SUBMISSION FOR THE DIVISION OF REVENUE

2017/2018

For an Equitable Sharing of National Revenue

FINANCIAL
AND FISCAL
COMMISSION

For an Equitable Sharing of National Revenue

Submission for the Division of Revenue 2017/2018

27 May 2016

ISBN: 978-0-621-44487-2
RP111/2016

2nd Floor, Montrose Place, Bekker Street,
Waterfall Park, Vorna Valley, Midrand, South Africa
Private Bag X69, Halfway House 1685
Tel: 086 1315 710, Fax: +27 (0) 11 207 2344
www.ffc.co.za

TABLE OF CONTENTS

PART 4

Rural Municipalities and Rural Development 113

TABLES

FIGURES

FOREWORD

This submission is made in terms of Section 214(1) of the Constitution of the Republic of South Africa (1996), Section 9 of the Intergovernmental Fiscal Relations Act (No. 97 1997) and Section 4(4c) of the Money Bills Amendment Procedure and Related Matters Act (No. 9 of 2009).

In South Africa, rural areas account for 80% of the land and are home to 38% of the population. Rural areas lag behind the country as a whole on economic performance indicators, such as economic growth, labour force participation rates, unemployment, education attainment and life expectancy at birth. Challenges include insufficient skills and educational performance, socio-spatial inequalities, infrastructure deficits, housing backlogs, environmental issues and health disparities. The agriculture sector contributes less than 3% to South Africa's economy, and so rural development is clearly not just about agricultural development. Addressing the challenges facing the rural poor requires more than agricultural and agrarian reforms, and must include education and health care outcomes, social and economic infrastructure, the creation of employment opportunities as well as changing the economic geography of rural areas.

Government policies and programmes are increasingly focusing on rural areas in order to alleviate poverty, create jobs and fast-track service delivery. Current rural strategies are often sector-based and do not take into account the different developmental needs of rural regions, many of which are based on exploiting special local resources. For example, policies to encourage rain-fed activities, such as livestock and cropping, are clearly not suitable for all areas. The need for integrated rural development is recognised, but this new approach has not yet been accompanied by a substantial reallocation of resources. Within this context, the theme for the Submission for the 2017/18 Division of Revenue is *the Intergovernmental Fiscal Relations System and Rural Development in South Africa.* The Submission provides evidence on how improving the efficiency of intergovernmental fiscal relations can assist national government, provinces and municipalities to stimulate rural development through prioritising public investments and interventions.The government's fiscal framework has failed to have a significant impact on rural development for various reasons, including (a) insufficient transfers from national government; (b) uncollected and/or property rates and service charges that are not cost-reflective; (c) leakages, including bad management, inefficient procurement, under-spending and institutional challenges. Institutional and fiscal reforms are required in order to overcome the many bottlenecks and enable all spheres of government to deliver on the rural development mandate.

The Commission would like to express its gratitude to all its stakeholders for the invaluable inputs provided during the preparation of the various technical reports that informed this Submission, the Minister of Finance and National Treasury for their support, the South African Local Government Association, the Chairpersons of the Finance and Appropriations Committees in the Provincial and National Legislatures, various technical advisers and the Staff of the Commission.

We, the undersigned, hereby submit the Financial and Fiscal Commission's recommendations for the 2017/18 Division of Revenue in accordance with the obligations placed upon us by the Constitution of the Republic of South Africa.

For and on behalf of the Commission

Mr Bongani Khumalo
Acting Chairperson/Chief Executive,

Mr Kenny Fihla
Mr Krish Kumar
Mr Sipho Lubisi
Professor Gillingwe Mayende
Dr Sibongile Muthwa
Professor Daniel Plaatjies
Professor Nico Steytler

Date: 27 May 2016

ACRONYMS

ADS	Agency Development and Support
AGOA	African Growth and Opportunity Act
AGSA	Auditor-General of South Africa
ALHA	Agricultural Land Holding Account
APAP	Agricultural Policy Action Plan
AsgiSA	Accelerated and Shared Growth Initiative for South Africa
ASIDI	Accelerated Schools Infrastructure Delivery Initiative
BFAP	Bureau for Food and Agricultural Policy
BLA	Black Local Authority
CAADP	Comprehensive African Agriculture Development Programme
CASP	Comprehensive Agricultural Support Programme
CFO	Chief Financial Officer
CGE	Computable General Equilibrium
CLC	Community Law Centre
COGTA	Cooperative Government and Traditional Affairs
CRDP	Comprehensive Rural Development Programme
CWP	Community Works Programme
DAFF	Department of Agriculture, Forestry and Fisheries
DBE	Department of Basic Education
DBSA	Development Bank of Southern Africa
DEA	Data Envelope Analysis
DFI	Development Finance Institutions
DHS	Department of Human Settlements
DM	District Municipality
DME	Department of Minerals and Energy
DOE	Department of Energy
DoL	Department of Labour
DORA	Division of Revenue Act
DPE	Department of Public Enterprises
DPME	Department of Planning, Monitoring and Evaluation
DPW	Department of Public Works
DRDLR	Department of Rural Development and Land Reform
DSBD	Department of Small Business Development
DSD	Department of Social Development
dti	Department of Trade and Industry
DWS	Department of Water and Sanitation
ECD	Early Childhood Development
EDD	Economic Development Department
EPWP	Expanded Public Works Programme
ESTA	Extension of Security of Tenure Act
EU	European Union
FBE	Free Basic Electricity
FBS	Free Basic Services
FFC	Financial and Fiscal Commission
FTE	Full-Time Equivalent
GDP	Gross Domestic Product
GEAR	Growth Employment and Redistribution
GHS	General Household Survey
GPP	Gross Provincial Product
GVA	Gross Value Added
HDA	Housing Development Agency
HST	Health Systems Trust
ICASA	Independent Communications Authority of South Africa
ICT	Information and Communication Technology
IDC	Industrial Development Corporation
IDP	Integrated Development Plan

IDT	Independent Development Trust
IGFR	Intergovernmental Fiscal Relations
ILO	International Labour Organisation
INEP	Integrated National Electrification Program
ISRDS	Integrated Sustainable Rural Development Strategy
LASS	Land Acquisition for Sustainable Development
LED	Local Economic Development
LGES	Local Government Equitable Share
LGFF	Local Government Fiscal Framework
LM	Local Municipality
LRAD	Land Redistribution for Agricultural Development
MDB	Municipal Demarcation Board
MIG	Municipal Infrastructure Grant
MISA	Municipal Infrastructure Support Agency
MSA	Municipal Structures Act
MTEF	Medium Term Expenditure Framework
MTSF	Medium Term Strategic Framework
MWIG	Municipal Water Infrastructure Grant
NDP	National Development Plan
NEF	National Empowerment Fund
NGO	Non-Governmental Organisation
NGP	New Growth Path
NPC	National Planning Commission
NPO	Non-Profit Organisation
OECD	Organisation for Economic Cooperation and Development
PCC	Presidential Coordinating Commission
PEP	Public Employment Programme
PES	Provincial Equitable Share
PIE	Prevention of Illegal Eviction
PLAS	Proactive Land Acquisition Strategy
PRC	Presidential Review Commission
RADP	Recapitalisation and Development Programme
RBIG	Regional Bulk Infrastructure Grant
RCDF	Rural and Community Development Fund
RDP	Reconstruction and Development Programme
RHIG	Rural Household Infrastructure Grant
RHIP	Rural Household Infrastructure Programme
SALGA	South African Local Government Association
SAM	Social Accounting Matrix
SAPO	South African Post Office
SARB	South African Reserve Bank
SIBG	School Infrastructure Backlogs Grant
SIP	Strategic Integrated Project
SLA	Service Level Agreement
SLAG	Settlement Land Acquisition Grant
SOC	State-Owned Company
SOE	State-Owned Enterprise
Stats SA	Statistics South Africa
TDCA	Trade, Development and Cooperation Agreement
UNICEF	United Nations Children's Fund
USA	United States of America
USDG	Urban Settlement Development Grant
VAT	Value Added Tax
VIP	Ventilated Pit Latrine
WLA	White Local Authority
WSA	Water Service Authority
WTA	World Trade Atlas

EXECUTIVE SUMMARY

The theme of this Submission is *"The Intergovernmental Fiscal Relations System and Rural Development in South Africa"*, reflecting the demographic, economic and political importance of rural areas. The aim is to provide a comprehensive review of the intergovernmental fiscal relations (IGFR) instruments, and their reform for more effective rural growth and development. Rural development is a complex process and, therefore, requires proper coordination among the institutions and departments involved.

Eight years after the 2008 global economic and financial crisis, which led to prolonged and unforeseen fiscal deterioration and left South Africa with serious challenges, the economy remains vulnerable to slow global recovery and, increasingly, to domestic factors. The most volatile contributions to real gross domestic product (GDP) growth have come from the mining and quarrying, and the manufacturing sectors, which are the sectors that historically have been most affected by strikes. These sectors are important contributors to exports but have been shrinking continuously. To compound an already dire economic situation, South Africa is in the midst of one of the worst droughts in 35 years. The drought has led to a steep decline in agricultural activity, driven mainly by falling production in field crops, such as maize, sunflowers and sugar cane. The country currently finds itself a net importer rather than exporter of maize, as has traditionally been the case. The problem is aggravated by the exchange rate's sharp depreciation that has driven up other food import prices, in particular wheat. The impact of the drought and rising food prices is greatest for poor households, especially within the poorer rural provinces and municipalities.The sluggish economy means that unemployment rates have remained high, with the most recent figures reflecting 24.3%. The lower-than-forecast economic growth for 2016 and beyond represents a major obstacle to achieving the targets of the National Development Plan (NDP). **Importantly, the fragile economic growth is a significant threat to the future prioritisation of rural development initiative and could lead to increasingly tense intergovernmental relations.**

The overriding fiscal policy question concerns the coordination and adequacy of resources. Coordination is crucial given the multiple players involved in the rural space. Clear functional assignments should inform the vertical and horizontal split in the division of revenue in order to improve the focus, targeting and outputs of the grants. Coordination is also needed at both local level and between national and subnational governments, to integrate sectoral approaches, to involve private partners and to achieve the appropriate geographic scale. Adequacy refers to balancing the allocation of resources among the government spheres responsible for rural development. Adequate service delivery is both technical and political, and at the centre of the debate is the tension between the "politics of affection" (as enshrined in the Constitution) and issues of affordability or efficiency. Perhaps the most challenging aspect of rural development and IGFR is ensuring that provinces and municipalities are well funded, through own revenues and transfers from the centre. The principle of supporting the poorer regions or provinces through grants or special projects is generally well-supported, but there is no agreed method of determining poverty levels and related needs among regions. In fact, given the meagre sources of provincial own taxes, grants from the central government are often the only revenue available. Provinces and rural local municipalities with little access to own revenue are also the poorest in terms of access to modern services and therefore beholden to the centre. The size of the overall transfer pool for "a defined rural development strategy" is important in determining the ability of subnational governments to deliver on the rural development mandate. Under-funded transfers will clearly limit the ability of provincial and local governments to meet their responsibilities for rural development programmes.

This Submission proposes a unified framework to address these issues. It is structured into four sections and 11 chapters.

PART 1: Macro-Micro and Fiscal Context of Rural Development

This section sets the scene for the rest of the Submission and contains two chapters.

Chapter 1 outlines and addresses IGFR problems associated with rural development. After describing the main rural development issues (i.e. rural classification and spatial characteristics, economic activities and the impact on growth and jobs, the role of migration and declining agricultural jobs in rural areas), the macroeconomic issues influencing rural development are summarised. The rest of the chapter looks at the evolution of rural policy, the main rural development actors, and the flagship rural policies and interventions. The final section gives recommendations that set the context underlying the more detailed recommendations in the rest of the Submission.

Chapter 2 establishes the conceptual framework underlying the Commission's recommendations on IGFR and rural development, taking into account the strong interdependence of national, provincial and local government and differences across municipalities. A mixture of quantitative and qualitative analysis focuses on households, production sectors, factors of production and other institutions (national government, provinces and municipalities). The two pillars at the heart of the conceptual framework are IGFR instruments (for planning, implementing and operating and maintaining interventions necessary for rural development) and IGFR institutions. A comprehensive analytical framework for rural development policy is developed that includes appropriate qualitative and quantitative indicators, which allow different policies to be evaluated and compared across regions, provinces and municipalities.

PART 2: National Government and Rural Development.

There are three chapters in this section.

Chapter 3 examines the role of targeted intergovernmental transfers in reducing rural poverty. Rural development strategies focused on land and agrarian reform are a key component of ongoing efforts to promote an integrated and inclusive rural economy in South Africa. To support this goal, the intergovernmental fiscal framework emphasises allocating resources to initiatives aimed at improving rural economies through expanding industrial activities, enhancing agricultural productivity, and fostering greater production linkages within agro-processing industries. In view of the diversity of rural economic activities, this chapter seeks to provide insights on whether poverty reduction measures funded through intergovernmental transfers are best addressed through enhancing agricultural productivity or through funding targeted investments within non-agricultural sectors located in rural areas.

Chapter 4 evaluates the national land reform programme's impacts on rural development. A field-based approach across three selected provinces is used to investigate the impact of land reform on food and nutrition security, job creation, and agricultural output. Then ways of improving the intergovernmental implementation of land reform are explored. The study found that land reform beneficiaries are worse off than those who did not benefit, and that land reform has had a negative effect on job creation and farm productivity. Clear duplication and overlaps exist between the RADP and the CASP grants, while major gaps include the lack of affordable loans for land reform beneficiaries and planning for land reform. The findings reveal that weak administration and implementation have compounded poor outcomes of land reform. The chapter recommends consolidating the RADP and CASP grants into one funding programme and clarifying the role of municipalities in providing support to land reform. It also notes the need for a wider perspective to land reform that goes beyond agriculture and farm-based activities.

Chapter 5 analyses ways of enhancing the role of public entities in rural development. Public entities play an instrumental role in implementing developmental policies and act as catalysts for accelerated industrialisation, economic growth and human resource development. This chapter examines how public entities, i.e. four state-owned companies (SOCs) and three development finance institutions (DFIs), can align with the new ethos of rural development. The study found that the four SOCs do not have a specific rural focus in delivering their core mandate, while investments by DFIs in rural areas are minimal and declining. The chapter recommends designating a single champion and coordinating entity for rural finance and development to guide investment by DFIs in rural areas; reconfiguring and modernising the South African Post Office (SAPO) to broaden its focus, enhancing Transnet's contribution to regional economic growth and developing and improving Telkom's network infrastructure in rural areas.

PART 3: Provincial Government and Rural Development.

There are two chapters in this section.

Chapter 6 evaluates the extent to which provincial fiscal transfers (provincial equitable share and conditional grants) and own revenue are responsive to rural development needs. Rural provinces in South Africa experience the heaviest burden of under-development, and are characterised by weak economic activity, poor socio-economic conditions and high infrastructure backlogs. In general, rural provinces are optimising revenue collection from their current (weak) tax base, whereas provincial fiscal transfers show mixed results. The equitable share makes no visible distinction in the allocations to various provinces (to address disparities), while infrastructure conditional grants allocations seem to favour the rural provinces. Grants supporting agrarian development and the eradication of other rural-specific infrastructure backlogs are characterised by design, targeting and spending deficiencies. The chapter recommends that the allocation framework for rural development grants be aligned to the national rural development policy imperatives.

Chapter 7 assesses government's fiscal instruments to fund job creation in rural areas and, in particular, considers the case of public employment programmes (PEPs). While studies have previously examined the rationale and overall effectiveness of PEPs as an active labour market policy in South Africa, minimal research has been done on the spatial and locational impact of PEPs. This chapter assesses the targeting and benefits of PEPs to households in rural areas. The outcomes of the Expanded Public Works Programme (EPWP) and the Community Works Programme (CWP) in rural areas are compared using a mixture of quantitative and qualitative methods. Specific focus areas include job opportunities created, the intergovernmental implementation model and

cost effectiveness of implementation. CWP was found to be more effective than the EPWP at creating employment opportunities in rural areas. In addition, the CWP's design and implementation is better able to meet the needs of rural communities and to foster social cohesion. PEPs remain a critical livelihood support for poor households, but the pace at which job opportunities are being created is too slow to achieve the NDP target of two million full-time recipients by 2020. In order to achieve the target, the chapter recommends that the training component of PEPs be strengthened and that PEP spending be restructured, so more resources can be directed at the CWP and the non-profit and social sectors of the EPWP. These sectors are labour-intensive and more cost-effective, and have activities that are easily implementable in rural areas.

PART 4: Rural Municipalities and Rural Development.

There are three chapters in this section.

Chapter 8 is about financing rural local municipalities for rural development needs. The majority of municipalities in rural areas depend heavily on transfers to fulfil their mandate. This is something that the government is seeking to minimise, as shown by the recent proposal from the Department of Cooperative Governance and Traditional Affairs to amalgamate many municipalities in order to optimise their financial viability. This chapter examines whether the current funding model, which seeks to ensure that all municipalities are financially viable, is appropriate for rural municipalities, considering their weak and fragile revenue bases. It also looks at whether or not the transfers are adequate and explores alternative own-revenue sources for rural municipalities that would lessen their dependency on transfers. Case studies of amalgamated municipalities are used to evaluate the feasibility of creating self-sufficient rural municipalities. The chapter finds that the amalgamations will not make all rural municipalities self-sufficient. Mixed results emerge on the adequacy of transfers, while other possible additional revenue sources (outside of property taxes and electricity service charges) include "user fees" for social amenities and "restaurant/hotel fees" in areas with a vibrant tourism industry. The chapter recommends that the transfer system should be sensitive to financially unviable municipalities; cost implications should be assessed prior to amalgamations; grants with similar mandates should be consolidated, transfers should be informed by objective cost estimates; revenue sharing should be encouraged; and rural municipalities should be capacitated to prepare property registers and valuation rolls.

Chapter 9 evaluates the effectiveness of transfers to local and district municipalities for rural development. Rural local municipalities continue to struggle to meet their constitutional obligations, despite the increased resources channelled to them through the intergovernmental transfer system. The chapter looks at whether rural municipalities are using these resources efficiently and provides a brief analysis of the allocation of powers and functions of district municipalities, with a view to recommending divisions of powers and functions that would catalyse rural development. The findings suggest that rural local municipalities have high levels of spending inefficiencies because of a lack of institutional capacity and provision of basic services. In rural areas, district municipalities appear to use their resources more efficiently than local municipalities. The results suggest that district municipalities should be tasked with more complex tasks, in particular water and electricity infrastructure, in addition to strategic regional planning and coordination. The chapter recommends building capacity in rural local municipalities and establishing firm expenditure supervision mechanisms.

Chapter 10 analyses the extent of farm evictions and the increasing responsibilities of rural local municipalities. Since the inception of democracy in 1994, government has introduced numerous laws, policies and initiatives to regulate and improve the situation and rights of farm dwellers and farm workers. However, unintended consequences have been a climate of uncertainty in the agriculture sector and the eviction of farm dwellers and workers from farms. The chapter examines the extent of the burden caused by farm evictions and explores how fiscal instruments can respond to this widespread situation. According to legislation and court rulings, the responsibility of caring for the vulnerable evictees increasingly falls on municipalities, thereby creating an unfunded mandate. Municipalities have to use their own funds because currently the intergovernmental fiscal instruments do not cater for evictions. The chapter recommends that the current disaster grant should be allowed to include (or cater for) eviction-related emergencies. Furthermore, government should strengthen the coordination and implementation of the existing programmes targeting the increasing number of displaced farm workers and dwellers.

Chapter 11 reviews the effectiveness of fiscal instruments and governance in enhancing sanitation in rural areas. Adequate sanitation infrastructure and services are important, as they affect the health status and dignity of individuals. Improving sanitation infrastructure reduces the risk of infection from excreta-related diseases, particularly for children under the age of five years. Since 1994, the government has introduced programmes to reduce sanitation backlogs. The chapter reviews funding and institutional constraints that are undermining government's efforts to address sanitation backlogs in rural areas, where backlogs remain high. The high backlogs are because of limited revenue sources, the poor performance of the Rural Household Infrastructure Grant (in part as a result of municipalities failing to submit business plans on time), the lack of prioritising sanitation infrastructure (not included in IDPs) and a failure to plan, budget and undertake maintenance. The chapter recommends that

rural municipalities should include sanitation in their IDPs and develop a complete sanitation infrastructure plan that includes relevant technologies, and scheduled and costed periodical maintenance.

The Main Findings

From a broad perspective, the South African story since 1994 ("22 years of democracy") appears to be one of rural decline, urban growth, and a long-term decline in economic prospects. On the face of it, rural regions are not performing as well as urban areas, and the unemployment rate, particularly among the youth, in rural areas is much higher than the national unemployment rate. The weaker economic performance is driven by a number of factors, including people moving to urban areas, an ageing rural population, lower educational attainment, lower average labour productivity, and overall low levels of public service. But this is only part of the story. The fact is that South Africa's current economy is simply not strong enough to sustain the tax burden needed to fund infrastructural programmes that stimulate demand and create employment. This bleak scenario suggests that the system of rural-urban linkages, which has evolved for 22 years, will be fundamentally tested.

Another crucial finding is that, despite growing interest among policy-makers, very little research has documented the results of place-based rural development policies, and what determines success or failure. This is because it is difficult to isolate the impact of cross-sectoral policies, especially in quantitative terms. The biggest challenge is identifying indicators that fairly capture the impacts of policies, especially since many integrated rural development programmes are in their early stages.

Without pre-empting the detailed discussions in the chapters that follow, some of the specific findings from each of the chapters are presented below:

- In the case of national programmes, agriculture plays a key role in influencing average incomes within rural municipalities. This is particularly the case in municipalities where agriculture is a component of overall economic activity.

- Agricultural production has declined in most of the farms transferred as part of the land reform programme. The funding instruments for rural development (CASP and RADP) are servicing the same target audience and funding the same activities. Alignment between the land reform programme and the policies of DAFF can be improved.

- Although public entities have a responsibility to align to the country's national goals, the four state-owned companies (Eskom, Telkom, Transnet and SAPO) do not have a specific rural focus, while investments made by DFIs are very small and are declining. The investment and financial support currently offered to rural areas is very modest and does little to crowd in the private sector.

- As regards provinces, the equitable share formula makes no discernible distinction in provincial allocations to address the unique development challenges of rural provinces. A significant proportion of infrastructure conditional grants are allocated to the rural provinces, as part of the efforts to remedy historical infrastructure backlogs challenges. Provincial agriculture conditional grants allocations are skewed in favour of geographically large provinces and misaligned to the objective of increasing agriculture outputs. Other rural development-specific infrastructure grants are characterised by central control and poor implementation.

- Many participants in PEPs in rural areas are either on a social grant or employed elsewhere. The findings show that government's job creation initiatives are not designed and implemented in order to actively target unemployed individuals in rural areas. In addition, overlaps and duplication of job creation programmes proliferate.

- The local government fiscal framework's impact on rural development fails because of a combination of reasons, including: (a) transfers from national government are insufficient; (b) property rates and service charges are not collected and/or not fully cost-reflective; and (c) leakages are common because of bad management, inefficient procurement, underspending and institutional challenges. The current system of transfers adequately compensates rural local municipalities for their lack of own revenue in some (but not all) services. Viewing a grant in isolation may give the impression that a service is underfunded, and yet when all grants are included, the service may be fully funded. Rural local municipalities are generally found to be inefficient in utilising transfers and to have limited possible new revenue sources, partly because of deficient property tax administration.

- Expenditure by local rural municipalities that is related to farm evictions continues to increase, but the IGFR instruments currently do not cater for evictions. Therefore, municipalities have to use their own funds, which results in an unfunded mandate. Municipalities use a reactive rather than proactive approach to farm evictions and resort to emergency housing, which does not meet the requirements of "suitable, alternative accommodation" as defined by the legislation.

- Sanitation backlogs have remained high in rural areas despite government interventions. Instruments for municipal sanitation infrastructure are limited to the Municipal Infrastructure Grant, the Bucket Eradication

Programme and the Rural Household Infrastructure Grant. The Rural Household Infrastructure Programme has not achieved its expected outcomes because of the grant's design (as an indirect grant); discontinued funding in some municipalities despite high backlogs remaining; under-spending because of the late transfer of funding, as a result of poor quality and late submission of business plans; lack of prioritisation (not included in the municipal IDP) and no operations and maintenance plans.

These findings have potentially important policy implications for the Submission. The objectives of fiscal reforms for rural development should be to bring about greater inter-regional equity. The sustainability of rural development initiatives will depend greatly upon the capacities of the institutions involved, accountability and the relationships among them.

The Recommendations

Below is the list of the recommendations of the Commission for the 2017/18 Division of Revenue.

With respect to creating conditions for the future prosperity of rural areas, the Commission recommends that Government:

1. Develops a comprehensive definition of "rural areas" and "rural development" to be applied across the three spheres of government. The Department of Rural Development and Land Reform and the Department of Planning, Monitoring and Evaluation must convene a task team with other relevant government departments to develop a definition of "rural, remote and rural development" that is clear and simple to categorise and measure. This definition should be:

    - multi-sectoral and place-based, aimed at identifying and exploiting the different development potential of rural areas, with a focus on places not just sectors.

    - measurable, to enable Stats SA to report on "rural" versus "urban" development and to provide credible and accessible data on rural development.

2. Deals with disparities between and within regions by harnessing the growth potential of rural areas.

    - Inter-regional and inter-provincial migration is already underway following freedom of movement brought about by democracy. Government should further strengthen the equity focus of intergovernmental transfers, in particular in the health and education sectors targeted at rural areas, as this facilitates efficient reallocations.

    - Policy efforts should complement these reallocation-enhancing processes in order to sustain productivity growth within rural areas. Government should actively and specifically include conditions in rural grants aimed at increasing productivity and employment whenever significant capital investment in rural public infrastructure occurs.

3. Strengthens intergovernmental relations by:

    - Boosting incentives for performance (own-revenue raising, policy and administrative capacity for service delivery, etc.), especially in provinces and municipalities with large disparities within them.

    - Addressing the identified weaknesses (coordination failures, governance complexity, etc.). Coordination is needed between the national government and subnational governments and authorities. Developing a true partnership implies participating in decision-making and implementing rural development policies that the regional or local government helps to design. This requires a high level of commitment, effective knowledge sharing and competence on the part of national, provincial and local representatives. In this respect, Government should design a mechanism to ensure that proper incentives are provided to make rural communities act dynamically and in a way that rewards initiative and experimentation, but that also promotes consistency in public policy across sectors and regions.

With respect to monitoring and evaluating IGFR instruments impact on rural development, the Commission recommends that:

1. The Department of Rural Development and Land Reform together with the Department of Planning, Monitoring and Evaluation convene a task team with other relevant government departments to develop a new rural development research agenda with three key objectives:

    - Develop a comprehensive analytical framework for rural development policy that includes appropriate qualitative and quantitative indicators to allow different policies to be evaluated and compared across municipalities and across regions within provinces.

    - Undertake a systematic review of rural development strategies and make the results made available to policy-makers across municipalities and provinces.

- Encourage the various institutional and managerial systems charged with formulating and implementing rural policy to work together and to ensure that individual policies are consistent and converge in a coherent strategy. This can be achieved through special high-level joint inter-departmental coordination via working groups, formal contracts and policy proofing by, for example, benchmarking among peers.

With respect to creating conditions for rural development from agriculture-led growth, the Commission recommends that:

1. The Department of Agriculture, Forestry and Fisheries enhances agricultural productivity by establishing a framework for implementing, evaluating and monitoring key agricultural grants targeted at subsistence and small-scale farmers.

2. Agriculture-related intergovernmental transfers are distributed across recipient provinces in a manner that promotes equity and ensures access for targeted groups, especially emerging and subsistence farmers located within rural provinces and municipalities. This can be achieved through expanding the current disbursement criteria to incorporate weights for a province's share of national rural population, the proportion of a province's rural population with incomes below official poverty levels/measures, and the extent to which the rural population in a province participates in subsistence and smallholder farming.

3. A framework is established to supplement rural development initiatives. The framework would facilitate greater coordination and communication among departments and public entities tasked with driving rural development through entrepreneurial programmes, which create linkages between agriculture and non-agricultural sectors.

With respect to measures to improve land reform impacts on rural development, the Commission recommends that:

1. CASP and RADP are consolidated into one funding programme for post-settlement support to emerging and land reform farmers under DAFF, which has more expertise in the area of agriculture. The consolidated fund should provide timeous support to land reform beneficiaries and be complemented by affordable loan funding. DFIs should explore possible funding models, so that the funding framework can reach more land reform beneficiaries.

   - For individual farm transfers, the LRAD model should be emulated, as it provides the necessary incentives to access credit, own an asset and enter into productive activity on the land.
   - For group-owned projects, models should be explored in partnership with commodity organisations and land reform specialists.

2. Coordination and alignment between DRDLR and DAFF is strengthened at both policy and implementation levels. To enhance coordination, the recently established district land reform committees should include officials from all relevant sector departments, including agriculture. This multi-stakeholder arrangement should be replicated in the provincial and national land reform committees.

3. Implementation gaps in the land reform programme are addressed through reprioritised funding. Gaps include providing resources for planning and aligning land reform with human settlements, agriculture and infrastructure; training land reform farmers in technical and business skills (with a mechanism to assess skills of mentors); establishing selection criteria for land reform beneficiaries that are applied uniformly across all the provinces. An important criterion for transfer should be maintaining agricultural production.

4. The role of municipalities in supporting land reform beneficiaries is clarified. Areas of support that municipalities could provide include offering land reform beneficiaries discounts or exemptions from municipal tariffs for the first three years and liaising with DRDLR to resettle farm evictees on land assigned for land reform. Ways in which municipalities can access national funding to support the land reform programme, should be worked out with the DRDLR.

With respect to creating conditions for rural development from infrastructure-led growth by public entities, the Commission recommends that:

1. Economic Development Department, in collaboration with the departments of agriculture, forestry and fisheries, rural development and land reform, and public enterprises, designates a single champion for rural finance and development. This champion should guide and coordinate investment by DFIs in rural areas, and encourage crowding-in by the private sector.

2. The Department of Telecommunications and Postal Services ensures that SAPO modernises and broadens focus towards becoming a one-stop shop in rural areas, where communities/customers can renew (car, driver's) licences and access financial products such as banking (ATM etc.).

3. The Department of Public Enterprises ensures that Transnet contributes to regional economic growth and development by connecting business to customers, goods to markets. Transnet should also transport agricultural goods, so as to include rural communities,

from rural areas where they are produced to urban areas where they are consumed, process, or sent out of the country.

4. The Department of Telecommunications and Postal Service puts measures in place to improve Telkom's network infrastructure in rural areas, so as to improve cellular network coverage. Telkom and SAPO, under the guidance of the Department of Telecommunications and Postal Services, should forge a partnership to develop the mobile market.

With respect to enhancing the efficacy of provincial fiscal transfers and own revenues in funding rural development mandates, the Commission recommends that:

1. The Provincial Offices of the Premier, in consultation with the provincial departments of basic education, health, agriculture and rural development and roads, identify the rural development needs in the province and set annual delivery targets against which PES allocations will be assessed by oversight bodies. Departmental budgets and expenditure reports should be disaggregated in accordance with municipal boundaries to help ascertain the extent to which PES allocations are targeted to rural areas' needs.

2. The National Treasury, in collaboration with the departments of basic education, health and those responsible for provincial roads, ensures that the criteria for allocating infrastructure conditional grants take into account spending efficiency, delivery targets and performance, as well as the applicable national norms and standards. This should assist with monitoring of provinces in meeting their developmental goals and facilitate targeted intervention where a province consistently fails to meet delivery targets.

3. The Department of Agriculture Fisheries and Forestry and National Treasury review the framework for allocating agriculture conditional grants to reduce the weighting of agriculture land size and poverty relief and to incorporate factors that are closely aligned to the objectives of the grant, in particular the promotion of emerging farmers or agriculture production in the rural areas, as stipulated in the Agriculture Policy Action Plan.

4. The Department of Planning Monitoring and Evaluation conducts a comprehensive review of expenditure outcomes associated with infrastructure conditional grants targeted at the rural provinces, to ascertain the extent to which infrastructure backlogs have been reduced and the efficacy of the spend. The outcome of the review should be used to form the basis of any adjustments to infrastructure grants earmarked for rural development.

With respect to creating conditions for rural job creation from PEPs, the Commission recommends that:

1. Government, through the dti, National Treasury, the Department of Social Development and the Department of Public Works, considers narrowing the focus of PEPs and using the CWP, and the social and NPO sectors of the EPWP as an explicit strategy for addressing rural poverty. Job opportunities created in these sectors are the most cost effective and labour intensive, and easily implementable in rural areas.

   - Ways of reducing the costs of rural participation in PEPs should be explored, including easier accessibility to services such as banks and re-registration processes.

2. Priority is given to unemployed individuals without access to a grant, as PEP funding is insufficient to cover all unemployed. At present, many participants either receive a social grant or are employed elsewhere. Government should also carefully balance the need to improve the conditions of employment and the need to expand PEPs.

3. The Department of Public Works and National Treasury ensure that EPWP grant frameworks in the Division of Revenue Act include an explicit condition that appropriate training of recipients (especially in skills that promote self-employment) is mandatory, given that only a small portion of EPWP beneficiaries transition into formal sector jobs. An assessment of microenterprises in rural areas that are viable self-employment options should be conducted and inform the roll-out of training programmes to EPWP beneficiaries.

4. Funding of job creation initiatives is viewed in an integrated way, with priority given to programmes that absorb unemployed poor individuals, especially if they are targeting high unemployment nodes in B3 and B4 municipalities.

With respect to financing rural local municipalities for rural development, the Commission recommends that:

1. With assistance from the national and provincial Departments of Cooperative Governance and Traditional Affairs, rural municipalities ensure that:

   - Property registers and valuation rolls in rural areas are in place and up-to-date.

   - Rural municipalities are adequately capacitated to collect and administer such a tax.

2. The National Treasury and the Department of Cooperative Governance:

    - Note that, by their nature, some municipalities will never be self-funding, and so demarcation processes must go beyond financial viability, to consider issues of democratic representation and community participation, which are equally important and should be funded by the transfer system even in "financially unviable" municipalities.

    - Seek to achieve "financial viability" in municipalities by increasing or developing tax bases through economic development rather than amalgamating municipalities.

3. The Department of Cooperative Governance:

    - Amends the Municipal Demarcation Act to ensure that the full financial impact of demarcations on a new municipality are assessed before any amalgamations are done.

