

SOUTH AFRICA

QUASI-FEDERAL COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: UPPER MIDDLE INCOME

LOCAL CURRENCY: SOUTH AFRICAN RAND (ZAR)

POPULATION AND GEOGRAPHY

Area: 1 219 090 km²
Population: 56.717 million inhabitants (2017), an increase of 1.4 % per year (2010-2015)
Density: 47 inhabitants / km²
Urban population: 65.8% of national population
Urban population growth: 2.0% (2017 vs 2016)
Capital city: Pretoria administrative capital (4.2% of national population), Cape Town (legislative capital - 6.8%) and Bloemfontein (judicial capital - 0.9%).

ECONOMIC DATA

GDP: 765.6 billion (current PPP international dollars), i.e. 13 498 dollars per inhabitant (2017)
Real GDP growth: 1.3% (2017 vs 2016)
Unemployment rate: 27.7% (2017)
Foreign direct investment, net inflows (FDI): 1 371 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 18.7% of GDP (2017)
HDI: 0.699 (medium), rank 113 (2017)
Poverty rate: 18.9% (2014)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

South Africa is a quasi-federal state that is divided into three spheres rather than tiers of government (Section 41 of the 1996 Constitution). This distinction forms the basis of the intergovernmental relations between national, provincial and local government. In 2009, the Ministry of Cooperative Governance and Traditional Affairs (COGTA) was established to coordinate the system of cooperative governance. The national legislature has 400 seats at the National Assembly and 90 seats at the National Council of Provinces (NCOP). The head of state and government is the president, who is indirectly elected by the National Assembly for a five-year period. The National Assembly seats are allocated using a proportional representation system with closed lists. NCOP members are indirectly elected by the provincial legislatures. Depending on the population of the province, the provincial legislatures generally vary in size from 30 to 80 members. Provincial elections are held using a list system of proportional representation. At municipal level, the Municipal Council manages and oversees the administration of the municipalities. The council further holds the executive to account and has the authority to establish committees that deal with different topics. The number of municipal councillors is determined by the number of voters registered in that municipality. For local and district municipalities there may be not less than 3 or more than 90 councillors and for metropolitan municipalities there may be no more than 270 councillors. Councillors are directly elected for a five-year term.

Local government is enshrined in Chapter seven of the Constitution. Section 151(3) further grants local government the right to govern and manage the affairs of its own community subject to national and provincial legislation. Prior to the 1996 Constitution, local government had no legal constitutional backing. National or provincial laws had the authority to establish or abolish municipalities. The main local government legislative sources are the Organised Local Government Act of 1997; Municipal Structures Act of 1998; Municipal Systems Act of 2000; Municipal Finance Management Act of 2003; and Municipal Property Rates Act of 2004.

The Municipal Structures Act of 1998 established districts as municipalities that would provide regional services. However, these were new institutions with little to no experience in service delivery comparing to local municipalities. Besides, the lack of clear regional role for district municipalities that defines them as separate from local ones creates conflict between the two municipality categories. The concurrency of functions which are shared between the different local authorities also tends to create ambiguity on which responsibilities are aligned to which local authority. The introduction of districts resulted in a shift with some functions that were previously provided by local municipalities now being provided by the districts (e.g. water and sanitation). The 1998 Act was amended in 2011 to consider professional qualifications and experience as a criterion for the appointment of senior management positions in local government.

TERRITORIAL ORGANISATION

2017	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	8 Metropolitan Municipalities 208 Local Municipalities 41 District Municipalities		Provinces	
	Average municipal size: 220 689 inhabitants			
	257		9	266

OVERALL DESCRIPTION. South Africa is divided into nine provinces and 257 local governments. The Department of Cooperative Governance and Traditional Affairs supports provinces and local government in fulfilling their constitutional and legal obligations.

PROVINCES. Section 125 of the Constitution vests the executive authority of the province in the Premier of the province. The Premier shares this authority with the Executive Council in fulfilling provincial responsibilities. The Premier is elected for a maximum of two terms at the first sitting after elections from members of the provincial legislature, which must be presided over by the Chief Justice. The Executive Council consists of between 5 to 10 members appointed by the Premier from members of the provincial legislature.

