South Africa is a quasi-federal country as it is a unitary state with federal tendencies and specific governance arrangements, based on a system of co-operative governance. Following the adoption of the 1993 Interim Constitution, the number of provinces increased from four to nine. The integration process also resulted in a drastic reduction of municipalities from more than 1,000 before 1990 to 830 just after 1993 and further down to 278 following the 2011 municipal elections. Metropolitan municipalities (category A) are found in urban areas and have a single-tier form. The other local governments are found in areas which are primarily rural and have a two-tier organisation: district municipalities (category C), the main division of provinces, which are in turn subdivided into local municipalities (category B). The latter share authority with the district municipality under which they fall. Metropolitan and local municipalities are also divided into wards (4,277 as of 2011), with each ward electing a councillor to the municipal council.

**Main subnational governments responsibilities.** Provinces: social services (education, health and social development including housing), economic functions (agriculture and roads) and provincial governance and administration (legislature, provincial treasury, local government and human settlements). Municipalities: basic services (water and sanitation, electricity distribution, refuse removal), storm water management, municipal transport and roads, community services (parks, sport and recreation, street lighting). Local and provincial governments provide free or subsidised services for poor households.

### Basic Socio-Economic Indicators

**Population and Geography**
- **Area:** 1,219,090 km²
- **Population:** 54,001 million inhabitants (2014), an increase of 1.5% per year (2010-14)
- **Density:** 44 inhabitants/km²
- **Urban population:** 64.3% of national population
- **Capital City:** Pretoria (administrative capital - 3.75% of national population), Cape Town (legislative capital - 6.82%) and Bloemfontein (judicial capital - 0.93%)

**Economic Data**
- **GDP:** 704.7 billion (current PPP international dollars) i.e. 13,049 dollars per inhabitant (2014)
- **Real GDP growth:** 1.5% (2014 vs 2013)
- **Unemployment rate:** 24.9% (2014)
- **Foreign direct investment, net inflows (FDI):** 5,741 (BoP, current USD millions, 2014)
- **Gross fixed capital formation (GFCF):** 20% of GDP (2014)
- **Human Development Index:** 0.666 (medium), rank 116

### Territorial Organisation and Subnational Government Responsibilities

<table>
<thead>
<tr>
<th>Municipal Level</th>
<th>Intermediate Level</th>
<th>Regional or State Level</th>
<th>Total Number of SNGs</th>
</tr>
</thead>
<tbody>
<tr>
<td>278</td>
<td>-</td>
<td>9</td>
<td>287</td>
</tr>
</tbody>
</table>

8 Metropolitan Municipalities (Category A)
278 Local Municipalities (Category B)
44 District Municipalities (Category C)

**Main features of territorial organisation.** South Africa is a quasi-federal country as it is a unitary state with federal tendencies and specific governance arrangements, based on a system of co-operative governance. Following the adoption of the 1993 Interim Constitution, the number of provinces increased from four to nine. The integration process also resulted in a drastic reduction of municipalities from more than 1,000 before 1990 to 830 just after 1993 and further down to 278 following the 2011 municipal elections. Metropolitan municipalities (category A) are found in urban areas and have a single-tier form. The other local governments are found in areas which are primarily rural and have a two-tier organisation: district municipalities (category C), the main division of provinces, which are in turn subdivided into local municipalities (category B). The latter share authority with the district municipality under which they fall. Metropolitan and local municipalities are also divided into wards (4,277 as of 2011), with each ward electing a councillor to the municipal council.

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### Expenditure

<table>
<thead>
<tr>
<th></th>
<th>% GDP</th>
<th>% General Government</th>
<th>% Subnational Government</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Expenditure (2013)</strong></td>
<td>21.4%</td>
<td>8.8%</td>
<td>49.4%</td>
</tr>
<tr>
<td><strong>Current Expenditure</strong></td>
<td>19.0%</td>
<td>7.4%</td>
<td>-</td>
</tr>
<tr>
<td><strong>Staff Expenditure</strong></td>
<td>9.6%</td>
<td>2.1%</td>
<td>65.4%</td>
</tr>
<tr>
<td><strong>Investment</strong></td>
<td>2.4%</td>
<td>1.5%</td>
<td>71.4%</td>
</tr>
</tbody>
</table>

Following the significant decentralisation process undertaken with the Constitution (of 1996), SNGs have become key economic and social actors, reflected by the level of their expenditure in GDP and public spending, which is well above the OECD average (being at the level of countries such as the USA, Germany or Spain). SNGs employ a large share of public staff, especially in the provinces, and are key investors, both at provincial and municipal levels.
At the subnational level, the main spending items are education, economic affairs and transport, health and general public services. Health, education, and social development services account for over three-quarters of provincial spending. These are labour-intensive services and as a result, around 60% of provincial budgets are allocated to employee compensation. **General Public Services**
- Defence
- Security and Public Order
- Economic Affairs
- Environmental Protection
- Housing and Community Amenities
- Health
- Recreation, Culture and Religion
- Education
- Social Protection

Provinces are not allowed to incur debt - or only in small amounts. Section 230 of the Constitution empowers municipalities to borrow, while the 2003 Municipal Finance Management Act regulates such powers. They can borrow from credit markets to fund capital expenditure (golden rule). In 2013, loans and bonds represented respectively 35% and 10% of SNG outstanding debt while commercial debts (“other accounts payable”) accounted for 53% of SNG debt. In 2004, the City of Johannesburg was the first South African metropolitan city to enter the bond market, followed by the City of Cape Town in 2008 and, most recently, by Ekurhuleni in 2010.

**Revenues**

<table>
<thead>
<tr>
<th>Total Revenue (2013)</th>
<th>GDP</th>
<th>General Government</th>
<th>Subnational Government</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax Revenue</td>
<td>1.5%</td>
<td>1.3%</td>
<td>56.5%</td>
</tr>
<tr>
<td>Grants and Subsidies</td>
<td>14.9%</td>
<td>2.6%</td>
<td>-</td>
</tr>
<tr>
<td>Other Revenues</td>
<td>4.4%</td>
<td>4.3%</td>
<td>-</td>
</tr>
</tbody>
</table>

TAX REVENUE. Provinces are allowed to raise certain taxes, levies and duties but their ability to do so is very limited. The bulk of their tax revenue comes from motor vehicle licences and casino taxes. Municipalities collect local taxes and exercise total control over their tax base. The principle tax is property rates (reformed in 2014. NB. District municipalities do not collect property rates), with significant disparities in municipal tax bases.

**Grants and Subsidies.** Transfers to provinces and local governments are made through the equitable share and conditional grants:
- Equitable shares are determined by formulas that take into account demographic and developmental factors. They represent 80% of provincial transfers and around 45% of municipal transfers, but are higher in rural municipalities which have lower tax revenue raising potential.
- Conditional grants are designed to achieve specific objectives, and provinces and municipalities must fulfil certain conditions to receive them.

**Other Revenues.** Municipalities raise an important share of their revenue in the form of charges, in particular user charges for water, sanitation, electricity and refuse removal services. The share of these revenues is low in rural and poor municipalities.

**Outstanding Debt**

<table>
<thead>
<tr>
<th>Outstanding Debt (2013)</th>
<th>GDP</th>
<th>General Government</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provinces</td>
<td>4.8%</td>
<td>9.3% (est)</td>
</tr>
<tr>
<td>Municipalities</td>
<td>4.8%</td>
<td>9.3% (est)</td>
</tr>
</tbody>
</table>

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