    - Seeks to correct for dysfunctionality through relevant legislative, policy and capacity-building measures rather than through amalgamations.

    - Monitors whether mergers have been successful, and the actual cost of the mergers.

4. National Treasury continues to consolidate grants (as previously recommended by the Commission) because viewing grants in isolation gives the impression that some services are underfunded, whereas services may be fully or overfunded when viewing the grants holistically.

5. National Treasury ensures that the Local Government Equitable Share and conditional grants are informed by objectively derived cost estimates, without which the viability of rural municipalities will always be under threat.

With respect to turning local municipalities and district municipalities into useful vehicles for rural development, the Commission recommends that:

1. National Treasury includes, as part of the principles underlying grants to rural municipalities, more stringent expenditure supervision, in order to minimise wastage and improve efficiency. The national and provincial governments should evaluate the effectiveness of existing supervision methods with a view to strengthening them.

2. The Department of Cooperative Governance and Traditional Affairs:

    - Pronounces on the role that urban district municipalities should play, with a view to introduce a single tier-local government system in urban areas and to strengthen a two-tier local government system in rural areas.

    - Reviews the accountability mechanisms of district municipalities in order to make them more accountable to citizens.

    - Provides clarity, as a matter of urgency, on the functions and powers of district municipalities. In line with the White Paper on Local Government, their powers and functions should encompass district-wide planning, coordination of strategic development and intergovernmental relations policy issues, provision of technical assistance to local municipalities, provision of district-wide services, and provision of bulk water, sanitation, refuse removal, and services to District Management Areas.

    - Ensures that the MISA prioritises the capacity-building of rural district municipalities in the areas of coordination and planning, so that they can in turn provide quality technical support to local municipalities.

With respect to addressing the negative impact of farm evictions on rural municipalities' finances, the Commission recommends that:

1. The current Municipal Disaster Grant is allowed to cater for eviction-related emergencies. The same approach of accessing the portion of the Disaster Grant should be applicable to farm eviction incidences. This approach is aligned with the findings from previous research by the Commission that provinces and municipalities, rather than national government, appear better at ensuring grant funding is spent.

2. Government strengthens the coordination and implementation of existing programmes targeted at displaced farm workers and dwellers, through:

    - Including farm evictees among the beneficiaries for housing in rural towns, access to land for own production and agri-villages programme.

    - Centralising the reporting of evictions and improve data collection.

3. The following government departments should be involved in coordinating and implementing programmes: DRDLR, the departments of agriculture, fisheries and forestry, home affairs, human settlements, cooperative governance and traditional affairs, social development, SAPS and municipalities.

With respect to intergovernmental instruments and institutional issues pertaining to the provision and maintenance of sanitation infrastructure in rural municipalities, the Commission recommends that:

1. Rural municipalities that are Water Services Authorities prioritise the delivery of sanitation infrastructure, which must be reflected in municipal IDP. SALGA should play an oversight role in ensuring compliance with this recommendation.

2. Rural municipalities that are Water Services Authorities explore and prioritise EcoSan waterless technologies where feasible and develop a complete municipal sanitation infrastructure project delivery plan, which includes the following:

    - Technologies to be used for emptying toilet latrine pits (VIPs), taking into account community dynamics.

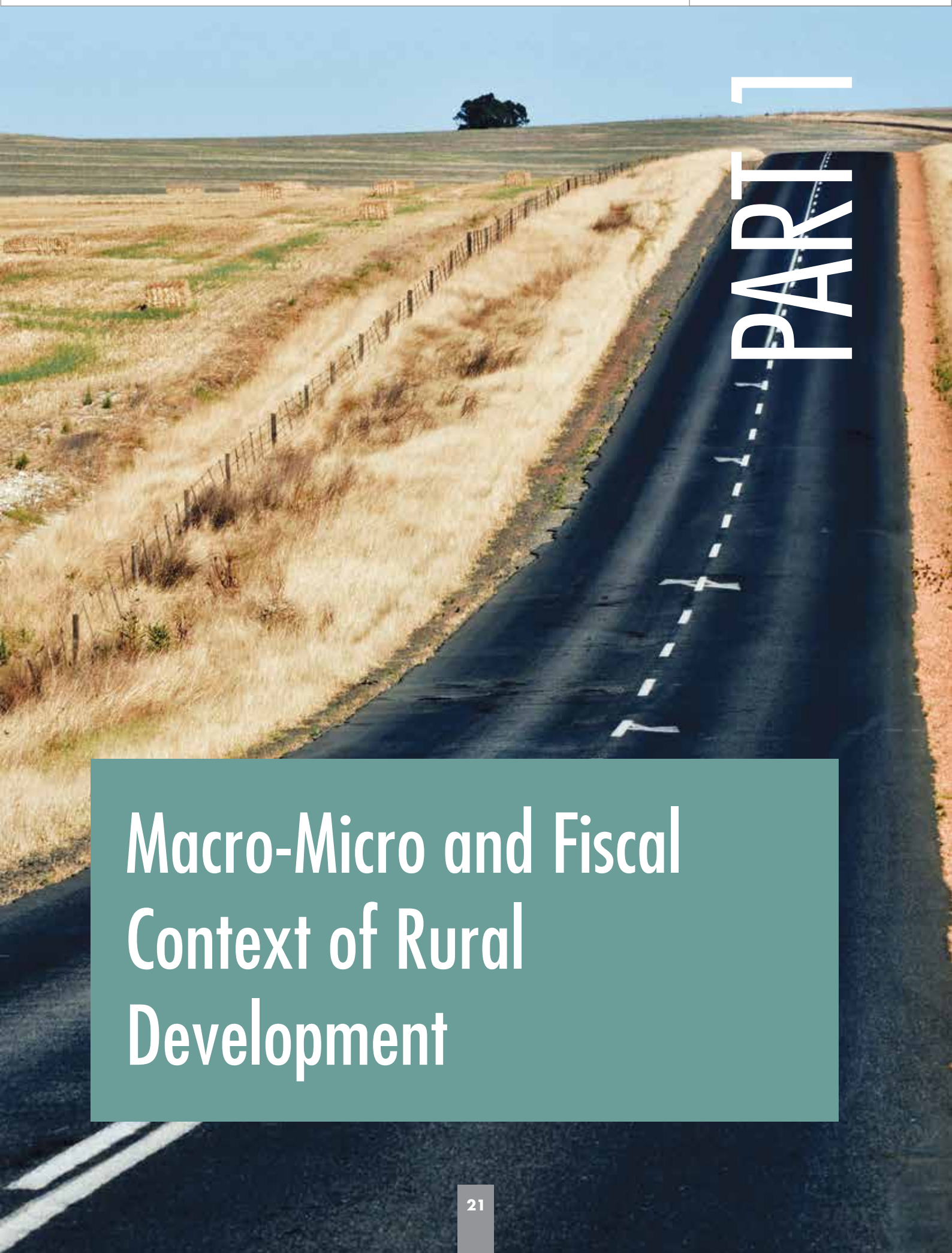
    - Scheduled periodical maintenance of sanitation infrastructure.

    - Full costs of maintenance and sources of funding.

3. SALGA and the national and provincial departments of water and sanitation develop and implement monitoring tools for this recommendation.

4. The Department of Planning, Monitoring and Evaluation, National Treasury and the Department of Water and Sanitation undertake a comprehensive evaluation of the impact of sanitation grants on rural municipalities before discontinuing the grants.

5. District and rural municipalities that are Water Services Authorities submit compliant business plans timeously to the national Department of Water and Sanitation. Should they fail, executives should be held accountable. In cases where Water Services Authorities lack capacity, the national and provincial departments of water and sanitation should intervene and provide requisite capacity.



PART 1

Macro-Micro and Fiscal Context of Rural Development

Rural areas account for four-fifths of the land and are home to about two-fifths of the population in South Africa. Although poverty and economic deprivation has been reduced substantially since the advent of democracy, greater poverty is found in provinces that contain former homelands (only the Western Cape and Gauteng did not "inherit" former homeland territory). Like many other countries, South Africa does not have a government-wide, officially agreed and accepted definition of "rural". Understanding what "rural" means is particularly important when assessing programmes aimed at stimulating rural development. This lack of a common definition may explain the plethora of rural development programmes that are found in virtually every corner of the government. Furthermore, measurement issues remain unresolved, and so the relationship between rural development, intergovernmental fiscal relations instruments and related aspects (such as land reform, food security or infrastructure) is not always clearly defined and understood. Thus, the effectiveness of spending on rural development is unclear. This section sets the context for the rest of the Submission, by looking at these issues and offering the lens through which the Commission will approach the contestable areas. It examines the socio-economic profile and characteristics of rural areas, as well as how to define rural areas, and assesses how rural regions are coping with economic change, and the weight of agriculture and agriculture spending in rural economies. It also explores the evolution of rural policy, including who is implementing policy for rural areas and whether integrated rural policies work, and presents the rural development model underlying the Commission's recommendations.

CHAPTER 1

Introduction to Rural Development and Intergovernmental Fiscal Relations

Introduction to Rural Development and Intergovernmental Fiscal Relations

1.1 Rural Development: Why it Matters

Rural areas account for about 80% of the land and are important demographically, economically and politically in South Africa. They are home to 38% of the population, or about 20.5 million people, compared to 43.4% in 2001 and 81.8% in 1911 (Vacchiani-Marcuzzo, 2005). This figure is projected to fall to 30% by 2030 (NPC, 2011: 84). Despite the decline, South Africa's rural population is still large and, although government has had some impressive achievements since 1994, poverty, inequality and unemployment remain the main rural challenges. The majority of the poor live in rural areas (Stats SA, 2014: 33):

> *In 2006, eight out of ten (80,8%) people living in rural areas were poor, which was double that in urban areas (40,7%). By 2009, the proportion of poor people had increased to 83,0% in rural areas compared to 41,0% in urban areas. In 2011, more than two-thirds (68,8%) of rural dwellers were still living in poverty as compared with less than a third (30,9%) of residents in urban areas. The rate of reduction between the two settlement types from 2006 to 2011 was also different – there was a 15% reduction in poverty levels in rural areas, which was much lower than the 24% reduction in urban areas.*

Rural areas lag behind the country as a whole on economic performance indicators, such as economic growth, labour force participation rates, unemployment, education attainment and life expectancy at birth. Challenges include insufficient skills and educational performance, socio-spatial inequalities, infrastructure deficits, housing backlogs, environmental issues, an ageing population and health disparities. In addition, rapid changes in the economy affect these regions differently from cities and towns, offering different challenges as well as opportunities.

Government has recognised that policy reforms, especially in agricultural and rural policy, play vital roles in the success of sustained development. Rural development was one of the priority areas identified in the Medium Term Strategic Framework (MTSF) of 2009–2014 and 2014–2019. Indeed, in 2009, the Department of Rural Development and Land Reform (DRDLR) was established to bring rural development to the forefront, through its Comprehensive Rural Development Programme (CRDP) that identifies 27 rural district municipalities with significant infrastructure backlogs and low human development indicators. One of the key objectives of the National Development Plan (NDP) is an "Integrated and Inclusive Rural Economy" by 2030, to be achieved through successful land reform, infrastructure development, job creation and poverty alleviation.

The question is how to adapt current rural strategies, which are often sector-based, to allow for the different development needs of rural regions, many of which depend on exploiting specific local resources. For example, policies that encourage rain-fed activities, such as livestock and cropping, are clearly not suitable for all areas. Moreover, no substantial reallocation of resources has accompanied these new approaches to rural development. An integrated rural policy requires coordination across sectors, across levels of government, and between public and private actors. Furthermore, rural areas face both challenges and opportunities, as a result of globalisation, the information communication technologies (ICT) revolution, reduced transportation costs, changing trade patterns and the emergence of important non-farm activities. Government is increasingly recognising that traditional sectoral policies need to be upgraded and, in some cases, phased out and replaced with more appropriate instruments. As implementers of national policy, provinces and municipalities deliver significant services in the rural areas and consequently influence rural development. However, national, provincial, and local government interventions have not fully achieved their objectives. In particular, agricultural subsidies have had only a modest impact on general economic performance, even in the most farming-dependent communities. Indeed, with farm families relying increasingly on off-farm employment and social grants, the economic success of rural communities will depend on the development of new economic engines. And in some provinces and many municipalities, state failure (lack of capacity, maladministration and corruption) prevents development.

Against this background, the theme for the Financial and Fiscal Commission's Submission for the 2017/18 Division of Revenue is *The Intergovernmental Fiscal Relations System and Rural Development in South Africa.* The central idea is that the country has certain fiscal and structural challenges that impede effective rural development spending and programmes. Intergovernmental fiscal relations (IGFR) instruments are the key to improving economic wellbeing in rural areas, leading to higher growth, reduced poverty and less inequality. The Submission uses a series of research projects at the national and subnational level to support a policy shift. The conceptual framework developed in Chapter 2 suggests that the policy shift towards a "new rural paradigm" will require changing the focus of IGFR policy instruments and adjusting the governance structure. IGFR instruments can assist national government, provinces and municipalities to stimulate, promote and facilitate rural development. The Submission provides a comprehensive review of the IGFR instruments, and their reform, for more effective rural growth and development.

Government is searching for new ways to unlock the economy's growth potential. Both rural and urban regions are key contributors to national growth and places where citizens and firms create and reap economic benefits. Although this Submission focuses on rural areas because (as mentioned earlier) a significant proportion of the poor are still located in these areas, the Commission is also interested in urban development. The debate should not be an "either-or choice" between urban and rural development. In most of South Africa, the two exist in parallel, and both are failing to achieve positive structural transformation. The objective here is to make a practical contribution on how the Commission interventions and recommendations can contribute most to poverty alleviation in rural areas.

After defining rural areas, municipalities and provinces, the chapter examines the socio-economic characteristics and the state of service delivery in rural areas. It then looks at how rural regions are coping with major economic changes and the performance of recent rural and agricultural policies and programmes, and concludes with recommendations.

1.2 Defining Rural

South Africa does not have an officially agreed and accepted definition of "rural". Efforts to classify territories according to their degree of rurality – for policy purposes – have not been entirely successful[1]. Further complicating the situation is the large-scale re-demarcation of provincial and municipal boundaries that accompanied the transformation of provincial and local government after apartheid. This process removed the administrative distinction between urban and rural areas, in recognition of the strong inter-linkages between towns and the countryside. Although a largely positive development, it has made determining what constitutes a rural area (and by extension a rural province or municipality) more complicated.

Although the importance of rural development for reducing poverty is recognised, the meaning of the concept is sometimes not clearly understood. The relationship between rural development and related aspects, such as land reform, food security, infrastructure, institutions etc., is also not always clearly defined. These terms are often used very casually when discussing public policy, without describing explicitly the places where rural programmes are intended, or having precise eligibility requirements, so the programmes can be delivered "without expensive leakages to other, unintended beneficiaries" (Isserman, 2007: 73). The effectiveness and appropriateness of rural development policies depend on how places are selected, while the understanding of rural conditions and the policy context depend on the definitions used.

As there is no common understanding of what constitutes a rural area or rural municipality, this Submission uses a hybrid of administrative, historic and literature-based approaches to establish a definition. Consistent with the Rural Development Framework of 1997, rural areas are defined as having at least the following two characteristics:

- Sparsely populated areas in which people farm or depend on natural resources, including villages and small towns that are dispersed through these areas.
- Areas that include large settlements in the former homelands, which depend on migratory labour and remittances, as well as government social grants for their survival, and typically have traditional land tenure systems.

The definition takes into account spaces and population densities, as well as relevant history (the "homelands"). The DRDLR defines as "rural", areas outside urban settlements where population densities are less than one dwelling unit per hectare, and describes rural development as generally including primary economic activities: agriculture, agro-processing, mining, tourism, resource extraction, water, energy. The Department of Cooperative Governance and Traditional Affairs (COGTA) has developed an analytical tool to help classify municipalities based on their spatial characteristics. Category B municipalities are classified into categories B1, B2, B3 and B4.[2] Both B3 and B4 municipalities (and C2 district municipalities) are classified as rural. The advantage of this rural/urban classification is its general acceptance and use, at least within the local government sphere. However, the disadvantage is the classification may be somewhat outdated, having remained largely static over the years, with the only real changes being the "upgrading" of two secondary cities to metropolitan status.

To be in sync with these administrative definitions at the broadest level, the methodology used is as follows:

- Spatial (urban/rural divide) and sectoral (agriculture and traditional activities) factors plus population size and density: sparsely populated areas in which people depend largely on agriculture or natural resources, including villages and small towns that serve as rural centres.

>>

[1] Statistics South Africa has discontinued the publication of spatially disaggregated (urban and rural) official statistics. Note the new Statistics South Africa definition now has small areas as opposed to enumerations areas and the following 3 classification: Urban, Tribal areas, and Farms.

[2] The B1 to B4 classification system has been developed by the Palmer Development Group. The definition can be found in Chapter 12 of National Treasury (2011). Although this is not an official definition, it is used very widely for analytical purposes and helps to make a case for the differentiated approach to municipalities.

- History and/or rural idyll: large or "closer" settlements created by the dumping of populations in the former homelands during apartheid.
- Administrative: categorisation methodology developed by the COGTA and DRDLR.

The municipalities are grouped into seven different categories using variables that include the number of poor households, the proportion of households with access to services (water, sanitation and electricity), and capital and operating budgets. Accordingly, rural municipalities are those classified as B3 (small towns) and B4 (mostly rural) municipalities in the typology outlined in Table 1.

Table 1. Classification of municipalities in 2015

Class	Characteristics	Number
Metros	Category A municipalities	8
Secondary cities (B1)	All local municipalities referred to as secondary cities	19
Large towns (B2)	All local municipalities with an urban core. These municipalities have large urban dwelling populations, but the size of their populations vary hugely.	26
Small towns (B3)	Municipalities without a large town as a core urban settlement. Typically they have relatively small populations, of which a significant proportion is urban and based in one or small towns. Rural areas in this category are characterised by the presence of commercial farms because these local economies are largely agriculture-based. The existence of such important rural areas and agriculture sector explains why they are included the analysis of rural municipalities.	113
Mostly rural (B4)	Municipalities that contain no more than one or two small towns and are characterised by communal land tenure and villages or scattered groups of dwellings, and are typically located in former homelands.	68
Districts (C1 and non-rural)	District municipalities.	9
Districts (rural)	District municipalities that are rural.	35

Source: Commission's computations based on Global Insight data and National Treasury (2012) definitions

The analysis identified 68 local municipalities that are mainly rural with at most one or two small towns in their areas. For district municipalities, the usual classification of C1 and C2, indicating rural and non-rural, is not very helpful because the provincial government decides whether or not to give water authority to a district municipality.[3] Therefore, the same basis was used as for local municipalities, i.e. B3 and B4s. The number of rural municipalities was calculated as a share of total number of municipalities in a particular district municipality. A district municipality is classified as "rural" if two-thirds or more of its local municipalities are B3 or B4. Applying this criterion, 80% of district municipalities are "rural" and 20% are non-rural. All non-rural municipalities are C1, while all C2 municipalities and some C1 fall in the rural category.

Distinguishing rural and urban provinces is as complicated. The Constitution does not classify provinces as urban or rural, and there is no common understanding of what constitutes a rural province. As a consequence, policy-makers and the general public tend to describe the provinces that historically formed part of the homelands and Bantustans[4] as rural (in particular Eastern Cape, KwaZulu-Natal and Limpopo). These provinces are perceived to be highly under-developed and contain vast spaces of sparse settlements and land under traditional authority. In addition, traditional assumptions of "rural" persist, but these assumptions are often ungrounded and at best ignore the diversity inherent in areas typically grouped together as "rural" or "non-urban" provinces. For instance, a commonly held belief is that farming is a mainstay of rural provinces, which also have an ageing population and high poverty levels. In fact, provinces traditionally regarded as rural have relatively better access to amenities and connectivity.

Table 2 provides a breakdown of provinces ranked according to the level of "ruralness", as derived from a composite index that takes into account the share of B3

>>

[3] District municipalities which are water services providers (C2s) are typically located in "deep rural" or "traditional" areas, consisting of traditional villages and communal land ownership (these were the erstwhile "homelands"). In the past, these areas did not have conventional municipalities, and their current local municipalities are still extremely weak. Therefore the district municipalities took on the role of water services providers. Conversely, the district municipalities which are not water services providers are typically located in more western-type areas, consisting of large towns, small towns and commercial farmland (the erstwhile "white South Africa"). In these areas, the towns have had many decades (often over a century) of municipal governance, so the current local municipalities are fairly competent to manage water services provision. Therefore, the district municipalities do not have to execute this function.

[4] Homeland territories strictly set aside for Black people under apartheid South Africa.

and B4 municipalities in each province. Provinces with higher composite indexes are more rural in nature than provinces with lower indexes. Using this definition, the three most rural provinces are Limpopo, KwaZulu-Natal, and Eastern Cape, while the Western Cape and Gauteng are the least rural provinces.

Table 2. Provincial ranking according to composite rural index (2015)

	Percentage share of B3 and B4 municipalities in each province (A)	Percentage share of B4 municipalities in each province (B)	Composite average of (A) and (B)	Rural ranking
Eastern Cape	87%	38%	63%	3
Free State	75%	0%	38%	7
Gauteng	8%	0%	4%	9
KwaZulu-Natal	79%	54%	66%	2
Limpopo	92%	64%	78%	1
Mpumalanga	67%	28%	47%	6
Northern Cape	92%	4%	48%	5
North West	74%	26%	50%	4
Western Cape	60%	0%	30%	8

Source: Commission's computations based on Global Insight data

The robustness of this approach was checked by using the variable of whether the province (as currently configured) historically formed part of the Bantustans. This choice is driven by pragmatic policy considerations, as homelands remain an important policy issue and sentiment towards "rural". Based on these criteria, the most rural provinces are the Eastern Cape, KwaZulu-Natal, North West and Limpopo followed by Mpumalanga, Free State and Northern Cape. Table 3 locates the rural municipalities across the nine provinces based on the pre-2016 demarcations. Their ranking is similar to that in Table 2. Most of the rural municipalities (84%) are in the provinces that are predominantly former homeland areas i.e. the Eastern Cape, Limpopo and KwaZulu-Natal.

Table 3. Categories of municipalities per province

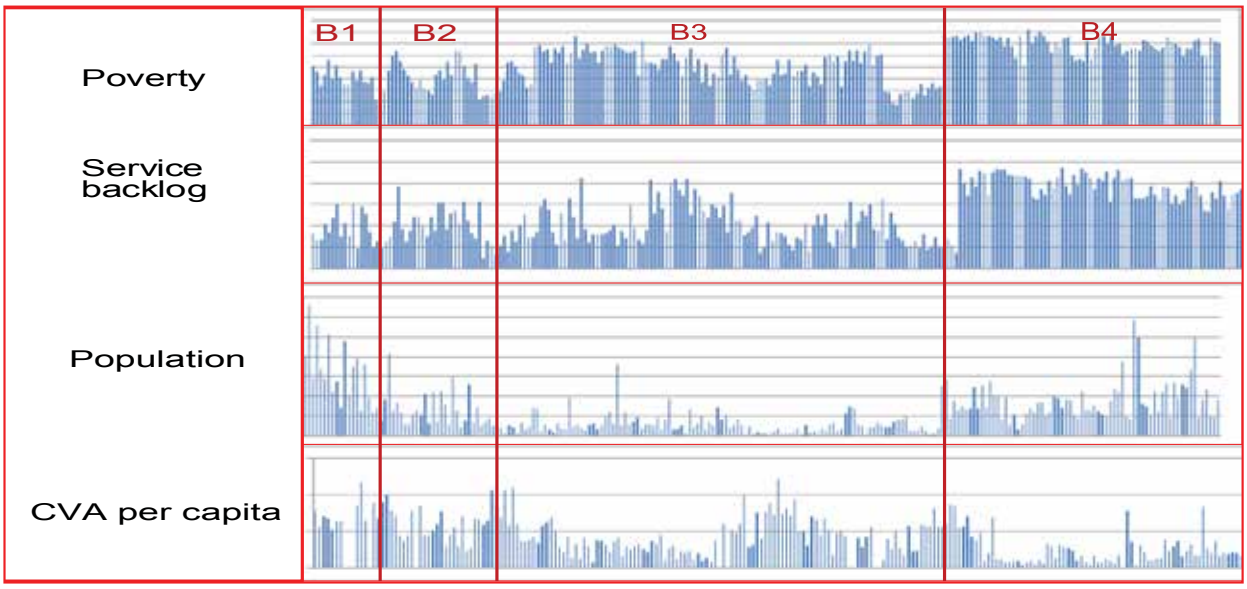
Province	Metros (A)	Secondary cities (B1)	Large towns (B2)	Small towns (B3)	Mostly rural (B4)	Districts (C1)	Districts (C2)	South Africa
Eastern Cape	2		3	19	15	1	5	45
Free State	1	1	3	15		4		24
Gauteng	3	2	3	1		2		11
KwaZulu-Natal	1	3	6	14	27	0	10	61
Limpopo	0	1	1	7	16	1	4	30
Mpumalanga		4	2	8	4	3		21
Northern Cape		1		25	1	6		33
North West		4	2	9	5	2	2	24
Western Cape	1	3	6	15		4		29
Total	8	19	26	113	68	23	21	278

Source: Commission's computations based on Global Insight data

1.3 Socio-Economic Characteristics of Rural Areas

Figure 1 illustrates that many municipalities have relatively high levels of poverty and service delivery backlogs, especially in rural municipalities (B3s and B4s) where gross value added (GVA) per capita is only R9 (compared to R76 in metros). This low economic activity translates into lower employment levels (13% on average in rural municipalities compared to 34% in metros and 29% in secondary cities). This points to rural municipalities having a limited own-revenue base.

Figure 1. Characteristics of municipalities



Source: Commission's computations based on Global Insight data

Table 4 compares the population, economy and service backlogs in urban and rural municipalities.

Table 4. Comparison of urban and rural municipalities

	Metros	Secondary Cities (B1)	Large Towns (B2)	Small Towns (B3)	Mostly Rural (B4)	Districts (C1)	Districts (C2)	South Africa
Population (%SA)								
Male	41%	14%	8%	15%	22%	28%	31%	100%
Female	39%	14%	8%	15%	24%	27%	33%	100%
Aged 0–19 years	34%	13%	8%	16%	28%	27%	39%	100%
Aged 20–64 years	44%	15%	8%	14%	19%	28%	28%	100%
Aged 65+ years	37%	12%	9%	16%	26%	28%	35%	100%
Aged 20+ years with matric	53%	16%	8%	11%	13%	26%	21%	100%
Unemployment	23.65%	26.60%	26.60%	25.20%	33.60%	27.20%	28.40%	25.3%
GVA per Capita	R68 307	R57 493	R49 943	R40 180	R19 422	R49 037	R24 311	R50 748
Poverty	27.50%	27%	27%	26%	29%	26%	29%	28.0%
Service backlogs								
Electricity	11%	10%	14%	14%	28%	10%	25%	15%
Water	7%	9%	17%	17%	52%	11%	44%	19%
Sanitation	13%	18%	24%	23%	48%	20%	43%	25%
Housing	20%	17%	21%	18%	36%	16%	32%	22%

Source: Commission's computations based on Global Insight data

The economically active population (measured as the population aged 20–64 years) is considerably smaller in rural municipalities than in urban areas[5], accounting for 19% of people in B4 municipalities and 14% in B3 municipalities, compared to 67% of the population in urban areas. Young people under the age of 20 make up 28% of the population in B4 municipalities and 16% in B3 municipalities, in contrast to 55% in urban municipalities. People in rural municipalities are less likely to have school qualifications than their urban counterparts: only 13% of the population over the age of 20 years in B4 municipalities, and 11% in B3 municipalities, have matric qualifications, compared to 77% in urban areas.

As formal employment opportunities in rural areas are limited and often seasonal, unsurprisingly unemployment averages 25.2% in the B3 and 33.6% in the B4 municipalities, using the official (or narrow) definition of unemployment.

Table 5 shows the economic profile of urban and rural municipalities.

Table 5. Share of GVA by sector in rural and urban areas

	Metros (A)	Secondary cities (B1)	Large towns (B2)	Small towns (B3)	Mostly rural (B4)	Districts (C1)	Districts (C2)	South Africa
Agriculture and hunting	0.6%	2.2%	5.2%	10.7	5.1%	6.9%	5.1%	2.1%
Air transport and transport supporting activities	1.8%	0.8%	1.0%	0.6%	0.4%	0.7%	0.5%	1.4%
Collection, purification and distribution of water	0.3%	0.9%	1.2%	1.3%	2.2%	1.0%	1.7%	0.8%
Construction	4.1%	3.8%	5.0%	4.8%	3.9%	4.3%	4.0%	4.0%
Education	7.0%	7.3%	7.8%	9.6%	16.5%	7.0%	14.1%	7.5%
Electrical machinery and apparatus	0.3%	0.2%	0.2%	0.1%	0.1%	0.1%	0.1%	0.2%
Electricity, gas, steam and hot water supply	1.9%	3.6%	3.5%	3.9%	3.7%	3.6%	3.6%	2.9%
Electronic, sound/vision, medical & other appliances	0.3%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.2%
Finance and insurance	12.6%	6.9%	6.2%	5.3%	4.2%	5.5%	6.0%	10.0%
Fishing, operation of fish farms	0.1%	0.1%	0.6%	0.2%	0.1%	0.3%	0.1%	0.1%
Food, beverages and tobacco products	3.0%	3.9%	5.5%	3.9%	2.9%	3.7%	3.5%	3.2%
Forestry and logging	0.0%	0.2%	0.5%	0.8%	1.5%	0.3%	1.1%	0.3%
Fuel, petroleum, chemical and rubber products	2.9%	3.0%	3.1%	0.6%	0.7%	2.6%	1.0%	2.9%
Furniture/other items not else classified (NEC) and recycling	1.1%	0.8%	1.1%	0.6%	0.6%	0.6%	0.7%	1.0%
Health and social work	7.3%	5.3%	4.7%	4.3%	5.8%	4.3%	5.9%	5.8%
Hotels and restaurants	0.8%	1.0%	1.4%	1.2%	1.6%	1.1%	1.5%	0.9%
Land and water transport	7.7%	5.7%	6.5%	6.4%	5.6%	6.0%	6.4%	6.6%
Metal products, machinery and household appliances	2.1%	4.0%	1.7%	0.6%	0.9%	1.8%	1.6%	2.4%
Mining of coal and lignite	0.1%	5.8%	1.3%	0.9%	1.5%	2.7%	1.3%	1.9%
Mining of gold and uranium ore	0.3%	4.1%	4.8%	0.5%	0.7%	3.9%	0.1%	1.4%
Mining of metal ores	0.2%	4.8%	1.7%	4.8%	4.4%	7.4%	3.6%	3.7%
Other business activities	4.7%	2.9%	2.9%	2.0%	2.1%	2.3%	2.5%	4.2%
Other mining and quarrying	0.5%	2.1%	1.4%	4.7%	1.8%	4.6%	1.5%	1.4%

>>

[5] Note that "urban areas" includes metros, large towns and small towns using the conventions in Table 1.

	Metros (A)	Secondary cities (B1)	Large towns (B2)	Small towns (B3)	Mostly rural (B4)	Districts (C1)	Districts (C2)	South Africa
Other non-metallic mineral products	0.5%	0.6%	0.6%	0.6%	0.3%	0.6%	0.5%	0.5%
Other service activities	3.8%	2.7%	2.8%	2.8%	2.0%	2.7%	2.4%	3.6%
Post and telecommunication	2.6%	1.6%	1.5%	2.2%	1.0%	1.9%	1.4%	2.1%
Public administration and defence activities	7.0%	5.4%	6.1%	7.0%	5.9%	6.3%	6.6%	5.8%
Real estate activities	7.2%	5.0%	4.7%	3.8%	7.5%	4.2%	5.0%	6.3%
Retail trade and repairs of goods	7.1%	5.6%	6.1%	6.6%	7.6%	5.5%	7.4%	6.5%
Sale and repairs of motor vehicles, sale of fuel	2.9%	2.6%	3.0%	2.7%	2.0%	2.5%	2.5%	2.5%
Textiles, clothing and leather goods	0.6%	0.3%	0.5%	0.3%	0.4%	0.2%	0.5%	0.4%
Transport equipment	1.9%	0.4%	0.5%	0.5%	0.3%	0.3%	0.4%	0.9%
Wholesale and commission trade	5.4%	4.6%	4.5%	4.8%	5.5%	4.1%	5.7%	5.0%
Wood and wood products	1.4%	1.6%	2.2%	1.0%	1.6%	0.9%	1.7%	1.5%
Total industries	100	100	100	100	100	100	100	100

Source: Commission's computations based on Global Insight data

Table 5 shows that economic activities are less diversified and lower in rural areas than in urban areas, which partly explains the high unemployment rate in rural areas. Interestingly, agriculture plays a less significant role in rural municipalities than is generally perceived: it contributes 10.7% to GVA in B3 municipalities (reflecting the presence of commercial farming in these areas) but only 5.1% in B4 municipalities. Wholesale and trade, infrastructure and manufacturing are also significant contributors to GVA in all rural (B3 and B4) municipalities.

Access to infrastructure affects the ability of municipalities to carry out their functions and deliver services to their communities. Figure 2 shows access to water, sanitation and electricity services in urban municipalities, while Figure 3 shows access to services in rural municipalities.