MUNICIPALITIES. The South African municipality structure is divided into three categories: Category A: Metropolitan municipalities; Category B: Local municipalities; Category C: District municipalities. The metropolitan municipalities are found in large metropolitan areas and big cities and function under a single structure. The non-metropolitan areas which are towns and rural areas are governed by a two-tier system consisting of district and local municipalities. Each district (Category C) is composed of several local (Category B) municipalities. This categorisation grants metropolitans' exclusive municipal executive and legislative authority within their areas while districts and local councils share jurisdiction. All three local government groupings are governed by councils. All municipalities are also divided into wards, with each ward electing a councillor to the municipal council. There is a total of 4 427 wards.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The Constitution delineates public functions into two categories: those that are concurrent (shared among different spheres) and those that are exclusive (performed by one sphere only). National government is exclusively responsible for national defence, national fiscal policy, foreign affairs, the criminal justice system, higher education and certain administrative functions. The federal, provincial and municipal governments share responsibilities for primary health care, health protection, housing, public transport, environmental protection, local economic development and tourism.

Provinces are mainly responsible for the provision of basic services such as education, health and social economic development, economic functions (agriculture and roads) and managing governance and provincial administration from legislature to treasury and human settlements. Provinces have exclusive legislative competence over provincial roads, ambulance services and provincial planning.

There are very few, if any, exclusive local government functions. However, the Constitution refers to 'giving priority to the basic needs of the community', i.e. water, electricity, sanitation and refuse. Metropolitan municipalities' functions include providing basic services and the maintenance of municipal transport, roads and community service parks among others. Metropolitan councils are vested with municipal, legislative and executive powers and thus may have decentralised powers and functions and a single metropolitan budget. Local municipalities similarly concurrently share the function of providing basic services. As stated above, there is often some ambiguity in the division of functions between district and local municipalities.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	PROVINCIAL LEVEL	MUNICIPAL LEVEL
1. General public services	Administration and operation of general services (non assigned to specific functions)	Administration and operation of general services (non assigned to specific functions)
2. Public order and safety	Civil protection	Police (discretionary service); Firefighting; Civil protection & emergency services
3. Economic affairs/transport	Road networks and facilities (regional); Public transport (road); Support to local enterprises and entrepreneurship; Tourism	Road networks and facilities (urban roads); Public transport (road); Airports; Support to local enterprises and entrepreneurship; Manufacturing and construction; Tourism; Commerce, Energy (electricity, gas, etc.)
4. Environmental protection	Environmental protection	Parks & green areas; Nature preservation; Noise and vibration abatement; Air pollution; Soil and groundwater protection; Climate protection; Waste management (collection, treatment and disposal of waste); Sewerage (waste water management); Street cleaning
5. Housing and community amenities	Housing (subsidies, construction/renovation and management); Regional planning	Housing (subsidies, construction/renovation and management); Urban and land use planning; Urbanism-Town planning
6. Health	Primary healthcare (medical centres); Hospital services (general and specialist); Preventative healthcare	Primary healthcare (medical centres); Preventative healthcare; Public health services
7. Recreation, culture & religion	Sports and recreation; Libraries; Museums; Cultural activities (theatres, exhibition halls, zoos, botanical gardens, etc.)	Sports and recreation; Libraries & ; Museums (discretionary service); Cultural activities (botanical gardens, parks and open space etc.)
8. Education	Pre-primary education; Primary education; Secondary education	Pre-primary education
9. Social protection		

SUBNATIONAL, STATE AND LOCAL GOVERNMENT FINANCE

Scope of fiscal data: municipalities and provinces. The country uses the SNA 2008 but financial data are based on IMF Government Finance Statistics.	SNA 2008	Availability of fiscal data: Medium	Quality/reliability of fiscal data : High
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GENERAL INTRODUCTION. Fiscal arrangements are set out in chapter 13 of the Constitution, in the Intergovernmental Fiscal Relations Act of 1997 and several other Acts and annual legislations (Public Finance Management Act of 1999, Municipal Systems Act of 2000, Municipal Finance Management Act of 2003 and Municipal Fiscal Powers and Functions Act of 2007). The 1997 Act sets out the process for the division of nationally raised revenues between the three spheres of government and establishes coordination fora. It also requires that a Division of Revenue Bill is tabled annually, setting out the amounts to be transferred to each municipality. The 2000 Act ensures that municipalities have service tariffs and credit control policies in place for the provision of services. The 2003 Act enables the secure and sustainable management of the financial affairs of municipalities and other institutions within local government and establishes Treasury norms and standards for the local government sphere. Finally, the 2007 Act regulates the power municipalities have to impose surcharge on fees for services provided under section 229 of the Constitution.

