LIMPOPO

PROVINCIAL GOVERNMENT

REPUBLIC OF SOUTH AFRICA

PROVINCIAL TREASURY

Quarterly Economic Bulletin 2019/20 Q 1

Foreword

The first Quarterly Economic Bulletin is presented just after the sixth administration is inaugurated and set to continue the developmental agenda of the country. However, this is amid tough prevailing economic conditions. Generally, many economies are devising coping mechanisms and introducing policy adjustments to manoeuvre the tough and challenging economic times. It is evident that global economic landscape is shifting from traditional manufacturing based activities to more sophisticated service orientated economic activities embracing the fourth industrial revolution. However, this paradigm is heterogeneous as some of the developing economies are still primary sector orientated economies relying on extraction and exportation of raw material- with less value adding activities.

Developing economies such as South Africa, have even a more difficult task to stabilise the economy which is periodically shaken by external forces, a classical example being the trade war between China and the United States of America. Over and above pursuing national economic plans, government needs to be agile and have policy responses to trade and financial market erratic developments to cushion the country from exogenous shocks impacting negatively on the local economy.

The sixth administration promises to prioritise growth enhancers and creating employment through attraction of both domestic and foreign investment. The social benefits can be maximised if government programmes and private sector programmes are sustainable in order to curb unemployment, poverty and income inequality.

The Limpopo government has a solid fiscal policy plan to support development in the province and support economic activity through small business support and expanded infrastructure roll out. With the unrelenting support towards state own enterprises and municipalities, sustainable development in Limpopo is on an upward trajectory

13/06/2019

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1: Introduction

The world economy is performing at a less optimal level, though growth is sustained and supported by Emerging and Developing Economies. Al beit, it cannot be ignored that low economic growth in developed economies suppresses growth in developing economies, particularly those whose export base is largely the developed countries. It is projected that growth will be moderate globally and may even deteriorate if the trade tensions escalate. The South African economy is exhibiting erratic trends of recovery and trough. This is as a result of multiple factors, of which the sixth administration will seek to amend to restore investor and consumer confidence.

The Limpopo provincial economy is largely driven by mining and finance and community services and economic diversification can cushion the economy from external demand shocks and commodity price volatility. Generally, the South African fiscal policy continues to seek a balance between supporting social services and economic growth enhancers. Accelerated economic growth will not only generate jobs but grow the revenue base to maintain fiscal sustainability. Other developments in the horizon is the review of the Provincial Equitable Share (PES) of which the proposed reforms on the formula are in sync with the principles of fiscal decentralisation and expenditure assignments. Sub national government are at the coal face of service delivery and should be supported in enhancing socio-economic conditions of regions and more importantly correcting the past social injustices to promote equality.

2: Economic Overview

2.1. World Economic Growth

World economic growth rate is projected to lose momentum this year from 3.6 percent in 2018 to 3.3 percent in 2019. The sluggish growth is attributed to developing advanced economies that are projected to slow from 2.2 percent in 2018 to 1.8 percent in 2019 and 1.7 percent in 2020. This is on the backdrop of weakening consumer and business sentiment; the trade war between USA and China, fiscal policy uncertainty along with softening investment in Italy; and growing concerns about a no-deal Brexit that also likely weighed on investment spending within the euro area.

Table 1: World Economic Overview

Country Group Name	2018	2019	2020	2021	2022
World	3.6	3.3	3.6	3.6	3.6
Advanced economies	2.2	1.8	1.7	1.7	1.6
Euro area	1.8	1.3	1.5	1.5	1.4
Emerging market and developing economies	4.5	4.4	4.8	4.9	4.8
Sub-Saharan Africa	3.0	3.5	3.7	3.7	4.0
South Africa	0.8	1.2	1.5	1.8	1.8

Source: International Monetary Fund (IMF) April 2019

The protracted trade tension between China and USA implies higher trade tariffs on traded goods and services, in highly competitive market, a share of the higher tariffs will be given through to the consumer in the form of higher consumer prices. In the medium term to the long term, the US ederal Reserve may be forced to raise interest rates to curb inflation thereby creating capital flight in developing economies. Therefore, the unrelenting tensions are creating financial market uncertainty not only in the countries at war but globally and emerging economies in particular.

