service delivery issues. The City will require fewer resources for repairs and maintenance and other costs connected with ageing infrastructure if it renews its ageing infrastructure. The City must also allocate funding to important service delivery sectors like public health, safety, and community development.
- Managing the City's revenue chain effectively will reduce revenue leakage and guarantee that invoiced revenue is turned into cash collected. Given the country's macroeconomic limits, the City's revenue base becomes vital in ensuring financial sustainability. A tight balance must be achieved between the need for cost-effective tariff structures and the limited consumer base. To achieve this, revenue leakage must be minimised, and collection efforts must be increased. Improve payment culture,

customer service efficiency, and metering to strengthen the City's existing revenue capacity and budgetary initiatives.
- If the balance sheet is used more effectively, the City can achieve more significant results with its limited resources. Collaboration with other public sector agencies, private sector mobilisation, and more inventive finance measures will guarantee that the City meets its infrastructure service delivery obligations while avoiding debt overload.

The City, with the private sector and civil society, have a vital role in local economic development to:

- Design a comprehensive local strategy and action plan. Local stakeholders develop medium and long-term strategic plans that outline stakeholders' vision, objectives, and actions. Regional forums and networks must be active participants in the plan's development and implementation. The activities will be more sustainable if there is strong local ownership.
- Strengthen the capacity and opportunities of informal workers by expanding the outreach of local vocational centres, employment offices, and community organisations in vocational demand assessment, capacity building, and workforce development.
- Increase the number of links between formal and informal economy firms to expand economic opportunities for mutual beneficiation and map local economic strength and opportunities to prioritise support levels for local capacity development, organisational strengthening, infrastructure creation, and inward investment.

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