Figure 2: Access to services in urban municipalities (1996–2014)

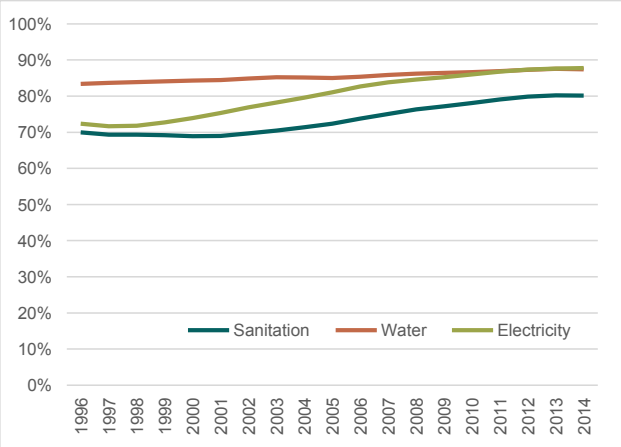
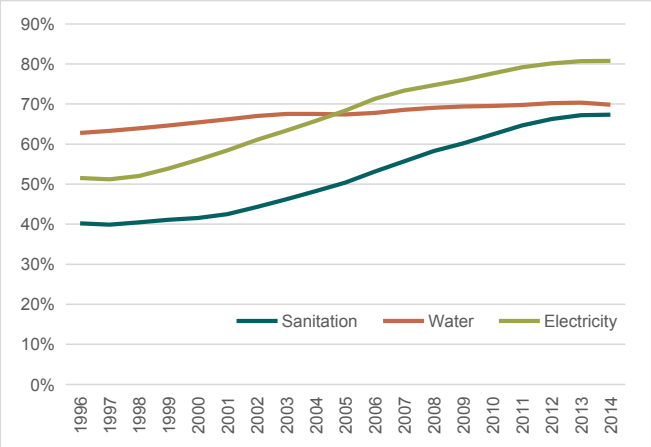


Figure 3: Access to services in rural municipalities (1996–2014)

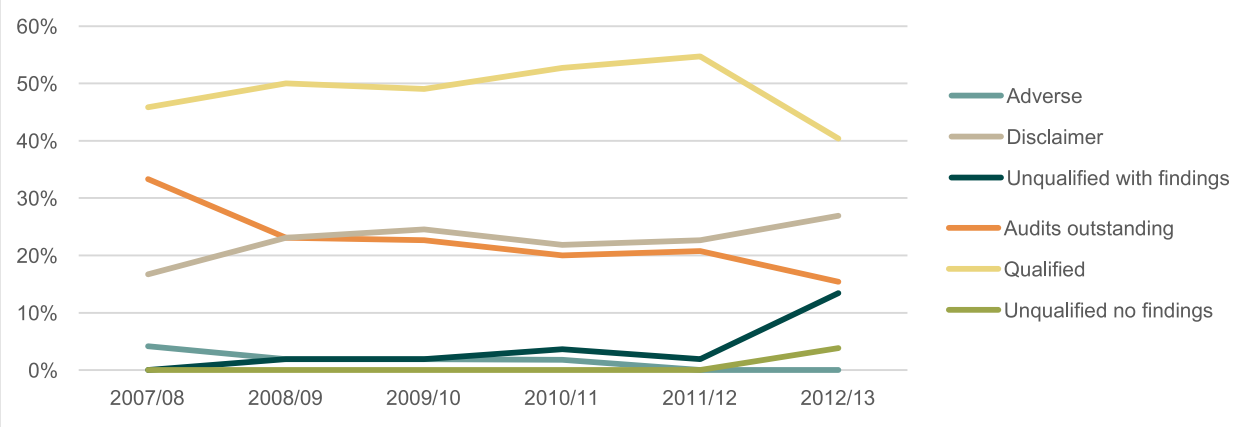


Source: Commission's computations based on Global Insight data

In urban areas, the average overall access has not changed significantly and remains below 90%, whereas access to electricity connections has steadily increased, from 73% in 1996 to 88% in 2013/14. Access to sanitation has improved but still has the highest backlog. In comparison, rural municipalities have seen a substantial improvement in access to sanitation, from 41% in 1996 to 69% in 2014 (Figure 3). Electricity connections to households have also improved hugely in rural municipalities, increasing from 52% in 1996 to 81% in 2014. Access to water, although at a higher level than sanitation, has not improved much over the years. This is because the spatial setting of households in some rural municipalities makes delivering services difficult.

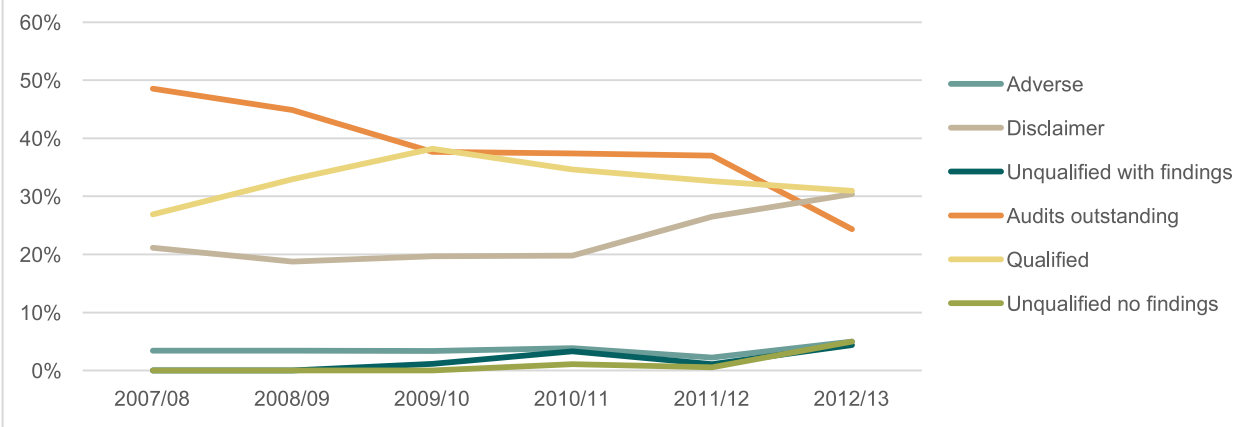
The majority of those being connected to municipal services are poor and unemployed, which poses a challenge for local economic development and the viability of municipalities. State (municipal) capacity may be compromised when residents are too poor to pay for the services necessary for development. However, in practice, this might not be true, as rural municipalities often have high repayment levels because pre-paid electricity and water is the norm. For example, in the case of municipal debt owed to Eskom, the culprits are from the Free State and Mpumalanga rather than from the more rural provinces of KwaZulu-Natal, Eastern Cape and Limpopo. This is collaborated by audit outcomes, which show that the number of municipalities with outstanding audits across both urban and rural areas have declined over the years (Figures 4 and 5).

Figure 4. Audit outcomes for urban municipalities (2007/08–2012/13)



Source: Commission's computations based on Global Insight data

Figure 5. Audit outcomes for rural municipalities (2007/08–2012/13)

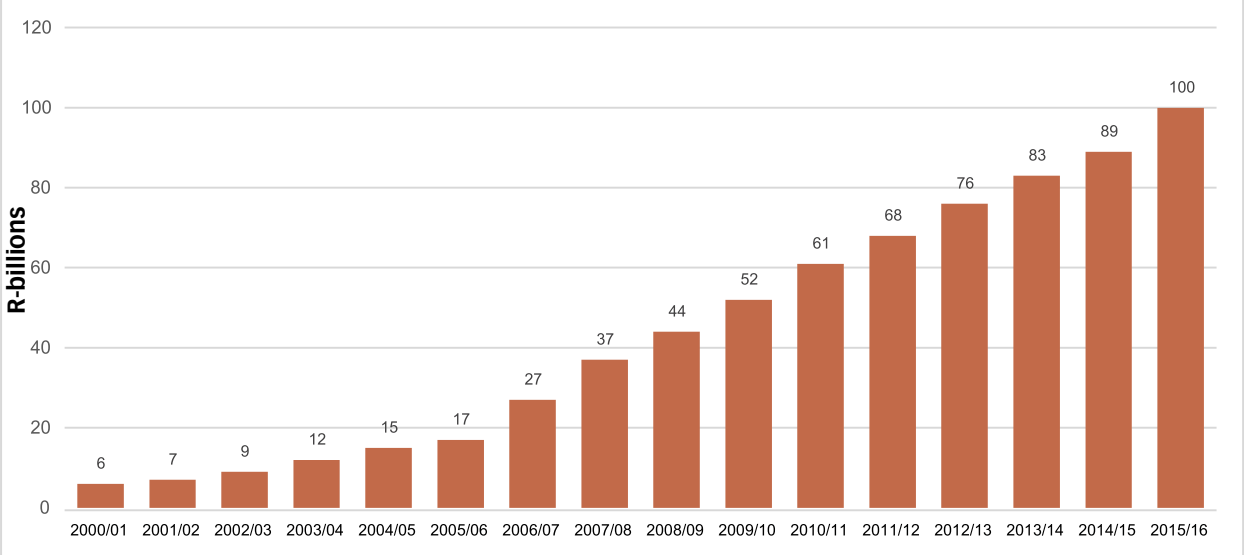


Source: Commission's computations based on Global Insight data

Over the past 15 years, transfers allocated to local government have increased at a phenomenal rate, from R6-billion in 2000/to R100-billion in 2015/16 (Figure 6). Yet the increased resources have not led to an equivalent improvement in service delivery.

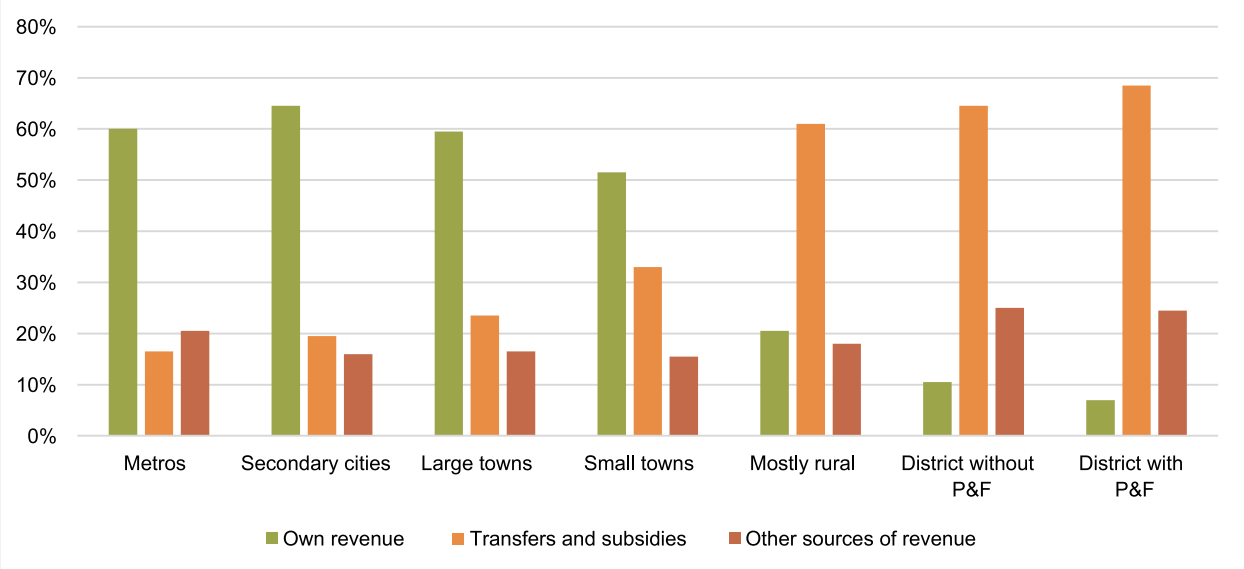
As Figure 7 shows, between 2003/04 and 2012/13, intergovernmental transfers was the dominant source of revenue in the smaller towns and mostly rural municipalities, whereas own revenue represented a greater share of revenue for metros, secondary cities, and large and small towns .

Figure 6. Value of transfers to local government (2000/01–2015/16)



Source: Commission's computations based on National Treasury data

Figure 7. Average revenue split per source by municipal category (2003/04–3012/13)

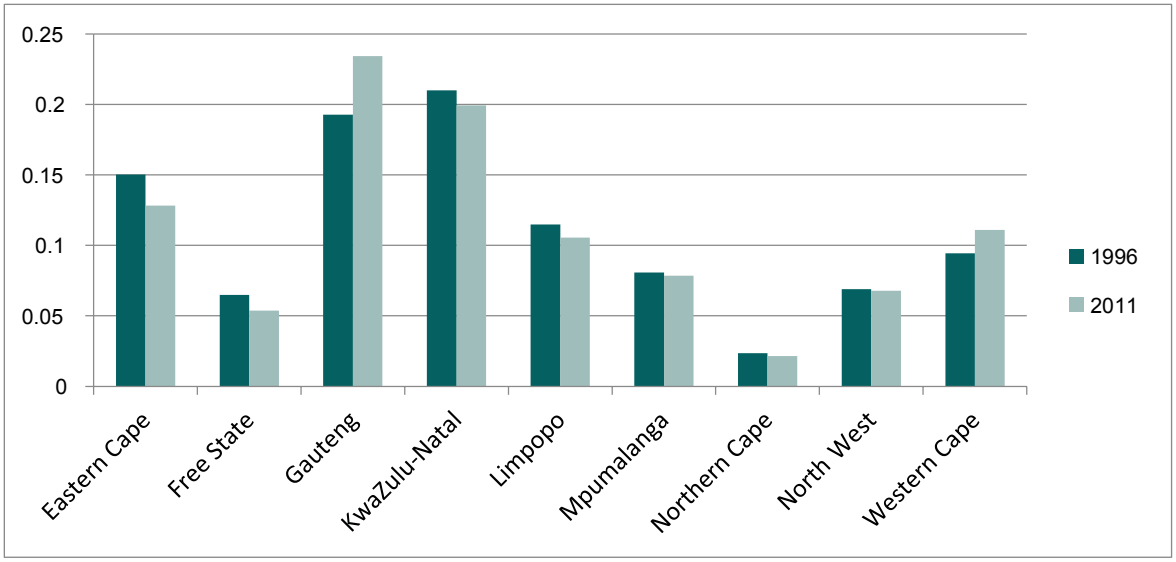


Source: Commission's computations based on National Treasury data

As illustrated in Figure 8, between 1996 and 2001, the two most urbanised provinces (Gauteng and Western Cape) showed the highest increase in population, as a result of in-migration. Census 2011 found that only 56% of the people counted in Gauteng were born in the province.

When selected development indicators are evaluated, the results are mixed (Table 6). For instance the per capita gross provincial product (GPP) for Gauteng is almost twice that of rural provinces. Similarly, compared to other provinces, poverty levels are higher in the three most rural provinces (Eastern Cape, KwaZulu-Natal and Limpopo). However, the disparities across provinces dissipate when observed over a long period, implying some level of convergence in their development trajectory. This convergence is also evident in the provincial per capita expenditure. Overall Table 6 shows that, despite government's substantial transfers to provinces and expenditure on public services, disparities remain a major issue.

Figure 8. Shifts in distribution of population among provinces



Source: Commission's computations based on National Treasury data

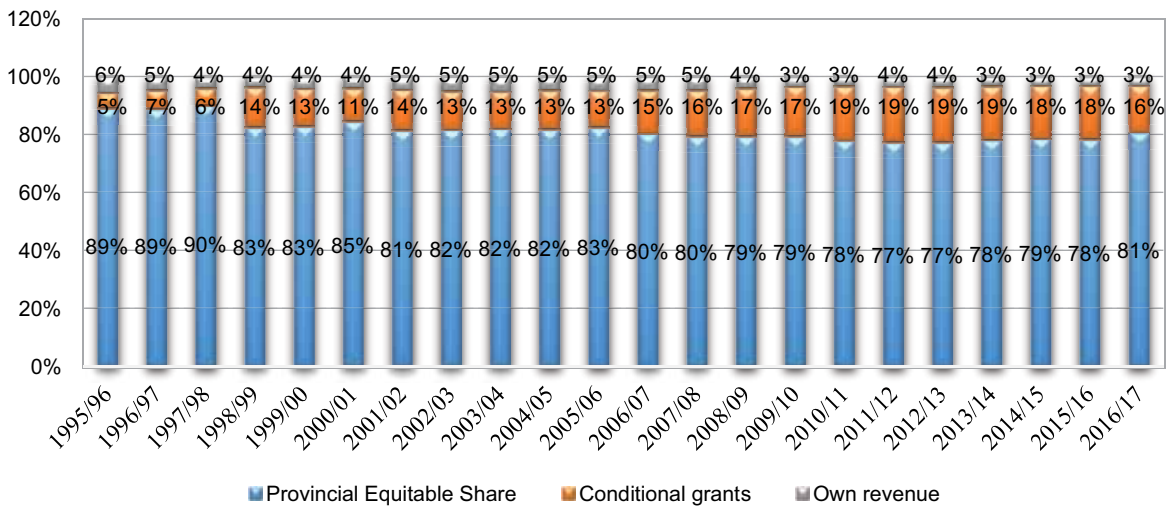
Table 6. Provincial development disparities

Province	GPP per capita (Rands)	Percentage of population below food poverty line	Population aged 15+ years and completed Grade 7	Expenditure per capita (Rands)
Eastern Cape	34 140	29.1%	76.9%	9 157
Free State	56 869	22.3%	82.1%	10 279
Gauteng	80 534	16.2%	91.1%	6 539
KwaZulu-Natal	45 513	28.9%	80.4%	9 267
Limpopo	39 274	29.1%	77.8%	9 251
Mpumalanga	51 395	24.4%	80.3%	8 542
Northern Cape	56 213	18.4%	76.7%	11 509
North West	46 362	22.7%	76.9%	8 673
Western Cape	68 727	13.7%	89.5%	7 996

Source: Commission's computations based on Global Insight data

Between 1995/96 and 2013/14, total provincial revenues increased over six-fold, from roughly R60-billion to just under R400-billion. In general, own revenue represents a small share of total provincial revenue and has decreased from 6% in 1995/6 to 3% in 2013/14. Gauteng, KwaZulu-Natal and Western Cape have consistently generated more own revenues than the other six provinces. In 2010/11, Gauteng generated the highest amount of own revenues (R2.8-billion or 28% of the total provincial own revenues), followed by Western Cape (R2-billion or 20% of total provincial own revenues) and KwaZulu-Natal (R1.9 billion or 19% of total provincial own revenues). Northern Cape, Mpumalanga and Limpopo generated the least own revenues compared to the other six provinces, i.e. 2%, 5.1% and 5.4% of total provincial own revenues. These trends remained largely unchanged between 2010/11 and 2013/14.

Figure 9. Provincial revenue by source



Source: Commission's computations based on National Treasury data

The inability of provinces to increase own revenues has created a heavy reliance on intergovernmental transfers and a widening vertical fiscal imbalance (i.e. the difference between provincial own revenues and expenditure needs). The provincial equitable share (PES) as a proportion of total provincial revenue has declined gradually, from 89% in 1995/96 to 78% in 2013/14, while conditional grants increased from 5% in 1995/96 to 19% in 2013/14.

For rural provinces, with their weak economic base and high levels of poverty, the largest share of funding comes from intergovernmental transfers, which comprise the provincial equitable share and conditional grants. The PES subsidises basic service delivery (education and health), while the various conditional grants support the expansion of infrastructure and capacity development. However, rural provinces also need to show fiscal effort in raising own revenues according to their fiscal capacity.

1.4 How are Rural Regions Coping with Major Economic Changes?

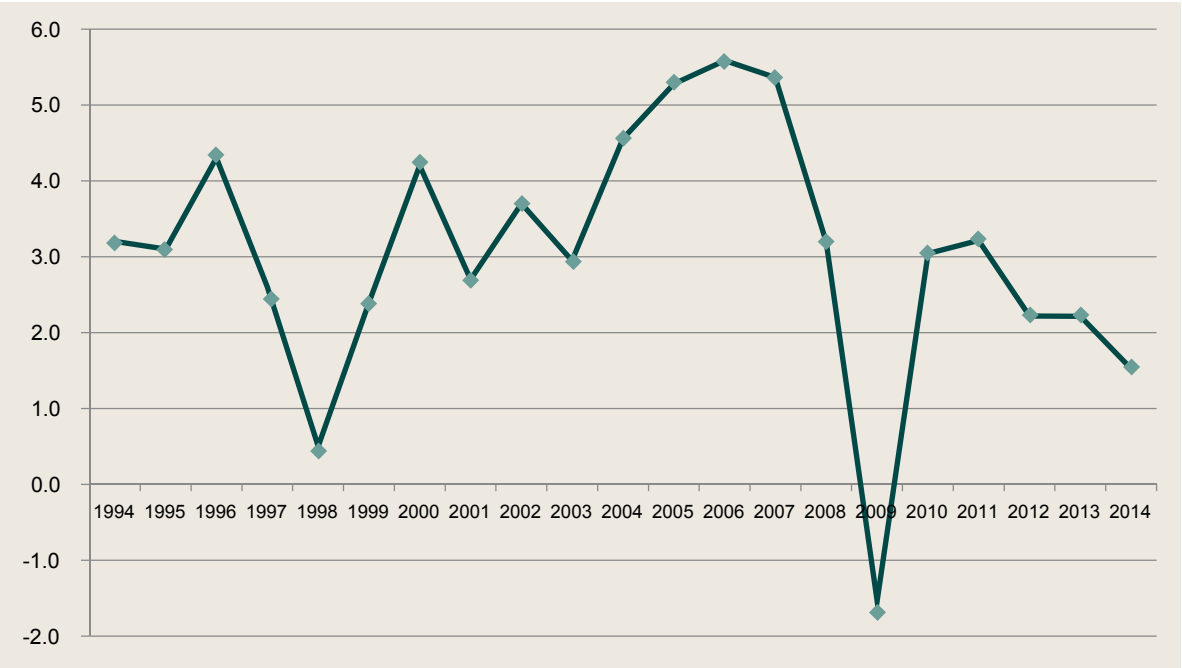
Prior to the democratic elections in 1994, the incumbent National Party was responsible for the country's economic management and was fiscally supporting four nominally independent homeland states and six self-governing areas, which had high and increasing fiscal requirements. At the same time, severe international sanctions restricted economic progress. After 1994, the economy at large, and rural and agricultural sectors in particular, have been subjected to fundamental policy reforms, some of which persist today. Far-reaching macroeconomic reforms have been undertaken in order to redress past injustices, particularly in terms of access to basic services (e.g. electricity, water and sanitation, housing, health and education) and income and employment opportunities. From 1994, the Reconstruction and Development programme (RDP) became the official macroeconomic policy of the new democratic government, and was followed by the Growth, Employment and Redistribution (GEAR) programme in 1996, the Accelerated and Shared Growth Initiative (AsgiSA) framework in 2006, the New Growth Path (NGP) in 2010 and the NDP in 2012. These major public policy shifts and investment priorities have had major implications for rural development.

Figure 10 shows economic growth since the democratic election of 1994. The country had four years of 3–4% growth until 1998, when the economy grew by only 0.5% because of the international Asian financial crisis and high domestic interest rates that were instituted to combat exchange rate speculation. However, over the next decade, economic growth was robust: above 4.5% from 2004 to 2007 and reaching 5.6% in 2006 and 2007. Then, like almost all other countries, the financial crisis of 2008 led to significant declines in asset values, company closures, rising unemployment and a sharp slowing of economic growth – South Africa plunged into a recession in 2009 and substantially revised its macroeconomic forecasts downwards.

Since 2009, the uncertain global economic climate has had a negative impact on South Africa's economy because of the country's exposure to Eurozone economies through trade and financial markets, and the recent decline in resource and commodity prices. Domestically, the economy has been affected by South Africa's worst drought in 35 years, increased uncertainty over the country's credit rating and plans to reform laws governing investments in property and mineral exploration, and existing supply-side constraints in power and bulk transport infrastructure. Coupled with the structural misalignments and the infrastructural challenges facing the economy, it is unlikely that South Africa will reach pre-2008 growth rates of 4–5% before 2018. The sluggish economy has meant that unemployment rates have remained elevated, with most recent figures reflecting 24.3%.

The present environment of fragile growth is making it difficult to tackle the challenges of high unemployment, and fiscal and external imbalances. The lower-than-forecast economic growth further represents significant obstacles to achieving the targets set in the NDP and the CRDP. The economy needs to achieve higher growth rates in order to generate jobs for young workers, tackle the growing social tensions, and reduce poverty and inequality. These dire economic consequences, coupled with impatience with service delivery and social outcomes two decades after freedom (Inman and Rubinfeld, 2013), appear to be a significant threat to future prioritisation of rural development initiatives. This in turn may lead to increasingly tense intergovernmental relations.

Figure 10. GDP growth (annual %)



Source: Commission's computations based on SARB data

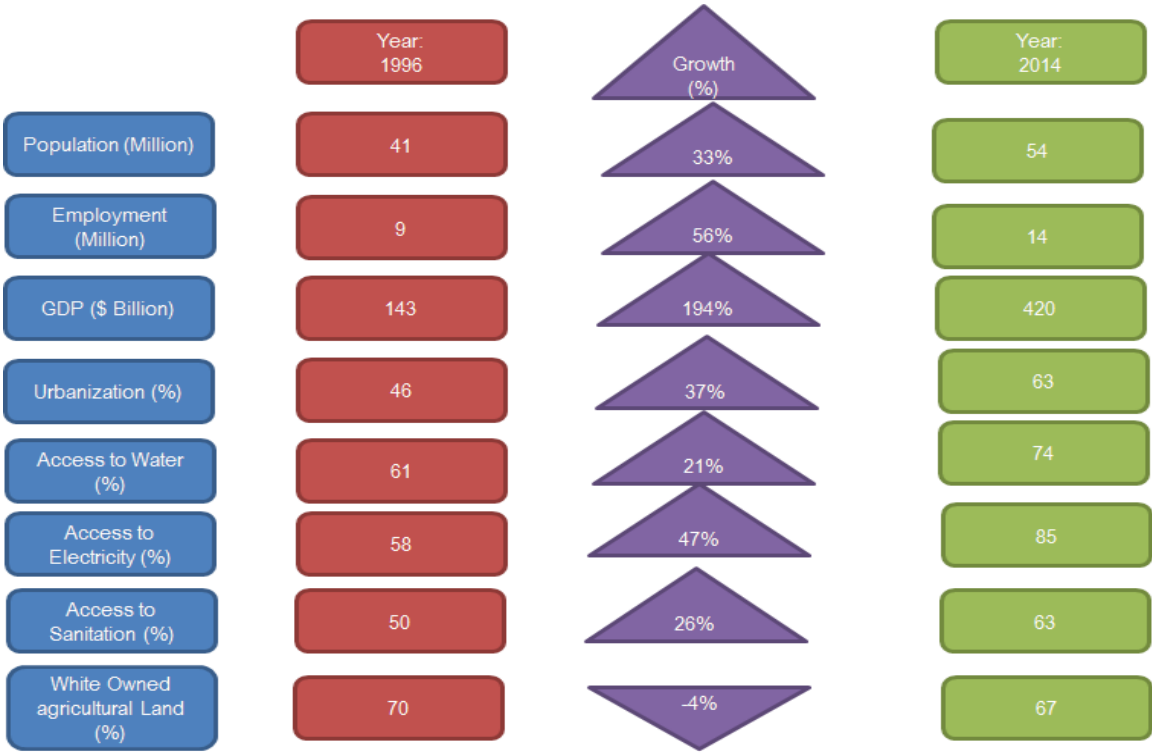
Figure 11 shows a few selected macroeconomic and developmental indicators between 1996 and 2014.

Between 1996 and 2014, South Africa's population grew by 33%, from 41 to 54 million people (DPME, 2014) and the economy created 14 million jobs (despite the recent turmoil in the macro-economy). GDP grew cumulatively by 194%, driving the increased delivery of water, electricity and sanitation services witnessed. Access to these basic services has significantly improved living conditions.

However, although significant growth has been achieved in many developmental areas, stubborn challenges remain, including poverty, inequality and lack of transformation (Goldman Sachs, 2014). One indicator of the slow transformation progress is the redistribution of land from white to black ownership (just 4% change).

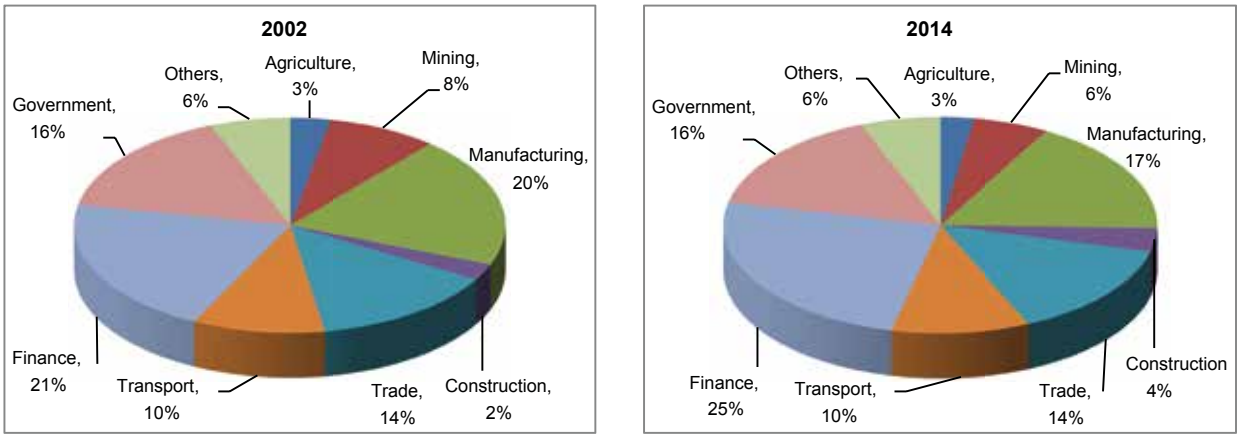
Over the past 22 years, the economy has seen a shift away from the primary sector towards the secondary sector, as Figure 12 illustrates.

Figure 11. South African developmental indicators (1996–2014)



Source: Commission's computations based on Stats SA (2014, 2015), National Treasury (2014) and DPME (2014)

Figure 12. Main economic sectors and contribution to GDP

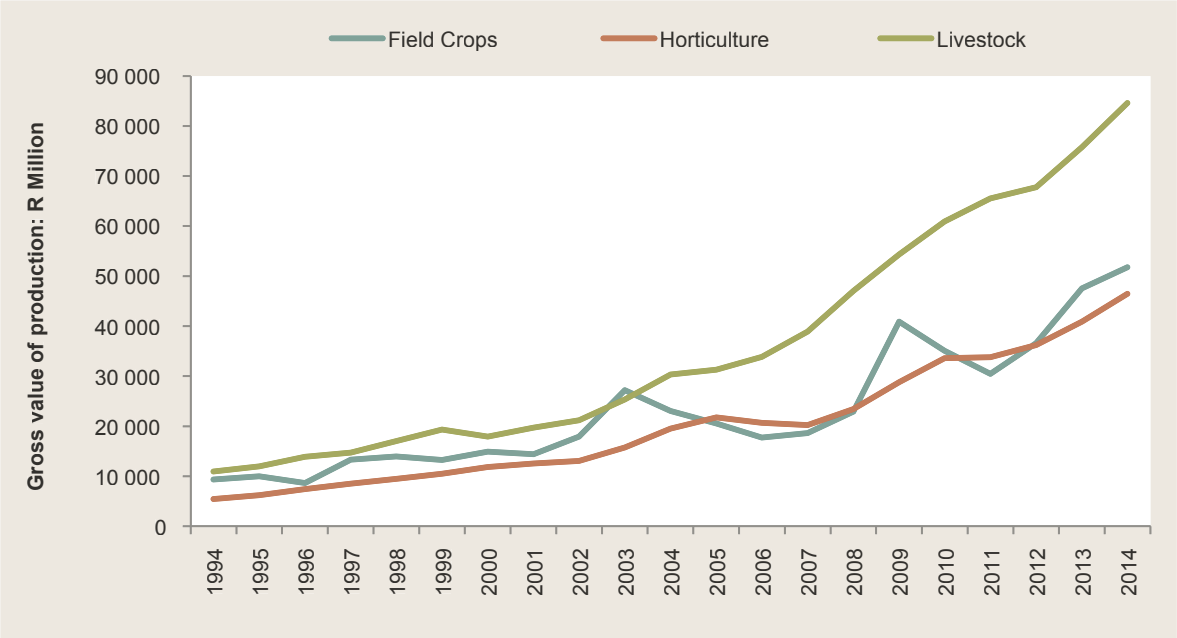


Source: Commission's computations based on Stats SA data
Note: Both 2002 and 2014 charts are generated from data published in Stats SA (2014)

Between 2002 and 2014, the financial sector grew the fastest, at an average rate of 5.13% per annum, and its share of GDP increased from 21% to 25%. Agriculture, which is the hoped-for main economic activity in rural areas, grew by a modest rate of 1.88%, and its share of GDP remained the same at around 2.5% (having declined from about 3% in 1994). This transition is typical of countries that have successfully diversified their economy, away from primary production (resource extraction and farming) toward manufacturing and services (see for example Byerlee et al., 2009; Timmer, 1988). The mining and manufacturing sectors declined from 8% to 6% and 20% to 17% respectively.

The country's diverse weather conditions allow a variety of agricultural commodities to be grown, ranging from field crops (e.g. maize, sorghum, sugar, soybean, wheat) to livestock (e.g. beef, lamb, game and poultry) and horticulture (e.g. deciduous, subtropical and citrus). Figure 13 provides a breakdown of growth in value for these agricultural commodities produced in the country over 20 years.

Figure 13. South Africa gross value of main agricultural commodities (1994–2014)



Source: Commission's computations based on DAFF (2014)

As Figure 13 shows clearly, the value of animal products increased faster than that of field crops and horticultural products. This can be attributed to growing export markets, increasing animal feed costs and tightening consumer standards (NAMC, 2014). Horticultural production has also grown steadily, with spikes during periods of exchange rate volatility, such as 2002–2005 and 2008–2010. This is because the bulk of horticultural products are exported and thus generate foreign earnings.

The agricultural sector is dualistic in structure, characterised by commercial and emerging farmers. Prior to 1994, over 60 000 white commercial farmers occupied 70% of the country's land, and over two decades later nearly 67% of land remains in their hands (PLAAS, 2012; DPME, 2014). In 2014, this land was owned by approximately 37 000 commercial farmers and produced nearly 95% of agricultural output (DAFF, 2014; NAMC, 2014). It should be noted that the number of white farmers significantly declined in the early 2000s, when farm units were consolidated to gain economies of scale and to cope with increasing costs of farm inputs (NAMC, 2014).

Over one million emerging farmers are scattered throughout rural areas, mainly in the former homelands. They produce just 5% of agricultural output because of low adoption of technology, limited skills and training, and a lack of infrastructure investments and market access (NAMC, 2014). Emerging farmers are found in rural areas within the 27 poorest districts (Figure 14). These 27 districts are home to nearly 17 million people and have a much higher unemployment rate (particularly youth unemployment) than the national unemployment rate (DPME, 2014). Therefore, government has committed to develop policies and programmes that will channel investments into these rural areas in order to alleviate poverty, create jobs and fast-track service delivery.

Figure 14. Location of the 27 priority districts

Note: The 27 priority districts include: Alfred Nzo; Amajuba; Amathole; Bojanala; Capricorn; Chris Hani; Dr Ruth Segomotsi Mompati; Ehlanzeni; iLembe; Joe Gqabi; John Taolo Gaetsewe; Mopani; Ngaka Modiri Molema; OR Tambo; Sekhukhune; Sisonke; Ugu; uMgungundlovu; Umkhanyakude; Umzinyathi; Uthukela; Uthungulu; Vhembe; Waterberg; West Rand; Xhariep; and Zululand

1.5 Performance of Recent Rural Development Policies and Programmes

Various rural development policies have been attempted but have generally been poor, while cities have shown a much greater degree of developmental momentum, driven by better capacitated and fairly effective metropolitan governments. The result has been declining fortunes in the rural areas and migration en masse from rural areas to the towns and cities.