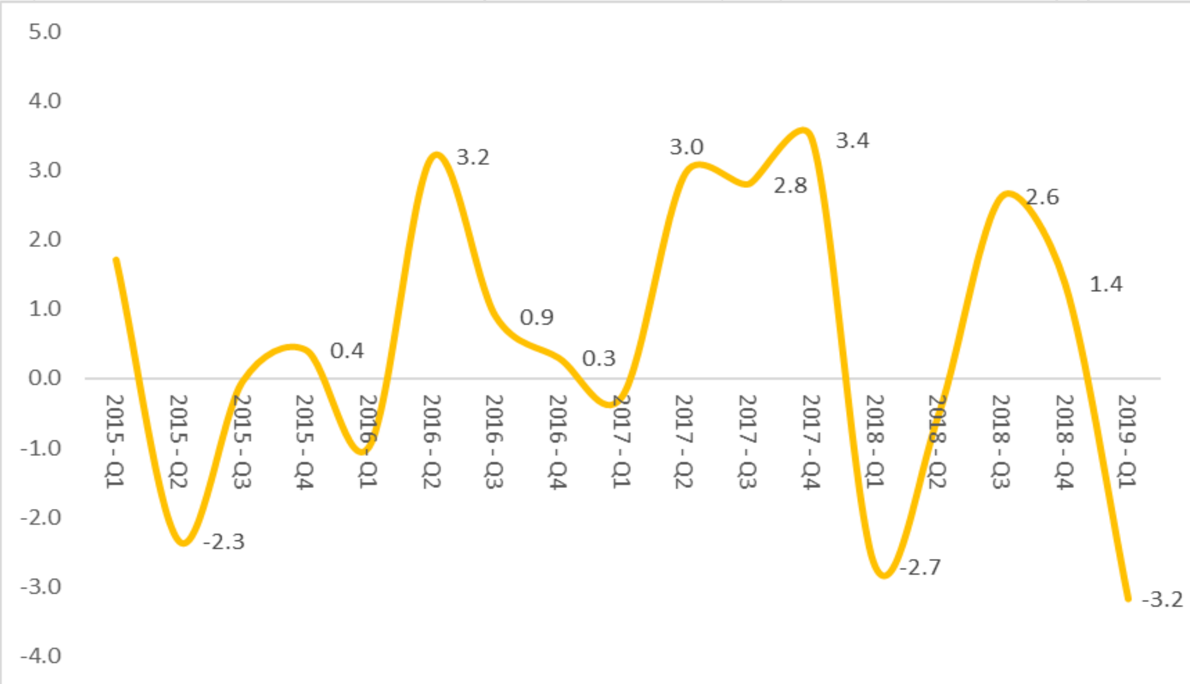
2.2. Sub-Saharan Economic Growth

The Sub Saharan region is characterised by dualistic economies, where some countries have advanced into manufacturing activities with higher levels of human development and others are dominated by primary sector activities with very low development levels. The disparities are further attributed to historic trade arrangements, exposure to weather shocks, and commodity dependence. For the region as a whole, growth is projected to increase from 3.7 percent in 2020 to about 4 percent in 2024. As will be indicated below the South African economy is underperforming when compared to the region.

2.3. South African Economic Growth

The South African economy has somewhat lost its buoyance in the past decade. The strategic response to this phenomenon is to identify the economic suppressants and develop policy responses to correct and realise the economy's full potential. In the first quarter of 2019, the national economy contracted at -3.2 percent, worse than market expectations. This was remarkable plunge from 1.4 percent growth recorded in the fourth quarter of 2018. The slowdown in 2019 mainly reflected a contraction in real economic activity in the primary sector and the secondary sector, while growth in the real output of the tertiary sectors decelerated.

Figure 1: SA GDP Constant 2010 prices, seasonally adjusted, annualised (%)



Source: GDP 2018 Q4 StatsSA

The largest negative contributors to the contraction in GDP in the first quarter were manufacturing industry contributed -1,12 percentage points, mining industry contributed -0,80 of a percentage point, trade, catering and accommodation industry contributed -0,50 of a percentage and Agriculture, forestry and fishing contributed -0,32 of a percentage. Positive contributions to GDP growth came from Finance, real estate and business services, General government services and Personal services.