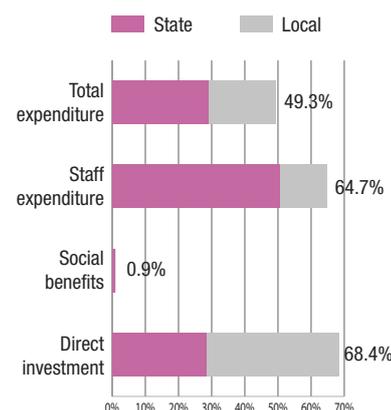
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Subnational governments are 'entitled to an equitable share of revenue raised nationally' (Division of Revenue Act) and may also receive additional conditional transfers from national and provincial government.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.			% GDP			% SUBNATIONAL, STATE AND LOCAL GOVERNMENT EXPENDITURE			% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)		
	SNG	State	Local	SNG	State	Local	SNG	State	Local	SNG	State	Local
Total expenditure	2 703	1 585	1 118	20.4%	12.0%	8.4%	100%	100%	100%			
Inc. current expenditure	2 452	1 482	971	18.5%	11.2%	7.3%	90.7%	93.5%	86.8%			
Staff expenditure	1 218	950	269	9.2%	7.2%	2.0%	45.1%	59.9%	24.0%			
Intermediate consumption	926	346	580	7.0%	2.6%	4.4%	34.3%	21.8%	51.9%			
Social expenditure	7	7	0	0.0%	0.0%	0.0%	0.2%	0.4%	0.0%			
Subsidies and current transfers	42	42	0	0.3%	0.3%	0.0%	1.5%	2.6%	0.0%			
Financial charges	28	0	28	0.2%	0.0%	0.2%	1.0%	0.0%	2.5%			
Others	232	138	94	1.7%	1.0%	0.7%	8.6%	8.7%	8.4%			
Incl. capital expenditure	250	103	147	1.9%	0.8%	1.1%	9.3%	6.5%	13.2%			
Capital transfers												
Direct investment (or GFCF)	250	103	147	1.9%	0.8%	1.1%	9.3%	6.5%	13.2%			

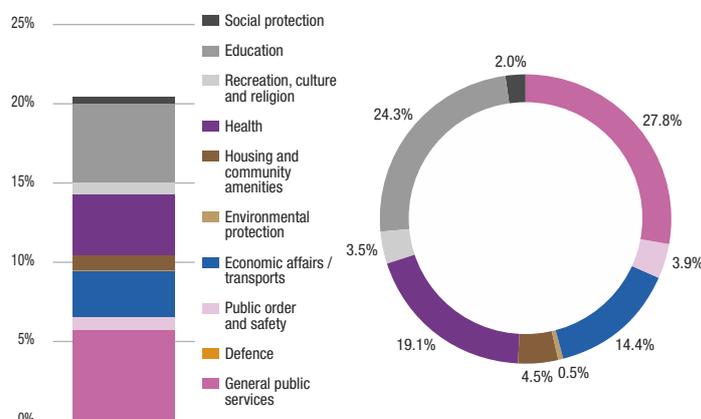


EXPENDITURE. Subnational government expenditure is above the OECD average. Compensation of employees account for 65% of SNG's expenditure. The relatively high proportion of staff costs and relatively low levels of capital investment are mainly due to the labour-intensive functions for which SNG are responsible. Sub-national governments (particularly the provinces) are responsible for labour-intensive functions such as health care, social development and education. The level of transfers from State Government to local government is unknown, as there is no consistent reporting available for the agency functions which local government performs on behalf of federal government.

DIRECT INVESTMENT. Generally, capital expenditure at subnational level is funded through conditional grants. At municipality level, grants transfers are often earmarked for direct investments in infrastructure, municipal systems improvement, integrated national electrification programme, rural roads asset management systems, water services infrastructure and regional bulk infrastructure.

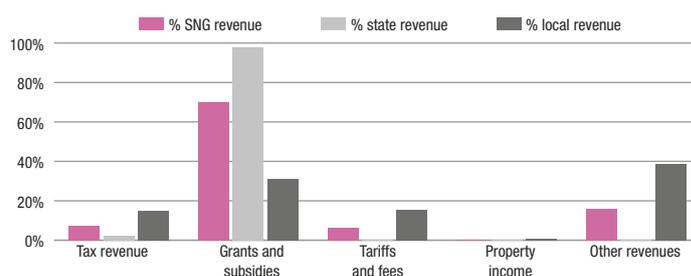
SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

