

[https://doi.org/10.52326/jss.utm.2025.8\(3\).02](https://doi.org/10.52326/jss.utm.2025.8(3).02)
CZU 336.2:005.915(680)



MEASURES TO IMPROVE FISCAL SUSTAINABILITY AND DEBT MANAGEMENT AT THE PROVINCIAL LEVEL: A CASE OF SOUTH AFRICA

Beauty Zindi*, ORCID: 0000-0003-4790-5379,
Malefetsane Mofolo, ORCID 0000-0001-6764-0991

*University of Walter Sisulu Faculty of Management and Public Administration Sciences. Private Box X3182,
Butterworth, Eastern Cape, South Africa*

* Corresponding author: Beauty Zindi, bzindi@wsu.ac.za

Received: 06. 27. 2025

Accepted: 08. 30. 2025

Abstract. Public debt and fiscal sustainability are pressing issues for provincial governments in South Africa, posing significant challenges to effective governance and service delivery. Using desktop research, the article explores the impact of inefficient financial management, corruption, and governance weaknesses which exacerbate fiscal pressures and hinder sustainable development. The results showed that a plethora of factors contributed to rising public debt and fiscal instability in provinces, including limited revenue-generation capabilities, heavy reliance on national transfers, escalating costs of service delivery, and unfunded mandates. The article recommends that South African provincial governments can modernise revenue collection systems, adopt cost-saving technologies, revise the equitable share formula, and strengthen financial accountability and transparency. The study underscores the importance of innovative and collaborative approaches to ensure long-term economic stability and equitable development across South Africa's provinces. By implementing these strategies, provincial governments can reduce their debt burdens, improve fiscal sustainability, and enhance their capacity to deliver essential services.

Keywords: *public debt; debt management, fiscal sustainability, provincial governments; financial management.*

Rezumat. Datoria publică și sustenabilitatea fiscală sunt probleme prezente pentru guvernele provinciale din Africa de Sud, care prezintă provocări semnificative pentru o guvernare eficientă și furnizarea de servicii. Folosind cercetări documentare, articolul explorează impactul managementului financiar ineficient, al corupției și al deficiențelor de guvernare, care exacerbează presiunile fiscale și împiedică dezvoltarea durabilă. Rezultatele au arătat că o multitudine de factori au contribuit la creșterea datoriei publice și a instabilității fiscale în provincii, inclusiv capacitățile limitate de generare a veniturilor, dependența mare de transferurile naționale, creșterea costurilor de furnizare a serviciilor și mandatele nefinanțate. Articolul recomandă ca guvernele provinciale sud-africane să modernizeze sistemele de colectare a veniturilor, să adopte tehnologii de economisire a costurilor, să revizuiască formula de partajare echitabilă și să consolideze responsabilitatea și transparența financiară.

Studiul subliniază importanța abordărilor inovatoare și colaborative pentru a asigura stabilitatea economică pe termen lung și dezvoltarea echitabilă în provinciile Africii de Sud. Prin implementarea acestor strategii, guvernele provinciale își pot reduce povara datoriilor, pot îmbunătăți sustenabilitatea fiscală și își pot spori capacitatea de a furniza servicii esențiale.

Cuvinte cheie: *datorie publică; gestionarea datoriei, sustenabilitate fiscală, guverne provinciale; management financiar.*

1. Introduction

Public debt has become a central issue in discussions about fiscal sustainability, particularly in developing economies. In South Africa, provincial governments face increasing pressure to deliver essential public services while managing their finances responsibly [1]. Rising public debt levels, exacerbated by structural economic challenges and the lingering impacts of global crises, pose significant threats to fiscal sustainability. For provincial governments, balancing the competing demands of addressing social inequalities, fostering economic growth, and maintaining fiscal discipline is an enduring challenge [2]. South Africa's fiscal framework delegates substantial responsibilities to provincial governments, including education, healthcare, and infrastructure development. These responsibilities often exceed the revenue-generating capacities of the provinces, leading to dependence on transfers from the national government. In addition, [3] mentions that while this intergovernmental fiscal structure aims to ensure equitable service delivery, it also creates vulnerabilities when national finances are strained.

In recent years, South Africa has experienced rising debt levels due to persistent budget deficits, slow economic growth, and external shocks such as the COVID-19 pandemic. Nevertheless, Covid-19 struck at a time when South Africa was already experiencing financial difficulties. Provincial governments are not directly responsible for national debt, but their budgets are significantly affected by fiscal consolidation efforts and reductions in transfers [4]. Furthermore, provinces face challenges in managing their own financial resources, including increasing contingent liabilities and inefficient expenditure patterns. Addressing these issues is critical for ensuring long-term fiscal sustainability and maintaining the capacity to meet developmental objectives [5].

The provincial governments in South Africa are grappling with the dual challenge of rising public debt and maintaining fiscal sustainability. National fiscal constraints have led to reduced allocations to provinces, straining their ability to deliver essential services. At the same time, inefficiencies in financial management, limited revenue-raising capacities, and mounting contingent liabilities exacerbate fiscal pressures [1]. Without targeted strategies to address these issues, provincial governments risk financial instability, reduced service delivery quality, and the erosion of public trust. It is against this background that the article seeks to achieve the following objectives

- To identify the factors contributing to fiscal pressures in South African Provincial government.
- To discuss key Challenges faced by South African provincial governments due to public debt and lack of fiscal sustainability.
- To recommend measures to improve fiscal sustainability and debt management at the provincial level.