Table 2: SA GDP Contribution to annualised q/q growth, % points

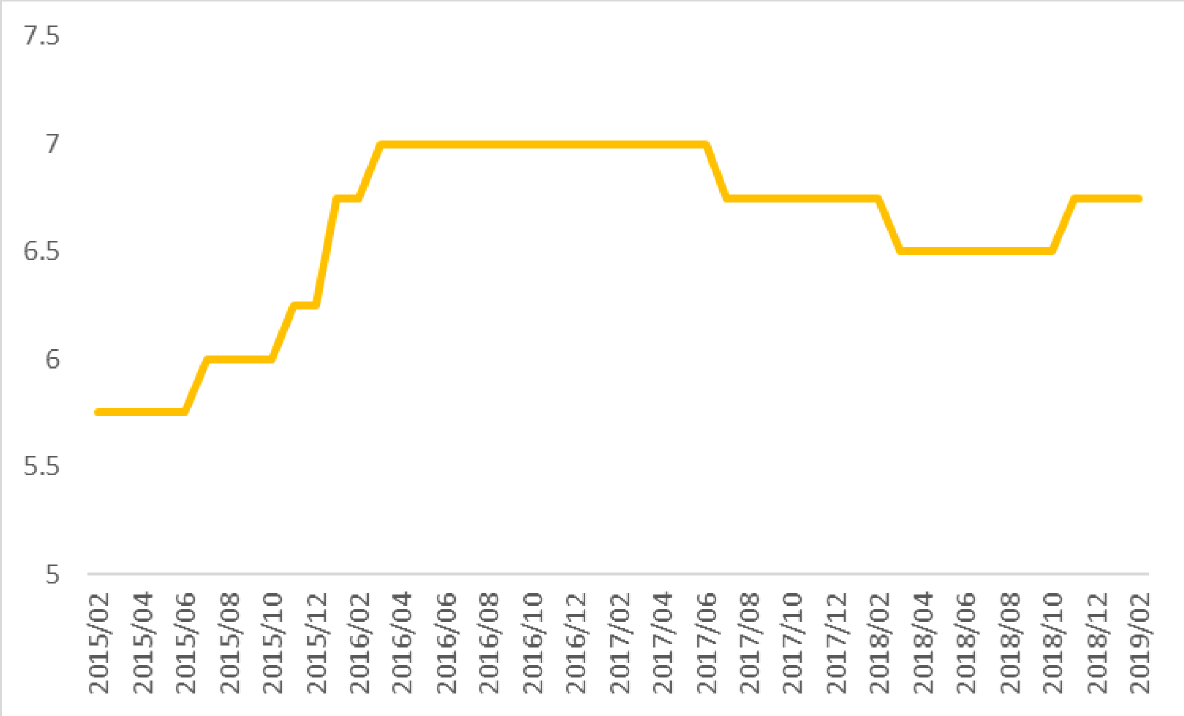
Contribution to annualised q/q growth, % points	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Agriculture, forestry and fishing	-1.09	-1.31	0.30	0.18	-0.32
Mining and quarrying	-0.70	0.58	-0.70	-0.28	-0.80
Manufacturing	-1.06	0.17	0.90	0.55	-1.12
Electricity, gas and water	0.02	0.01	0.02	0.00	-0.15
Construction	-0.08	0.05	-0.06	-0.02	-0.08
Trade, catering and accommodation	-0.41	-0.16	0.46	-0.09	-0.50
Transport, storage and communication	0.12	-0.33	0.57	0.66	-0.39
Finance, real estate and business services	0.19	0.35	0.44	0.54	0.22
General government services	0.31	0.03	0.30	-0.10	0.18
Personal services	0.06	0.04	0.04	0.09	0.06
Taxes less subsidies on products	-0.07	0.05	0.36	-0.16	-0.28
GDP at market prices	**-2.7**	**-0.5**	**2.6**	**1.4**	**-3.2**

Source: GDP 2019 Q1 StatsSA

2.3.1. Interest Rates

Interest rates is actually the cost of borrowing money from the banks. The higher the interest rate the low appetite for business and consumers to borrow money or take up credit. This is a tool the Reserve Bank uses to control inflation in the country. In the current economic environment, we are in, the Reserve Bank is weary to increase interest rates as people are already indebted and are not likely to engage in conspicuous consumption if interests drop but rather service current debt thereby not translating in growth in aggregate expenditure. More recently though, households benefitted from the narrowing of the difference between lending and deposit rates as this, on balance, reduced their overall net interest burden, with the outstanding balance of loans exceeding the outstanding balance of deposits. In February 2019, repurchase rates was 6.75 percent which has not changed since November 2018.

Figure 2: SA interest rates



Source: South African Reserve Bank

2.3.2. Credit Ratings

According to Moody's, the rating agency expects the new administration will put forward policies to continue tackling the country's main economic challenges – low growth, steadily rising government debt, leveraged state-owned enterprises and weakened institutions. South Africa has strengths including a favourable government debt structure, a large pool of domestic investors and a diversified economy that insulate its credit profile from shocks and provide some time for policies to emerge that will address those challenges.

