

SOUTH AFRICA

QUASI-FEDERAL COUNTRY

AFRICA

BASIC SOCIO-ECONOMIC INDICATORS

Income group - **UPPER MIDDLE INCOME**

Local currency - **Rand (ZAF)**

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**

Sources: World Bank, UN World Urbanisation Prospects, <http://publications.europa.eu>

TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGs
278	-	9	287
8 METROPOLITAN MUNICIPALITIES (CATEGORY A) 226 LOCAL MUNICIPALITIES (CATEGORY B) 44 DISTRICT MUNICIPALITIES (CATEGORY C)		PROVINCES	

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.

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.

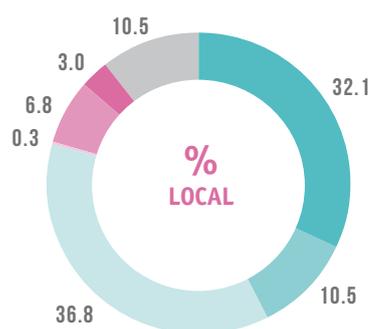
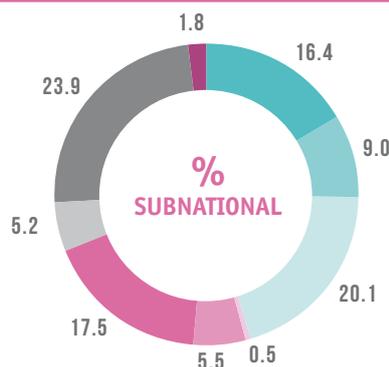
EXPENDITURE	% GDP		% GENERAL GOVERNMENT (same expenditure category)		% SUBNATIONAL GOVERNMENT	
TOTAL EXPENDITURE (2013)	21.4%	8.8%	49.4%	20.4%	100%	100%
CURRENT EXPENDITURE	19.0%	7.4%	-	-	88.9%	83.1%
STAFF EXPENDITURE	9.6%	2.1%	65.4%	14.0%	44.8%	23.2%
INVESTMENT	2.4%	1.5%	71.4%	44.8%	11.1%	16.9%

■ SUBNATIONAL DATA □ LOCAL DATA ONLY

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.

EXPENDITURE BY FUNCTION

% SUBNATIONAL GOVERNMENT EXPENDITURE



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.

REVENUE BY TYPE

% GDP

% GENERAL GOVERNMENT (same revenue category)

% SUBNATIONAL GOVERNMENT

■ SUBNATIONAL DATA □ LOCAL DATA ONLY

Revenue Type	% GDP	% GDP	% General Government	% General Government	% Subnational Government	% Subnational Government
TOTAL REVENUE (2013)	20.8%	8.2%	56.5%	22.1%	100%	100%
TAX REVENUE	1.5%	1.3%	5.3%	4.4%	7.4%	15.4%
GRANTS AND SUBSIDIES	14.9%	2.6%	-	-	71.3%	31.8%
OTHER REVENUES	4.4%	4.3%	-	-	21.3%	52.9%

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. Almost half of municipal conditional grants are targeted at municipal infrastructure with 25% going to "Urban settlements development" and 16% for public transport infrastructure. Main conditional grants in the provinces, are targeted at human settlements development, comprehensive HIV and Aids, national tertiary services (hospitals), provincial roads and education.

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

% GDP

% GENERAL GOVERNMENT

■ SUBNATIONAL DATA □ LOCAL DATA ONLY

Outstanding Debt (2013)	% GDP	% GDP	% General Government	% General Government
OUTSTANDING DEBT (2013)	4.8%	4.8%	9.3% (est)	9.3% (est)

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.

A joint study of:



Sources: OECD calculations based on IMF Government finance statistics 2014 • South African Reserve Bank Budget Reviews of the South Africa National Treasury in particular 2015 Budget review • <http://www.gov.za/about-government/government-system/local-government> • Johan van den Heever and Michael Adams (2014), Improving public sector debt statistics in South Africa • Thomas A. Koelble & Andrew Siddle (2014) Decentralization in Post-Apartheid South Africa, Regional & Federal Studies • Financial and Fiscal Commission (2012), Report on the Local Government Fiscal Framework Public Hearings: Sustaining Municipal Finance: Making Local Government Work.