2. Literature Review

2.1 Guiding theory - Fiscal Federalism Theory

Fiscal Federalism theory examines the allocation of fiscal responsibilities and resources among different levels of government. It provides a framework for understanding the fiscal challenges faced by country provinces, like South African provinces, particularly the tension between expenditure responsibilities and revenue constraints [6]. Fiscal federalism theory highlights the need for effective intergovernmental coordination and equitable resource distribution to achieve fiscal sustainability.

According to [7] argues that the theory explores the principles of revenue generation, expenditure assignments, and intergovernmental transfers, which are critical in understanding the financial interdependencies and imbalances within a federal system. South Africa operates within a quasi-federal framework where provinces are constitutionally mandated to deliver key services such as education, healthcare, and infrastructure, but lack significant autonomous revenue-raising powers. The bulk of provincial revenues over 95% come from equitable share allocations and conditional grants from the National Treasury [2]. This creates tension between the expansive expenditure responsibilities of provinces and their limited ability to generate their own revenue.

Furthermore, fiscal federalism theory advocates for fair resource allocation to reduce disparities among provinces. In South Africa, the equitable share formula is intended to address such disparities, but debates persist regarding whether the formula adequately accounts for provincial needs, particularly in rural and underdeveloped areas [8]. Provinces like the Eastern Cape and Limpopo receive larger transfers due to their higher levels of poverty and service delivery backlogs. However, these funds often prove insufficient to address the scale of infrastructure and human resource deficits [4].

In addition, the theory underscores the need for robust governance structures to ensure efficient use of resources. Mismanagement and corruption undermine fiscal sustainability, as seen in the Auditor-General's reports highlighting irregular expenditure across provinces. In 2023, Limpopo's Department of Education was flagged for irregular expenditure exceeding R1 billion, reflecting inadequate financial oversight and inefficiencies in resource utilization [9].

2.2 Conceptualising Public Debit

Public debt refers to the total amount of money that a government owes to external or internal creditors, including foreign governments, financial institutions, and private investors [10]. It is typically the result of borrowing to finance budget deficits, where government expenditure exceeds revenues. Public debt can take various forms, such as bonds, loans, or treasury bills. Public debt is a critical tool for economic management, enabling governments to fund infrastructure projects, public services, or emergency responses [11]. However, excessive public debt can burden future generations and lead to economic instability.

As shown above, South Africa's provincial governments play a crucial role in delivering public services such as health, education, housing, and infrastructure development. However, they face significant challenges in balancing rising expenditures with limited revenue-generation capabilities [12]. The provincial governments have limited autonomy to incur debt due to their reliance on equitable share allocations and conditional grants from the national government as prescribed by the Constitution of the Republic of South Africa, 1996. Public debt emerges indirectly through several ways such as unfunded mandates where provinces

often bear the burden of providing services that exceed the funding allocated by the national government [13]. More so, public debt can be caused through contingent liabilities where provincial entities such as public utilities or state-owned companies can indirectly increase provincial financial pressures leading to public debt. Provinces may resort to alternative borrowing mechanisms, such as Public-Private Partnerships (PPPs), which can result in long-term financial commitments [14].

2.2 The concept of Fiscal Sustainability

Fiscal sustainability refers to the ability of a government to maintain its current spending, tax, and borrowing policies over the long term without risking insolvency or defaulting on its debt obligations [12]. Fiscal sustainability is also defined as the government's capacity to maintain solvency without increasing taxes, reducing expenditures, or resorting to deficit monetization [11]. Fiscal sustainability is essential for an economy and, consequently, for sustainable economic development. Post-financial crisis, South Africa experienced a substantial rise in public debt attributed to the execution of extensive expenditure initiatives aimed at economic support [13].

Fiscal sustainability for provinces depends on their ability to balance expenditures with available revenues without compromising future financial stability. Provinces' face increasing costs for healthcare, education, and infrastructure due to population growth, urbanization, and socio-economic inequalities [2]. More importantly, provincial governments have restricted authority to raise revenue. They rely heavily on transfers from the national government, which are often insufficient to meet service delivery demands [4]. Many provincial governments lack robust mechanisms to monitor and manage debt, especially contingent liabilities arising from provincial entities [1]

2.3 An overview of public debt and fiscal sustainability in South African provincial governments

Public debt and fiscal sustainability are critical concerns for South African provincial governments, which are tasked with delivering essential services. The delivery of these services, however, is often carried out under significant financial strain. As pointed out above, provinces primarily rely on national transfers, including the equitable share and conditional grants, to fund their operations [15]. While these transfers provide the bulk of provincial revenue, they often fall short of covering the rising costs of service delivery, leaving provinces financially vulnerable. Limited revenue-generation capacity further exacerbates the problem, as provinces lack substantial mechanisms to raise their own funds [3]. This reliance on national transfers restricts their fiscal autonomy and ability to respond to localized needs or emergencies.

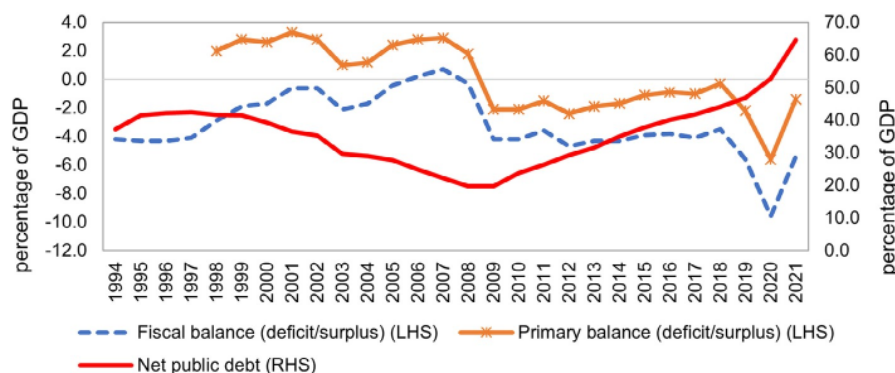


Figure 1. South African Gross Domestic Product: 1994-2021.