The company highlighted at the last country review in March 2018, that "recent years have seen a gradual erosion in the strength of some key institutions, with a correspondingly negative impact on economic and fiscal strength and on the effectiveness of policymaking." And furthermore "high and rising concerns regarding endemic high-level corruption, 'state capture' and pressures on the mandate and independence of key policy-making institutions such as the Reserve Bank have materially damaged economic confidence and effective policy-making, exacerbating the erosion in the government's balance sheet."

The global ratings agency Moody's anticipate to keep South Africa's credit assessment unchanged at Baa3. Moody's is set to review SA again on 1 November 2019 and continue its biannual review process in 2020.

2.4. South African Fiscal Policy Overview

2.4.1. Consolidated fiscal framework

Government expenditure is set to increase on average by 7.8 percent over the MTEF period, from R1.7 trillion in 2018/19 to R2.1 trillion in 2021/22. Expenditure continues to grow above inflation, with real expenditure growth averaging 2.4 percent. The 2018 MTBPS noted that weak economic performance and revenue shortfalls had contributed to some slippage in fiscal projections. Since then, economic growth has remained subdued and the domestic GDP outlook has been revised down. In the current year, tax revenue collected by SARS will be R15.4 billion below the 2018 MTBPS estimate.

Government debt has grown considerably since 2009. Without intervention, a continued increase in debt and debt-service costs will crowd out economic and social expenditure. If economic growth does not strengthen in the period ahead, more difficult fiscal adjustments will be required to return the public finances to a sustainable path.

Table 3: Consolidated fiscal framework

R billion/percentage of GDP	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
		Outcome		Revised estimate		Medium-term estimates	
Revenue	**1,215.3**	**1,285.9**	**1,353.5**	**1,455.2**	**1,583.8**	**1,696.4**	**1,836.6**
	29.4%	*29.1%*	*28.7%*	*28.8%*	*29.3%*	*29.2%*	*29.4%*
Expenditure	**1,366.3**	**1,443.0**	**1,543.8**	**1,665.4**	**1,826.6**	**1,948.9**	**2,089.0**
	33.1%	*32.7%*	*32.7%*	*32.9%*	*33.7%*	*33.5%*	*33.4%*
Budget balance	**-151.0**	**-157.0**	**-190.3**	**-210.2**	**-242.7**	**-252.6**	**-252.4**

Source: National Treasury

According the National Treasury, over the Medium-Term Expenditure Framework (MTEF) period, after budgeting for debt-service costs, the contingency reserve and provisional allocations, 48.1 percent of nationally raised funds will be allocated to national government, 43.0 percent to provinces and 8.9 per cent to local government in 2019/20 fiscal year. Local government receives the smallest share of the division of nationally raised revenue because it has significant own revenue-raising powers. Any changes to the structure of the division of revenue would have implications for functions in all spheres of government. Strengthening the sustainability of the public finances will make more funds available for social and economic development.

Table 4: Division of revenue

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Percentage shares	Outcome			Revised estimate	Medium-term estimates		
National departments	48.9%	48.0%	47.7%	48.1%	48.1%	48.0%	47.8%
Provinces	42.2%	43.2%	43.3%	43.1%	43.0%	43.0%	43.1%
Local government	8.8%	8.9%	8.9%	8.8%	8.9%	9.0%	9.2%

Source: South African Reserve Bank

2.4.2. Compensation of Employees (COE)

Over the medium term, government plans to take additional steps to manage growth in compensation. The combination of natural attrition and active measures allow for a reduction of compensation budgets by R5.3 billion in 2019/20 and R11.0 billion in 2020/21. Wage increases for members of Parliament and provincial legislatures are frozen in 2019/20. In addition, public entities are encouraged to freeze salaries of employees earning R1.5 million or more a year in 2019/20, while those earning between R1.0 million and R1.5 million a year should receive a below inflation increase of 2.8 per cent. This follows several years of below inflation increases for senior management in national and provincial government.