Like other economic sectors, agriculture has undergone many policy reforms over the past 22 years. Since 1994, rural and agricultural development have been shaped by reforms in four main areas: (i) land reform policy to address the land ownership imbalances caused by the Native Land Act (No. 27 of 1913); (ii) the deregulation of agricultural markets to demolish control boards created by Marketing of Agricultural Products Act of 1936; (iii) labour reform, which introduced minimum wages in the agricultural sector; and (iv) infrastructure development polices and plans to promote investment in rural economy and agro-processing space.

1.5.1 Land reform and rural development

Land reform is essential in many developing countries because of its significance for development. The importance of secure rights in land for (rural) development has been highlighted in numerous studies (Place et al., 1994; Feder et al., 1998), and "secure and well-defined land rights are key for households' asset ownership, productive devel-

opment, and factor market functioning" (Deininger, 2003: xix). Secure property rights and economic growth are positively correlated: such rights (a) promote economic growth by providing incentives for households to invest in land and enabling them to access credit, and (b) may facilitate the equal distribution of land and thus promote productivity.

In developing countries, secure property rights play a significant role in poverty reduction because, for many poor rural households, land is the main source of livelihood and means for investing, accumulating and transferring generational wealth. As land represents a large part of their asset portfolios, providing secure rights to land that these households already possess can significantly increase their net wealth (Deininger, 2003). Indeed, giving poor people "access to land and improving their ability to make effective use of the land they occupy is central to reducing poverty and empowering poor people and communities" (Deininger, 2003: xx).

Colonialism and the implementation of apartheid policies, especially the Natives Land Act in 1913, resulted in large-scale, racially based dispossessions of land ownership rights, which resulted in whites owning about 87% and blacks only 13% of the land (Jacobs et al., 2003). The democratic government adopted a land reform policy in its White Paper of 1997, which was derived from Section 25(5) of South Africa's Constitution: "the state must take reasonable legislative and other measures, within its available resources, to foster conditions which enable citizens to gain access to land on an equitable basis". The land reform policy has three pillars:

(i) Land restitution which aims to give people back (compensate for) the land they were unfairly dispossessed of after the Native Land Act of 1913.

(ii) Land redistribution, which aims to provide the poor with access to land for residential and productive uses in order to improve their income and quality of life.

(iii) Land tenure, which targets mainly poor people, especially women and youth, so that they have a reasonable opportunity to gain access to land with secure rights, in order to fulfil their basic needs for housing and productive livelihoods.

The land reform policy has not achieved its goal of redistributing 30% of land to black people by 2014 (DPME, 2014). By 2012 only 7% of all land (urban and rural) had been redistributed through the land reform programme, up from 5% in 2009 (PLAAS, 2012). The land reform programme has also not changed the lives of people living in rural areas: production conditions in the communal farming areas have remained largely unchanged (or may have worsened), and tenure forms have hardly changed, despite attempts to provide greater tenure security (Vink and Van Rooyen, 2009). There is also no evidence that the supposed beneficiaries of land reform are better off as a result of their participation in the land reform programme.

Recognising the difficulties faced by the land reform programme, over the past 12 years government has introduced various programmes to promote land and agrarian reforms, including four initiatives:

(i) In 2001, the Land Redistribution Programme, which is meant to enable emerging farmers and interested groups to obtain a grant for the purchase of land from willing sellers, to be used for both residential and agricultural purposes.

ii) In 2004, the Comprehensive Agricultural Support Programme (CASP), which is aimed at improving the productivity of emerging farmers by providing them with agricultural inputs, infrastructure and technical training.

(iii) In 2009, the Proactive Land Acquisition Strategy (PLAS), which is intended to accelerate the pace of land reform.

(iv) In 2010, the Recapitalisation and Development Programme (RADP), which is meant to help land reform beneficiaries access infrastructure, inputs and technical support in order to use their acquired land productively.

These four initiatives have had limited success because of a lack of support from established commercial farmers to provide the technical support coupled with increasing costs of agricultural inputs, limited investment in infrastructure and the lack of market access for land reform beneficiaries (Ngqangweni, 2010). In addition, the lack of coordination and weak intergovernmental relations result in duplication across departments and spheres of government and, consequently, scarce resources are misallocated and allocated inefficiently.

1.5.2 Market deregulation and trade policy reforms

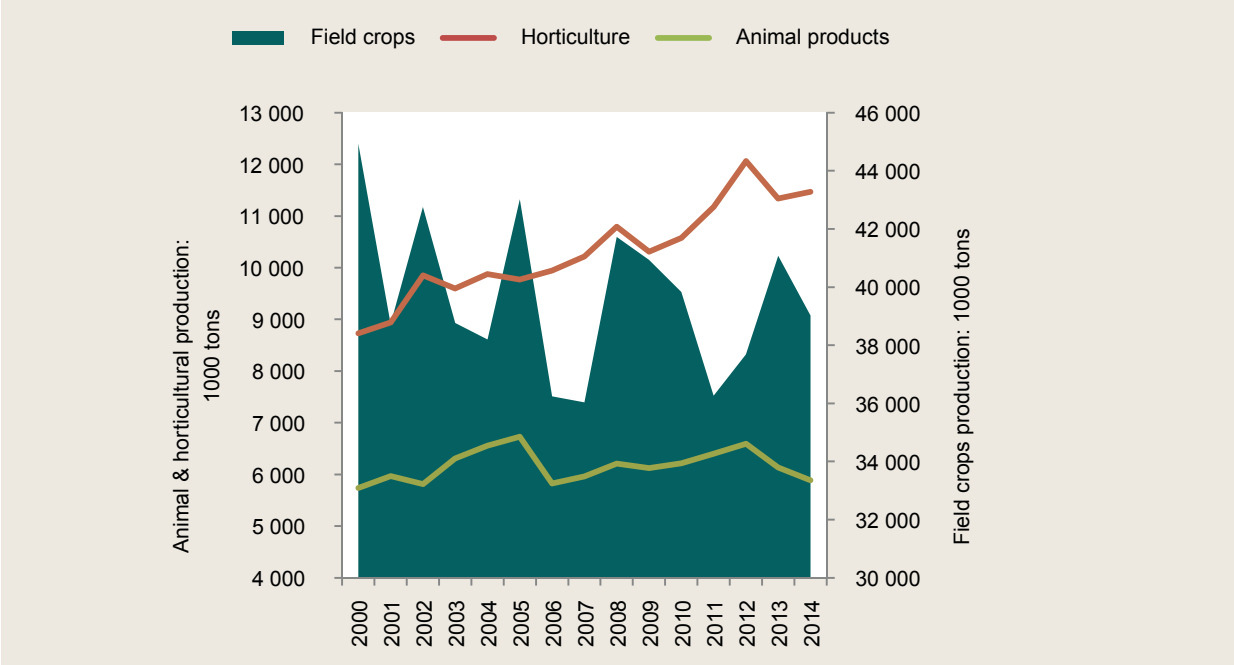
A key feature of post-1994 agricultural trade policy in South Africa has been tariffs replacing direct controls over imports and exports (as per the Marketing Act of 1936 amended in 1968), and the lowering of those tariffs below the bound rates agreed to in the Marrakech Agreement of 1994 (Ngqangweni, 2010; Vink and Van Rooyen, 2009). As a result of the Marrakech Agreement, South African agricultural tariffs cascaded from a relatively high rate on consumer goods to a moderate rate on intermediate goods and a low rate on capital goods. From the late 1990s, support programmes to farmers decreased significantly, leading to an open trading system in the country. For example the

Producer Support Estimate declined from an average 11% in 1995–1997 to 3% in 2012–2014, well below the OECD average of 30% for that period (OECD, 2015).

Pre-1994, the marketing of agricultural products was strongly regulated. All commodities were exported through a single channel system, i.e. control boards: 22 marketing boards regulated the domestic and export of agricultural commodities (Vink and Van Rooyen, 2009). The democratic government introduced the new Marketing of Agricultural Products Act (No. 47 of 1996), which demolished the marketing boards (subsequently deregulating the agricultural marketing systems) and created access to new markets outside the traditional European Union (EU) market (NAMC, 2014).

As Figure 15 shows, horticultural commodities, in particular deciduous and citrus fruits, have largely benefitted from the deregulation of markets, from a single channel into multiple market systems – the lifting of the export quotas triggered strong production of horticultural commodities. The production of animal products has grown minimally, largely in the white meat (poultry) segment (NAMC, 2014). Since the demise of the grain marketing boards, production of field crops has been very volatile, although weather variability over in the last decade has also contributed to this fluctuation, as the bulk of grain production is rain-fed.

Figure 15. South African agricultural production



Source: Commission's computations based on DAFF (2014)

The positive growth in the horticultural subsector can also be attributed to foreign exchange volatility in the early 2000s and the opening up of the new export markets that created more demand for South African products. The global recession in 2008 also contributed to the growth rate in export-oriented products, such as fruits, wine, maize, sugar and nuts (NAMC, 2014).

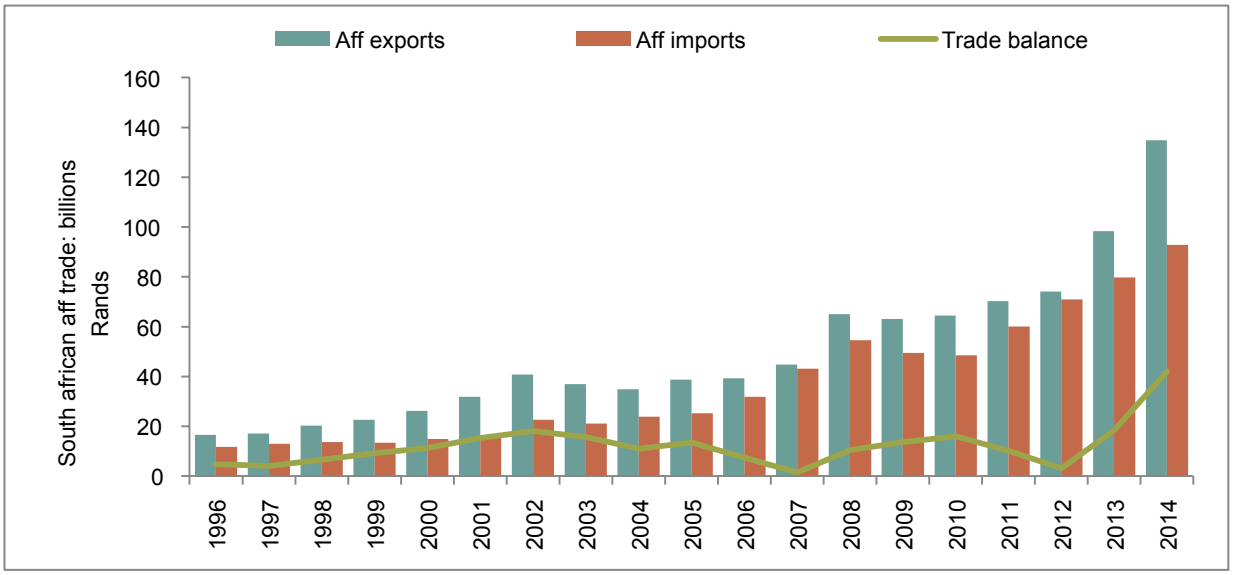
The South African agricultural sector (including forestry and fisheries) generates income mainly from export markets. In 2014, exports by the agricultural sector amounted to R134-billion, driven mainly by citrus fruit, wine, maize, fish and wood pulp commodities (DAFF, 2014). South Africa exports unprocessed agricultural products and imports processed agricultural products, such as soybean oilcake, prepared foods, palm oil and animal feed.

Over the last two decades, two of the key trade agreements concluded by South Africa are the Trade, Development and Co-operation Agreement (TDCA), and the African Growth and Opportunity Act (AGOA).

The **TDCA** is an agreement that regulates trade between South Africa and EU member states, covering approximately 90% of bilateral trade, and grants South African agricultural commodities preferential access to the EU market. South Africa agreed to remove duties on approximately 81% of its imports of agricultural products from EU member countries, while the European Commission agreed to remove duties on 61% of agricultural imports from South Africa (DAFF, 2012). Between 2003 and 2013, South Africa's agricultural exports to the EU grew by 108%, from R10.2-billion to R21.3-billion (Table 7).

Promulgated in 2000, the **AGOA** gives sub-Saharan countries (including South Africa) preferential access to the USA market for a wide range of products. Three sectors benefit the most: agro-processing, textile and apparel, and automotive sectors (TIPS, 2015). South African agricultural products covered under AGOA include citrus, wine, essential oils and other fruits (ibid). Although South Africa and USA reached an agreement allowing the USA to export 65 000 tons of chicken into the South African market (Erasmus, 2016), sanitary and phytosanitary issues (e.g. avian influenza) led to South Africa banning chicken imports from the USA. In 2014/15, the USA threatened to remove South Africa from AGOA if the ban on their chicken imports is not lifted. Following a series of bilateral negotiations, South Africa lifted the ban in March 2016 (AGOA.Info, 2016). In the spirit of reciprocity, USA will support the poultry sector through skills and technology dissemination targeting previously disadvantaged groups in South Africa (Erasmus, 2016).

Figure 16. Agriculture, forestry and fisheries trade



Source: Commission's computations based on WTA (2014)

Table 7 shows the main markets for South African agricultural exports in 2003 and in 2013.

Table 7. South Africa's agricultural export destinations

Markets	Export value R-million (2003)	Export value R-millions (2013)	10-year growth (%)	Share of SA exports (2003)	Share of SA exports (2013)
World	**23 534**	**66 686**	**183%**	**100%**	**100%**
EU 28	10 243	21 291	108%	44%	32%
Africa	6 489	20 919	222%	28%	31%
Asia (excl. China and India)	3 865	13 041	237%	16%	20%
BRIC	661	5 417	719%	3%	8%
CAMANZ	233	1 851	694%	1%	3%
USA	1 011	1 763	74%	4%	3%

Source: Commission's computations based on WTA (2014)
Notes: BRIC = Brazil, Russia, India and China; CAMANZ = Chile, Argentina, Mexico, Australia, New Zealand

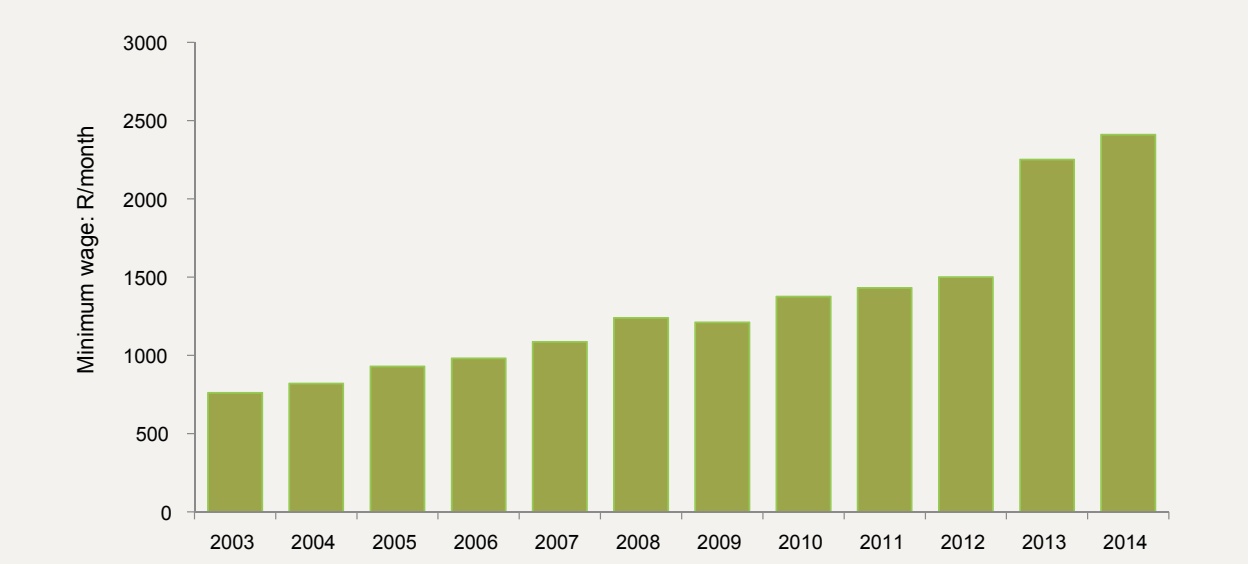
Over the 10-year period, agricultural exports grew by 183%, increasing from R23.5-billion to R66.7-billion. The main export markets, accounting for 83% of total exports, were the EU, Africa and Asia. However, exports are slowly shifting away from Europe to Asia and Africa: the EU's share declined by 12%, whereas Africa's and Asia's shares increased by 3% and 4% respectively.

1.5.3 Labour policy reforms

Before 1994, South African farm workers were not protected by any labour legislation. With the advent of democracy, farm workers received basic employment rights under the Agricultural Labour Act (No. 147 of 1993) and were included in the provisions of the Unemployment Insurance Act (No. 63 of 2001). The Basic Conditions of Employment Act (No. 75 of 1997) stipulates minimum labour standards for farm workers, as well as maximum working hours and payment for overtime. The Extension of Security of Tenure Act (No. 62 of 1997) ensures security of tenure for occupiers of rural and farm land who earn less than R5000 per month. In 2003, the Department of Labour introduced minimum wages for the agricultural sector (BFAP, 2015). Between 2003 and 2012, the farm minimum wage increased on average by 8% annually, and then increased by nearly 50% in 2013, as a result of the farm workers' strike in the Western Cape. However, by 2014 the increase was back to inflation growth of 7% (Figure 17).

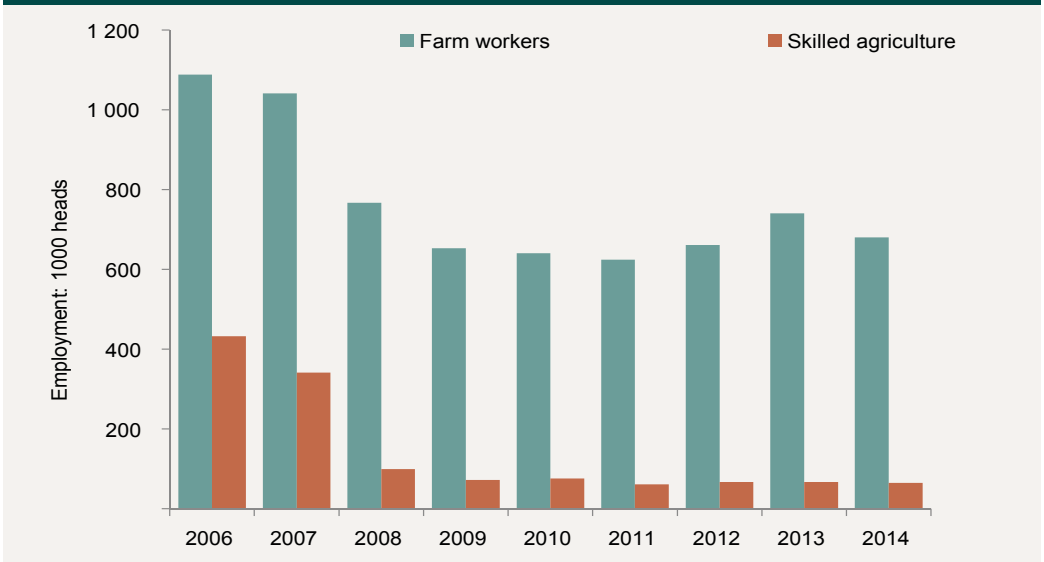
Over the past decade, agricultural employment has been gradually declining, from 1.5 million agricultural workers in 2006 to 800 000 workers in 2013 (Figure 18). Low-skilled farm workers have been the biggest losers. The labour policy reforms, especially the minimum wage policy, led to the casualisation of farm workers and the consequent decline in farm worker numbers (BFAP, 2015; PLAAS, 2012; Dinkelman and Ranchhod, 2012).

Figure 17. Trends in farm minimum wages (2003–2015)



Source: Commission's computations adapted from DoL (2014)

Figure 18. South African agricultural labour trends (2006–2014)



Source: Commission's computations adapted from DAFF (2014)

1.5.4 Food security and rural development

Food insecurity is largely the result of a household's or an individual's inability to purchase food because of a limited or lack of purchasing power, which is the case for many poor rural households and individuals. Rural development is about reducing poverty and thus automatically increases food security.

The Comprehensive African Agriculture Development Programme (CAADP) is Africa's policy framework for agricultural transformation, wealth creation, food security and nutrition, and rural economic development for all African states. Its aim is to invest 10% of the state's GDP into the agricultural sector. South Africa is in the process of implementing the CAADP in order to ensure food security in the country. The country is food secure at national level, but very high levels of food insecurity are found at household level in rural areas, especially in KwaZulu-Natal, the Eastern Cape and Limpopo (FANRPAN, 2014). South Africa's integrated food security strategy adopted in 2002 covers five areas of food insecurity:

(i) inadequate safety nets, especially for poor households in rural areas;

(ii) disaster management systems, which aim to create a structured system of dealing with food security disasters;

(iii) unstable household food production, which deals with hunger and malnutrition;

(iv) lack of purchasing power, promoting agricultural and other economic activities in order to enhance household purchasing power; and

(v) poor nutrition status, with the aim of improving the nutritional status of households.

In 2009, approximately 11.9 million children were living in poverty-stricken households, i.e. below the poverty line. According to UNICEF (2012), the highest percentages of children living below poverty line are found in Limpopo (83%), the Eastern Cape (72%), KwaZulu-Natal (71%) and North West (70%).

1.5.5 Infrastructure development policies and rural development

It is a well-known fact that poor physical infrastructure inhibits rural development in developing countries. Agricultural growth is stunted by a lack of "investments in rural physical infrastructure, especially those related to irrigation, transportation, electrification and communications" (Norton et al., 2006). In most low-income countries, agricultural growth and poverty reduction are severely limited by "poor physical infrastructure for transport, power, communications, irrigation, water, and sanitation" (World Bank, 2005). Poor physical infrastructure in rural areas means high transaction costs, which prevent rural households from reaching their productivity and growth potential, and result in markets not functioning effectively. Poorly maintained rural roads makes distributing products difficult. Therefore, in most developing countries, one of the preconditions for rural development is to provide physical infrastructure and thus lower transaction costs. However, over the years, investment in agriculture has been declining, as other economic sectors (such as manufacturing) are emphasised. The low and variable investment in the agriculture sector is a concern because of the link between agricultural production, food security and poverty.

Government has introduced a number of policies aimed at encouraging the participation of previously disadvantaged individuals in the commercial agricultural value chains. One key policy is the AgriBEE, which is part of a broader government process related to the Broad-Based Black Economic Empowerment Act (No. 53 of 2003). The Act makes provisions for codes of good practices that spell out the rules of the transformation agenda and developmental mandate. Parallel to AgriBEE policy, the Agricultural Policy Action Plan (APAP), which was introduced in 2014, identifies key agricultural commodities and areas where they will be grown, with a strong bias to 27 poorest districts (DRDLR, 2015). The APAP has three pillars: AgriParks, Strategic Integrated Projects (SIP) 11 and commodity value-chain development. The aim of AgriParks is to create rural infrastructure and to build one AgriPark facility per district. SIP 11 is part of the National Infrastructure Plan (which is administered by the Presidential Infrastructure Coordination Commission) and intends establishing agro-processing and rural logistics infrastructure and encouraging import substitution of processed agricultural products. Through these three pillars, the APAP aims to create over one million rural and agricultural jobs and 300 000 emerging farmers by 2019. It also plans to increase the contribution of agriculture to GDP, from the current 2.5% to over 3%, through agro-processed commodities exports.

Another government programme is the Integrated Strategy on the Development and Promotion of Co-operatives, which is driven by the Department of Trade and Industry (the dti) in partnership with the DRDLR and DAFF, that promotes co-operatives mainly for emerging farmers in an effort to promote strong viable and self-reliant agricultural businesses. Government has also introduced the Expanded Public Works Programme (EPWP), as a means of generating employment and alleviating poverty in the short to medium term. EPWP brings more people into the economy and gives them opportunities or skills to effectively participate and earn a living. Sectors targeted by EPWP include infrastructure development by municipalities (e.g. upgrade rural and municipal roads); environmental and cultural programmes (e.g. fire programmes and wetlands); and the agricultural sector (e.g. land-care programmes) and the social sector (e.g. home-based care).

1.6 Concluding Remarks

As South Africa faces the challenge of reducing rural poverty, it is worth looking at lessons from other countries and from South Africa's own experiences with rural development since the mid-1990s. Rural development efforts should continue to focus on improving the incomes of the poor and ensuring a fair distribution thereof. However, challenges facing the rural poor are not just the need for agriculture and agrarian reforms, but also include education, health care, social and economic infrastructure, the creation of employment opportunities as well as changing the economic geography of rural areas. Thus, rural development is a complex process that requires proper coordination among the ministries involved. Therefore, adequate fiscal frameworks can only be designed once there is clarity and a common understanding of the role of all spheres of government in rural development.

The highest per capita expenditure levels are found, unsurprisingly, in provinces with the strongest revenue performance, which happen to be non-rural. Outmigration from rural towards urban regions is growing, no doubt as a result of the democracy dividend that brought freedom of movement to all. As shown in this chapter, large economic disparities exist across provinces, for instance in terms of GDP per capita, unemployment and average household income.[6] Given this situation, policies aimed at improving human capital in disadvantaged regions make sense from both an equity and efficiency perspective. The key drivers of growth vary according to a region's level of development, but education and training, above all, are critical for the growth of all regions (Petchey et al., 2007).

Institutional and fiscal reforms are needed to overcome these bottlenecks and to enable all spheres of government to deliver on their rural development mandate. The main objectives of fiscal reforms should be to bring about greater inter-regional equity and discourage migration in response to regional economic differentials. Nevertheless, the sustainability of rural development initiatives depends greatly on the capacities, accountability and inter-relationships of the institutions involved.

1.7 Recommendations

With respect to creating conditions for the future prosperity of rural areas, the Commission recommends that Government:

1. Develops a comprehensive definition of "rural areas" and "rural development" to be applied across the three spheres of government. The Department of Rural Development and Land Reform and the Department of Planning, Monitoring and Evaluation must convene a task team with other relevant government departments to develop a definition of "rural, remote and rural development" that is clear and simple to categorise and measure. This definition should be:

   - multi-sectoral and place-based, aimed at identifying and exploiting the different development potential of rural areas, with a focus on places not just sectors.
   - measurable, to enable Stats SA to report on "rural" versus "urban" development and to provide credible and accessible data on rural development.

2. Deals with disparities between and within regions by harnessing the growth potential of rural areas.

   - Inter-regional and inter-provincial migration is already underway following freedom of movement brought about by democracy. Government should further strengthen the equity focus of intergovernmental transfers, in particular in the health and education sectors targeted at rural areas, as this facilitates efficient reallocations.
   - Policy efforts should complement these reallocation-enhancing processes in order to sustain productivity growth within rural areas. Government should actively and specifically include conditions in rural grants aimed at increasing productivity and employment whenever significant capital investment in rural public infrastructure occurs.

3. Strengthens intergovernmental relations by:

   - Boosting incentives for performance (own-revenue raising, policy and administrative capacity for service delivery, etc.), especially in provinces and municipalities with large disparities within them.
   - Addressing the identified weaknesses (coordination failures, governance complexity, etc.). Coordination is needed between the national government and subnational governments and authorities. Developing a true partnership implies participating in decision-making and implementing rural development policies that the regional or local government helps to design. This requires a high level of commitment, effective knowledge sharing and competence on the part of national, provincial and local representatives. In this respect, Government should design a mechanism to ensure that proper incentives are provided to make rural communities act dynamically and in a way that rewards initiative and experimentation, but that also promotes consistency in public policy across sectors and regions.

>>

[6] This is especially the case for African and coloured populations who are characterised by worse health and education outcomes (NPC, 2011)

CHAPTER 2

The Model of Rural Development Underpinning FFC Recommendations

The Model of Rural Development Underpinning FFC Recommendations

2.1 Introduction

This chapter discusses the model underlying the Commission's recommendations contained in this Submission. Broadly, the Submission is about the IGFR system that governs rural development and understanding the basic theoretical links between IGFR and rural development. IGFR refers to the structure of public finances in a country with multiple levels and spheres of government. Consequently, IGFR instruments refer to how taxing, spending and regulatory functions are allocated among the various spheres and levels, as well as the nature of transfers between and among those spheres (Gramlich, 2003; Oates, 1972; 1994)[7]. The institutional arrangements form important pillars of the IGFR, which has many dimensions.

A vexing question confronting practitioners in rural development is whether these IGFR instruments for rural policies work. Despite growing interest among policy-makers, very little research has documented the results of place-based rural development policies,[8] and what determines success or failure. This is because it is difficult to isolate the impact of cross-sectoral policies, especially in quantitative terms.

Two pillars dominate the conceptual framework underpinning the Commission's recommendations.

1. Weak and ineffective IGFR instruments, which are a major constraint for planning, implementing, operating and maintaining rural development interventions.

2. Institutional failures and deficiencies, which account for a large part of this state of affairs, in particular weak governance and technical and administrative capabilities.

Before examining in more detail the conceptual framework, it is important to clarify what is meant by the concept of rural development.

2.2 Rurality and Rural Development

Rural development is distinct from rural growth. Growth usually means "more of everything": more population, more resource use and more total income without a significant change in industry mix, technology, productivity or income per capita. Traditionally, the economic definition of development referred to the ability of a country to generate and sustain GDP growth. However, since World War II, the definition has increasingly become concerned with reducing/eliminating poverty, inequality and unemployment, and growing the economy. Development is perceived as a multi-dimensional process that involves reorganising and reorienting entire economic and social systems. The aims of development must include (a) increasing living standards, and having a positive impact on quality of life, (b) expanding the economic and social choices available to individuals, and (c) reducing inequality and exclusion.

Observation #1: Rural development is distinct from rural growth.

"Rural development"[9] is essentially about revitalising and strengthening the rural, and thus includes non-farm rural industries and land uses, and new rural occupations that result in higher per capita income. This involves repositioning the rural, making it more attractive, more accessible, more valuable and more useful for society as a whole (including rural dwellers). The World Bank (1975: 3) defined rural development as:

> *A strategy designed to improve the economic and social life of a specific group of people – the rural poor. It involves extending the benefits of development to the poorest among those who seek a livelihood in the rural areas. The group includes small-scale farmers, tenants and the landless.*

>>

[7] In this respect, IGFR instruments are synonymous with fiscal frameworks, which refer to all of a sphere's available revenues and expenditure responsibilities.

[8] Place-based policies refer to government efforts to enhance the economic performance of an area within its jurisdiction, in this case a rural area, typically in the form of transfers to facilitate more job opportunities, higher wages or basic consumption. Best known, perhaps, are place-based policies that target underperforming areas, such as deteriorating rural areas or relatively disadvantaged areas eligible for regional development aid such as former Bantustans.

[9] The concept of rural development is both ambiguous and contested. This ambiguity is not intrinsic to the concept, but due to the many social struggles (including classification struggles) at the many interfaces within the agricultural sector, between agriculture and wider society, within society, and within policy.

Yet this definition does not mention the most disadvantaged groups of rural people – women and children. Therefore, a complementary definition of rural development could be (Chambers, 1983: 147):

> *A strategy to enable a specific group of people, poor rural women and men, to gain for themselves and their children more of what they want and need. It involves helping the poorest among those who seek a livelihood in the rural areas to demand and control more of the benefits of development. The group includes small-scale farmers, tenants, and the landless.*

Sustainable rural development can make a powerful contribution to three critical goals of poverty reduction: (i) wider shared growth; (ii) global, national and household food security; and (iii) sustainable natural resource management (World Bank, 2006). Agriculture and rural development, and their interaction with industry and regional development, have long received special attention from scholars and analysts who are of the view that land and agrarian reforms have an important role to play in resolving rural poverty and under-development.

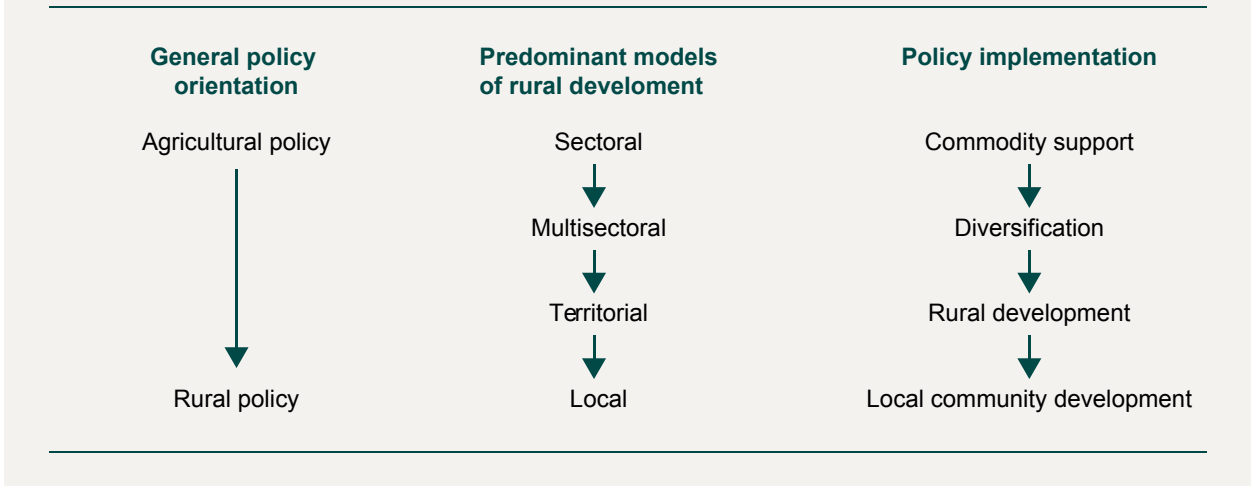
Observation #2: The rural economy is no longer just a farm economy.