Source: (South African Reserve Bank, 2022).

The diagram above presents a graphical representation of three key macroeconomic indicators as a percentage of GDP over the period from 1994 to 2021. The chart uses two different Y-axes. The Left Y-axis (LHS - Percentage of GDP) represents the fiscal balance (deficit/surplus) and the primary balance (deficit/surplus). The dashed blue line represents the fiscal balance, which fluctuates over time, showing periods of both surplus and deficit. A notable downward trend is observed after 2008, indicating increasing fiscal deficits. The orange line with markers represents the primary balance, which follows a similar trend to the fiscal balance but remains relatively higher in most periods. A sharp decline around 2008 and fluctuations afterward suggest economic shocks affecting public finance.

The Right Y-axis (RHS - Percentage of GDP) represents net public debt, illustrated by the solid red line. The net public debt shows a consistent increase over time, with a noticeable upward trend beginning in the early 2000s. A sharp rise after 2010 suggests increasing borrowing levels, which accelerates significantly after 2019. The fiscal and primary balances were relatively stable between 1994 and 2007, but both declined significantly after the 2008 global financial crisis. Despite some periods of recovery, fiscal deficits persist, particularly post-2015, reflecting growing expenditure pressures. The net public debt steadily increases, particularly after 2008, and rises sharply post-2019, likely due to the economic impact of the COVID-19 pandemic and increasing government borrowing.

The global economic recession of 2008–2009 affected various economies worldwide, including South Africa's. Government debt and fiscal deficits increased as a result of the inadequacy of monetary policy in promoting and sustaining economic growth. Output growth declined significantly from 3.6% in 2008 to -1.7% in 2009 [16]. A recovery took place in 2010, characterized by a growth rate of 2.9%, succeeded by a decline of 1.2% in 2015 [12]. Following the global financial crisis, South Africa's primary balance positions deteriorated, registering -3.1% in 2009 and -2.7% in 2010 (IMF, 2018). The primary deficit trend persisted from 2010 to 2017, declining from 2.8% in 2010 to -0.6% in 2017. The debt-to-GDP ratio of South Africa increased significantly from 22.2% in Q4 2008 to 46% in Q3 2016 [2]. From the fourth quarter of 2011 to the third quarter of 2016, the economic condition of the country exhibited weakness, as evidenced by an average primary balance ratio of -1.3% [14].

At the beginning of the 2012/13 financial year, the South African government implemented an expenditure limit, shifting medium-term expenditures from baseline projections to numerical targets [11]. This strategic move was aimed at improving fiscal discipline and curbing excessive government spending, ensuring that expenditure aligned more closely with revenue collection trends. By enforcing these numerical limits, the government sought to prevent unsustainable budget deficits while maintaining the delivery of essential public services.

In 2014, the National Treasury took further steps to strengthen fiscal management by establishing the Fiscal Risk Committee. This committee was tasked with identifying, monitoring, and mitigating fiscal risks that could derail the government's financial targets. Through this initiative, the government aimed to enhance fiscal sustainability by proactively addressing economic uncertainties, debt vulnerabilities, and potential shocks to revenue collection.

The 2016 Medium Term Budget Policy Statement (MTBPS) Fiscal Risk Statement acknowledged that South Africa had several institutional strengths that contributed to fiscal sustainability [17]. Among these strengths was the Public Finance Management Act (PFMA) of 1999, which provided a legal framework for transparent, accountable, and effective

financial management in the public sector. The Medium-Term Expenditure Framework (MTEF) was another critical strength, facilitating multi-year budget planning and promoting predictability in fiscal decision-making. Additionally, the reduction in debt financing from domestic currency and bond markets helped manage the cost of debt servicing, ensuring that South Africa did not become overly reliant on expensive external borrowing.

Despite these institutional strengths, the MTBPS Fiscal Risk Statement also highlighted significant risks. These included rising debt levels, economic stagnation, and fiscal pressures from State-Owned Enterprises (SOEs). The increasing reliance on borrowing, particularly to fund operational expenditures rather than capital investments, posed a long-term risk to fiscal stability. Additionally, persistent revenue shortfalls, declining investor confidence, and growing social spending pressures added to the complexity of achieving fiscal sustainability [9; 14.]

Despite worsening financial conditions, decreasing economic growth, and inadequate regulation, South Africa's financial sector maintained effective financial management, credibility in fiscal policy, and transparency in its budgetary systems [18]. The government demonstrated fiscal credibility by increasing the primary surplus and decreasing the primary deficit in reaction to escalating public debt. The monetary policy strategies of South Africa for addressing fiscal debt and deficits rely on strict adherence to financial management protocols and the national budgeting process. Between 2009 and 2021, South Africa consistently faced deficits in its fiscal and primary balance-to-output ratios [9].

2.4 Audit findings in South African provincial governments

Although, the South African provinces are facing fiscal sustainability challenges, on the other hand, they appear to be having weak governance structures. This is evident from the Auditor-General of South Africa's (AGSA) reports. AGSA plays a critical role in promoting accountability by auditing public sector financial management. However, the recurring findings in AGSA's Annual Reports reveal significant inefficiencies, including fruitless, wasteful, and irregular expenditures, which compromise fiscal discipline and intensify funding shortfalls in provincial governments [19]. Irregular expenditure arises when procurement and financial transactions deviate from prescribed laws and regulations. This issue is frequently reported in provincial departments, reflecting weak compliance mechanisms and governance structures. Repeated audit findings showing mismanagement of public funds undermine citizens' confidence in provincial governments' ability to manage resources effectively [20].