Table 5: Expenditure by economic classification

R million	2018/19 Revised estimate	2019/20 Medium-term estimates	2020/21	2021/22
:conomic classification				
Current payments	**1,016,525**	**1,087,568**	**1,168,593**	**1,262,444**
Compensation of employees	585,193	627,126	667,624	713,095
	57.6%	57.7%	57.1%	56.5%
Goods and services	242,605	251,043	268,266	293,473
	23.9%	23.1%	23.0%	23.2%
Interest and rent on land	188,726	209,399	232,702	255,877
	18.6%	19.3%	19.9%	20.3%

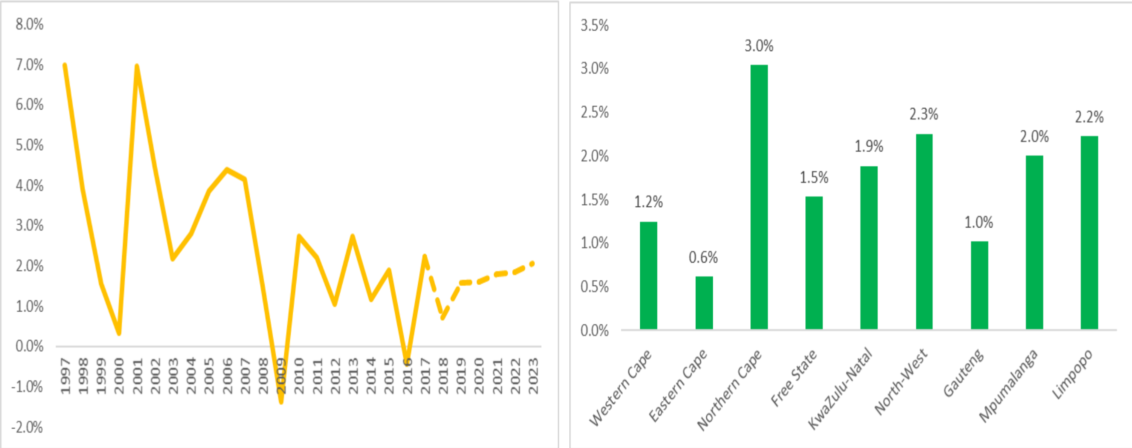
Source: South African Reserve Bank

National Treasury indicated that recent data shows that employee numbers are declining at a rate sufficient to absorb wage agreement pressures, owing to natural attrition. Monthly payrolls in 2018 showed an average of about 16 000 fewer employees than in the corresponding months of 2015. In addition, new employees tend to be younger and lower ranked than employees who are leaving. As a result of these trends, projected national and provincial compensation spending is likely to be lower than budgeted for 2018/19. Government has decided to scale up early retirement for staff between the ages of 55 and 60 years, without penalties. Where feasible, older employees will be allowed to retire early, with younger employees taking their place. Departments are required to realise permanent savings of 50 per cent of the cost attributable to early retirement cases.

2.5. Limpopo Economic Growth

Over the years, the economic growth trajectory of the province has been downwards, in 2017, economic growth was recorded at 2.2 percent, an improvement from -0.4 percent in 2016. This economic growth was supported by improved agricultural output stemming from a relatively lower base as a result of the effects of drought in the province in 2016 and also improved productivity in the mining sector due to improved demand for minerals and improved commodity prices.

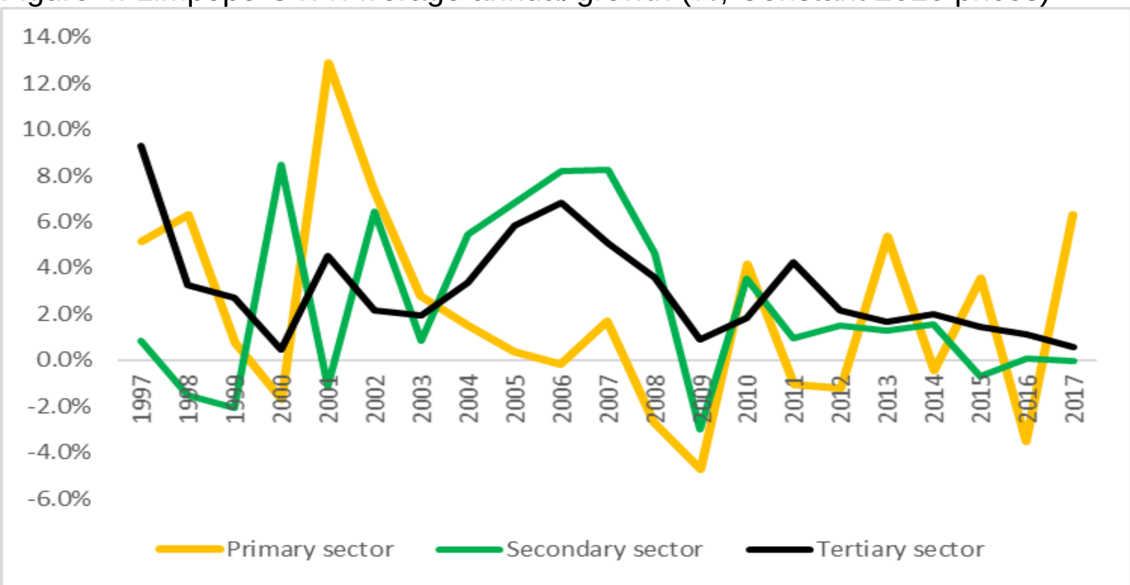
Figure 3: Limpopo GVA Average annual growth (Constant 2010 Prices) and by provinces