If the rural economy is no longer just a farm economy, the concern is the effectiveness of agricultural policy as the main component of public policy for rural regions. Agricultural development focuses on a small segment of the rural population – farmers and others involved in agricultural enterprises – rather than on rural places or areas. Challenges facing the rural poor go beyond agriculture and agrarian reforms to include education, health care, social and economic infrastructure, the creation of employment opportunities, as well as changing the economic structure of rural areas. Therefore, rural development is a complex process requiring proper coordination among the institutions and departments involved. The performance of non-agricultural sectors affects rural households, and so any analysis of rural development must include urban-rural links (through the relationship between agricultural and non-agricultural sectors) and mobility among sectors.

The concept of rural development has evolved over time, responding to changes in the nature of rural economies and in rural policy approaches. The main change has been from focusing on the agricultural sector to focusing on rural territories and more diversified economic activity (Van der Ploeg et al., 2000; Léon, 2005; OECD, 2006). Until the 1970s, rural development was synonymous with agricultural development, as industrial development was seen as the focus of development efforts, with agriculture playing the (secondary) role of providing capital, food and labour for industrial development.

Figure 19 illustrates the four predominant models of rural development. Immediately after World War II, the priority was increasing food production, and so the focus was on the agricultural sector, with rural employment and services seen as following directly from the production support given to the agricultural sector. Since then, the approach has shifted to multi-sectoral, territorial and local approaches. The multi-sectoral policy recognises agriculture as one of several economic sectors through which development objectives can be attained. While the focus is still on farming, agricultural diversification is encouraged. The territorial approach recognises the importance of social, environmental and economic issues within the rural areas. Lastly, the local approach differentiates among rural areas and seeks solutions that are specific to individual circumstances. These changes in approach have major implications for the methodologies used to analyse rural problems and evaluate policies.

Figure 19. Evolution of rural development policies



Source: Hodge (1997)

The fundamental logic of rural development is beginning to be questioned at two levels: (i) policies or central intervention, and (ii) local aspirations aimed at improving everyday rural life (Nemes, 2005). Land and agrarian reforms on their own have had limited success in reducing poverty, underdevelopment and inequalities in rural areas (Hemson et al., 2004). Therefore, perhaps constructing a comprehensive and generally accepted policy guideline or strategy of rural development is not possible (Van der Ploeg et al., 2000).

Conceptual definitions, policies and strategies of rural development remain contested. Shifts in rural employment and population reflect larger shifts in the national economy, including the expansion of employment in the services sector and a decline in the relative size of the manufacturing sector. In fact, many rural areas benefited from technological change and the relocation of manufacturing into rural areas, while other areas benefited from reduced transportation and communication costs. These shifts have made rural places with high-valued natural amenities more accessible and desirable destinations for retirees, tourism-related businesses, and services sector firms. Rural areas are also home to people attracted by a rural lifestyle and lower land and housing prices, and willing to commute to cities for employment and for cultural reasons. Rural economies are becoming more diverse, while rural places are increasingly accessible, adjacent to expanding urban areas, and have rising incomes and preferred amenities.

Observation #3: "Rural" vs. "urban" is more than a simple dichotomy. There is a strong interdependence that produces a continuum from dense urban places to remote rural places.

The growing consensus is that rural development is more than just agriculture, land reform and food security. Therefore, agrarian reform is only a part of the rural development programme, which needs to address other aspects of societal development, including universal access to water, electricity, roads, schools and health in rural areas. These are constitutionally mandated services and essential for the livelihoods of rural communities. The relevance of multiple sectors and multiple factors, the interplay of demand and supply, and the need to understand household and producer responses to market signals and policies are obvious in this setting.

Observation #4: Rural development requires general equilibrium tools, as these and other quantitative tools provide a necessary foundation for community economic analysis.

Rural development policy has evolved, from the social and political goals implicit in the RDP era, to the spatial concepts of nodes, corridors and infrastructure strategies contained in the Integrated Sustainable Rural Development Strategy (ISRDS) of 2000, to the extension of quality government services to rural areas in the Comprehensive Rural Development Programme (CRDP) of 2009. Rural development has consistently been among the priority areas identified in the MTSF of 2009–2014 and 2014–2019. Between 1996 and 2012, government's strategies and growth plans supporting rural development included GEAR, AsgiSA, the NGP and both the NDP and the Strategic Infrastructure Projects (SIP) in 2012. Rural development is Outcome 7 ("Vibrant, equitable and sustainable rural communities and food security for all") of the 12 delivery outcomes (The Presidency, 2010), and the service delivery agreement is between the President and the Minister of Rural Development and Land Reform.

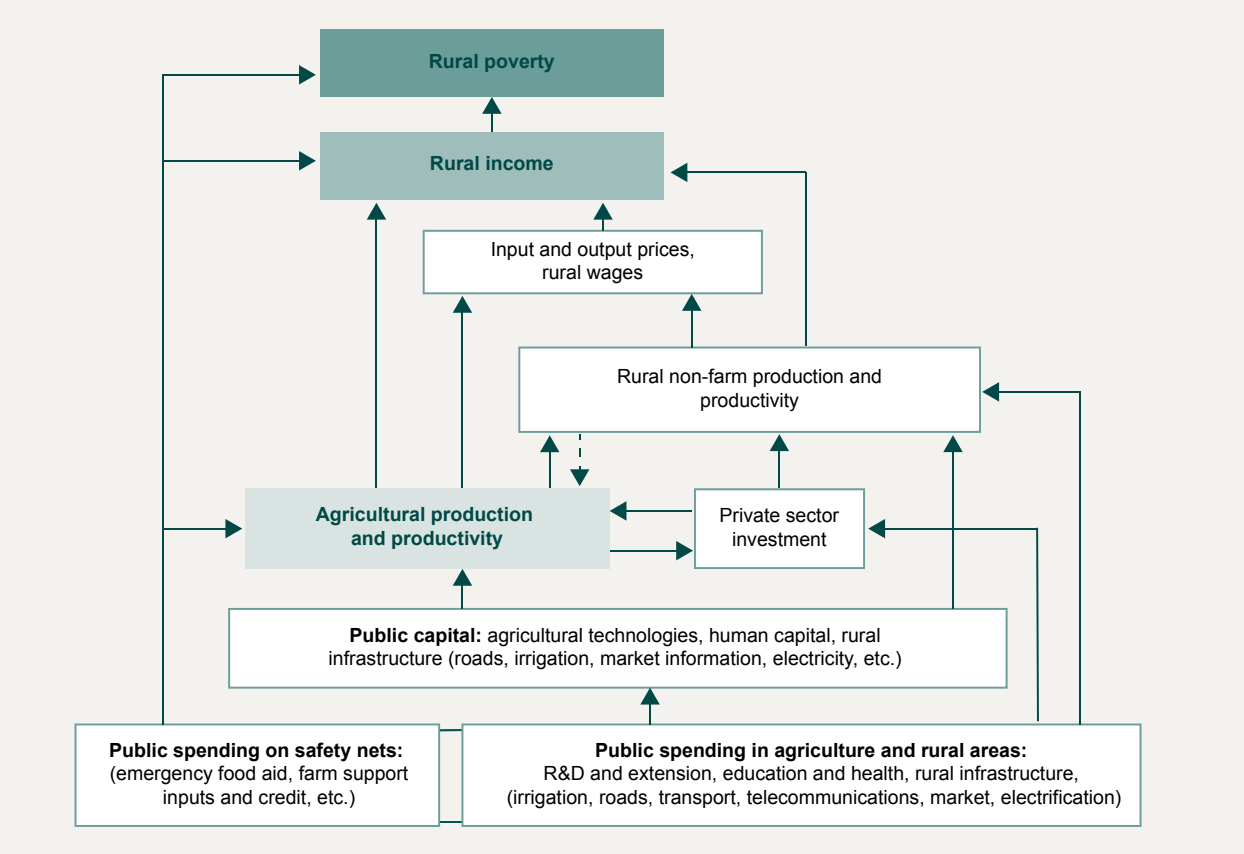
The RDP emphasised people-centred development, democratic participation, social goals, investment strategies and infrastructural objectives. It was comprehensive, covering areas such as agriculture, education, health, public works and social welfare. The ISRDS focused on poverty eradication by ensuring effective implementation (of rural development programmes) through better coordination and cooperation among the different spheres of government. It emphasised greater effectiveness in service delivery without additional funding (resources). The ISRDS, which was later launched as the Integrated Sustainable Rural Development Programme (ISRDP), has been criticised for relying too much on integrated development plans (IDPs) and for "not setting out clear priorities and sequences that would make change possible" (Hemson et al., 2004: 13). An assessment of the ISRDP found that, although poverty steadily declined in the rural nodes and literacy rates showed signs of improvement, unemployment remained critically high (Everatt et al. 2006). The programme was found to be fraught with coordination problems and mixed results, with low levels of community awareness of associated projects, suggesting a lack of community participation (ibid). Therefore, in 2009, the Department of Rural Development and Land Reform (DRDLR) was established to bring "comprehensive" rural development to the forefront, through the CRDP, which identifies 27 rural district municipalities with significant infrastructure backlogs and low levels of human development indicators. The intention is to address rural development through a cross-sectoral and multi-occupational diversity of programmes, and to build "vibrant and sustainable communities", through a coordinated and integrated broad-based agrarian transformation, rural development infrastructure, and an improved land reform programme.

2.3 The Conceptual Framework Underpinning Recommendations

The model underpinning the Commission's recommendations is multi-layered and multi-levelled, covering local, regional and provincial and encompassing many actors, institutions, enterprises, state enterprises and social movements. While these various dimensions are modelled here as distinguishable from one another, in reality they cannot be separated, as they are intertwined in various ways. For example, public investment in agriculture and rural areas can affect rural poverty directly or indirectly and at different levels (i.e. household, municipal, provincial or national), and the magnitude and direction of impacts will depend on the type of investment. Therefore, the impacts of investments must be assessed holistically (Figure 20).

The framework's premise is that when governments invest in agriculture and rural areas, government owned-assets (i.e. public capital) are created or increased, which are then used as a vehicle for increased agricultural production and productivity. Improvements in agricultural production and productivity then affect rural incomes either directly or through its impacts on input and output prices, rural wages, rural non-farm production and productivity. As rural incomes improve, rural poverty is expected to decline. The framework in Figure 20 highlights the complementarities between the two interventions proxied by public capital (IGFR instruments) and productivity (institutions): public capital stock affects the productivity of private capital (along with other factors of production) and its contribution to farm wages and incomes and poverty reduction (Anderson et al., 2006).

Figure 20. Growth and poverty-reduction pathways of rural policies



Source: Benin et al. (2008)

Figure 20 also captures the direct and indirect[10] (via agricultural production and productivity, and rural incomes) impacts on rural poverty of public spending on safety nets. Safety nets increase the productivity of target groups by, for example, investing in their human capital through education, skills, health, and nutrition (Schultz, 1982), thereby contributing to poverty reduction. However, safety nets might also induce recipients to no longer work on farms, which could reduce agriculture production.

>>

[10] Also referred to as 'general equilibrium' effects when combined.

The essence of a general equilibrium is that the inter-relations, interactions, exchanges and positive externalities are expressed *simultaneously* across all dimensions. Similarly, the general equilibrium concept is not limited to the agricultural sector but captures all possible elements that share the same geographical space on both the consumption and production side. The notion of general equilibrium only becomes meaningful when this wider set of interdependencies, interactions and the implied synergies and externalities are taken into account.

In assessing the impact of public investments in agriculture and rural areas, the importance of *institutional arrangements* needs to be highlighted. Institutional arrangements are structures and mechanisms of social configuration and cooperation and can be formal and/or informal. The starting point for this model is the Constitution. South Africa is a unitary decentralised country with a three-sphere government structure, divided into 278[11] municipalities, nine provinces and one national government. Schedule 4 Part A of the Constitution assigns rural development as a concurrent area of responsibility among provinces, municipalities and national government. This makes rural development policy complex and traversal, involving different state institutions and agencies that are assigned different aspects of rural development. National and provincial governments, rural municipalities, state-owned enterprises (SOEs) and the private sector are all involved in rural development initiatives. Others involved include the professional interests and communities which are to some extent dominated by the agricultural profession and its representatives, and an expanding civil society represented by local non-governmental organisations (NGOs) and national NGOs, particularly in the environmental domain. Non-agricultural professional interests constitute a third component of the non-state, non-local government actors in rural development.

Table 8. Mandate and funding of three government spheres

Government sphere	Constitutional mandate for rural growth and development	Funding
National	• Overall coordination of rural development, land and agrarian reforms. • Agricultural development.	Taxes and duties
Provincial	• Economic: rural development, regional planning and development, agriculture, industrial promotion, etc. • Social: education, health, social welfare. • Oversight over sub-provincial governance structures: municipalities, traditional authorities.	Own revenue Provincial equitable share Grants (conditional, indirect and other) No borrowing
Local	• Economic: local planning, infrastructure and services for economic activities: electricity, water, roads, markets, abattoirs, etc. • Social: early childhood development (ECD).	Own revenue Local government equitable share Grants (conditional, indirect and other) Borrowing

Source: Commission's compilations

At national government level, rural development programmes are mostly located within the DRDLR and DAFF, which each have a dedicated programme for delivering services to rural people. As rural development is multi-faceted, government has adopted a joint implementation approach, which among other things addresses coordination failures. This joint approach is outlined in the MTSF implementation plan. Table 9 shows the various outputs, policy targets and responsible government ministries for each NDP rural development outcome. The government departments responsible for the different activities cut across the various spectrum of provincial mandates. It can thus be concluded that national policy acknowledges the role of provinces in implementing various aspects of rural development. The main provincial responsibilities of expenditure for local governments are: administrative costs; provision of the basic services electricity, water, sanitation and refuse removal; building and maintaining of municipal roads; local social and economic development; community services, such as parks, sports, recreation etc.; and disaster management and fire services.

>>

[11] The 2015 boundary redeterminations will result in a reduction of local government structures by 21 municipalities, from 278 to 257.

Table 9. Selected rural development outputs and departmental responsibilities

Outcomes	Activity/output	Responsible Minister	Target
1	Develop and implement spatial development plans	DRDLR, Department of Cooperative Governance and Traditional Affairs (COGTA), Department of Human Settlements (DHS), Department of Public Works (DPW)	March 2016
2	Acquire and allocate strategically located land	DRDLR	2 million hectares (ha) by March 2019
3	Implement the comprehensive food security and nutrition programme	DRDLR, Department of Agriculture, Forestry and Fisheries (DAFF), Department of Social Development (DSD), Department of Basic Education (DBE), Department of Health (DOH)	1.6 million households benefiting by March 2019
4	Expand land under irrigation	DAFF, DRDLR, Department of Water & Sanitation (DWS), Department of Energy (DOE)	Additional 1250 ha under irrigation by 2019
5	Eradicate infrastructure backlogs in rural schools	DBE, DRDLR, DPW	100% by March 2019
6	Promote rural enterprises and industries	Department of Small Business Development (DSBD), Department of Trade and Industry (dti), Economic Development Department (EDD), Department of Tourism, DRDLR and DAFF	Additional 60 formal enterprises per district municipality

Source: Adapted from Presidency (2014).

Provinces and national government have similar rural development approaches and sub-programmes. The provincial departments of agriculture and rural development carry out much of the programmes, which are overwhelmingly dominated by agrarian activities, project oriented and supply driven, unsystematic and spread thinly across rural villages. These departments are involved in delivering agriculture-related programmes, such as revitalisation of irrigation schemes, livestock improvement, milling plants and silos in CRDP sites, food nutrition and provision of boreholes and agriculture inputs to communities. Unlike their national counterparts, some of the provincial agriculture and rural development departments include the services delivered by other departments within the rural spaces. For instance, the Mpumalanga annual report for 2014 shows the contribution made by the departments of social development, education and economic development in providing youth centres, training ECD professionals and establishing a bakery among other things.

Overall, the rural areas are receiving considerable attention from provincial governments, especially agriculture, but it is unclear whether the programmes are delivering the full complement of services required for rural development. Although the CRDP provides government with an opportunity to coordinate interventions towards areas with the greatest needs, the programme is likely to be undermined by isolated departmental planning processes – sector departments plan separately from municipalities (the custodians of rural spaces), which leads to duplication.

Municipalities have two core responsibilities with respect to rural development: the effective provision of basic services, and associated support to local economic development (LED). The purpose of LED is to build up the economic capacity of a local area to improve residents' quality of life. It is a process whereby the public, business and social sectors work collectively to create better conditions for economic growth and employment generation. Since 1995, considerable energy and resources have gone into enabling municipalities to play a meaningful role in LED. However, the resources are not sufficient for implementing large-scale projects outside of strong partnerships with other public and private agencies. Expenditure is also very limited compared to other service delivery priorities of local government, with on average less than 1% of municipal operating budgets going towards LED initiatives, either directly or through municipal entities (development agencies). Initiatives include the tourism and agricultural sector, and depend on the geographical location and comparative advantages of each municipality. For instance, in most coastal municipalities, LED initiatives are focused on tourism development and urban regeneration initiatives that will further attract investment and tourism.

In addition to national, provincial and local government, a range of public entities and SOEs are responsible for various rural development initiatives. In certain instances, these initiatives are part of the entities' corporate responsibility programme; in others, specific programmes have been established to offer technical support to municipalities and to provide financial support for the implementation of projects. The three main initiatives in this regard are:

- The Agency Development and Support Programme, which is an initiative of the Industrial Development Corporation (IDC) and supports the establishment of municipal LED agencies. Currently, 32 such agencies are being established or are operational. However, the concern is that using the agency route creates another level of governance and bureaucracy, which is costly to manage and dilutes the developmental impact.

- Electricity reticulation by Eskom and district municipalities. Most rural municipalities have very limited functions because of the asymmetric division of functions between municipalities and historical legacies of poor capacity. As a result, Eskom and district municipalities play a crucial role in the reticulation of electricity and water respectively in rural areas.

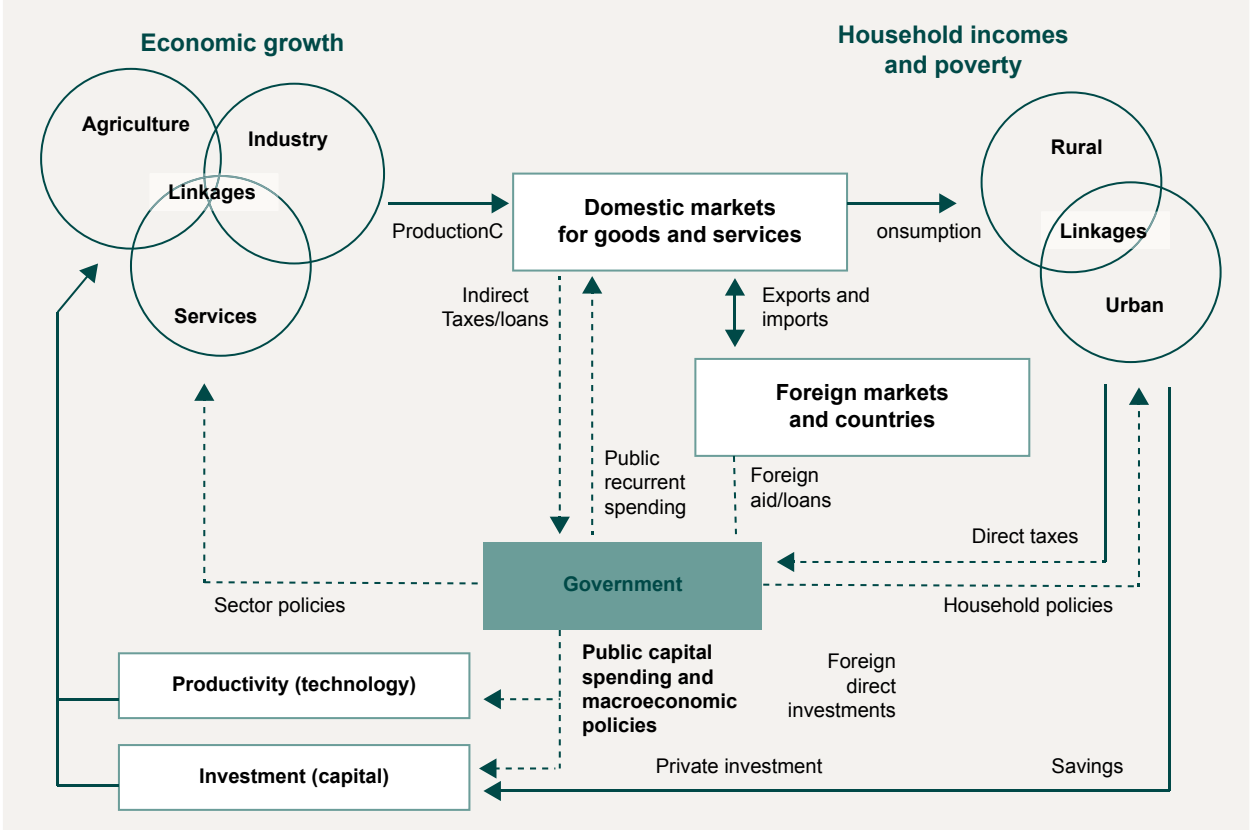
- The Rural Economic Development Initiative, which is a DBSA project that is currently being piloted in three municipalities. Its aim is to explore ways of implementing seven common development principles for effective LED: plotting the path; shifting stakeholder focus from the consumption economy to the productive economy; acknowledging the importance of a large, diversified economic development portfolio; identifying bold projects; promoting and facilitating partnerships; improving municipal performance; and developing strategic policies to promote sound economic development.

Private sector LED initiatives range from projects by individual firms, farmers and churches, to interventions by research institutions and non-profit organisations that focus on particular aspects of development, such as micro-finance, subsistence gardening, skills development etc. Examples of micro-finance assistance include the Women's Development Bank and the Old Mutual Group's Project Imbizo. International donors also play a valuable role in funding and facilitating LED. For example, the EU's LED programmes provide financial and technical support to municipalities in the Eastern Cape, KwaZulu-Natal and Limpopo.

2.4 Towards Empirical Analysis

To ensure robust analysis and findings, a mix of econometric and simulation/modelling methods and tools are used to assess the impacts of IGFR instruments in agriculture and rural areas (Byerlee et al., 2009). Figure 21 demonstrates how the effects of IGFR instruments (e.g. public investments) filter through the entire economy in the proposed framework.

Figure 21. Economy-wide linkages of rural policy in a general equilibrium model



Source: Benin et al. (2008)

Quantification and modelling is required in order to attach numbers to these relationships. Identifying the types of socio-economic models that can be used to analyse rural policy issues is fraught with difficulty. The model types used in the Submission is specified through taking into account different policy measures corresponding to each generic policy issue and hence, the "compatibility" of each measure with types of socio-economic models that are able to carry out the analysis.

A rather complicated issue is related to defining the policy effects that models can capture. A policy-impact analysis can be directed towards more than one type of effects, and different "perspectives" can drive the definition of the effects to be measured (as relevant). These include policy-eligibility criteria (e.g. low agricultural incomes, high share of agricultural employment, etc.), micro-level direct variables (such as new economic activities generated or new quality products produced), economy-wide impacts of policy measures (e.g. on employment, income, structures) and "meta" issues such as regional economic growth and convergence or residual choice (to which rural development policies seem to contribute). The approach adopted here draws on the literature as well as the Commission's relevant research and policy analysis experience, and concentrates on modelling approaches judged to be suitable on the evaluation of "most important" effects.

Another important issue, which influences not the choice of model but the choice of scale, is related to the issue of spill-overs. Ideally (i.e. to serve a comprehensive policy-evaluation exercise), every model type could be used at the lowest possible sectoral level. However, spill-over effects and the rather wide scale of the socio-economic process do not allow such an approach.

Finally, another issue taken into account is the difficulty that several model types have in distinguishing the effects induced by the (specific) policy alone. This is a major traditional methodological problem, and its solution is included here. However, where appropriate, there is a hint that a model might be more useful for assessing the likely impacts in the absence of policy intervention.

It is difficult to isolate the impact of a particular external (exogenous) shock from underlying trends and from other internal and external factors that influence economic performance. For example, price movements of major imports and exports, changes in government economic policy, booms and slumps in the world economy, or the effects of civil or international conflict. Therefore, an eclectic approach is adopted, using a mixture of quantitative and qualitative analysis. The quantitative analysis combines regression analysis and an examination of movements around trends, "before-and-after" impacts of instrument changes, and forecasts versus actual performance of key economic indicators. Other relevant approaches are drawn upon, including those used in constructing computable general equilibrium (CGE) models, input-output tables and social accounting matrices (SAMs). Furthermore, a number of the drought impacts are qualitative and not easily captured within the framework of a formal model. Therefore, qualitative approaches included stakeholder interviews and perception surveys. In addition, desk-based statistical studies of the relationships between economic performance and IGFR instruments were undertaken. Finally, case studies of specific policy areas examined the interlinking issues of farm evictions and municipal finances in selected municipalities that had experienced actual farm expulsions.

The various methodological approaches used in this Submission are described below:

Econometric analysis

- A systems approach and, more specifically, a simultaneous-equations method that takes into account different rural poverty and investment decisions. Failure to take these decisions into account leads to biased estimates of the effects or net benefits of public investments (Greene, 1993). This is the approach in Chapter 3.

- A reduced-form, single equation of rural poverty in which instruments are used for the potentially endogenous explanatory variables or estimating a reduced-form model. The major shortcoming of this approach is that the different intermediate effects of public investments cannot be quantified. This is the approach in Chapters 4, 6, 8 and 9.

Estimations are also done at three levels: micro-, meso-, and national level.

- Micro-level analyses focus on the impacts of public investments on farms and/or households. Possible data sources include nationally representative household surveys, such as General Household Surveys (GHS). Since the level of public investments does not vary by household or farm, the effect of public investments will be captured by including variables that capture the household's access to particular public goods and services. This is the approach of Chapters 1 and 7.

- Meso-level analyses at municipal and/or provincial level make it possible to assess the effects of inter- and intra-sectoral public expenditure allocation. Further, this approach allows the spatial distribution of public investments and poverty-reduction to be analysed. This is the approach of Chapters 5, 6, 7, 8, 9 and 11.

- Macro-level analyses are common in literature, as different types of public investments and related data are often available at this level. However, estimation at this level requires a relatively long-time series data. This is the approach of Chapter 1.

Qualitative and case study approaches

- Chapters 4, 5, 7, 8, 10 and 11 have relied on case studies and desktop research to address the issues.

Simulation modelling approaches: CGE models

- CGE models that use SAMs to analyse economy-wide impacts of public investments (see e.g. Jung and Thorbecke, 2003; Lofgren and Robinson, 2008) are used in Chapter 1. They have also been combined with household surveys for micro-simulation where issues of poverty are discussed.

2.5 IGFR and Rural Development

As reported in the rest of the Submission, the Commission has carefully documented, described and analysed case studies in order to explore the wide variety of rural development and IGFR instruments and test the theoretical model outlined in Figure 20. The case studies cover nearly all the municipalities and provinces in South Africa and include some public entities. The analytical and case study contributions of this Submission are meant to inform governments, the public entities, the private sector, and households of the high returns from strengthening rural development.

The econometric and economic modelling provides the following that policy-makers can use for monitoring and evaluating rural development interventions:

- The level and distribution of impacts of IGFR instruments in agriculture, focusing on rural poverty.
- The effectiveness of different types of IGFR investments targeted at agriculture and rural areas.
- The spatial (mainly provincial) differences in the effectiveness of different types of IGFR instruments targeted at agriculture and rural areas.
- The projected impacts of possible scenarios of various government rural development policies or plans to increase investments in agriculture and rural areas.
- The factors that modify the impacts associated with increased public investments on rural poverty.

This modelling captures elegantly that rural is more than agriculture. It captures the impact of non-agriculture sector performances on rural households (disaggregated by urban/rural and by region) and the urban-rural links through the relationship and mobility between the agriculture and non-agricultural sectors.

2.6 Concluding Remarks

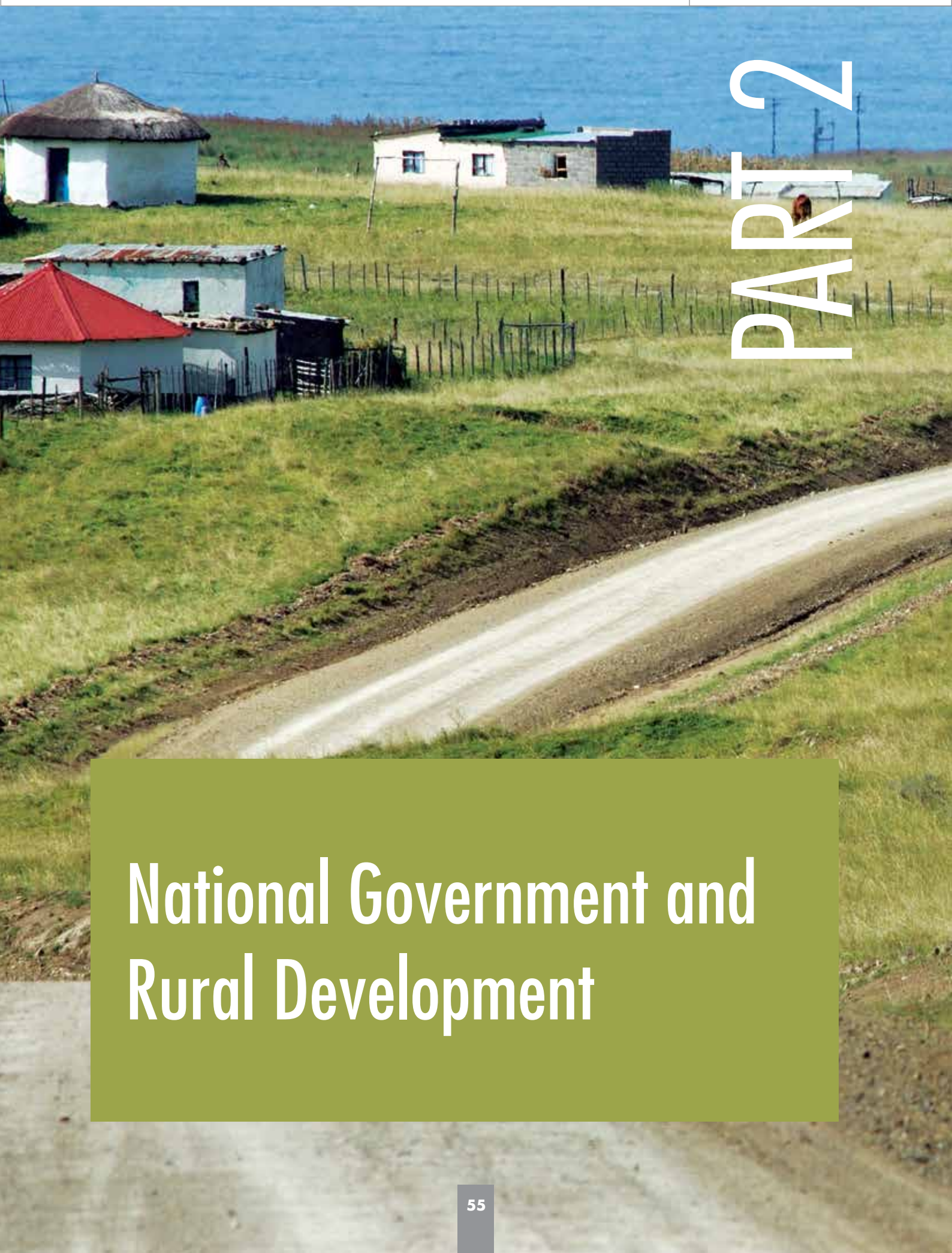
This chapter has established the necessary foundation for assessing the impact of IGFR instruments on rural development in the rest of the Submission. It established the scope of the subsequent discussion in terms of policy and considered the main kinds of modelling which have been (or may potentially be) used as part of the analysis of each of the chapters.

2.7 Recommendations

With respect to monitoring and evaluating IGFR instruments impact on rural development, the Commission recommends that:

1. The Department of Rural Development and Land Reform together with the Department of Planning, Monitoring and Evaluation convene a task team with other relevant government departments to develop a new rural development research agenda with three key objectives:

    - Develop a comprehensive analytical framework for rural development policy that includes appropriate qualitative and quantitative indicators to allow different policies to be evaluated and compared across municipalities and across regions within provinces.
    - Undertake a systematic review of rural development strategies and make the results made available to policy-makers across municipalities and provinces.
    - Encourage the various institutional and managerial systems charged with formulating and implementing rural policy to work together and to ensure that individual policies are consistent and converge in a coherent strategy. This can be achieved through special high-level joint inter-departmental coordination via working groups, formal contracts and policy proofing by, for example, benchmarking among peers.



PART 2

National Government and Rural Development

Over the past decade, South Africa has implemented many rural development strategies focused mostly on land reform and restructuring the country's agrarian economy, as a catalyst for poverty reduction and wider societal transformation. In recent years, conditional grants have been used to fund the flagship policy programmes. However, agriculture's declining share (in terms of employment and gross value added) has raised concerns about the efficacy of directed public investments in agriculture for achieving growth, reducing rural poverty and creating a vibrant and inclusive rural economy. Three aspects are examined in this section. The first seeks to show that agriculture and non-agricultural linkages can play an important economic development role and, if well managed, the interactions between the two can be the basis for economically, socially and environmentally balanced regional development. The second argues that land reform is essential because for many poor rural households, land is the main source of livelihood and means for investing, accumulating and transferring wealth. Providing secure rights in land they already possess can significantly increase the net wealth of rural households. Finally the third deals with state entities and their critical developmental role in the economy, looking at what SOCs and DFIs do in rural spaces and what they need to do in order to be drivers of rural growth.

CHAPTER 3

The Role of Targeted Intergovernmental Transfers in Rural Poverty Reduction

The Role of Targeted Intergovernmental Transfers in Rural Poverty Reduction

3.1 Introduction

A renewed focus in South Africa is on the potential of the agriculture sector to be an engine for rural development and support the creation of economically vibrant and sustainable rural communities. For much of the first decade of democracy, the country's agricultural policy focused on addressing the historical inequities of apartheid-era discriminatory practices that skewed the racial (and gender) participation in agricultural activities and access to land. In 2004, government introduced a Comprehensive Agricultural Support Programme (CASP) aimed at improving the productivity of emerging farmers by providing them with agricultural inputs, infrastructure and technical training. Since 2009, government's strategy seeks to fast-track rural development and land reform, and radically restructure the country's agrarian economy as a catalyst for poverty reduction and wider societal transformation (Nzimande, 2014). At the time, a stand-alone ministry – the Department of Rural Development and Land Reform (DRDLR) – was established, dedicated to the socio-economic development of rural South Africa. The department's flagship policy is the Comprehensive Rural Development Programme (CRDP), which consists of three phases[12] and has two focus areas: (i) an integrated programme of land reform and agrarian change aimed at fostering social cohesion and development, and (ii) a rural development strategy aimed at improving economic, cultural and social infrastructure, public amenities and facilities, and information and communications technology (ICT) infrastructure.