2016	% GDP			% SUBNATIONAL, STATE AND LOCAL GOVERNMENT			SNG EXPENDITURE AS A % GDP	% OF TOTAL SNG EXPENDITURE
	SNG	State	Local	SNG	State	Local		
Total expenditure	20.4%	12.0%	8.4%	100%	100%	100%		
1. General public services	5.7%	0.6%	5.0%	27.8%	5.3%	59.7%		27.8%
2. Defence	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%		0.0%
3. Security and public order	0.8%	0.1%	0.7%	3.9%	1.1%	7.9%		3.9%
4. Economic affairs / transports	2.9%	1.3%	1.7%	14.4%	10.6%	19.7%		14.4%
5. Environmental protection	0.1%	0.1%	0.0%	0.5%	0.7%	0.2%		0.5%
6. Housing and community amenities	0.9%	0.5%	0.4%	4.5%	4.4%	4.6%		4.5%
7. Health	3.9%	3.7%	0.2%	19.1%	31.1%	2.1%		19.1%
8. Recreation, culture and religion	0.7%	0.2%	0.5%	3.5%	1.8%	5.9%		3.5%
9. Education	5.0%	5.0%	0.0%	24.3%	41.5%	0.0%		24.3%
10. Social protection	0.4%	0.4%	0.0%	2.0%	3.5%	0.0%		2.0%



24% of subnational government expenditure is on education, with 14% on economic affairs (including transport) and 19% on health. Expenditure on health and education is mostly mobilised by provinces who are wholly, or at least predominately, responsible for these sectors. Local government may perform functions on behalf of provinces on an agency basis, although the extent to which this occurs is not readily available. The majority of expenditure for local government in South Africa is on general public services (60%).

2016	% GDP			% GENERAL GOVERNMENT (SAME REVENUE CATEGORY)			% SUBNATIONAL, STATE AND LOCAL GOVERNMENT REVENUE		
	SNG	State	Local	SNG	State	Local			
Total revenue	18.8%	11.1%	7.7%	50.2%	29.6%	20.6%			
Tax revenue	1.4%	0.3%	1.1%	4.8%	0.9%	4.0%			
Grants and subsidies	13.2%	10.8%	2.4%						
Tariffs and fees	1.2%	0.0%	1.2%						
Property income	0.0%	0.0%	0.0%						
Other revenues	3.0%	0.0%	3.0%						



OVERALL DESCRIPTION. The Constitution requires that subnational governments raise their own revenues from service fees, property rates, surcharges and other taxes, levies and duties. SNG accounts for 50% of all general government revenue. More than two thirds of subnational government revenue (70%) come from transfers from federal government. Provinces in particular almost fully rely on federal government transfers, and thus the revenue raising ability of federal government is an important factor which contributes to the amount of resources that can be put into health, education and social development.

31% of local government revenue is transfers from federal government, which is significantly less than that of provinces. It is notable though, that within local government, there is a higher reliance on transfers from federal government for predominately rural local government than there is for local governments with a strong urban core. In addition, district municipalities rely significantly on transfers from federal government as they have limited revenue raising ability.

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.

The principal tax for local government is the property tax, which represents 95% of local government tax revenues. The tax base of these property taxes varies significantly from one municipality to another. Property taxes are levied by local municipalities only (not by District Municipalities) and represent 14% of total local government revenue. The tax was reformed in 2014 with the Spatial Planning and Land Use Management Act. Local municipalities are largely autonomous in the rates that can be set, although there is a very low exemption level set by federal government. Section 229(2)(a) of the Constitution in conjunction with section 16 of the Municipal Property Rates Act 29 of 2014 imposes limitations on levying rates. This regulates municipalities' power and autonomy to levy rates to ensure that property rates do not materially and unreasonably prejudice economic activity or national economic policies. The rates are approved by the democratically elected local councils.

GRANTS AND SUBSIDIES. Federal government's primary equalisation grant is the Equitable Share grant. This is a formula-based grant which takes into account demographic and developmental factors in geographic areas. The Local Government Equitable Share was introduced to address the lack of revenue base in some municipalities, and to account for the expenditure taken to provide minimum basic services to poor or indigent municipal residents.

The National Framework for Municipal Indigent Policies provides municipalities with the foundation and guidelines for the development of their policies to the indigent to fulfil their responsibilities in providing basic municipal services for all, as required by the Constitution. The Property Rates Act further ensures that households that qualify for free basic services gain access to them. The Equitable Share transfer system therefore gives municipalities a predictable source of revenue to assist municipalities, particularly in rural areas, that have challenges in raising sufficient revenue to fund their constitutional obligations and general operational costs.