Source: IHS markit Regional Explorer 2017

The provincial economic growth pattern corresponds to the primary sector growth trends; this is explained by the dominance or high contribution of the mining sector in the province. In essence, provincial economic growth is highly responsive to mining productivity, which subjects the provincial growth pattern to stochastic commodity prices and external demand for the commodities. This is a risk that can only be circumvented through changing the structure of the economy through diversification-development of the secondary sector.

Figure 4: Limpopo GVA Average annual growth (%, Constant 2010 prices)



Source: IHS markit Regional Explorer 2017

3: Provincial Equitable Share Review

The essence of fiscal decentralisation is born from the aspiration of increasing fiscal accountability, predictability transparency, and accelerating service delivery to the people. In the quest of addressing the backlogs and development disparities the country adopted the decentralisation of the fiscus giving each tier of government autonomy over its expenditures and revenue generation linked to the outcomes that must be achieved. However, the spheres of government do not have parallel capacities in terms of revenue generation by law. Furthermore, the geographical economic activity is unevenly spread in the country which may lead to asymmetric revenue generation. This emanated in the development of a systematic and equitable mechanism of distributing the national revenues among all tiers of government. At a provincial level, the Provincial Equitable Share formula is used to allocate funding from the national government to the provinces.

A recent review process was started in 2017 to review the equitable share formula to accommodate the changes on provincial level. The review is based on the principles in Table 6.

Table 6: PES review principles:

Principle	Description
Support predictability and stability	allocations must be based on the legitimate burden provinces face in delivering social services to their citizens
Transparent and simple	the simpler and easier to understand the formula is, the more people will be able to engage with it
responsive	Be dynamic and responsive to the changing needs and demands of each province
Avoid perverse incentives	The formula must not reward inefficiencies in provinces, nor should it penalise efficiencies
Consistent with policy	The formula must be consistent with these and not set new policy or standards (either implicitly or explicitly) in the way funds are allocated
equitable and fair	Be equitable and fair to all provinces (whether they are 'winning' or 'losing')
robust and sustainable	Be robust and sustainable (avoiding ad-hoc, once-off solutions and/or changes done outside the provincial equitable share formula) Be transparent and understood (i.e. others should be able to replicate it)
Data Quality	Data used in the formula should be official, frequent, reliable, valid and verifiable

Source: National Treasury

Current formula

It is for this reason that South Africa adopted the equitable share formula in 1998 which by the description of the Financial Fiscal Commission it is less susceptible to manipulation, it is transparent and in line with international best practise. The equitable share formula is composed of a number of variables that reflect the regional needs and representative of the development challenges in all regions.

$$P_a = \sum E_i^{48} + H_i^{27} + B_i^{16} + P_i^{3} + E_i^{1} + I_i^{5} \text{.......................... equation}$$

The different variable represents the relative shares in the budget allocation as follows:

E^{48} = Education: This variable is based on the size of the school-age population (6-17) and the average number of learners enrolled in public ordinary schools for the past three years. Education receives 48% of the total allocation for provinces. H= Health^{27}: This variable is based on Risk adjusted index, Primary health care visits and Hospital workload. Health carries a weight of 27 in the formula. B= Basic^{10}: This variable is based on each province's share of the total population. E^{1}= Economic activity: This variable is based on each province's share to total GDP. P^{3}= Poverty: This variable is based on each province's share of poor population. I^{5}= Institutional: Shared equally

3.1. Education Component

One of the most significant components of the equitable share formula is the education component that accounts for about 48 percent of the total weight of the equitable share formula. It is therefore imperative that accurate numbers are reported to ensure that the equitable share ascribes to its overarching principles of which equity is paramount. National Treasury has for years relied on snap surveys conducted by StatsSA to determine headcount figures of learners and educators in the provinces. However, the biggest criticism of the method is that, it provides statistic information which could easily understate the student population as migration dynamics are ignored. This propelled National Treasury to seek alternative data source that is close to accurate in representing the actual school learner population with LURITS emerging as the best alternative to the Snap surveys of Statistics SA.