Despite these laudable initiatives, agriculture's contribution to rural development and poverty reduction has been called into question. The scope for agriculture to be an engine for economic growth and job creation is limited because of poor coordination, implementation and administration of (and access to) key support programmes (Grewell et al., 2012). Although government has increased capital funding to small-scale farmers, only about 13% of eligible black farmers benefitted from the support services offered by CASP (Hall and Aliber, 2010). A recent study found that the CASP programme achieved little to no impact because the grant services were thinly spread across a large number of beneficiaries (Business Enterprises at UP, 2015).

The limited impact of agricultural support programmes has raised concerns about the efficacy of public investments in agriculture. Policy-makers argue that, although agricultural support programmes are needed, intergovernmental transfers could be used more effectively if directed at improving farm infrastructure and inputs, community-level infrastructure, market development and institutional re-engineering (Hall and Aliber, 2010). More effective use of intergovernmental institutional and fiscal instruments could spur rural development and aid poverty reduction. Furthermore, the potential role of the non-agricultural sector should not be ignored, as shown in a number of recent studies. For example, Hasan and Quibria (2004) found that, although agricultural activities were the most effective driver for reducing poverty in South Asia and sub-Saharan Africa, growth in the services and industrial sectors had the greatest impact on poverty reduction in Latin America and East Asia respectively. Based on the analysis of 25 countries, Cervantes-Godoy and Dewbre (2010) found that, while growth in agricultural productivity was the main driver in reducing extreme poverty reduction (denoted as income ≤US$1.25 per day), support to the non-agricultural sector was more effective at reducing poverty among the relatively poor population (i.e. those classified as living on US$2.00 per day).

The lack of South African empirical research is a major drawback in the current policy debates and recommendations about the effectiveness of agricultural support in rural development and poverty reduction strategies. In particular, whether (i) the inter-sectoral linkages/value chains needed for a pro-agricultural strategy are present in a world of increasingly interconnected markets, and if (ii) the potential pro-agricultural support-driven growth will facilitate the participation of the majority of poor people living in rural areas (Anriquez and Lopez, 2007).

When assessing the growth and participation effects of pro-agriculture strategies, four questions need to be answered (Christiansen et al., 2011):

(i) Do agriculture-focused investments enhance overall growth more than similar investments in non-agricultural sectors?

>>

[12] Phase one of the framework is driven by programmes aimed at meeting basic human needs of citizens located in rural areas. The second phase focuses on the delivery of large-scale infrastructure development to support the transformation of rural economies, while the final phase focuses on facilitating the emergence of rural industrial and credit financial sectors through the creation of small, micro and medium enterprises and village markets (GCIS, 2011).

(ii) Do more poor households benefit from agricultural growth than from non-agricultural growth, and if so, which groups are able to participate in such growth and under which conditions?

(iii) If agricultural growth results in slower overall growth but greater participation by the poor (compared to non-agricultural growth), then which (agricultural or non-agricultural) growth strategy will reduce poverty the most and under which circumstances?

(iv) Will the results of (agricultural or non-agricultural) growth on poverty reduction be different if different measures are used to classify the poor?

To address these questions, a regression analysis is used to test and examine which source of (sectoral) growth matters for poverty, by applying dynamic panel data techniques to municipalities classified as rural in South Africa. A unique feature of the regression analysis is that effects of sectoral growth on poverty reduction is carried out using poverty measures that that take into account the position of poverty line with respect to the mean of income distribution (in each region/municipality), as well as the shape of this poverty distribution.

3.2 Findings

3.2.1 Agriculture as engine of growth

In many developing countries, the argument for policies aimed at agricultural growth and development is that economic growth results from the export of surplus resources. The opposite has also been suggested, that increased wages in the non-agricultural sectors result in resource relocation and productivity increases in the agriculture sector (Tiffin and Irz, 2006).

The issue of whether agricultural growth drives economic growth or economic growth drives agricultural growth is of vital importance to policy-makers. If the former is true, then it validates current efforts to bolster rural economies through policies that enhance agricultural investments and productivity. If the latter is the case, then a more appropriate policy could be one that targets growth in key non-agricultural sectors and encourages more linkages between such sectors and agriculture. Therefore, the first part of the analysis examines the links between agriculture and regional economic growth across municipalities.

Following Tiffin and Irz (2006), the agricultural value-added per worker (in the agriculture sector) and income per capita were analysed for a full sample of 234 municipalities as well as sub-samples of urban and rural municipalities over the period 1996–2014.[13] The results of the analysis can be summarised as follows:

- For the full sample of 234 municipalities, per capita income does not influence agricultural value-added, but agricultural value-added affects per capita income.
- For the two sub-samples of municipalities, both agricultural value-added and per capita income influence each other in both urban and rural municipalities.

While knowledge about whether or not agricultural value-added per worker affects per capita income (or vice versa), this does not provide a complete picture. What is needed is to understand the response of one variable to an impulse or shock in another variable. Therefore, an analysis was done of the effect of an exogenous shock or innovation in agricultural value-added on per capita income (and vice versa). The results indicate that

- Across the full sample of municipalities, per capita income explains about 10% of the variation in agricultural value-added, while agricultural value-added explains about 19% of the variation in per capita income.
- For the rural and urban municipalities, per capita income accounts for relatively little of the variation in agricultural value-added, i.e. 3.4% and 0.5% respectively. On the other hand, in rural municipalities, agricultural income accounts for almost one-fifth of the variation in per capita income, providing clear evidence of the relative importance of the agriculture sector to incomes within these municipalities.

>>

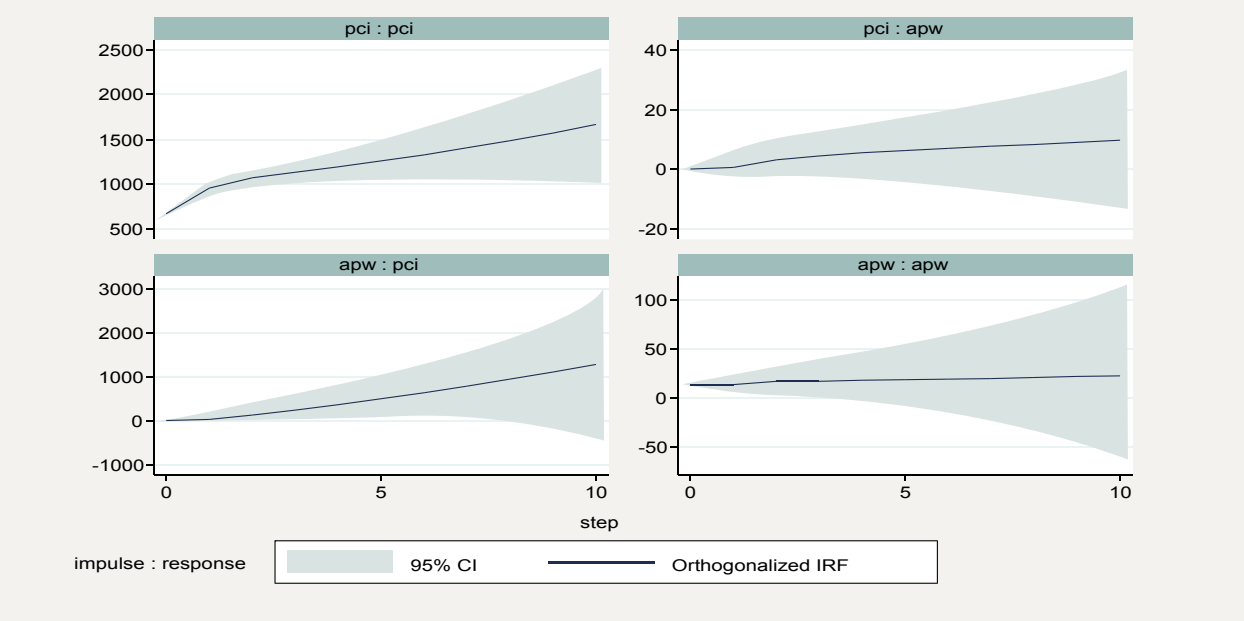
[13] These sub-samples are based on the 2010 classification/categorisation of municipalities within the local government sphere by the Department of Cooperative Governance and Traditional Affairs (COGTA). According to this classification, South Africa's 234 municipalities fall into two broad categories: A and B. Category A includes eight metropolitan municipalities described as having large urban complexes with populations over one million and accounting for over 50% of all local government spending. Category B municipalities include four main types: (a) 19 B1 municipalities with characteristics of having secondary cities with large urban spatial pattern and responsibility for relatively higher operating budgets; (b) 25 B2 municipalities that have large town(s) as their urban core; (c) 113 B3 municipalities which are local municipalities with small towns and a relatively small percentage of its population living in smaller urban settlements, but with no large town as a core; and (d) 69 B4 municipalities which cover mainly rural areas characterised by the presence of no more than two small towns in their areas, communal land tenure and villages or scattered groups of dwellings, and typically located in former homelands. Based on this classification, the 52 Category A, B1 and B2 municipalities are classified as urban municipalities, and the 182 Category B3 and B4 municipalities as rural municipalities.

These results are supplemented with graphical analysis that shows the response of agriculture value-added (*apw*) and per capita income (*pci*) to innovations in (or exogenous shocks to) per capita income and agriculture value-added.

The bottom left quadrant of Figure 22 shows that a positive shock to agriculture value-added leads to an increase in per capita income. Similarly, the top right quadrant shows that a shock to per capita income has a positive effect on agriculture value-added. In both cases, these effects persist over a 10-year forecast horizon.

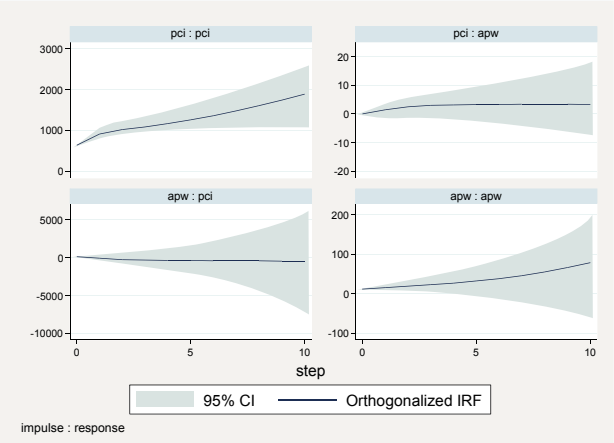
For large/urban municipalities, innovations in agriculture value-added (per capita income) has no impact on per capita income (agriculture value-added). However, in rural municipalities, innovations cause negative shocks to agriculture value-added and have a persistent negative impact on per capita income, while positive shocks in per capita income have a positive impact on future agriculture value-added.

Figure 22: Responses to innovations in *apw* and *pci* – full sample

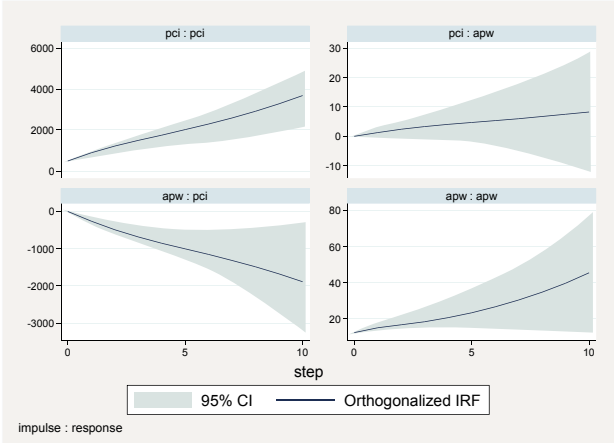


Figures 23 and 24: Responses to innovations in *apw* and *pci* – full sample

Sub-sample: urban municipalities



Sub-sample: rural municipalities



3.2.2 Indirect growth effects

In addition to contributing directly to overall economic growth, the development of the agriculture sector has indirect economic growth effects (see Johnson and Mellor, 1961), These indirect effects occur through three main channels: (a) the production channel, through which the agriculture sector forms forward linkages with other economic sectors via agro-processing activities, and backward links via demand for inputs from supply sectors, (b) the consumption channel, which occurs when people within the agriculture sector consume locally produced, non-tradable goods, and (c) the income effects channel through which increased agricultural productivity serves to lower food prices. Reduced food prices lowers the real product wages in the non-agricultural sector, providing a boost to profitability and investment in other non-agricultural sectors. Similarly, reduced food prices cause real consumption wages to rise, thus providing a direct benefit to poor wage earners in both urban and rural settings.

To gain insights into these channels, the relationship between agricultural and non-agricultural output is explored. Results for the full sample of municipalities indicate that a 1% growth in the non-agricultural sector raises the per capita growth rate of the agriculture sector by 0.03 percentage points. Although this effect is not statistically significant, it suggests that the non-agricultural sector creates growth-enhancing linkages with the agriculture sector. In the case of rural municipalities, growth in the non-agricultural sector does not create growth-enhancing linkages but has a negative and statistically significant impact on per capita agriculture value-added. This finding is consistent with the argument that, as a country's economy expands, growth in the non-agricultural sector leads to resources leaving the agriculture sector, which causes a slow-down in productivity or a decline in overall output.

Similarly, the analysis found that agriculture has a negative and statistically significant impact on non-agricultural sectors. This result is not surprising given the declining share of agriculture in South Africa's economy, and the increasing linkages within the country's non-agricultural sectors because of the adoption of technology and structural transformations. It mirrors results of similar studies, such as Tiffin and Irz (2006). The sub-sample of municipalities revealed a more interesting result: a positive (and strongly significant) reverse effect from agriculture to non-agriculture in rural municipalities – a 1% increase in annual per capita growth in the agriculture sector raises the per capita growth rate outside the agricultural sector by 0.07 percentage points.

3.2.3 Poverty effects

The literature provides three main explanations of why the impact of growth on poverty differs across economic sectors.

(i) People are better able to participate or benefit from growth that occurs in areas where poor people are located. Many studies have argued that agricultural growth would have a larger impact on poverty alleviation than non-agricultural growth because the poor are mainly concentrated in rural areas and rely on agriculture and related activities for their main source of income (Christiansen et al., 2011).

(ii) Labour intensity is a key factor in determining a particular sector's impact on poverty (e.g. Loayza and Raddatz, 2006). The major asset of most poor people living in rural areas is their unskilled labour, and so growth in the agriculture sector (which in developing countries is mainly labour-intensive) would result in greater poverty reduction than, for example, growth in the less-labour intensive and technology-driven services sector.

(iii) Differences in asset inequality, in particular land ownership, can explain why growth has different poverty-reducing effects across sectors. Bourguignon and Morrisson (1998) suggest that income inequality is lower in countries where favourable land distribution enables small and medium farmers to cultivate a larger share of available land. Similarly, in China where land distribution is relatively equitable, agricultural growth contributed up to four times more to poverty reduction than growth from industry and services (Ravallion and Chen, 2007). Conversely, in countries with high levels of land inequality – India (Ravallion and Datt, 1996) and Pakistan (Dorosh and Haggblade (2003) – agricultural growth either had the same poverty-reducing effect as the services sector (India) or contributed very little to poverty reduction in rural areas (Pakistan).

To assess whether or not the source of growth matters for poverty reduction, the three national poverty lines (Stats SA, 2014) were used: (a) the food poverty line, which is the

>>

[14] Jung and Thorbecke (2003) find that the agriculture sector contributes the most to overall poverty reduction, followed by the services and informal sectors. They also find that, despite the manufacturing sector having the least impact on poverty reduction, the (unskilled) labour-intensive food processing and textiles subsectors within manufacturing made relatively large contributions to poverty reduction. Loayza and Raddatz (2010) report similar findings with growth in the relatively labour-intensive sectors of agriculture, manufacturing and construction having the most, and the capital-intensive mining, utilities and services sectors having the least, poverty-reducing effects.

[15] The rand value of each poverty line is updated annually using CPI price data.

level of consumption below which individuals are unable to purchase sufficient food for an adequate diet (those below this line are either consuming insufficient calories or must change their consumption patterns); (b) the lower-bound poverty line, which includes non-food items that individuals obtain by foregoing food, and (c) the upper-bound poverty line, which is the level of consumption at which individuals can purchase adequate food and non-food items (Stats SA, 2014). The main findings were:

- Agriculture has a statistically significant effect on food poverty, irrespective of the poverty line. A 1% increase in agricultural growth per capita leads to the food poverty headcount reducing by about 1900 persons across all municipal types, and by about 2300 people across rural municipalities. However, when the depth of poverty and the presence of a large public sector are taken into account, this significant poverty-reducing effect is dampened. While both agricultural and non-agricultural growth have statistically significant food poverty-reducing effects, the effect of non-agricultural growth is on average 2.24 times greater than agricultural growth for all municipal types (i.e., urban and rural) and 2.3 times greater for rural municipalities.

- Growth within the agriculture sector has significant poverty-reducing effects and can be a powerful tool for raising households above the three poverty lines. However, when a large public sector is present and the depth of poverty is accounted for, growth in the non-agricultural sectors is a more powerful tool for reducing the headcount of persons living below all three poverty lines.

3.3 Conclusion

In South Africa, agricultural support programmes have had a limited impact on rural development and poverty. This raises concerns about the efficacy of public investments in agriculture, and whether intergovernmental transfers could be used more effectively if directed at the non-agricultural sectors as well as the agriculture sector. Therefore, the impact of agricultural growth and non-agricultural growth on poverty reduction and economic growth was explored.

Agriculture has a significant influence on average incomes within rural municipalities where on average, the agricultural sector's share of total gross value-added exceeds 50%. The results show that in rural municipalities, agriculture accounts for almost 20% of variation in per capita income, a figure close to the average for the full sample that includes both urban and rural municipalities. Overall, activities in the non-agricultural sector have a positive impact on the agricultural sector. However, this impact is not statistically significant. For rural municipalities, growth in the non-agricultural sector has a negative and significant effect on their agricultural sectors. This finding is indicative of the declining role of agriculture as an engine of growth relative to emerging non-agricultural sectors. Nevertheless, agriculture remains a key source of growth-enhancing linkages with the non-agricultural sector within rural municipalities.

Compared to non-agricultural growth, growth within the agriculture sector has a higher and statistically significant effect on reducing food poverty and the poverty headcount. However, the poverty-reducing potential of agricultural sector growth declines when community services account for a sizable share of a municipality's economic activities, and when the depth of poverty or inequality increases. In this case, growth in the non-agricultural sector is a more powerful tool for reducing the poverty headcount.

3.4 Recommendations

With respect to creating conditions for rural development from agriculture-led growth, the Commission recommends that:

1. The Department of Agriculture, Forestry and Fisheries enhances agricultural productivity by establishing a framework for implementing, evaluating and monitoring key agricultural grants targeted at subsistence and small-scale farmers.

2. Agriculture-related intergovernmental transfers are distributed across recipient provinces in a manner that promotes equity and ensures access for targeted groups, especially emerging and subsistence farmers located within rural provinces and municipalities. This can be achieved through expanding the current disbursement criteria to incorporate weights for a province's share of national rural population, the proportion of a province's rural population with incomes below official poverty levels/measures, and the extent to which the rural population in a province participates in subsistence and smallholder farming.

3. A framework is established to supplement rural development initiatives. The framework would facilitate greater coordination and communication among departments and public entities tasked with driving rural development through entrepreneurial programmes, which create linkages between agriculture and non-agricultural sectors..

CHAPTER 4

National Land Reform Programme and Rural Development

National Land Reform Programme and Rural Development

4.1 Introduction

South Africa's land reform programme is based on both equity and economic grounds, and consists of three pillars: land restitution, land redistribution and land reform. Since 1996, government has transferred a considerable amount of land and settled nearly all of the backlog claims lodged before the 1998 cut-off date (DRDLR, 2015). Yet, despite these achievements, the land reform programme has failed to achieve its policy objectives. The programme has been criticised for the slow pace of land transfers relative to the goal of transferring 30% of agricultural land to the previously disadvantaged by 2014 (Kariuki, 2009; Lahiff and Cousins, 2005). Most of the transferred land has either remained fallow or been used for productive activity that has not been profitable (Lahiff, 2007). Therefore, much of land reform's potential, especially as a mechanism for agrarian change and rural development, has gone unrealised (Deininger and May, 2000; Lahiff and Cousins, 2005). In the case of land restitution and land redistribution, significant amounts of public funds have been spent, but the quality of spending remains a concern.

The land reform programme has not met its initial goals for a number of reasons. Provincial and local governments have fallen short in fulfilling their constitutionally mandated role of providing basic services and technical support needed to make restituted and redistributed land productive. Land reform beneficiaries often have insufficient access to credit, equipment and technical assistance, and only a small percentage of the land is under irrigation. In addition, agriculture depends on good infrastructure, but rural areas are still characterised by significant backlogs, despite improvements since 1994.

A well-designed land reform programme is critical for revitalising rural development, leading to employment and output growth that would improve food security, and poverty and inequality levels (Lahiff and Cousins, 2005). Therefore, this chapter investigates the impact of land reform on food and nutrition security, job creation, and agricultural output in rural areas. It assesses how the intergovernmental implementation of the land reform programme can be strengthened to play the catalytic role envisioned in policy. The specific objectives are:

- To examine the impact of the land reform programme on critical policy outcomes in rural areas, such as food security, job creation, and agricultural productivity.
- To assess whether provincial and local governments are adequately supporting land reform projects in rural areas in order to achieve policy outcomes.
- To determine whether provincial and local governments have access to the necessary financial instruments to achieve policy outcomes.

The assessment is only of the land reform programme, which encompasses land redistribution and funding instruments and services offered to restitution projects, and does not include land tenure reform and basic infrastructure.

The methodological tools used to measure the impacts of land reform were:

(i) A field-based, area-specific participant approach at sites in three provinces: KwaZulu-Natal, Eastern Cape and Mpumalanga, focusing particularly on low-income rural households.[16] Each site evaluated was a land reform area that was compared to a commercial area. This fieldwork enabled an accurate estimation of current poverty, employment and food-security issues within these communities.

(ii) Interviews held with national, provincial and local government officials, as well as with support institutions, such as development finance institutions (DFIs), in order to assess the key land reform fiscal instruments and support measures that should be in place at subnational level.

The purpose of the assessment was to isolate any efficiency and funding gaps in the system that could be weakening implementation of the land reform programme.

4.2 Findings

4.2.1 Land reform policy

South Africa's land reform programme is legally supported by Section 25 of the Constitution and has three components: land restitution, land redistribution and land tenure. Land restitution seeks to return land to individuals or groups who unjustly lost their land rights since 19 June 1913 (although some landless groups are contesting this cut-off date). The goal of the redistribution policy is to rebalance land ownership patterns, by making funding available for

>>

[16] All three provinces fall within the highly rural categorisation developed in Chapter 1. In each of the three provinces, one site was selected based on the concentration of land reform farms. A site could mean a single town (e.g. Alice in Eastern Cape) or various small towns (e.g. Mpumalanga). In total, 850 farms were sampled across the three provinces.

mostly rural poor, farm workers and emerging farmers to acquire land for residential or productive purposes. Land tenure has two components: providing farm workers with tenure security in the face of uncertainty over evictions from commercial farmland; and improving tenure security of rural dwellers residing in communal areas. .

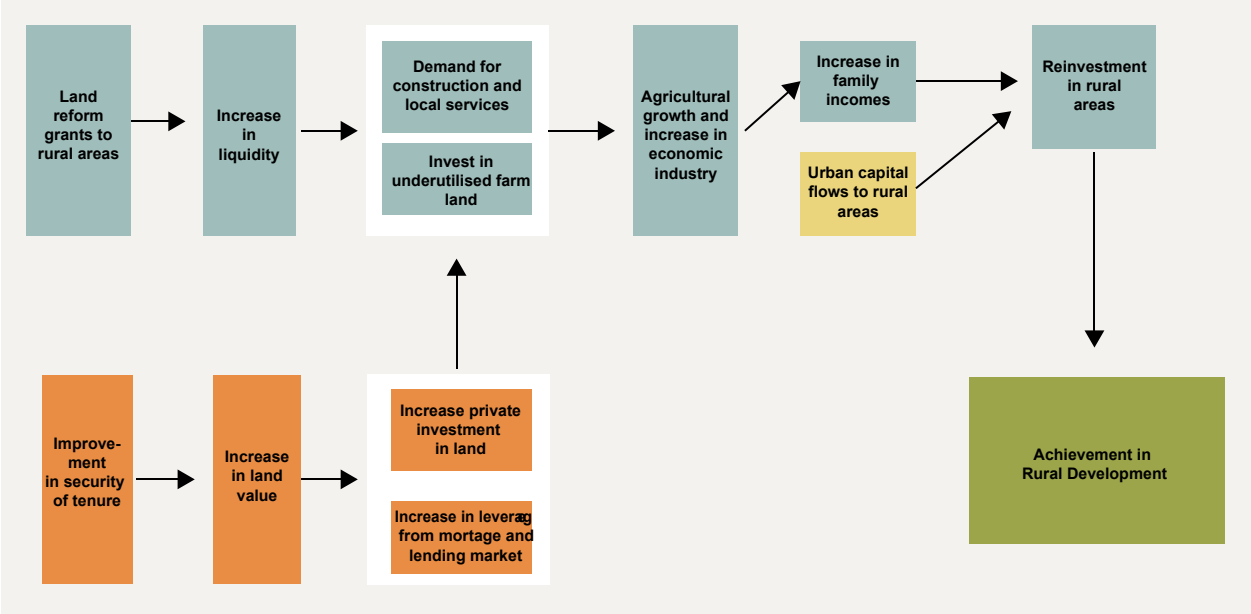
The White Paper on Land Reform (1997) envisions land reform as a critical component of rural development and poverty reduction. This link, of land reform and rural development, has remained a consistent theme in various rural development strategies. The policy depicts two main pathways by which land reform facilitates rural development. The first pathway (Figure 25) is the disbursement of land reform grants to land-needy households in rural areas. The second pathway is through tenure reform aimed at improving the tenure security of rural households, especially those living on commercial farms and in communal areas.

Land reform is legislatively a national function. Up until 2008, the Department of Land Affairs was responsible for implementing land policy. Its name then changed to the Department of Rural Development and Land Reform (DRDLR), to strengthen land reform's linkage with rural development as emphasised in land policy. However, despite the name change, very little progress has been made in integrating land reform into the national rural development strategy (DPME, 2014).

Part of the problem may be the way in which land reform is conceptualised in policy. The Comprehensive Rural Development Programme (CRDP), which is the overarching rural development strategy, depicts land reform as a stand-alone component. Conspicuous by their absence are the interlinkages with rural development and agrarian reform, the other two components of the strategy. This disjuncture between land reform, rural development and agrarian reform also manifests at an implementation level: rural development and land reform are two separate programme structures in the DRDLR's organogram, and very little synergy is found between these two programmes at a design and implementation level.[17]

Land reform policy has also encouraged the view that land reform's role in rural development is largely about agriculture.[18] Agriculture is a concurrent function shared between national and provincial government. At national level, the Department of Agriculture, Forestry and Fisheries (DAFF) is responsible for overseeing the sector as a whole and so legally responsible for post-settlement support to land reform beneficiaries, not the DRDLR. The separation of land reform and agriculture functions, and weak coordination at a national level is one of the reasons for the failure of many land reform projects. Other reasons include inadequate post-settlement support to land reform beneficiaries, which for some (e.g. Chitonge and Ntsebeza, 2012) is the biggest failure of the land programme. Yet this failure may be because land reform has been framed within the narrow confines of agriculture. This means that success and failure

Figure 25. Land reform and rural development linkages



Source: Commission's compilation

>>

[17] Findings from an evaluation conducted on the Integrated Rural Development Programme found poor linkages with land reform projects, despite the programme achieving enhanced infrastructure in rural areas (DPME, 2014).

[18] This view was reinforced by the target of transferring 30% of white-owned commercial farmland in rural areas through mostly land reform, although government has now done away with achieving this target by a specific deadline.

are defined based on whether or not farms remain a going concern in spite of the inherent sectoral challenges. While agriculture is a crucial sector for stimulating rural employment, the absence of a stronger focus on non-farm sectors could explain why the land policy has moved away from distributing land to land-needy individuals towards a "use-it-or-lose-it" approach (see 4.2.2).

4.2.2 The Funding Instruments of Land Reform

Table 10 illustrates the list of funding and grant instruments available to land reform since 1994. The Settlement Land Acquisition Grant (SLAG) was the first funding instrument introduced soon after 1994 and was disbursed to poor households earning less than R1500 per month. Despite the pro-poor nature of the grant, the grant size was too small for households to purchase farmland on their own. In 2001, a land reform review by the then Department of Land Affairs found that beneficiary households had to combine grants in order to purchase agricultural land. These projects eventually failed, as groups lacked cohesion, which led to conflict and dissolution. In 2001, the SLAG was replaced by the Land Redistribution for Agricultural Development (LRAD) grant, which entitled beneficiaries to larger grants based on a sliding scale determined by an individual's own contribution. The grant targeted any previously disadvantaged individual, although those interested in commercial agriculture were encouraged to apply. Even though LRAD grants were much larger than SLAG grants, purchasing farmland remained unaffordable unless households pooled grants in order to increase their "own contribution" portion. In 2006, the introduction of the Proactive Land Acquisition Strategy (PLAS) marked a clear break from the previous system of disbursing grants to beneficiaries. Instead, the state purchased strategically located commercial farms, which were rented to beneficiaries for an initial three-year period. However, PLAS suffered from the same land tenancy challenges, including financial institutions being reluctant to issue any loans and tenants being reluctant to invest in the land because of their insecure tenure.

In 2009, the DRDLR introduced the Recapitalisation and Development Programme (RADP) as a response to the collapse of many land reform projects. The RADP provided funding over an initial five-year period to failed land reform and some land restitution projects. An evaluation of the programme (DPME, 2013) revealed widespread shortcomings, in particular the lack of technical knowledge transfer from the strategic partner to the beneficiary, and unclear selection criteria used to identify beneficiary farms. While the RADP provided comprehensive post-settlement support, in so doing it overlapped with the Comprehensive Agricultural Support Programme (CASP) grant that is managed by the DAFF. This clear overlap between the RADP and the CASP grants means that much-needed resources could have been better used or combined to enhance the overall impact of the function.

The changing nature of land reform funding suggests that the state is paralysed between equity and economic development considerations, resulting in an underlying tension between promoting pro-poor land reform and encouraging larger scale commercial agriculture. What is missing from the overall funding design are incentives for alternative land uses and the acknowledgement of a possible trade-off between equity and economic development. If the objective is simply to provide the land-needy with access to land, the land reform programme's success should be measured by the amount of land transferred, irrespective of how households chose to use the land. However, these equity considerations may have to be foregone if the objective is economic growth. By ignoring the fact that it may not be possible to achieve both objectives simultaneously, both goals could end up being compromised in the process. For example, current land reform policy only allows land to be leased to tenants who could continue leasing indefinitely, while the RADP only benefits a small proportion of land reform farms, making post-settlement support inaccessible to other – possibly most – land reform projects.

Another concern is the complete lack of transparency about how land reform grants are managed. The budget lumps together all the grants as a single line item and give no breakdown of the grants, how many beneficiaries qualified for each grant, grant criteria, what was spent on each grant and how these grants are being monitored. The problem is compounded by the fact that these grants are managed by the national department and so do not follow the usual Division of Revenue Act process and oversight requirements. The RADP evaluation expressed a similar concern about transparency, especially in the way in which projects were selected (DPME, 2013).

Table 10. Funding and grant framework of land reform

Grants	Period	Description	Weaknesses
Settlement/ Land Acquisition Grant (SLAG)	1995–2000	A maximum of R15,000 (raised to R16,000 later) was allocated to each household to purchase land in urban or rural areas for agriculture or residential purposes. The intention was to develop occupancy and expand land ownership of poor and previously disadvantaged South Africans earning less than R1500 per month (Mearns, 2011). Although inadequate, SLAG approved 599 projects, transferred 358 201 hectares and benefitted 95 871 beneficiaries.	• The grant was insufficient for households to purchase land and farm equipment. • Groups of households, which formed to purchase land because of small grant size, achieved little success and led to conflicts among beneficiary households. • The Department of Agriculture provided limited support to agricultural development of purchased farms. • Cost to poor people of relocating to the acquired land was unaffordable (Mearns, 2011).

Grants	Period	Description	Weaknesses
Land Redistribution for Agricultural Development (LRAD)	2001–2010	In 2002, LRAD replaced SLAG and aimed to assist previously disadvantaged people to purchase land primarily for commercial farming (Mearns, 2011). LRAD allowed any black individual (no minimum income required) to apply for a land purchase grant that increased with personal contribution. The grant gave individuals between R20,000 and R100,000 depending on their personal contribution. The grant was designed to achieve the goal of transferring 30% of agricultural land to black South Africans by 2014. In 2008, the grant was increased to a maximum of R431,000 because previous amounts were still inadequate to purchase commercial farms (Aliber and Cousins, 2013). Unlike SLAG, the implementation of LRAD projects was decentralised to provincial level (Mearns, 2011). LRAD has been more successful than SLAG, as grants are larger and paid to individuals or groups rather than per household.	• Since LRAD's focus was on commercial farming, most of the grant funding went to better-off applicants. • The grants did not adequately address poverty and food security needs of poor rural households. • Given the willing-buyer willing-seller principle, commercial farms were still too expensive for individuals to purchase farms with the grant, which led to groups being formed in order to increase 'own contribution' (Mears, 2011).
Proactive Land Acquisition Strategy (PLAS)	Since 2006	PLAS is supply driven, whereby the state purchases strategically located farmland directly, as opposed to dispensing grants to beneficiaries. Land is given to beneficiaries on a loan basis for a three-year period and then disposed of beneficiaries if land was used productively. PLAS replaced LRAD as the main form of land acquisition in 2012 (Hall et al, 2014).	• The criteria for identifying beneficiaries is unclear. • There is widespread non-payment of rentals. • Beneficiaries are unable to secure loans on the basis of 3-year leasehold agreements, and this insecure tenure makes them less willing to invest. • Farms purchased could be far away from the beneficiary' residence and social networks. • No review of PLAS farms has been done since 2006 to inform policy (Hall, 2014)
Land Acquisition for Sustainable Development (LASS)	Since 2008	The LASS grant is made available to municipalities in need of land for settlement purposes and also to create a commonage for urban agriculture (Veda Associates, 2009)	
Municipal Commonage Grant		The grant's aim is to allow municipalities to acquire land for commonages, with the intention of establishing agricultural or productive schemes for underprivileged and disadvantaged residents. Beneficiaries must be South Africans and earn less than R1500 per month (Moroaswi, 2013).	The commonage programme has underperformed, has weak post-transfer management and no clear evidence of outcomes (Moroaswi, 2013).
Recapitalisation and Development (RADP) Grant	Since 2009	RADP grants aim to revitalise unproductive land reform projects. The DRDLR closely supervises farms funded through the programme, and each farm is assigned a strategic partner with experience in industry. The grant is guided by a business plan, and all projects are funded 100% on a five-year funding model. Grant beneficiaries who qualify are those who received land under land reform and the farm failed (unsustainable or about to be re-possessed), and emerging farmers who purchased land with loan funding but experienced challenges as land reform beneficiaries. Most of the RDP projects were previously PLAS or LRAD farms (DPME, 2013).	• Beneficiaries may not be encouraged to use the land acquired according to their own need, and this should not be the case (SAHRC, 2013) • No clear selection criteria for projects, beneficiaries and strategic partners. • Strategic partners are failing to transfer technical skills to beneficiaries. • Some farmers who are financially strong enough to sustain their operations benefitted from RADP funds. • RADP is duplicating agricultural support efforts by DAFF, which has failed to provide adequate post-settlement support to land reform beneficiaries (DPME, 2013)
Comprehensive Agriculture Support Programme (CASP)	Since 2004	Established in 2004, the CASP's target was to assist land reform beneficiaries, producers of agricultural products who obtain land via private means and agri-business (Moroaswi, 2013).	Co-ordination between the DAFF and DRDLR is weak, and quality of spending quality and planning of the grant has been suboptimal (Moroaswi, 2013).
Post-settlement financing opportunities		Financial opportunities are also available to beneficiaries from various private and public financial organisations prepared to provide financial assistance to land reform beneficiaries and emerging farmers (e.g. MAFISA, Land Bank, etc.).	These financing agencies may not be in a position to assist poor farmers who do not have the collateral to take out loans.