In 2023, Limpopo's Department of Public Works recorded over R1.2 billion in irregular expenditure and this amount included procurement processes that bypassed competitive bidding procedures, often due to inadequate oversight and collusion among officials [9]. The expenditure that could have been avoided, such as penalties for late payments or unused contracted services, contributes significantly to fiscal inefficiencies. The Eastern Cape Department of Health incurred millions in fruitless expenditure in 2022, including payments for ambulances that were never delivered and penalties on overdue invoices to suppliers [19]. Weak financial management systems and lack of capacity in provincial departments exacerbate inefficiencies [21]. Issues such as poor record-keeping, delayed reconciliations, and ineffective monitoring of budgets are prevalent. The Free State Department of Education failed to account for R800 million in conditional grant funding for school nutrition programs in 2022 due to incomplete records, leading to questions about the effective use of fund [19].

Non-compliance with SCM regulations, such as failure to follow transparent procurement processes, is a major issue highlighted in AGSA reports. This results in inflated costs and compromised service delivery. The KwaZulu-Natal Department of Transport was flagged in 2023 for awarding contracts worth R500 million to unqualified suppliers, leading to substandard road maintenance projects [9].

Primary factors contributing to fiscal pressures in South African provincial governments South African provincial governments face persistent fiscal pressures due to a combination of external economic conditions, policy decisions, and internal inefficiencies. These factors strain their budgets, limiting their ability to deliver essential services and meeting their developmental mandates. The factors are discussed below.

2.5 External economic conditions

The sluggish economic growth in South Africa has limited national revenues, hence diminishing equitable share payments to provinces that depend significantly on these transfers. In KwaZulu-Natal, reduced allocations have led to budgetary reductions in health and education, compelling the government to diminish essential infrastructure investments [22]. Inflation intensifies these constraints by elevating the expense of goods and services, especially in sectors like healthcare and education. The Gauteng province has experienced escalating healthcare expenses due to urban migration and population expansion, which have increased the need for medical services [12]. Furthermore, worldwide problems like the COVID-19 pandemic interrupted economic operations and heightened service delivery requirements, especially in Gauteng and the Western Cape, where escalating healthcare expenses resulted in budget excesses and postponed infrastructure initiatives [3].

2.6 Policy decisions

Policy decisions also contribute to fiscal pressures, especially where provinces are tasked with implementing unfunded mandates. In the Free State, the Department of Health has struggled with rising contingent liabilities due to medical negligence claims, without corresponding financial support from the national government [23]. In the Eastern Cape, a significant portion of the provincial budget is allocated to paying salaries for teachers and healthcare workers, leaving limited resources for developmental projects or infrastructure maintenance [17]. Similarly, rigid conditions attached to national grants, intended to address specific issues, often reduce provincial flexibility in addressing broader needs. Limpopo has faced challenges in utilizing conditional grants for housing, resulting in missed targets and growing housing backlogs [11].

2.7 Internal inefficiencies

Internal inefficiencies within provincial governments further deepen fiscal pressures. Mismanagement and corruption are pervasive issues, with Auditor-General reports frequently highlighting cases of irregular expenditure. Mpumalanga and North West provinces have faced scrutiny for misallocated funds that were meant for infrastructure projects, leading to delays and wasted resources [19]. Inefficient resource allocation is another common challenge. In the Eastern Cape, funds allocated for school infrastructure remain unspent due to poor planning and project delays, leaving learners in unsafe and inadequate facilities [24]. Additionally, growing contingent liabilities, such as lawsuits, are a burden on provincial budgets. The Free State's Department of Health has accrued billions of rands in liabilities from medical negligence claims, further straining its financial capacity [9]. Many provinces

also face lack of skilled personnel, which hampers the effective implementation of projects. For instance, in Limpopo, delays in housing project rollouts have been attributed to inadequate technical capacity within the Department of Human Settlements [12].

3. Materials and Methods

This article is based on a qualitative secondary literature review. Both grey and academic literature identified using 'public debt' and 'fiscal sustainability' as the key word in South African provincial governments were reviewed. Literature review was combined with abstraction since some of the issues raised in the article require in-depth analysis and not mere empirical evidence that is in the form of numbers as in quantitative studies or direct quotations of qualitative studies. The documents selected were widely published on public debt, debt sustainability, fiscal sustainability, financial repression and fiscal policy sustainability informed the writing of this article. There was no rigid criterion used to identify the texts that were used in this article. Instead, the authors relied on texts that provided detailed information on public debt and fiscal sustainability in South African provincial governments that are summarised in this study. This loose research approach, however, presents a particular limitation. It is the authors' conviction that future researchers will be motivated to engage in writing more articles on evaluating the sustainability of the fiscal policy in South Africa.

4. Challenges faced by South African provincial governments

South African provincial governments operate within a tightly constrained fiscal framework. Their primary source of funding comes from the national government in the form of equitable share allocations and conditional grants [25]. While these allocations aim to address inequality and ensure uniform service delivery, they are increasingly insufficient in the face of rising expenditure pressures. Fiscal sustainability in provincial governments is being tested by systemic inefficiencies, external economic challenges, and a growing reliance on national support amid declining revenue bases [8].