LURITS (which is fed by data sets collected from SA-SAMS in all nine provinces) is the most relatively accurate dataset as compared to snapshot surveys undertaken by StatsSA in determining learner population. It is for this reasons that a greater emphasis is in improving data quality of LURITS which the national school administration system. LURITS is not just simply a convenient data source for learner population and characteristics, but a powerful tool for planning, monitoring and tracking tool.

Provincial Treasury and Limpopo Department of Education scrutinised the PES formula, with particular emphasis on the education component. The exercise yielded input points into the reformation of PES. The two departments held meetings and established working committees that came up with the following strategies to ensure that data inputs from the province is close to accurate and are verified by means of data quality measures:

Intervention strategies

1. Provincial Department of Education must promptly reconcile provincial learner numbers to what is in LURITS by ensuring that the Department completes feedback files and submit promptly to National Department of Basic Education. The Department of Education in Limpopo managed to purchase servers to store provincial SA-SAMS data sets (Warehouse). The Department should be able to track and monitor the rejection of learners from their own warehouse. This will ensure speedy resolution of the rejected learners with quick re-uploading. Learners is rejected for example when no ID number is on the system of if they are loaded by two different schools etc
2. Ensured data quality audits are performed in all the schools to ensure accuracy of the SA_SAMS. The department run "end processor tool" which further quality assures the database. The databases are further integrated into the provincial warehouse. We also run queries to check specific omissions that might have

skipped the circuit and district levels. These generated reports are scrutinized and sent back to schools for corrections/completion.

3. Automation of SA-SAMS integration with LURITS on a web based platform is still work in progress. The Department of Education still does not have connectivity at all the school that forces the Department to collecting data the manual route from these schools. The schools submit to circuits and "quality assure" each schools' database. The circuit databases are escalated to the District offices which are further checked for compliance against set of collection instructions.

Future work on education component entails National Treasury to consider the possibility of differentiated funding using quintiles and other school level data to ensure equitable distribution of resources in the education component.

3.2. Health Component

The Health Component (27 per cent) is based on each province's risk profile and health system caseload. Three sets of data are used to determine the risk-adjusted sub-component estimates, which accounts for 75 per cent of the Health Component. Currently, data from the Council for Medical Schemes' Risk Equalisation Fund is used to determine each province's risk profile. This data has not been updated since the new formula for the Health Component was introduced in 2011. It would therefore be appropriate for this data to be updated to reflect more recent data. The other two sets of data are obtained from StatsSA, namely the percentage of the population with medical insurance (as per the General Household Survey) and deducted from the mid-year population estimates to estimate the uninsured population per province.

The output sub-components share, which makes up 25 per cent of the Health Component, is obtained from the District Health Information Services, which is available annually. Meetings between National Treasury and national Department of Health (nDoH) and StatsSA came up with a possibility that StatsSA could collect data that can be used to calculate the health risk profile of provinces. The methodology that StatsSA applies to do these calculations differs however from the approach used through the THEMBISA model (a model widely used in the health sector). More work is required to determine the appropriate method to calculate the health risk profile of provinces.

The PES task team proposed that in updating the risk adjusted index, an analysis should first be done and agreed upon around whether we should use population estimates from the THEMBISA model (this is currently not official government data, and can only be used if endorsed by nDoH or Stats SA's Spectrum demographic model). The methodology to be chosen should also be informed by health policy and the data principles put down for the review of the PES formula.

3.3. Poverty Component

During interactions with StatsSA it came to light that there are other datasets that can be used to measure poverty. The PES task team, and subsequently the Technical Committee on Finance (TCF) and Budget Council (BC), may want to consider these options to either complement or replace the current measure of poverty in the formula. The Poverty Component is intended to redistribute funds in the horizontal allocation to take into account that wealthier citizens place less demands on the provincial government compared to poorer citizens. This is especially true when citizens are able to substitute towards private provision. As such, provinces with a larger poor population relative to their total population carry a heavier burden of service provision per person.

However, the design of the component is mismatched to the concept it is trying to address. At present, the component is expressed by taking the share of a province's poor population, multiplying with each province's share of the total national population in order to get an absolute number of poor people within each province. This absolute number of poor people is then added up to get a total of all poor people in South Africa. This national poor number is then shared across provinces and is used to determine the allocation of the poverty component. The current formulation, instead of remaining sympathetic to the burden of poverty that a province faces, measured as a share of poor people to the provincial total population, instead counts, and rewards the province that has the highest headcount of all poor people across the country. The formulation makes it such that the province that has the highest headcount of poor people, even if it ranks as the one with the lowest burden of poverty, is allocated a larger share of this component of the equitable share formula. Some consideration has to be given to both headcounts of poverty and the burden that comes with it. The formula should also take percentage of poverty into account not merely the aggregate number of poor people in a province.