Source: Commission's compilation

As Table 11 shows, of the R76-billion spent by the DRDLR between 1997/8 and 2014/15, about two-thirds was spent on the land restitution programme (34%) and on the land reform programme (32%).

The land reform programme consists of a sub-programme (containing various land reform grants) and the agricultural land holding account (ALHA), which is the budget for PLAS. Total spending on PLAS has far outstripped land reform grants, even though PLAS only started in 2006, whereas land reform grants go back as far as 1995. ALHA accounts for half (50%) of land reform expenditure compared to land reform grants that make up only a third (33%). These percentages show the dominance of government's new approach to land reform, which is to acquire land and then lease it to tenants rather than to disburse grants to beneficiaries. A key concern is whether government has deviated from the goal of providing secure tenure to poor rural households by entering into lease agreements with a small group of emerging farmers, without any clear indication of the selection criteria for these beneficiaries.

Table 11. Public spending on land reform by DRDLR

	1997/8 - 2014/15 (R'000)	% Share of departmental expenditure	% Share of land reform expenditure
Department expenditure	76 207 031		
Land restitution programme	30 976 487	41%	
Land reform programme	25 487 582	33%	
Land reform grants	8 339 857		33%
Agricultural land holding account	12 810 712		50%

Source: National Treasury's Estimates of National Expenditure (various)

4.2.3 Impact of land reform

Overall, 850 individuals were sampled, less than the target of 900 individuals because of complications in the enumeration process, particularly in the Eastern Cape. The bulk of land reform beneficiaries sampled in each province were previously farm labourers. KwaZulu-Natal was the province with the highest density of full farm labourers, at 71% of the sample.

Impact on household income

The impact of land reform on household income varies across the sample (between operational and non-operational projects), but overall the impact is negative (Table 12). In all cases (even successful projects), no particular improvement in household income is found.

Regression analyses were run for each of the three provinces, to examine the effect of various factors (excluding social security) on household income. They all found that land reform had a negative effect on household income and was statistically significant at the 10% level in the Eastern Cape. The gender of the household head appears to play a defining role in KwaZulu-Natal but makes no significant difference in the other provinces. An additional year of schooling increases income by R77, R93 and R53 in KwaZulu-Natal, Mpumalanga and Eastern Cape respectively. Age has no significant impact on land reform except in the Eastern Cape, where older individuals are expected to earn less, which is not in line with expectations and brings into query some of the results for the Eastern Cape. Respondents had very varied levels of benefit, which cannot only be attributed to the land reform treatment. Rather, there are some other, non-measured variables that more specifically affect the success of land reform.

The various types of employment are generally in line with expectations, in that they earn significantly more than unemployed/pensioners, and this is shared across the provinces. Interestingly, off-farm employees earn on average more in Mpumalanga than in KwaZulu-Natal or the Eastern Cape.

These results are consistent with observations in the field, where most farms show little or no agricultural activity, with on-farm beneficiaries earning little or no income, and the bulk of working beneficiaries being employed on surrounding commercial farms. There is, therefore, a more consistent benefit associated with being employed than with being a land reform beneficiary.

Impact on household food security

In general, food security was most closely linked to whether or not projects were operational. Household dietary diversity showed no significant difference in projects that were not operational. Food security was found to be higher in operational projects than in failed or non-operational projects.

Table 12. Impact of land reform on household income

Province	Treatment	Sample	Impact on household income	Impact on household income excluding social security
KwaZulu-Natal	97	55	-812**	-1205***
Eastern Cape	68	44	-581	-1041*
Mpumalanga excluding large-scale restitution	54	36	-1053.5	-2163.6
Mpumalanga	54	36	-1053	-274

*Note: where: *** is statistical significance at the 1% level, ** is statistical significance at the 5% level, and * is statistical significance at the 10% level.*

Table 13. Regression analysis of factors affecting household income excluding social security

Variable	Coefficient		
	KZN	MP	EC
Land reform	-781***	-751***	-449*
Age	3	-4	-18**
Gender	598***	-348	-132
Highest qualification	77**	93***	53**
Farm labourer	1758***	2980***	1992***
Employee off farm	4340***	10892***	3360***
Temporary labourer	1261***	1255***	331
Driver	5466***	-	2401***
Pensioner	-	680	-
Manager on farm	-	12773***	-
Domestic worker	-	-	798
Constant	Unemployed	Unemployed	Pensioner
	-350	-128	1213

Source: National Treasury's Estimates of National Expenditure (various)

Table 14. Impact of land reform on household dietary diversity and food insecurity

Province	Treatment	Sample	Impact on household dietary diversity	Impact on household food security
KwaZulu-Natal	97	55	-0.1	3.8***
Eastern Cape	68	44	1.375***	1.29
Mpumalanga excluding large scale restitution	54	36	0.88	0.63
Mpumalanga	54	36	1.27*	-2.49

*Note: where: *** is statistical significance at the 1% level, ** is statistical significance at the 5% level, and * is statistical significance at the 10% level.*

Impact on farm productivity and employment

Production in all of the provinces was found to have drastically decreased since the land was transferred (Table 15). The figures in Table 15 are severely skewed by two very large land restitution projects in Mpumalanga.

Mpumalanga represents a questionably biased sample, as researchers were guided to the projects by the DRDLR. When the two large restitution projects (making up approximately 75% of the sample) are removed, a more realistic perspective of redistribution projects within the province emerges (Table 16). Across the three provinces, the area used for crop production has decreased by 79%, of which the bulk is irrigated land, which decreased by 88%. This has drastic implications for jobs, especially as the production areas lost were for labour- and skill -intensive crops, such as vegetables, citrus and tobacco.

As most beneficiaries had worked for the previous farmer, it was possible to compare the production pre- and post-transfer employment, using approximate industry labour estimations per hectare. Table 17 shows the estimated job losses as a result of decreasing production within the sample.

Table 15. Land area sampled including comparisons of the area transferred to the beneficiaries

Province	Total area represented	Crop production area (ha)		Irrigation production area (ha)	
		At Transfer	Current	At Transfer	Current
KwaZulu-Natal	2718	509	27	313	19
Mpumalanga	9926	1892.4	2474.8	1892.4	1170.8
Eastern Cape	4731	540	226	275	20
Total	17375	2941.4	2727.8	2480.4	1209.8

Table 16. Land area sampled excluding two large joint venture restitution projects (outliers)

Province	Total area represented	Crop production area (ha)		Irrigation production area (ha)	
		At Transfer	Current	At Transfer	Current
KwaZulu-Natal	2718	509	27	313	19
Mpumalanga	2326	779.4	135.8	779.4	127.8
Eastern Cape	4731	540	226	275	20
Total	9775	1828.4	388.8	1367.4	166.8

Table 17. Estimated job losses on land reform farms within the sample

Province	Total area represented	Jobs on farm		
		At transfer	Current	Percentage change
KwaZulu-Natal	490	30	-94%	313
Mpumalanga	878.6	99.3	-89%	779.4
Eastern Cape	93.35	27.8	-70%	275
Total	1461.95	157.1	-84%	1367.4

KwaZulu-Natal farms are the most hard-hit by job losses. This is because the crops grown (vegetables) were highly labour intensive and required extensive experience, making the production environment especially competitive. Although the Eastern Cape sample appears to perform best, the reality is the "jobs" are of very low value. Although many farmers have attempted to move to higher value, labour-intensive products, their ability to capitalise in this market is limited by their location and the small size of the market. The beef enterprises on the other hand have suffered from decreased supplementary feeding, which used to be the bulk of agricultural production in those areas.

Based on the sample, production has decreased by more than 80%. The results could improve at national level with the inclusion of very large restitution projects (such as the outliers in this sample). However, it is unlikely that such projects are a widespread success, given that those belonging to a "biased" Mpumalanga sample reflected the best of the land reform in the area.

4.2.4 Land reform implementation at provincial and local government levels.

Intergovernmental implementation of land reform

This section is based on interviews conducted with key officials from the provincial offices of land reform, the departments of agriculture and rural development, and municipalities as well as feedback received from the fieldwork.

The land redistribution component of the land reform programme consists of two main pillars: land acquisition and land recapitalisation. The land acquisition (or PLAS) is a supply-led approach where government purchases farms upfront and then transfers the land to the selected beneficiary. Beneficiaries can only lease the land from the state, an arrangement which may carry on indefinitely. Those who qualify for RADP funding purchased farms under previous land reform regimes and are struggling to survive because of insufficient funds.

Provincial offices of land reform are largely in control of implementing land reform, with the actual implementation taking place at a district level. Each district keeps its own database of potential beneficiaries looking for land and a list of farms available for purchase. In most provinces, selection criteria ensure suitable beneficiaries are selected for the farms. However, provinces use mostly their own selection criteria, which create uneven norms and standards across the country. Recently, district land committees were established, so that the nomination of beneficiaries takes place in a transparent and objective manner. Officials from line departments and non-governmental members sit on these district committees. The details of the nominated beneficiary, purchase price and the farm available for purchase are submitted to the provincial land committee, which then sends it to the national land control and allocation committee. Once the national department has signed off the memo, the province starts a process of transferring the ownership of the farm to the state. A lease is then signed with the beneficiary for an initial five-year probation period, extended to 30 years if performance is acceptable.

Even though valuation is carried out by independent valuers, the price of farms is still significantly higher than what the state can afford. As a result, beneficiaries far exceed the number of farms available. In addition, the available funding in the RADP is insufficient for the number of distressed farms. A major gap in the funding model is the lack of affordable loan funding to support land reform beneficiaries. At present, many beneficiaries do not qualify for loan funding, as they are regarded as risky. As both the RADP from DRDLR and the CASP from DAFF fund post-settlement support, nothing prevents a beneficiary from double-dipping, by applying to both DRDLR and the provincial Department of Agriculture and Rural Development (DARD) for funding support. At present, provinces do not have systems in place to prevent this type of inefficiency.

Another critical gap is funding for planning. Grant funding is available for inputs and infrastructure but not to assist with planning – and if any funding is available, it is difficult to access. The result is a disjuncture between planning and implementation, whereby those who receive farms only reach the provincial DARD three years later. The lack of proper planning has also resulted in a gap between human settlements and land reform at local government level. Although they do not have a significant role in land reform, municipalities could provide rebates to emerging farmers who are unable to pay for electricity, especially during the first three years of operation when farmers rarely make any profit from its operations. Some municipalities lease available municipal land to emerging smallholders, but these smallholders often end up sub-letting the land to other tenants. In some instances, municipalities provide land reform beneficiaries with input support, such as seeds and fertiliser, and in most cases, municipalities played a liaising role among the various land reform and land restitution stakeholders.

The role of development finance institutions in land reform

If land reform is to succeed, DFIs need to be actively involved in land reform projects, as they traditionally fill the void between commercial banking and state development aid by providing loans at affordable rates to small and medium enterprises. However, current investment and financial support by DFIs to rural areas is very modest and does little to crowd-in the private sector.

The Land Bank is a DFI with has a long history in land, farming and agricultural finance. It is therefore strategically placed to enhance the land reform programme through government support. DFIs can participate in land reform through the following avenues:

- DFIs that concentrate on land and agriculture should focus fully on development funding. This will allow them to assist emerging farmers, which has been a key challenge in the past.
- The lending criteria of DFIs should be aligned to the economic needs of land reform farmers, with government providing guarantees in case of default.
- DFIs should be allowed to approach investors to invest in farming to maintain land reform projects.
- The institutional alignment between the DRDLR and DFIs operating in the land reform space should be examined, so that DFIs are able to discharge their land reform mandate with the support from government.

Critique of land reform in South Africa

The survey and interviews highlighted a number of challenges with respect to the land reform programme. The sector has a structural failure that does not adequately take into consideration the risky and unstable nature of agriculture. In the past, production boards guaranteed the purchase of a certain level of production, offering South African commercial agriculture a secure market space, which is no longer the case, and so risks are greater. Attempts by government to cover the input costs and infrastructure (through CASP and RECAP) and decrease risk have resulted in farmers having no incentive to invest their personal funds, as government is seen as an investment safety net. In addition, subsidising at the start (not the end) of the process limits beneficiaries from learning most of the business and production skills required to farm on their own.

A further concern is the poorly timed support, as a result of non-agricultural officials who manage RADP and other programmes being far from the farmer's decision-making. This distance between investors (i.e. government) and where decisions should be made (i.e. farmers) results in large production and timing inefficiencies that are almost impossible to overcome. This is partly the result of "forced" and "limited" spending within a financial year. In effect, instead of being able to take long-term planning decisions, and administer funding appropriately on time, non-project decision-making affects the funding.

DRDLR has also not managed land reform farms effectively because of centralised decision-making and responsibility, which lead to many loopholes and omissions at local level. Managing such a large volume of farms needs to done by someone who knows the farm and the farmer. For example, in the Eastern Cape, only one out of 240 farms has signed long-term lease agreements. This severely hampers any ability of a farmer to obtain credit even if their farm is viable. Given that a lease is one of the less complicated and more administrative support roles required for successful land reform, this observation highlights the challenges of department administering every farm's private partnerships, mentorships and/or recapitalisation plan.

Farmers also lack access to credit for production loans and on-farm costs, which results in under-investment. Non-bankable operational institutional structures result in banks being reluctant to finance land reform projects. A range of perverse incentives also occur when all beneficiaries hold equal ownership (and benefit rights), as these do not confer appropriate responsibility and benefits are sufficient to dissuade freeriding.

Finally, state purchase and ownership of complete farms have a number of inherent challenges. These include inter alia: (i) the state carries the full cost of transfer; (ii) administrative red tape means that decision-making takes time, resulting in farmers selling farms privately, as the state is too slow to take up a transaction; (iii) administration and support of farms is too centralised with the state – i.e. other stakeholders carry little or no responsibility; and (iv) the high cost of the state replicating private institutions (e.g. banks by re-designing a valuation and transfer process.)

4.3 Conclusion

Since the 1990s, government has spent a significant amount of resources on land reform, but land reform has had little impact on rural development. Policy has evolved in an attempt to address both equity and developmental objectives, but these objectives imply difficult trade-offs that government has not yet mediated. Currently, the approach adopted by the state is to lease land to beneficiaries indefinitely, irrespective of the aspirations of emerging farmers to own their own land.

The analysis found that most land reform beneficiaries are worse off than those who did not benefit from land reform, especially when the household income is considered. Only a minority of household incomes improved as a result of successful projects. Beneficiary households have not seen improved dietary diversity or food security: in most cases, food security has decreased because of failed projects, while only in a small proportion of operational projects has the dietary diversity improved. To date, overall land reform has had a net negative effect on job creation and productivity of farms, primarily as a result of land no longer being used for crop production.

In terms of post-settlement support, there is clear duplication in funding, with an overlap between the RADP and the CASP grant. The RADP was introduced to address the failure of adequate post-settlement support, but timing remains a problem. Currently both instruments are servicing the same target audience and funding the same activities.

Gaps in the funding model include: a lack of affordable loan funding, as many beneficiaries are considered too risky to qualify for such funding; and funding for planning, not just for inputs and infrastructure. The lack of proper planning has resulted in a gap between human settlements and land reform at local government level. In addition, despite land reform projects being implemented within municipal jurisdictions, municipalities play hardly any role in land reform. Yet municipalities could assist by providing rebates for municipal services to emerging farmers that will only be profitable after at least three years of operations.

A further concern is the complete lack of transparent reporting on the land reform grants. The DRDLR budget lumps together grants and provides little information about the grants, what has been spent and on what, and how these grants are being monitored. A similar concern around transparency was expressed in the evaluation of the RADP programme, especially in the way projects were selected.

4.4 Recommendations

With respect to measures to improve land reform impacts on rural development, the Commission recommends that:

1. CASP and RADP are consolidated into one funding programme for post-settlement support to emerging and land reform farmers under DAFF, which has more expertise in the area of agriculture. The consolidated fund should provide timeous support to land reform beneficiaries and be complemented by affordable loan funding. DFIs should explore possible funding models, so that the funding framework can reach more land reform beneficiaries.

    - For individual farm transfers, the LRAD model should be emulated, as it provides the necessary incentives to access credit, own an asset and enter into productive activity on the land.

    - For group-owned projects, models should be explored in partnership with commodity organisations and land reform specialists.

2. Coordination and alignment between DRDLR and DAFF is strengthened at both policy and implementation levels. To enhance coordination, the recently established district land reform committees should include officials from all relevant sector departments, including agriculture. This multi-stakeholder arrangement should be replicated in the provincial and national land reform committees.

3. Implementation gaps in the land reform programme are addressed through reprioritised funding. Gaps include providing resources for planning and aligning land reform with human settlements, agriculture and infrastructure; training land reform farmers in technical and business skills (with a mechanism to assess skills of mentors); establishing selection criteria for land reform beneficiaries that are applied uniformly across all the provinces. An important criterion for transfer should be maintaining agricultural production.

4. The role of municipalities in supporting land reform beneficiaries is clarified. Areas of support that municipalities could provide include offering land reform beneficiaries discounts or exemptions from municipal tariffs for the first three years and liaising with DRDLR to resettle farm evictees on land assigned for land reform. Ways in which municipalities can access national funding to support the land reform programme, should be worked out with the DRDLR.

CHAPTER 5

Enhancing the Role of Public Entities in Rural Development

5.1 Introduction

Public entities play a role in implementing developmental policies and act as catalysts for accelerated industrialisation, economic growth and human resource development. Their critical development role is reflected in the impact on rural communities of electrification programmes, improved telecommunications, transportation investments (roads, rail, air and water) and financial services. Public entities that influence economic development in communities and regions include: state-owned companies (SOCs), which maintain electricity, water, transport and telecommunications infrastructure; and development finance institutions (DFIs), which fund infrastructure expansion, as well as industrial, commercial and emerging agriculture development, and provide small business loans. Together, these public entities have many resources that can change the developmental path of rural areas.

This chapter examines how SOCs and DFIs can align with the new ethos of rural development and, if financially sound and self-sustaining, be used as alternative intergovernmental fiscal relations (IGFR) instruments for national development. SOCs and DFIs both have a dual mandate to fulfil, which causes tensions. SOCs need to meet their developmental (or non-commercial[19]) mandates, while remaining financially viable and sustainable through commercial activities. DFIs depend on profits from their investments to provide resources for funding development, but profit and development often contradict each other. To deliver on their developmental priorities, public entities must be financially sound in order to generate a reasonable rate of return and thus operate independently of the national budget. The recent poor global and domestic economic conditions have contributed to the declining profitability of some public entities, while others have performed well. However, inefficient operations, poor governance and weak balance sheets have rendered most public entities vulnerable to a deteriorating economic outlook.

5.2 Brief Overview of Public Entities

SOCs account for 20% of gross capital formation (National Treasury, 2015) and are responsible for 45% of South African's infrastructure development over the 2015 Medium Term Expenditure Framework (MTEF) period. Over the next three years, a total of R813-billion has been allocated to public infrastructure, with 77% destined for the transport (R339-billion), energy (R166-billion), and water and sanitation (R117-billion) sectors. This shows the critical role that SOCs have to play in rolling out infrastructure that underpins the delivery of basic services, i.e. public transport, electricity and water and sanitation.

Although SOCs operate independently of the national budget, and state guarantees[20] to SOCs do not appear in the budget, SOCs represent a contingent liability for the fiscus (FFC, 2015). Therefore, it is in the government's interest to ensure that SOCs assist in fulfilling the country's developmental goals, especially in the current economic environment where the government resources are under pressure.

In 1999, the government declared that priority would be given to the restructuring of the four biggest SOCs: Telkom (telecommunications), Eskom (electricity), Transnet (transport) and Denel (defence). This is primarily because these four SOCs control over 90% of the assets, and are responsible for approximately 86% of the turnover and more than 94% of the net income of the top 30 South African SOCs. They dominate the key strategic sectors of the economy and have the potential to boost or undermine overall industrial policy and economic progress (DPE, 2014).

5.2.1 Presidential Review Committee on SOEs

In February 2016, government released the Presidential Review Commission (PRC, 2013) report, which assessed 715 state-owned enterprises (SOEs) operating in various social and commercial sectors. SOEs can meaningfully contribute to the successful implementation of the National Development Plan (NDP) if they are financially healthy and soundly governed and managed. The report's recommendations, which will guide the transformation of South Africa's SOEs, include the following:

- Partially list and privatise some SOEs.
- Establish an overarching state authority to coordinate the government's big infrastructure-related companies.
- Move towards a greater mix of debt and equity finance, particularly for SOEs that have to meet huge infrastructure debt, as the scale of debt is unsustainable.
- Expand private sector–SOE partnerships to deliver economic and social infrastructure.

This chapter takes as a point of departure the PRC's recommendations. Secondary data was used to carry out a quantitative analysis of four SOCs – Eskom, Telkom, Transnet and the South African Post Office (SAPO) – and four DFIs – Land Bank, Development Bank of Southern Africa (DBSA), Industrial Development Corporation (IDC) and the National

>>

[19] The non-commercial mandates of the SOCs include anything that an entity does or is expected to do that would not be expected from a private company in the same industry or situation. For instance, expanding access to services, providing affordable services, investing in infrastructure that has wider social and economic benefits, and providing and generating employment. These non-commercial mandates have negatively affected the performance of various SOCs.

[20] Government guarantees cover 45% of SOC borrowings.

Empowerment Fund (NEF). The analysis was complemented by direct interviews with key informants to ascertain the financial health of the public entities. The questions asked in the interviews were:

- Do SOCs and DFIs in South Africa have a rural focus?
- For those SOCs and DFIs that have a specific rural focus, what kind of activities are they involved in?

5.3 Financial Position of Public Entities

5.3.1 State-owned companies

Between 2010/11 and 2014/15, the asset base of SOCs grew by nearly two-thirds, from R639.7-billion to R1.04-trillion. Over the same period, their net asset value rose from R216.7-billion to R305.1-billion, of which Eskom and Transnet accounted for 78%. However, the combined return on equity declined over the past five years, reaching -2.9% in 2014/15 (National Treasury, 2016).

The financial health of SOCs has a bearing on the country's finances, and so the persistent weaknesses in their balance sheets warrant attention. Continuously injecting cash into ailing SOCs not only places undue stress on the fiscal framework but also takes funding away from core service delivery areas, placing the rural development mandate at risk of not being met.

The SOCs do not rely solely on fiscal transfers for their survival but also receive government guarantees, which appear as contingent liabilities on government's books. Between 2006/07 and 2014/5, the size of guarantees provided to Eskom grew markedly, whereas those provided to Transnet and the Trans Caledon Tunnel Authority declined. The growing size of guarantees provided to Eskom raises concerns about the SOC's sustainability and ability to meet its dual mandate.

The financial health of the reviewed SOCs is cause for concern because most of their current ratios[21] and debt-to-equity ratios have worsened. Between 2010 and 2014, the current ratios[22] for all four SOCs fell moderately: for every rand of current liabilities, SAPO had R1.22 (down from R1.25), Telkom had 85 cents (down from R1), Eskom had 88 cents (down from 99 cents) and Transnet had 88 cents (down from R1.77) of current assets. A ratio under 1 indicates that the SOC's liabilities are greater than its assets, which is not a good thing. During the same period, SAPO's debt exceeded its equity by more than three times, while Eskom and Transnet saw their debt-to-equity ratio increase from 1.66 to 2.7 and from 1.19 to 1.47 respectively. In contrast, Telkom's debt-to-equity ratio improved, from 0.88 to 0.7. If the financial positions of these SOCs worsen, they may be unable to meet their developmental mandate and may require further cash injections, which will strain the fiscal framework even further.

5.3.2 Development finance institutions

DFIs have rapidly expanded their lending in line with NDP objectives. In 2014/15, the three largest DFIs (IDC, Land Bank and DBSA) reported a combined asset value of R233.8-billion and a combined loan book value of R117.2-billion. Over the next two years, their loan portfolios are forecast to grow by 3%, while their total asset base is projected to increase to R324.7-billion by 2017/18. In 2014/15, the combined borrowing of the three DFIs reached R52-billion against an estimated budget of R70-billion, reflecting the impact of weak economic conditions and falling commodity prices. Borrowing budgeted for 2015/16 is dominated by the Land Bank at R45-billion, followed by the DBSA (R18.2-billion) and the IDC (R12-billion). Their medium-term borrowing is estimated at R275-billion.

The DFIs will need to manage prudently their expanding loan books, which are inherently risky because of new exposures. They will also have to pursue carefully the double bottom line of profit and development, and crowd in more private investment, in order to finance rural development. The weak economic outlook could complicate this undertaking.

5.4 Findings

5.4.1 Energy

Established in 1923, in 2002 Eskom was converted into a public company that operates in accordance with the Public Finance Management Act (No.1 of 1999), the Eskom Conversion Act (No. 13 of 2001) and the Companies Act (No. 71 of 2008). Eskom's core business is the generation (production), transmission (conveyance) and distribution of electricity. Through this SOC, government controls 96% of electricity generation and 100% of electricity transmission. Schedule 4b of the Constitution assigns responsibility for electricity distribution to municipalities, and municipalities are allowed to delegate distribution to an entity. As a result, in practice, electricity is distributed by Eskom and licensed municipal distributors; and where distribution is delegated to Eskom, the municipality pays Eskom directly for undertaking this responsibility.

Eskom plays an integral role in expanding access to free basic electricity, which is considered a basic service in

>>

[21] The current ratio measures the ability to pay short-term and long-term obligations. The formula for calculating a current ratio is current assets/current liabilities. It is also known as the working capital ratio. (http://www.investopedia.com/terms/c/currentratio.asp#ixzz48FQkphcY).

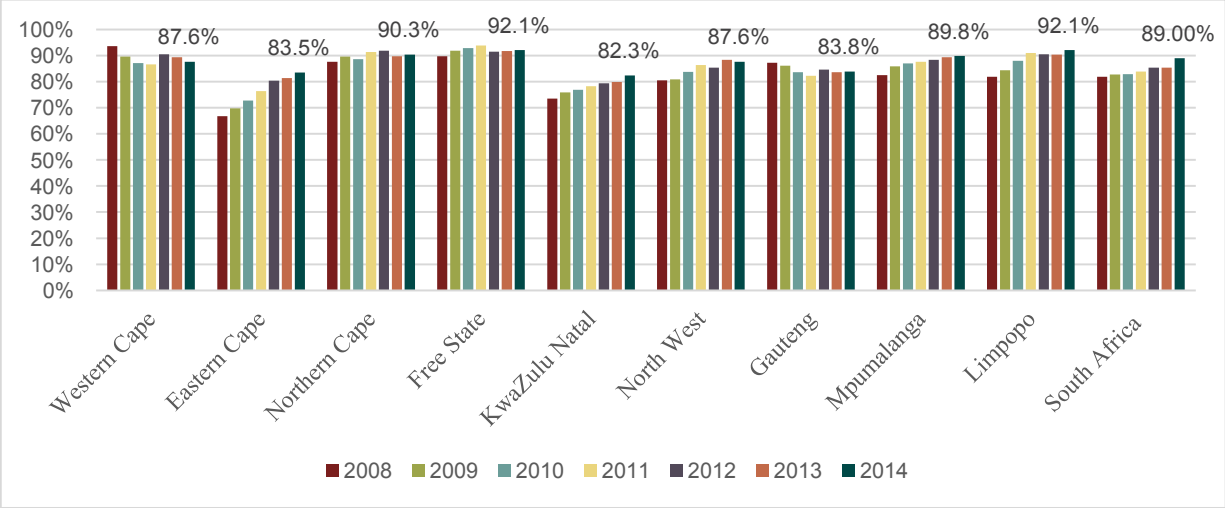
[22] This ratio compares total liabilities to total shareholders' equity. It is a measurement of how much suppliers, lenders, creditors and obligors have committed to the company versus what the shareholders have committed. (http://www.investopedia.com/university/ratios/debt/ratio3.asp#ixzz48FQ6NUra)

South Africa. The law provides all indigent households with a certain level of basic services free of charge – under the Free Basic Electricity Policy all indigent households have 50 kilowatt hours (kWh) of electricity free per month (DME, 2003). Municipalities can provide more, but not less, than 50 kWh free of charge. Government is addressing the electrification backlog and meeting the challenges of providing free basic electricity to all indigent households through the Integrated National Electrification Programme (INEP), which is funded through a local equitable share allocation and a conditional grant (the INEP grant). The INEP grant must be spent in areas that are predominantly rural and have high backlogs. Figure 26 shows the percentage of households in each province connected to mains electricity in 2014.

Between 2008 and 2014, access to electricity improved, from 81.9% to 86% of all households. The three provinces with the highest percentage of households with access to electricity are Limpopo (92.1%), Free State (92.1%) and Northern Cape (90.3%), while the lowest percentage of households with access are KwaZulu-Natal (82.3%), Eastern Cape (83.5%) and Gauteng (83.8%). The decline in the percentage of households with access (in the Western Cape and Gauteng) indicates an increased influx of migrants and creation of informal settlements (Stats SA, 2014).

The largest increase in indigent households receiving free basic electricity was in the metropolitan municipalities (Figure 27). Access to free basic electricity remains unacceptably low in rural (B4) municipalities, where only 53.8% and 56.7% of indigent households received this service in 2013 and 2014 respectively.

Figure 26. Households connected to mains electricity (2008–2014)



Source: Stats SA (2014)

Figure 27. Percentage of indigent households that receive free basic electricity (2013–2014)

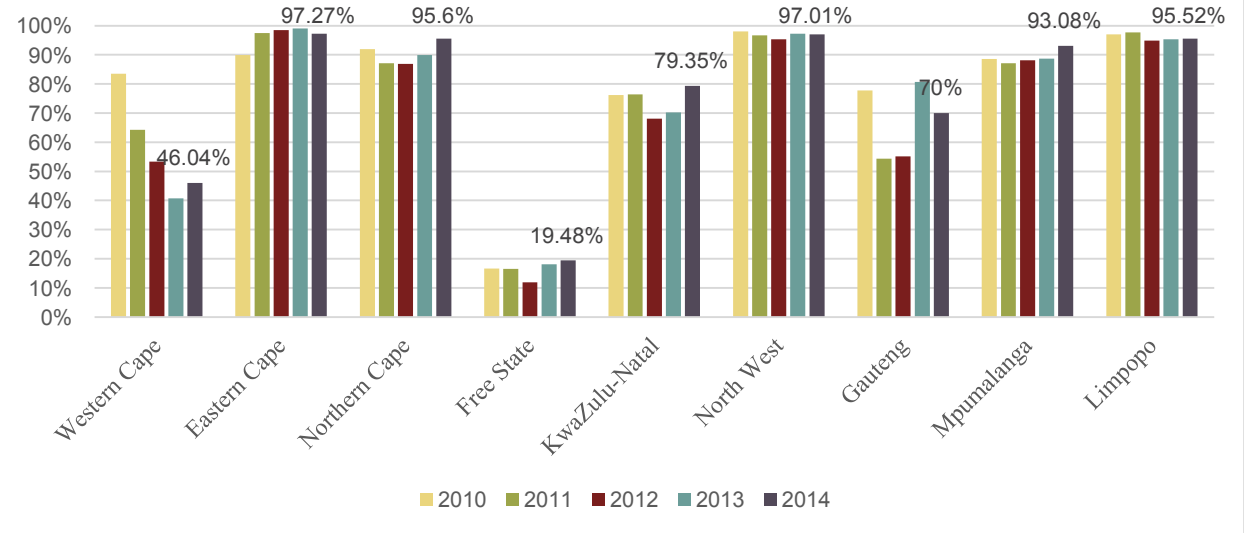
Source: Stats SA (2015)

Figure 28 shows that Eskom's electricity distribution is significant in rural areas of South Africa. The SOC is relatively more active in the Eastern Cape (97.27%), North West (97.01%), Northern Cape (95.6%) and Limpopo (95.52%), while Eskom provided electricity to just under 80% of rural households in KwaZulu-Natal.

Eskom's reports do not provide details on the spatial location of electricity distribution in rural areas (Eskom, 2015), but the following information was provided through interactions with officials from Eskom and the Department of Energy (DOE):

- Provision of electricity in rural areas has been fast-tracked through the INEP. Municipalities with licences do their own installations into the households, while municipalities without licences enter into a service level agreement (SLA) with Eskom. The municipality's integrated development plan informs the projects that are identified and prioritised in the INEP.
- Eskom does not allocate a percentage of its distribution budget to rural development, but receives capital funding from the DOE for electrification connections. One million new connections are planned over the next five years, and the electrification programme is aiming for universal access by 2025.