4.1 Heavy reliance on national transfers

Provinces in South Africa operate under a highly centralized fiscal framework, where the bulk of their budgets relies on equitable share allocations and conditional grants from the national government [2]. These transfers aim to address inequality and ensure equitable access to essential services such as education, healthcare, and infrastructure. Provinces lack significant own-revenue sources, depending on transfers that constitute over 95% of their budgets [1]. Reductions in national transfers due to fiscal consolidation efforts have left provinces with limited capacity to address pressing service delivery needs. The national government's fiscal consolidation measures, aimed at curbing debt and reducing budget deficits, have directly impacted provincial allocations. During the 2023/24 budget cycle, provinces experienced a combined reduction of over R20 billion in equitable share allocations and conditional grants [19]. These reductions severely constrained provincial governments' ability to sustain critical services, forcing cutbacks in key areas. Provincial Department of Basic Education like the Eastern Cape and Limpopo faced difficulties in maintaining school infrastructure and staffing levels [9].

The Eastern Cape Department of Basic Education faced severe funding challenges in replacing unsafe mud schools. In 2023, budget reductions led to delays in the completion of 50 planned school infrastructure projects [24]. This hindered efforts to create safe and

conducive learning environments for rural learners. Reduced funding led to the delay of infrastructure projects aimed at replacing mud schools and unsafe classrooms, directly impacting learners' safety and access to quality education [26]. Additionally, teacher shortages became more pronounced, particularly in rural areas. Furthermore, conditional grants allocated for infrastructure projects, such as the Provincial Roads Maintenance Grant, were reduced, delaying critical upgrades to transport infrastructure. In provinces like the Free State and Western Cape this contributed to worsening road conditions, impeding economic activity and access to services [27]. The Western Cape government, although better resourced, struggled with increasing healthcare demands amid reduced funding. In 2023, delays in disbursing conditional grants affected the rollout of the province's vaccination programs and expansion of healthcare facilities in rural districts [4]. With limited own-revenue sources and reduced national transfers, the Northern Cape government faced setbacks in maintaining its extensive road network. This hampered access to remote areas and negatively affected local economies reliant on agriculture and mining.

4.2 Rising contingent liabilities

South African provincial governments operate under fiscal rules that restrict borrowing to prevent unsustainable debt accumulation. However, they face rising contingent liabilities, which include unpaid accruals, legal claims, and guarantees for public entities [2]. For example, the Eastern Cape Department of Health reported unpaid invoices exceeding R4 billion in 2022, highlighting the burden of accrued liabilities on fiscal sustainability [9]. These liabilities, while not direct debt, pose significant risks to provincial finances, potentially destabilising budgets and diverting resources from essential service delivery. Accruals arise when payments for goods and services procured by provincial departments are delayed due to budget constraints or inefficiencies in financial management [4]. The failure to pay suppliers within the prescribed 30-day period has become pervasive across provinces, creating a cascading effect on service delivery and supplier sustainability. The Eastern Cape Department of Health reported unpaid invoices exceeding R4 billion in 2022 [19]. This backlog strained healthcare delivery as suppliers withheld critical goods such as medicines and medical equipment, jeopardizing patient care.

In addition, provinces face increasing legal liabilities due to litigation arising from service delivery failures, malpractice, and breaches of contract. Departments, particularly in healthcare and public works, are frequent targets of lawsuits, which often result in substantial financial settlements or judgments against the government. The Gauteng Department of Health faced medico-legal claims exceeding R20 billion in 2023 [9]. These claims stemmed from cases of medical negligence in public hospitals, including incidents of birth injuries and surgical errors, forcing the department to divert funds from critical operations to settle claims. Some provincial governments provide financial guarantees for public entities under their jurisdiction, such as development agencies and utilities. When these entities face financial difficulties, the provinces may be required to fulfill their obligations, adding to fiscal pressure [27]. In Limpopo, the provincial government provided support to the Limpopo Economic Development Agency (LEDA). Financial difficulties within the entity resulted in liabilities that the provincial treasury had to absorb, impacting its fiscal sustainability. More so, [28] pointed out that delays in paying suppliers and the diversion of resources to settle legal claims hinder the effective delivery of services in critical sectors such as education, healthcare, and

infrastructure. Mismanagement and irregular expenditure are common in provincial departments, diverting resources away from critical needs.

4.3 Expenditure pressures in key sectors

South African provincial governments are tasked with managing and delivering critical services in high-cost sectors, including healthcare, education, and infrastructure development. According to [18] expenditure pressures in healthcare, education, and infrastructure development remain a critical challenge for South African provincial governments. These sectors account for most provincial budgets due to their centrality to social and economic development. However, rising expenditure pressures, inefficiencies, and mismanagement have strained provincial finances, undermining their ability to meet the growing demands of service delivery [14].

The healthcare sector is a significant cost driver for provincial governments. Provinces face rising operational costs due to increased patient volumes, expensive medical supplies, aging infrastructure, and a growing burden of non-communicable diseases [29]. In KwaZulu-Natal, the healthcare budget has consistently exceeded available funding, with the department incurring an irregular expenditure of over R6 billion in 2023 due to supply chain inefficiencies and lack of financial controls [19]. Challenges such as delayed supplier payments and over-reliance on costly temporary staff further compound fiscal stress. More so, The Free State provincial government has also faced criticism for its inability to maintain and upgrade critical road infrastructure. Budget cuts and inefficient project management have resulted in deteriorating road conditions that negatively affect local economies and public safety [27]. Reductions in conditional grants from the national government have exacerbated funding shortfalls, leaving provinces with limited resources to address critical infrastructure backlogs and operational needs. The Free State Department of Education failed to account for R800 million in conditional grant funding for school nutrition programs in 2022 due to incomplete records, leading to questions about the effective use of funds [19].

