

# South Africa

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# Presentation Topics

- Overview of government structure
- Intergovernmental processes and structures
- Fiscal arrangements
- Economic development in post apartheid era

# The Republic of South Africa

- A unitary state with federal characteristics.
- Influenced by the examples of Canada, Australia, Germany and other federations with significant decentralization of government authority.
- But balanced by the need for national unity and the need to address racial, regional and other disparities.

# Three Spheres

- National
  - Provincial
  - Local
- Distinctive, with powers and functions established by the constitution
  - Interdependent
  - Interrelated
  - Subject to the principle of cooperative governance

# National Government

- **Parliament** consists of
  - The National Assembly (elected)
  - The National Council of the Provinces (appointed from elected members of the provincial legislatures)

## **President:**

- Elected by National Assembly
- Chooses cabinet primarily from National Assembly



# National Government

- May pass legislation with respect to virtually any matter
- However, provinces and national government have concurrent legislative competence in many areas:  
including:
  - Education
  - Health
  - Welfare

# National Government

- Also:
  - The environment
  - Public works and housing
  - Transportation
  - Urban, rural and regional development
  - Trade
  - Language and culture, etc.



# National Government

- Raises most of the revenue in support of national and provincial programs, and some of the revenue for local government.
- National revenue is divided into equitable shares for each of the three spheres - national, provincial and local

# Provincial Governments

- Nine provincial governments
- In apartheid era, there were four white state governments covering most of the nation, with some "independent" homeland states and "self-governing territories".
- In fact, government services to black and coloured populations were very limited.





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# Provincial Governments

- Single house for provincial legislatures
- Have legislative authority in many areas, concurrently with the national government
- Some limited oversight of local government

# Provincial Governments

- Provinces deliver most of the services included in the list of concurrent legislative competence
- However, the provision of these services depends on the equitable sharing of national revenue
- Provinces raise less than 5% of their own revenue
- Constitution provides potential for greater provincial revenue capacity

# Local Governments

- There are hundreds of local governments, covering the entire country
- Boundaries recently redrawn to overcome vestiges of apartheid
- Wide variety:
  - Urban and rural,
  - Wealthy and poor
  - Tiered: regional and district





# Local Governments

- Functions similar to North American municipal governments:
  - Water, sewage and sanitation
  - Local transportation, streets, lighting
  - Fire-fighting
  - Regulation of building and trade
  - Etc.
  - But also, electricity and gas distribution

# Local Governments

- Primary sources of revenue are charges and fees for services, profits from utilities, property taxes and business turnover (payroll) taxes.
- Most large urban areas have been virtually revenue self-sufficient
- Most rural areas are almost totally dependent on the national transfer
- In midst of removing electricity distribution from municipal control

# Intergovernmental Fiscal Relations, Institutions and Structures

- Given the concurrent competencies and interdependence of the three spheres of government, good intergovernmental fiscal relations, are essential.
- These are conducted through an elaborate network of institutions and structures,

# The Financial and Fiscal Commission

- The constitution provides for the establishment and functioning, of a Financial and Fiscal Commission.
- The Commission, appointed by the President, is independent, objective, knowledgeable and impartial.
- Powers, established by legislation, to review and make recommendations to Parliament, the provincial legislatures and organized local government

# The Financial and Fiscal Commission

- The principal function of the Financial and Fiscal Commission is to make recommendations for the equitable division of national revenue to the three spheres of government and the division amongst the spheres, plus any other relevant fiscal issues
- The Commission addresses issues of vertical and horizontal fiscal balance

# The Financial and Fiscal Commission

- Much of the focus of the FFC to date has been with respect to the equitable division of revenue to provincial governments
- Necessary because most social programs are delivered by provinces, but provinces have limited own-source revenue
- Division of revenue to provinces is formula driven, using a “costed norms” approach

# The Bill of Rights

- The bill of rights establishes social and economic entitlements, as well as legal and human rights
- Examples are the right to adequate food and water, shelter, basic standards of education and health care
- FFC and government decisions must work toward the progressive realization of these rights

# Costed Norms Approach

- Basic services, institutional and other components (note: economic activity, revenue equalization)
- Demographic and socio-economic data used to determine needs (e.g. age, poverty, medical insurance coverage)
- MINMECs help to establish norms and standards for services
- Standard costs for provision of units of service (e.g. teachers, disability pensions)



# The Financial and Fiscal Commission

- The FFC makes recommendations which essentially kick off the annual budget review cycle
- The recommendations are reviewed by the Budget Council (consisting of finance ministers of the national and provincial governments) and the Budget Forum (the Budget Council plus representatives of local government)

# The Financial and Fiscal Commission

- While the recommendations of the FFC are not binding on the government, they have had a great influence
- Government must address the FFC recommendations and its response to them in the annual Division of Revenue Bill