There are also conditional grants which are designed to meet specific developmental goals and are usually allocated to a specific sector and are only received if criteria are met by the province or municipality. The largest conditional grant for municipalities is the Municipal Infrastructure Grant (MIG), which was introduced in 2004. MIG is aimed at assisting municipalities to upgrade and build new infrastructure. Prior to the introduction of MIG, infrastructural grants were managed by different sector departments. Almost 80% of municipal conditional grants are targeted at capital investment in infrastructure and urban development, with the remainder at systems and capacity support. Provincial conditional grants focus on human settlements development, health related functions, roads and education. The transfers from federal government are outlined and quantified in the Division of Revenue Act.

OTHER REVENUES. Focus on tariffs and fees: 15% of local government revenues come from tariffs levied for services rendered. Provinces raise minimal own revenue from tariffs and fees. Municipalities are required by the Municipal Systems Act to recover the costs of the services they provide. The levels of the tariffs are set by the democratically elected local councils.

Focus on other revenues: Section 229 of the Constitution states that municipalities may impose rates on property and surcharges or fees for services provided by the municipality or on behalf of the municipality. It also provides that a municipality may impose other taxes, levies and duties, if authorised by national legislation. Municipalities charge for the services they provide in the form of service charges and administration fees and raise revenues through rental of facilities and fines. The most significant sources of service charges are electricity, water, sanitation and refuse removal. Revenue from service charges generally has been the largest contributor to operating revenue, followed by government grants.

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SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.			% GDP			% GENERAL GOVERNMENT DEBT			% SNG DEBT		
	SNG	State	Local	SNG	State	Local	SNG	State	Local	SNG	State	Local
Total outstanding debt	642			4.8%			9.4%			100%		
Financial debt*												

* Currency and deposits, loans and bonds

FISCAL RULES. South Africa has a number of state institutions that support constitutional democracy and provide independent scrutiny, including the public prosecutor and the auditor general. The public prosecutor has the power to investigate the conduct of public administration in any sphere of government and to take remedial action. The auditor general is required to audit and report on the accounts and financial management of all local authorities. Fiscal responsibility laws are outlined in the 1999 Act and the 2003 Act as well as in different sections of the Constitution. At the national level, the CAB rule (Cyclically adjusted budget balance) was introduced in the 2007 Medium-Term Budget Policy Statement. Local governments are required to enact balanced budgets. In case a province (or a municipality) fails to deliver on these mandates, the national government (or a province) can intervene through Sections 100 and 154 of the Constitution. It is the responsibility of national departments to implement 'emergency' measures to bring local government spending and revenue into balance.

DEBT. Provinces are not allowed to incur debt, unless it represents 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 registered commercial banks or other approved financial institutions to fund capital expenditure only. Federal government does not guarantee debt at subnational level. There is a move towards the financing of infrastructure for economic purposes from debt, and infrastructure for the poor from federal government transfers. Federal government cannot veto a municipality's intention to borrow, however, it may comment upon it. Federal government recommends a Debt (Total Borrowings) to Total Operating Revenue ratio of a maximum of 45%, although this is not enforceable.

FISCAL COORDINATION. Two fora were established by the 1997 Act: the Budget Council (made up of the Minister of Finance and members of the executive council responsible for finance in each of the provinces) and the Budget Forum (comprising the Budget Council and representatives of the South African Local Government Association), in which local government issues are discussed as part of the national budget process. According to the 1997 Act, the Minister of Finance has a legal obligation to convene the Budget Council twice a year and the Budget Forum once a year.

The Financial and Fiscal Commission (FFC) is an independent constitutional institution. It provides recommendations to Parliament, provincial legislatures, organised local government and other organs of state on financial and fiscal matters as envisaged in the Constitution and other national legislation, in particular on the division of nationally collected revenues.



Lead responsible: UCLG
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www.sng-wofi.org

Socio-economic indicators: OECD // World Bank // UNDP // UN Desa // ILO.

Fiscal data: IMF-Government Finance Statistics // National Treasury (2016). Municipal Finance Data // Statistics South Africa (2017) Financial Statistics of Provincial Government 2015/16.

Other sources of information: South African Local Government Association - SALGA (2015). 15 Years of Development and Democratic Local Government // SALGA (2016). About Municipalities // South African Government (2016) Local Government // Commonwealth Local Government Forum – CLGF (2013) The Local Government System in South Africa // Department of Cooperative Governance and Traditional Affairs (2014) The Integrated Urban Development Framework // Cities Alliance and UCLGA (2018) Assessing the institutional environment of local governments in Africa.