Furthermore, the education sector represents another high-cost area for provinces, with expenditures directed towards teacher salaries, school infrastructure, and learner support programs. The Eastern Cape Department of Education struggles to eliminate unsafe and inadequate school infrastructure. In 2023, budget constraints forced the Department to delay the completion of more than 30 school construction projects, leaving learners in dilapidated classrooms or makeshift facilities [24]. Provinces face challenges in maintaining aging school infrastructure, meeting the demand for new schools in growing communities, and addressing teacher shortages.

4.4 Infrastructure backlogs in South African provincial governments

Infrastructure development is a critical enabler of effective service delivery in South Africa, particularly in sectors such as education and healthcare. However, provincial governments face persistent infrastructure deficits, characterized by aging facilities, poorly maintained assets, and unmet demands for new construction [20]. These backlogs hinder the quality of services provided and exacerbate socio-economic disparities, particularly in rural areas and under-resourced.

Infrastructure deficits in the education sector have left many schools operating in unsafe and unsuitable conditions. Challenges include the prevalence of mud schools, insufficient classrooms, and lack of basic amenities such as water and sanitation. In the Eastern Cape Department of Basic Education, infrastructure backlogs are particularly severe

and there are delays in completing school upgrades that have left learners attending classes in unsafe mud structures [24]. For instance, the Accelerated School Infrastructure Delivery Initiative (ASIDI), aimed at eradicating mud schools, faced significant delays in 2023 due to mismanagement and budget constraints.

Provincial healthcare facilities are often under-resourced and unable to accommodate growing volumes of patients. Aging infrastructure, equipment shortages, and the slow pace of new hospital construction exacerbate the challenges. The Limpopo Department of Health struggled in the 2023 financial year to complete several hospital renovation projects, including the long-delayed Limpopo Academic Hospital, which has seen multiple budget overruns and missed deadlines [30]. These delays impact on healthcare delivery, particularly in underserved areas. Poor road conditions in provinces, particularly rural areas, hinder economic activity and access to essential services [23]. Backlogs in road maintenance and construction limit mobility and increase transport costs.

4.5 Rising of unfunded mandates

Provinces in South Africa frequently struggle with unfunded mandates, which occur when they are tasked with implementing policies or delivering services without sufficient funding from the national government. This challenge exacerbates financial pressures and creates significant gaps in service delivery, as provinces are forced to divert limited resources to fulfill these mandates. The Free State Department of Health has faced significant lawsuits due to unpaid medical negligence claims, resulting from systemic failures in healthcare management [12]. These liabilities increase financial strain, as funds that could be used to improve healthcare delivery are redirected to settle legal claims. Between 2020 and 2023, the Free State Department of Health faced mounting negligence claims amounting to billions of rands, which provincial budgets could not adequately accommodate [13]. In addition, [27] argue that negligence claims were caused by chronic understaffing, outdated medical equipment, poor facility maintenance, and inadequate funding for operational costs exacerbated the risk of lawsuits. The provincial health department operates under growing deficits, which limit its ability to address ongoing operational challenges.

4.6 Rising costs of service delivery

South African provinces are experiencing increased costs in delivering essential services due to factors such as population growth, urbanization, and inflation. These pressures are particularly acute in sectors like healthcare, education, and infrastructure, where demand continues to outpace available resources. The Gauteng Province is the most populous in South Africa and has faced immense pressure on its healthcare system. The province attracts internal migrants seeking better economic opportunities, placing additional strain on public hospitals and clinics [31]. The emergence of COVID 19 significantly increased demand for healthcare services, leading to a rise in operational costs for Personal protective equipment (PPE), patient care, and vaccine rollouts [32]. The rising costs of delivery have several consequences for provinces like Gauteng. Funds meant for other sectors are redirected to cover immediate healthcare needs, leaving education, infrastructure, and social development underfunded.

4.7 Weak Revenue Generation Capabilities

South African provinces have limited authority to generate their own revenue, relying heavily on national transfers such as the equitable share and conditional grants. According

to [31] this dependency creates vulnerabilities, especially when these allocations are insufficient to meet growing demands. Furthermore, lack of diversified revenue sources restricts the provinces' ability to fund additional expenditures or respond effectively to emergencies. Essential services such as education, healthcare, and infrastructure development suffer due to insufficient funds. The Mpumalanga province has faced budget shortfalls in education, resulting in overcrowded classrooms and a lack of learning materials. Importantly, [20] added that outdated systems and poor enforcement mechanisms result in low compliance rates for vehicle license renewals and property rate payments. High unemployment and poverty levels in rural areas reduce the ability of citizens to pay fees and rates, leading to reduced provincial income [2]. Instances of financial mismanagement further erode revenue collection efficiency and trust in the provincial government.

5. Conclusion

Public debt and fiscal sustainability remain critical challenges for provincial governments in South Africa, requiring urgent and coordinated action. The heavy reliance on national allocations, limited revenue-generation capabilities, and escalating costs of service delivery exacerbated by population growth, urbanization, and unfunded mandates have strained provincial budgets and undermined financial sustainability. Additionally, issues such as rising contingent liabilities, poor financial management, and governance inefficiencies further compound these fiscal pressures.

Addressing these challenges demands a multi-pronged approach that includes improving revenue collection mechanisms, strengthening fiscal discipline, and diversifying provincial revenue streams. Moreover, effective expenditure management, enhanced intergovernmental collaboration, and the adoption of cost-saving technologies can help alleviate the financial strain while improving service delivery. Ultimately, fostering fiscal sustainability requires a strategic balance between meeting immediate service delivery needs and ensuring long-term economic stability. By adopting innovative financial strategies and promoting accountability, provincial governments can overcome fiscal challenges, reduce their debt burdens, and play a more effective role in driving inclusive and sustainable development across South Africa.