Poverty is traditionally measured by income measure like the $1 and $2 per day of the World Bank. Since the traditional definition only considers only one aspect of poverty, namely income, alternative measures of poverty is under consideration to measure the multidimensional nature of poverty. Governments are concerned about the poor and dynamics that entrench poverty pathways. A better understanding of these dynamics helps drive policy design in a way that delivers meaningful intervention in poverty vicious cycles. The Global Multidimensional Poverty Index (MPI) is a relatively new poverty index that was developed by the Oxford Poverty and Human Development Initiative and the United Nations Development Programme.

National Treasury and the PES working committee will still have to dissect and analyse this component and propose a resolution as part of the work still to be concluded in the medium term.

3.4. Rurality Component

The Rural Colloquium, which was meant to invite experts to demystify and place the term rurality into context, was deferred indefinitely due financial constraints and logistical challenges on the side of National Treasury and Financial Fiscal Commission (FFC). This however did not stop provinces from providing invaluable inputs into the rurality subject for TCF consideration. The first step was to agree on a definition of poverty here are different dimensions to what make a place or a region, rural. What is clear from these rural definitions, or characteristics, is that they are driven by a specific use. While some uses may warrant the inclusion of multiple characteristics, it is often clear that the definition of rural is most often driven or guided by specific programmes, some sort of targeted spending, or to inform policy interventions of sorts.

Limpopo Treasury subsequently developed a discussion document that spearheaded the rural province committee research with the aim of systematically defining a rural area and justify cost differentials of service delivery between rural and urban areas. The document was shared among other rural provinces for inputs. The document provided a comparative analysis of selected development indicators synonymous to rural characteristics and provided a systematic definition of rurality. The document was presented at the TCF Lekgotla of which a resolution was taken that FFC further research in the area and provide guidance.

The research paper found the following among other:

1. For the purposes of this research, classification of provinces was done by adopting StatsSA 2001 reclassification of Enumeration Areas. This method is simple and well understandable for description and measurement purposes. Eastern Cape, Limpopo, Mpumalanga, North West and KwaZulu Natal have significantly large number of people residing in rural areas. The study also identified KwaZulu Natal to be falling under rural provinces while Northern Cape falls under urban provinces. Considering that the above finding is based on 2001 data which might be outdated, it is recommended that the National Treasury approaches StatsSA for an updated classification of Enumeration Areas in provinces based on most recent data available.
2. The development indicators analysed in the paper has attested that development is skewed towards urban provinces. Rural provinces are developing slowly due to economic, financial and social reasons. Although Free State and Northern Cape are classified as Urban provinces, the development indicators and economic pressure areas index illustrate that there are development challenges in these provinces that are synonymous to rural provinces.
3. Rurality is not evenly spread out across the country but are rather concentred in rural provinces such as Eastern Cape, Limpopo, Mpumalanga, North West and KwaZulu Natal. These provinces are inadequately serviced due to high costs of providing public services in both the provincial governments. For instance, for every R1000 spent in Eastern Cape, the associated cost is R23.8 while in Gauteng is R1.3 making it inexpensive to provide public services in Urban provinces. Although the costs of servicing rural areas may not be explicit,

it is disguised in indirect costs i.e. travel costs, rural allowances and swift depreciation of assets.

4. Conditional grants are necessary however not sufficient interventions as these grant are rigid and undermine the ability of provincial governments to respond to unique provincial and local priorities.

4: Conclusion

Government is feeling pressure to improve the lives of the people through accelerated job creation, expanded service delivery and broad based inclusion in the economy. These imperatives cannot be achieved by government alone but requires collective effort from all key role players in the economy and society in general. There is optimism of increased policy certainty with the new administration that will drive improved investment levels through optimistic investor sentiments and consumer confidence. It is also necessary that government pursues the developmental objectives within a fiscal disciplined environment with less exposure to external debt thereby maintaining favourable credit rating.

5: Recommendations

To achieve broad based economic development, the South African economy should be stimulated to grow at faster rates. In the last few years the economy grew slower than anticipated during the National Budget with resulted shortage in tax collection and higher debt to GDP ratio's than anticipated. These developments are monitored closely by the rating agencies. If no improvement happens it might trigger a further downgrade by Moody's.

Last but not least, expenditure assignments to sub national government should be channelled in such a way that it generates maximum social and economic impact. The PES review is complimentary to fiscal decentralisation but that is responsive to development heterogeneity of provinces