# Intergovernmental Forums

- There are a great many other institutional structures and processes at play in making budget and program delivery decisions
- MINMECs (meetings of national ministers and members of provincial executive councils) establish policies and standards in health, education, welfare and other program areas



# Intergovernmental Forums

- The roles of the Budget Council and Budget Forum (essentially the finance MINMECs) are established in legislation
- Working groups of officials support the work of the MINMECs
- The National Treasury department has the responsibility to present the National Budget and the Division of Revenue Bill to Parliament

# Results

- Perhaps surprisingly, given the very different revenue raising capacity of provincial governments in South Africa and Canada, the proportions of government spending by the three orders of government are similar.
- Perhaps not surprising given similar program responsibilities

# INTERGOVERNMENTAL FISCAL ARRANGEMENTS

Revenue and Expenditure 2001/02

(R billions)

	<u>Total</u>	<u>Nat.</u>	<u>Prov.</u>	<u>Local</u>
<b>National Revenue (inc borrowing)</b>	<b>258</b>			
<b>Division</b>		<b>152</b>	<b>104</b>	<b>3</b>
<b>Less State Debt Costs</b>		<b>-48</b>		
<b>Less Contingency Reserve</b>		<b>-2</b>		
<b>Equitable Shares</b>		<b>102</b>	<b>104</b>	<b>3</b>
		<b>49%</b>	<b>50%</b>	<b>1%</b>
<b>Conditional Grants from National</b>		<b>-17</b>	<b>13</b>	<b>4</b>
<b>Available from National Revenue</b>		<b>84</b>	<b>117</b>	<b>7</b>
<b>Prov/Local Own Source Revenue</b>	<b>63</b>		<b>5</b>	<b>58</b>
	<b>321</b>			
<b>Total Program Exp. by Sphere</b>		<b>84</b>	<b>122</b>	<b>65</b>
<b>Debt Servicing and Contingency</b>	<b>50</b>			
	<b>16%</b>	<b>26%</b>	<b>38%</b>	<b>20%</b>





# Issues: Accountability and Responsibility

- Roles in establishing the economic and fiscal policy and the overall fiscal framework
- Concurrent responsibilities
- Unfunded mandates
- Use of conditional grants versus “unconditional” equitable shares
- Use of contingency reserves
- Potential for provincial revenue limited by severe regional disparities

# Issues: Technical

- The national equitable share (defense; internal security; etc. as compared with old age security) difficult to establish
- The costed norms approach (provincial)
- Costed norms or other approach applied to municipal services
- Establishing need for capital infrastructure, including addressing backlogs
- Applicability of revenue equalization scheme

# Issues: Policy

- Overcoming the legacy of apartheid
- Chronic underfunding of capital/infrastructure needs
- Provincial own source revenue (surtaxes)
- Local government trading profits (electricity) and other revenue
- Provincial and local borrowing

# Promoting Economic Development

- Four main thrusts
  - Appropriate fiscal and monetary policy to attract investment
  - Targeting specific industries for expansion
  - Infrastructure investments
  - Ensuring a continuation of education and training for a skilled workforce

# Economic and Monetary Policy

- The fiscal deficit as a proportion of GDP was brought down from a rate of 7.3% in 1993, the last year of the former regime, to around 3% in the late 1990's and to 2% for the past two years.
- Monetary policy has resulted in inflation ranging between 5% and 10%, while the Rand has devalued by over 50% in the past five years (9.3% inflation this year)
- Real interest rates are now just over 1% versus 13% during the Asian crisis.

# Targeted Industries

- Defense agreements have bolstered both exports and imports, with acquisitions tied to commitments of foreign investments in heavy industries and SA exports
- The declining value of the Rand has supported the mining industry
- Privatization of electricity, telecommunications and other utilities is proceeding



# Infrastructure

- While South African cities have modern and relatively efficient infrastructure, it is often inadequate or non-existent in townships and rural areas.
- Investment in infrastructure has lagged in the past decade of fiscal restraint.
- Particular needs are in the areas of urban transportation, basic services in rural areas and maintenance and continued expansion of water, waste and other services.



# Results

- Economic performance has been disappointing, considering the sacrifices being made to establish a favourable environment for economic growth
- There has been growth, but it has been in the low single digit range, impacted by the Asian and South American crises, and other shocks
- Foreign investment has been weak and jobs in the formal sector have declined, though the informal sector has apparently grown

# Conclusion

- South Africa has escaped many of the dire predictions that were at play as the democratic regime replaced the apartheid government.
- Perhaps this is no more clear than in the relatively successful implementation of decentralized governance in the provincial and local spheres.

# Conclusion

- However, many challenges remain, ranging from the HIV/AIDS epidemic to meeting the challenges of economic globalization.
- The success of the democratic Republic of South Africa in meeting these challenges is critical to development of all of sub-Saharan Africa.







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