6. Recommendations

The following are the recommendations that can be adopted by the South African provincial governments in improving financial sustainability.

6.1 Strengthen Revenue Collection Mechanisms

The South African Provincial governments are recommended to modernize revenue collection systems through digital platforms to improve efficiency and reduce leakages in revenue streams like vehicle licensing and property rates. There is a need to increase enforcement measures for compliance and introduce incentives for early or full payment of provincial taxes and fees. The South African Provincial government is encouraged to develop targeted awareness campaigns to educate citizens on the importance of paying rates and levies.

6.2 Revise the equitable share formula

The South African provincial governments should advocate for adjustments to the equitable share formula to account for disparities in population growth, migration, and

urbanization. There is a need to prioritize additional funding for provinces experiencing significant service delivery pressures, such as Gauteng and the Western Cape.

6.3 Diversify Revenue Streams

The South African Provincial governments are recommended to introduce innovative revenue sources, such as tourism levies, green taxes, or user fees for public facilities and services. There is a need to develop Public-Private Partnerships (PPPs) to fund infrastructure projects, reducing the burden on provincial budgets.

6.4 Improve expenditure management

The South African Provincial governments should implement stricter financial controls to prevent overspending and ensure that funds are used effectively. They should conduct regular audits to identify and eliminate wasteful expenditure. They are also encouraged to adopt zero-based budgeting, which requires all expenses to be justified annually, to prioritize essential services.

6.5 Address rising contingent liabilities

The South African provincial governments are recommended to improve risk management frameworks to minimize legal claims, particularly in health and education sectors. They should establish dedicated contingency funds for unforeseen liabilities, such as medical negligence claims, to avoid diverting resources from essential services. Importantly there is a need to invest in staff training and infrastructure improvements to reduce operational errors that lead to lawsuits.

6.6 Promote fiscal accountability and transparency

The South African provincial governments are recommended to strengthen internal audit processes and financial reporting to ensure proper oversight of provincial finances. They should publish detailed reports on debt levels, expenditure patterns, and financial risks to improve accountability and public trust. There is a need to enhance the role of provincial legislatures in scrutinizing budget proposals and monitoring debt accumulation.

6.7 Advocate for clearer mandates and adequate Funding

The South African Provincial governments should engage the national government to ensure that mandates assigned to provinces, such as delivering basic services, are accompanied by sufficient funding. They are also recommended to negotiate for flexibility in reallocating funds within provincial budgets to address urgent needs.

6.8 Build capacity for financial management

The South African Provincial governments should invest in training programs for provincial financial managers to improve budgeting, debt management, and expenditure tracking. There is a need to establish partnerships with academic institutions and professional organizations to build expertise in fiscal sustainability practices.

6.9 Adopt debt management strategies

The South African Provincial governments should develop comprehensive debt management policies that include ceilings on borrowing and mechanisms for regular debt servicing. More so, they limit short-term borrowing and ensure that loans are directed toward investments with long-term benefits, such as infrastructure development.

Acknowledgement: The authors acknowledge Walter Sisulu University for its affiliation support.

Conflicts of Interest: The authors declare no conflict of interest.

References

1. Plaatjies, C.; Twala, B.; Dlamini, C. Fiscal sustainability analysis in selected SADC region countries with emphasis on South Africa: dynamic modeling, nonlinear causality, and machine learning approaches [version 1; peer review: awaiting peer review]. *F1000Research* 2024, 13(2), pp. 109-116.
2. Brothwell, R. South Africa Lost 1 million Jobs Because of the 2008 Recession-Here's Why This One Could Be Even Worse, 2020. Available online: <https://businesstech.co.za/news/technology/379079/south-africa-lost1-million-jobs-because-of-the-2008-recession-heres-why-this-one-could-be-even-worse/> (accessed on 27 January 2025)
3. Blom, P.P. The administration and management of public debt by the National Treasury in South Africa: lessons for sub-Saharan African countries, 2021. Unpublished Master of Administration (Public Management and Policy), University of Pretoria.
4. Chen, J. Debt. Investopedia, 2020. Available online: <https://www.investopedia.com/terms/d/debt.asp>. (accessed on 21 January 2025).
5. Karadam, D. Y. An Investigation of Nonlinear Effects of Debt on Growth. *Journal of Economic Asymmetries* 2018, 18(2), pp. 1–13.
6. Ulgenturk, L. *The Role of Public Debt Managers in Contingent Liability Management*. OECD Publishing, Paris, France, 2017, 14 p.
7. Caza, V. E. J. C. D. E. Fiscal fatigue and debt sustainability: Empirical evidence from the Eurozone 1980–2013. *Cuadernos de Economía* 2018, 41(115), pp. 69–78
8. Paret, A. C. Debt sustainability in emerging market countries: Some policy guidelines from African chart approach. *Economic Modelling* 2017, 63(3), pp. 26–45
9. Auditor General South Africa Integrated Annual Report. Elevating our insights to improve public sector accountability. 2023/2024. Available online: <https://www.agsa.co.za/Reporting/AnnualReport.aspx> (assessed on 29 January 2025).
10. Xaba, N. *The Impact of Interest Rates on Savings and Investments in South Africa*. 2018. Unpublished Master of Business Administration Dissertation. Johannesburg: University of Witwatersrand.
11. Mackiewicz, M. The sustainability of fiscal policy in southern African countries – a comparative empirical perspective. *International Journal of Emerging Markets* 2021, 18(2), pp. 337–350.
12. Nyambe, J. M.; Kaulihowa, T. Public debt dynamics and fiscal sustainability in Namibia: An intertemporal budget constraint analysis. *Journal of Economics and Business* 2020, 3(3), pp. 1095–1104.
13. Nzimande, N.; Ngalawa, H. Fiscal policy sustainability in SADC countries. *African Finance Journal* 2019, 21(1), pp. 86–97.
14. Nyambe, J. M.; Matundu, M. S. The Impact of Fiscal Policy on Financial Sustainability in Sub-Saharan Africa. *Journal of Development Finance* 2020, 10(1), pp. 45–60.
15. Ganyaupfu, E. M.; Robinson, Z. C. Fiscal sustainability and interdependence of primary balance and public debt in South Africa. *Acta Universitatis Danubius. OEconomica* 2019, 15(3), pp. 318–334
16. International Monetary Fund (IMF). Fiscal Monitor: Capitalizing on Good Times, 2018. Available online: <https://www.imf.org/en/Publications/FM/Issues/2018/04/06/fiscal-monitor-april-2018> (accessed on 21 April 2025)
17. National Treasury. *Supplementary Budget*. Government Printer, Pretoria, Republic of South Africa, 2020, pp. 1-54
18. Pham, T. South Africa: High Fiscal Consolidation Commitment but Weak Budget Viability, 2020. Available online: <https://think.ing.com/articles/south-africa-high-fiscal-consolidation-commitment-but-weak-budget-viability> (accessed on 14 January 2025).
19. Auditor General Sout Africa Integrated Annual Report. Promoting a culture of accountability, 2022/23. Available online: <https://www.agsa.co.za/Reporting/AnnualReport.aspx> (accessed on 28 January 2025)
20. Nabieu, G.A., Bokpin, G.A., Osei, A.K.; Asuming, P.O. The effects of fiscal governance on fiscal performance in Sub-Saharan Africa. *International Journal of Finance & Economics* 2020, 26(4), pp. 5746–5761

21. Zindi, B.; Sibanda, M.M. Barriers to effective supply chain management: The case of a metropolitan municipality in the Eastern Cape. *Journal of Local Government Research and Innovation* 2022, 3, a54. <https://doi.org/10.4102/jolgr.v3i0.54>
22. MacroTrend. South African GDP Growth Rate 1961–2019. 2019. Available online: <https://www.macrotrends.net/countries/ZAF/south-africa/gdp-growth-rate> (accessed on 2 January 2025).
23. Rahman, N. H. A., Ismail, S.; Ridzuan, A. R. How Does Public Debt Affect Economic Growth? A Systematic Review. *Cogent Business & Management* 2019, 6(1), pp. 1–16.
24. Eastern Cape Department of Education. *Annual Report 2023/24*, 6, 242 p.
25. Parliamentary Monitoring Group. Quarter 3 Spending Challenges: Treasury Report, 2020. Available online: <https://pmg.org.za/committee-meeting/29813/> (accessed on 11 January 2025).
26. Business Insider SA. SA's Coronavirus Budget: What You Need to Know. 2020. Available online: <https://www.businessinsider.co.za/sas-2020-coronavirus-supplementary-budget-what-you-need-to-know-2020-6> (accessed on 9 January 2025).
27. Gladys, A.; Nabieu, A.; Minlah, M.; Mensah, D. Public debts, fiscal balance and sustainability: What can African governments learn from debt sustainability models? *Cogent Economics & Finance* 2023, 11(3), pp. 223-258
28. Gillespie, F.; Saner, P. Financial Repression: Here to Stay and Stronger Than Ever. Swiss Re Institute, 2020. Available online: <https://www.swissre.com/institute/research/topics-and-risk-dialogues/economy-andinsurance-outlook/expertise-publication-financial-repression-here-to-stay.html> (accessed on 26 January 2025)
29. Rahman, N. H. A.; Ismail, S.; Ridzuan, A. R. How Does Public Debt Affect Economic Growth? A Systematic Review. *Cogent Business & Management*. 2019, 6(1), pp. 1–16.
30. Limpopo Department of Health. *Annual Report*. 2023/24. Vote No. 7. Limpopo, <https://www.ldoh.gov.za/ldoh-admin/documents/latestnews/documents/ANNUAL%20REPORT%2020232024.pdf>.
31. Parliamentary Monitoring Group. Quarter 3 Spending Challenges: Treasury Report. 2020. Available online: <https://pmg.org.za/committee-meeting/29813/>. (Accessed on 11 January 2025).
32. Zindi, B.; Shava, E. COVID-19 and the attainment of Sustainable Development Goal 6 (Clean Water and Sanitation) in South Africa. *Journal of Local Government Research and Innovation* 2022, 3, a58. <https://doi.org/10.4102/jolgr.v3i0.58>.

Citation: Zindi, B.; Mofolo, M. Measures to improve fiscal sustainability and debt management at the provincial level: a case of South Africa. *Journal of Social Sciences*, 8 (3), pp. 19-33. [https://doi.org/10.52326/jss.utm.2025.8\(3\).02](https://doi.org/10.52326/jss.utm.2025.8(3).02).

Publisher's Note: JSS stays neutral with regard to jurisdictional claims in published maps and institutional affiliations.



Copyright: © 2025 by the authors. Submitted for possible open access publication under the terms and conditions of the Creative Commons Attribution (CC BY) license (<https://creativecommons.org/licenses/by/4.0/>).

Submission of manuscripts:

jes@meridian.utm.md