Figure 28. Rural households where Eskom distributes electricity (2010–2014)



Source: Stats SA (2011–2015)

5.4.2 Telecommunications

In post-apartheid South Africa, access to telecommunications reflects the extent to which the country's social development goals are being met. In other words, it reflects the extent to which the telecommunications sector is contributing to social, economic, and political inclusion and equality that favours previously marginalised communities, or previously under-serviced areas.

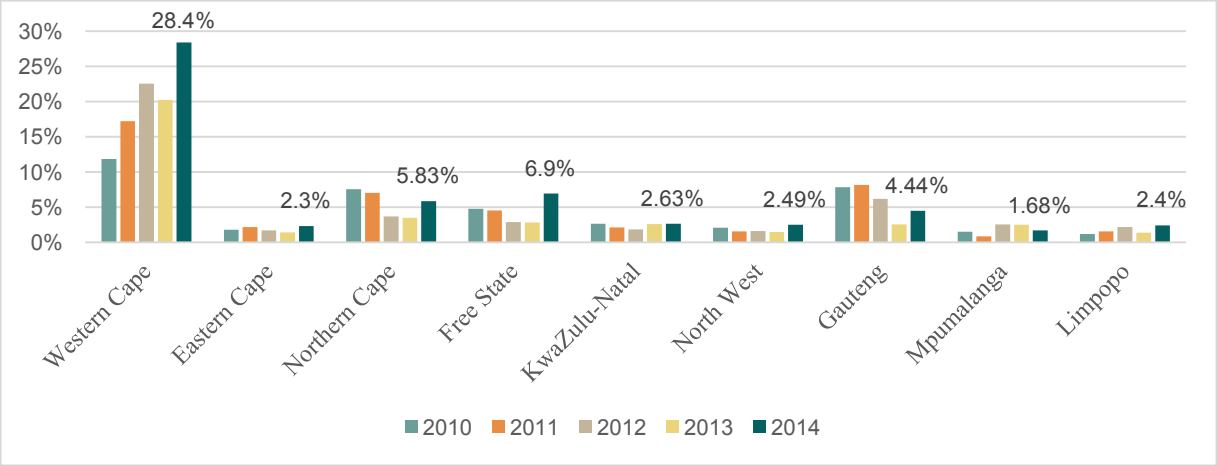
Figure 29 shows the percentage of rural households in each province with access to a functional landline telephone. Between 2010 and 2014, access to landline telephones increased in the Western Cape and the Free State, declined in the Northern Cape and Gauteng and remained fairly constant in the other provinces.

In contrast, over the same period, the percentage of rural households with access to a functional cell phone grew significantly (Figure 30).

In 2014, the three provinces with the highest proportion of households that had access to functional cell phones were Mpumalanga (96.43%), KwaZulu-Natal (96.05%) and Limpopo (95.57%). The three provinces with the lowest access to cell phones (the Western Cape, Northern Cape and Eastern Cape) had a faster growth rate, of more than 10% between 2010 and 2014. The proportion of rural households with access to cell phones grew from 65.88% to 78.4% in the Western Cape, from 75.14% to 87.92% in the Northern Cape and from 77.08% to 89.77% in the Eastern Cape.

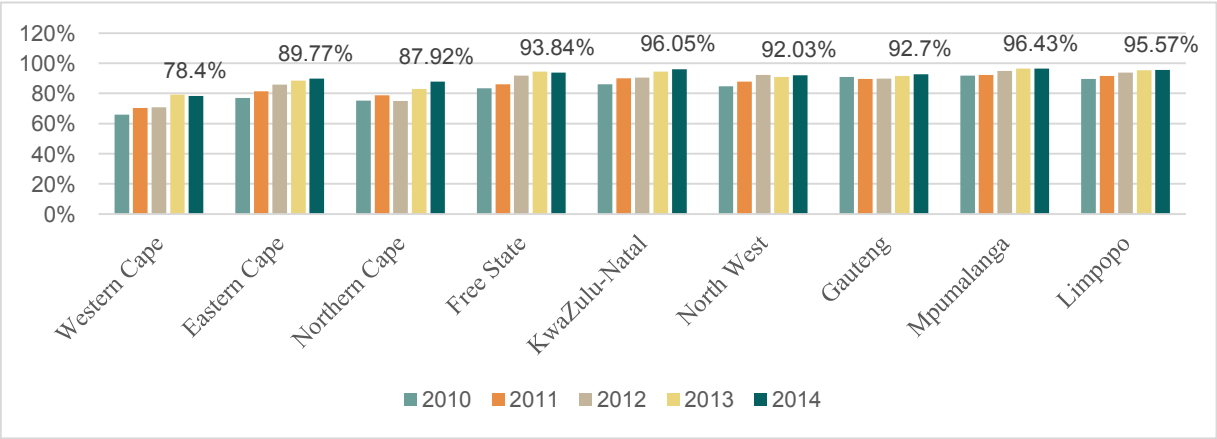
Figure 31 shows the access to the internet at home among rural households over the period 2010–2014.

Figure 29. Rural households with access to functional landline telephones (2010–2014)



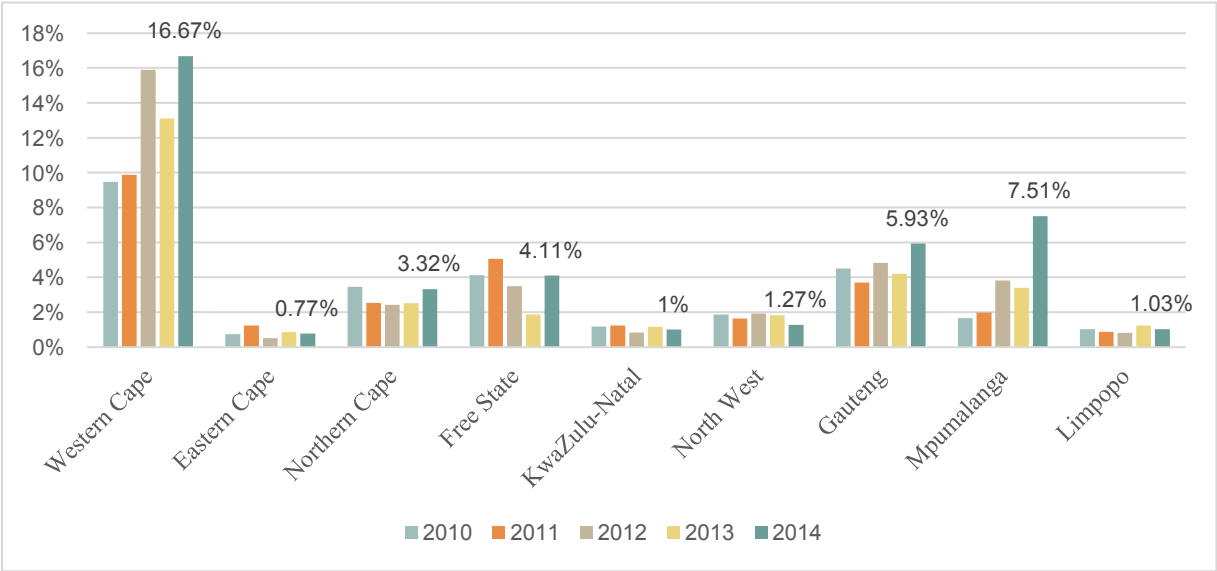
Source: Commission calculations using data from Stats SA(2010–2014)

Figure 30. Rural households with access to functional cell phones (2010–2014)



Source: Commission's calculations using data from Stats SA (2010–2014)

Figure 31. Rural households with access to the internet at home (2010–2014)



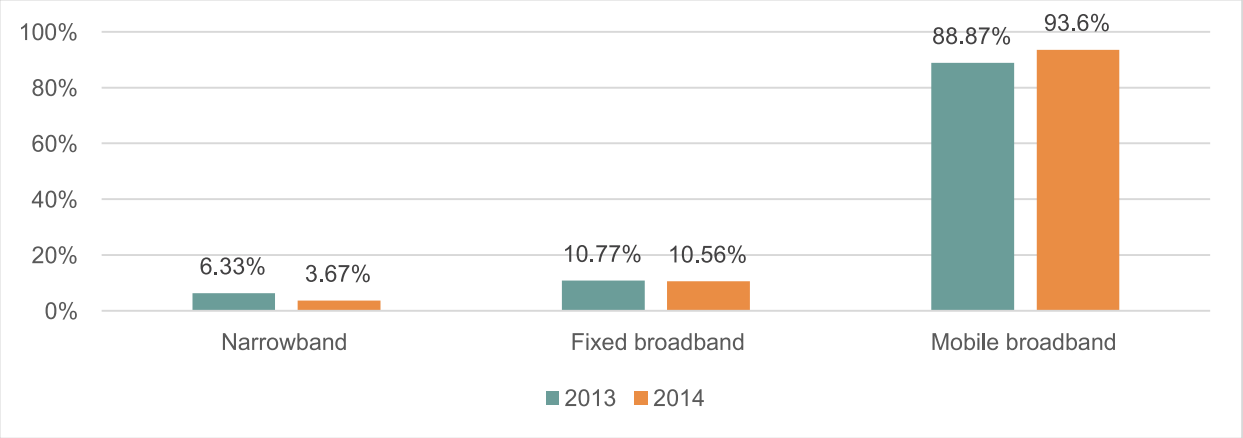
Source: Commission calculations using data from Stats SA (2010–2014)

With the exception of the Western Cape, the proportion of rural households with access to internet connections remains low in all provinces, particularly in the Eastern Cape (0.77%), KwaZulu-Natal (1%) and Limpopo (1.03%). This suggests that comparatively more urbanised and economically developed provinces have higher access to computers, hence the need/demand for internet connections. The increase or availability of broadband and affordability are contributing factors to the growth in internet access.

Since 2010, rural households are increasingly accessing the internet via their cell phones rather than via narrowband, fixed broadband and mobile broadband (Figures 32 and 33).

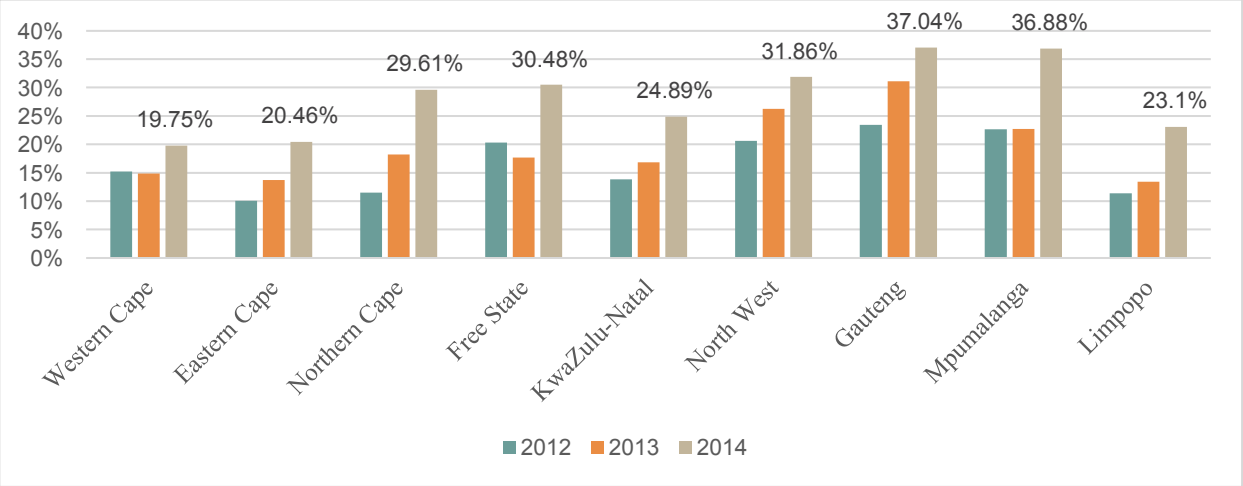
In 2014, the majority (93.6%) of rural households with internet access at home used mobile broadband, compared to 88.17% in 2013. Between 2013 and 2014, households using narrowband and fixed broadband declined, from 6.33% to 3.67% and from 10.77% to 10.56% respectively.

Figure 32. Services used to access internet at home (2013–2014)



Source: Commission's calculations using Stats SA (2013–2014)

Figure 33. Households that access the internet via cell phone or other mobile services (2012–2014)



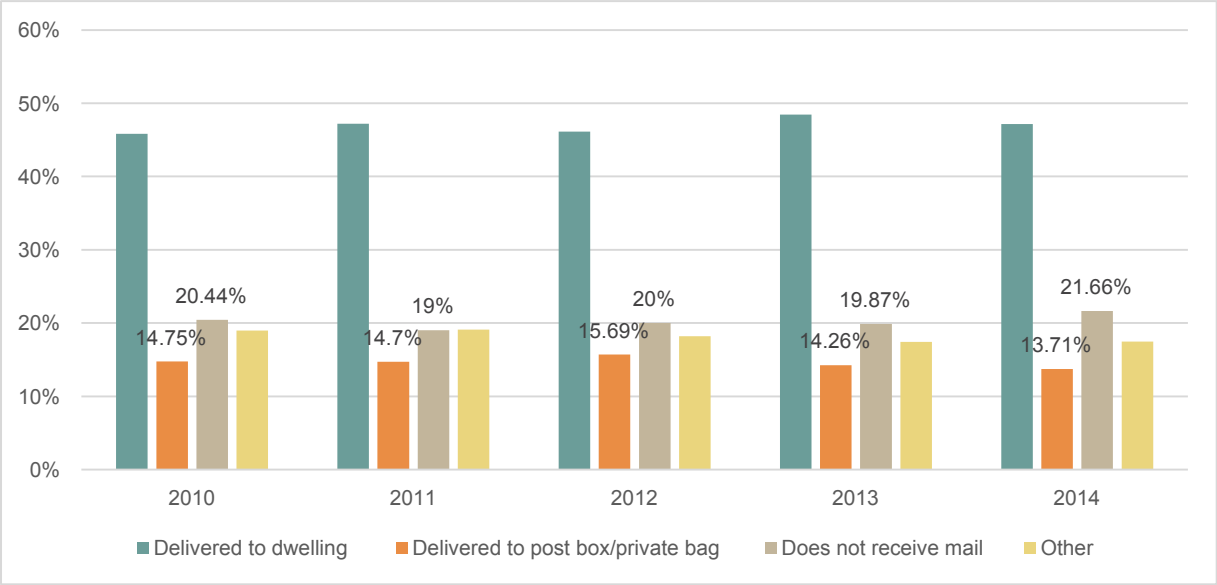
Source: Commission's calculations using data from Stats SA (2012–2014)

As Figure 33 shows, about a third of households access the internet via cell phone or other mobile services in Gauteng (37.04%), Mpumalanga (36.88%), North West (31.86%) and Free State (30.48%). The lowest proportion is found in the Western Cape (19.75%).

The SAPO's contribution to socio-economic development includes increasing access to more equitable and efficient postal services. Figure 34 presents the national picture of how households access postal services.

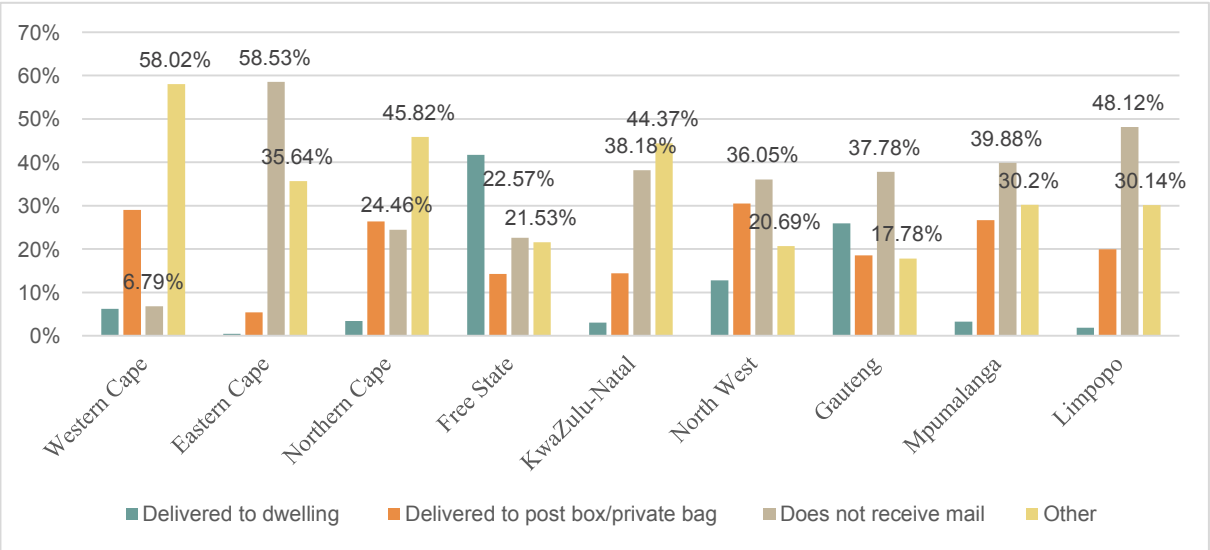
Nearly half of all households have their post delivered to their dwelling as opposed to a post box or "other", which includes to the workplace, to the house of a relative, neighbour or friend and to a shop. Between 2010 and 2014, the proportion of households that have their post delivered to their dwelling increased slightly, from 45.82% to 47.17%. The same period saw a corresponding decline in proportion of households that receive their post via a post box (from 14.75% to 13.71%) or other means (from 18.99% to 17.46%). The percentage of households that do not receive mail, i.e. have no access to postal services, grew from 20.44% in 2010 to 21.66% in 2014.

Figure 34. Households with access to postal services (2010–2014)



Source: Commission's calculations using data from Stats SA (2010–2014)

Figure 35. Rural households with access to postal services (2014)



Source: Commission's calculations using data from Stats SA (2014)

As Figure 35 shows, the highest proportion of rural households with no access to postal services are found in the Eastern Cape (58.53%), Limpopo (48.12%), Mpumalanga (39.88%) and KwaZulu-Natal (38.18%). In contrast, in the Western Cape only 6.79% of households have no access to postal services, and over half (58.02%) receive mail through "other" means. In most provinces, less than 10% of households have postal services delivered to their dwelling. The exceptions are the Free State (41.67%), Gauteng (25.93%) and North West (12.79%).

The following information was provided through interactions with SAPO:

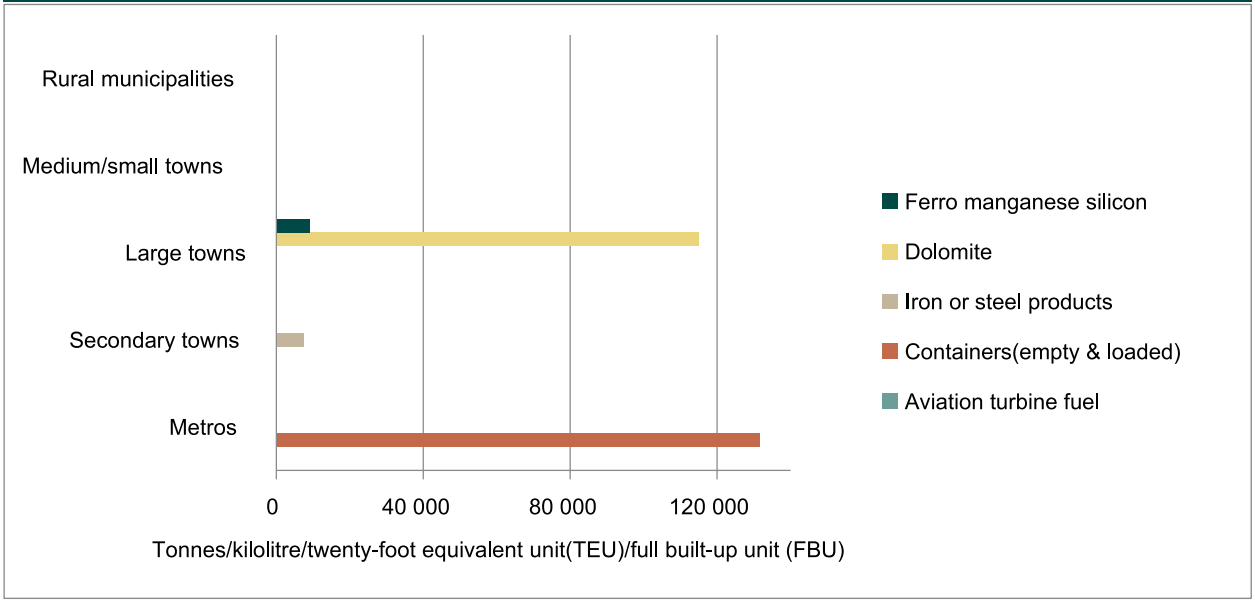
- Programmes implemented by SAPO in rural areas include rolling out addresses and retail branches, and converting off-line retail postal agencies to fully fledged outlets.
- The process for identifying and prioritising rural development programmes includes conducting a demand study, so as to ascertain the maximum social impact; using targets provided by the SAPO regulator (Independent Communications Authority of South Africa or ICASA) based on Stats SA data (e.g. census); and spreading programmes evenly or according to the population distribution as reported by Stats SA.
- Rural development programmes entail access to economy and compliance to the Regulation of Interception of Communications and Provision of Communication-Related Information Act (RICA) and Financial Intelligence Centre Act (FICA); access to basic rights of postal services, which include sending or receiving money and goods; and greater access to government service delivery (ambulance, police or other emergency services).

5.4.3 Transportation

Transnet plays a strategic role in the transport sector, by contributing to competitiveness, growth and the development of the economy through delivering reliable freight transport and providing rail and port infrastructure. Figures 36–38 illustrate freight commodities transported along the three main corridors, Gauteng–Natal, Cape–Gauteng and Natal–Gauteng. The freight flow type is for domestic, imports and exports. They reveal that freight commodities are largely transported from metros, secondary towns, large towns and medium or small towns and are less likely to be transported from rural areas.

Freight commodities are largely transported from metros, secondary towns, large towns and medium or small towns and are less likely to be transported from rural areas. These findings suggest that rural areas are excluded from transport and economic activity as well from the benefits that accrue from such activities, which has implications for rural development. The very nature of the commodities being transported show clearly the lack of rural focus.

Figure 36. Freight commodities Gauteng–Natal Corridor (2015/16)



Source: Transnet (2015)

Figure 37. Freight commodities Cape–Gauteng corridor (2015/16)

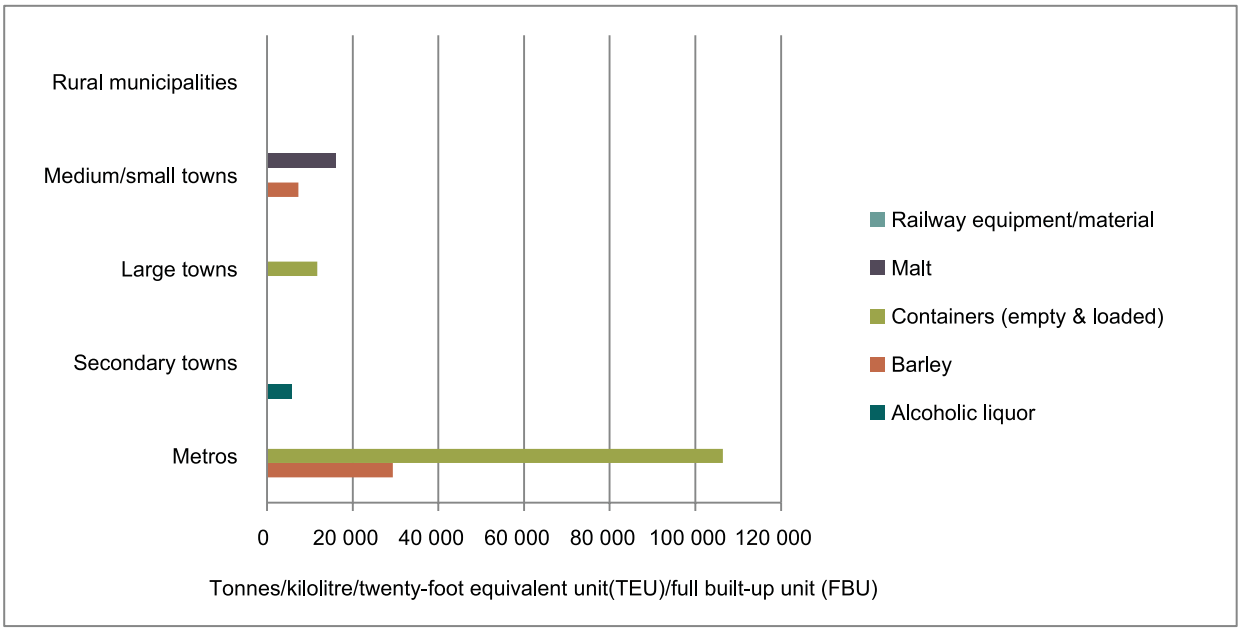
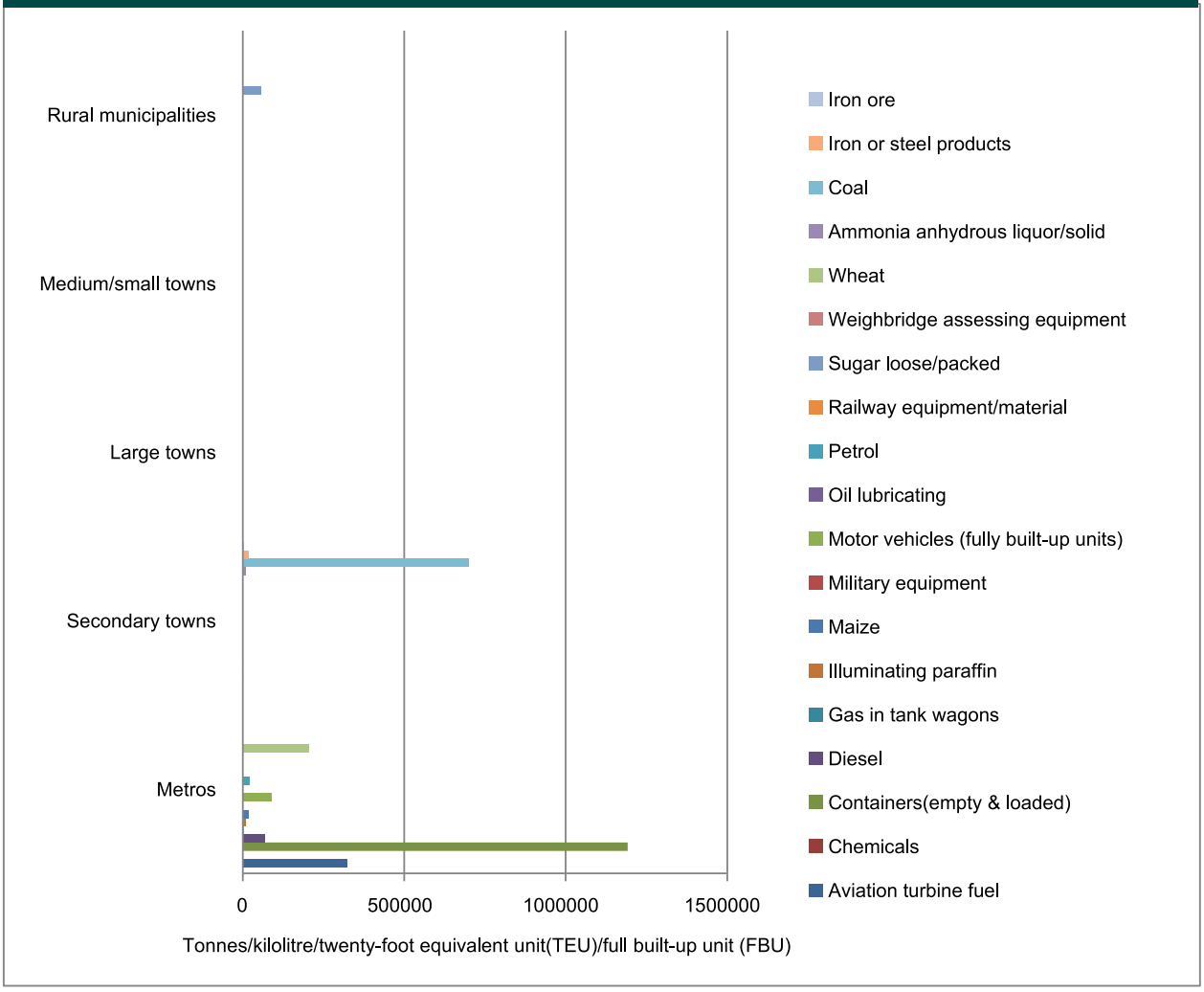


Figure 38. Freight commodities Natal–Gauteng corridor (2015/16)



Source: Transnet (2015)

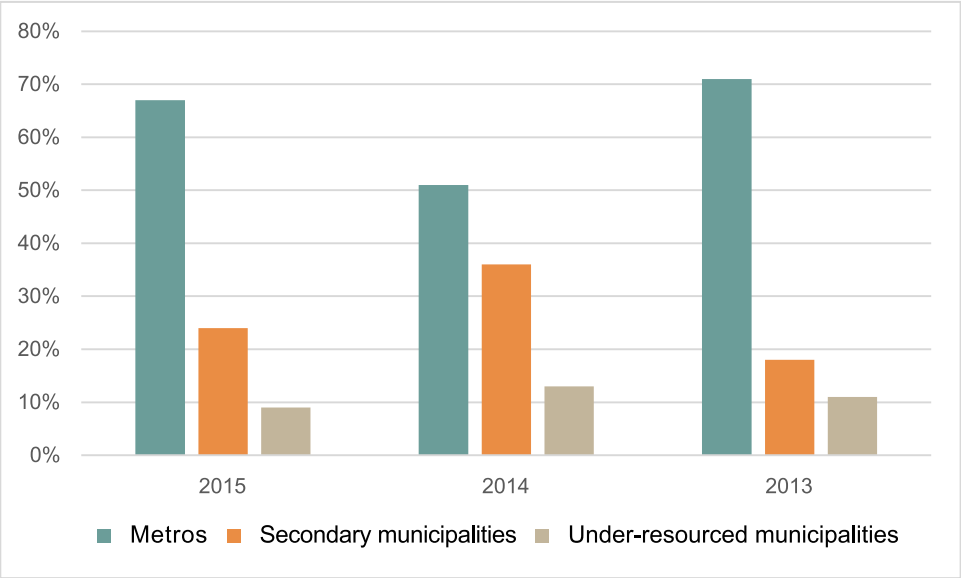
5.4.4 The Development Bank of Southern Africa

Within the municipal space, the DBSA focuses on improving social infrastructure (water and sanitation, electricity, community facilities, roads and transportation) and economic infrastructure support (energy generation, bulk water supply, industrial transport and telecommunication services). The DBSA works with various national and provincial departments, including National Treasury, the DOE and COGTA, to accelerate service delivery, by providing bridging finance to municipalities for projects funded by National Treasury through the Municipal Infrastructure Grant and the INEP grant.

The DBSA provides funding to metros, secondary and under-resourced municipalities. It also offers technical support to under-resourced municipalities to strengthen their ability to plan and implement capital projects, thereby increasing efficient infrastructure delivery. The emphasis is not only on under-resourced municipalities that receive funding from the DBSA, but also other under-resourced municipalities with substantial service delivery backlogs and potential for accelerated infrastructure investment. For instance, the DBSA has agreements with five municipalities (Uthukela district and the Emnambithi, Elundini, Emfuleni and Theewaterskloof local municipalities) to provide support for planning infrastructure, based on infrastructure assessment outcomes. The DBSA approved nine water and sanitation projects valued at R224-million for the Emfuleni Municipality, as part of the bank's assistance to the agricultural sector.

The DBSA invests heavily in metros compared to secondary and under-resourced municipalities. In 2013, over two-thirds (67%) of DBSA disbursements went to metros compared to just 9% to under-resourced municipalities (Figure 39).

Figure 39. DBSA disbursements to municipalities (2013–2015)



Source: DBSA (2013; 2014; 2015)

The DBSA used to have a rural development programme, whose purpose was to identify, prepare and implement catalytic socio-economic infrastructure and to formulate tailor-made rural development solutions. The programme was housed under the Development Fund, which was the capacity-building arm of the DBSA. However, when the DBSA was restructured, the Development Fund was scaled down and the programme was discontinued.

The DBSA continues to be indirectly involved in rural development. In 2011, it established the National Rural Youth Service Corps programme, with the aim of creating economic opportunities for the rural youth, including skills training. The DBSA hosts the programme's technical support unit, and provides monitoring and quality assurance support to the DRDLR. In 2015, the programme placed 850 learners in infrastructure employment opportunities, a substantial decline compared to 2014 when 2 057 learners were placed. The DBSA also helped with the registration of eight youth enterprises started by learners who are leaving the programme.

5.4.5 Land Bank

The Land Bank generates its income from extending agricultural loans to emerging and commercial farmers and large agribusinesses. It also earns interest on cash invested and generates significant income from its insurance portfolio investments. The Bank's lending activities are funded by participating in the open market through issuances of instruments such as promissory notes, call bonds, bills, floating rate notes and debentures. It is worth noting that

the cost of funding from open markets is directly affected by the domestic and international interest rate policies, and equity investments are affected by movements in stocks in various stocks exchanges.

The business model for the Land Bank has three core income generating business areas to sustain the Retail Emerging Markets (REM) division: Retail Commercial Banking (RCB), Business & Corporate Banking (B&CB), and Land Bank Insurance Services (LBIS). The Land Bank is structured into three divisions: RCB and REM and BCNB:

- RCB provides farmers with secured long-term (5–15 years), medium-term (3–8 years) and short-term (up to 18 months) loans in excess of R3-million. The four main products are mortgages (for land), production finance, instalment sale finance (for moveable assets) and medium-term loans for infrastructure (e.g. for pack houses).

- REM caters for farmers who would ordinarily not be able to secure funds from conventional financial markets. It offers loans of less than R3-million with concessionary interest rates to emerging commercial farmers (not subsistence farmers) who can be individuals or corporations. Loans are specifically for black farmers with no or low assets but who have access to land through a lease, a Permission to Occupy certificate or through traditional rights of tenure. Loans are for primary production only. REM also provides wholesale loans to intermediaries for on-lending to farmers as well as for lending directly to farmers. Wholesale loans are provided to, among others, cooperatives, former cooperatives now operating as private companies, and commodity association. These intermediaries are familiar with the needs of emerging farmers, provide support to such farmers and have the ability to reach farmers relatively easily.

- The BCNB offers insurance to farmers and the overall agricultural sector. LBI short-term insurance offering includes Assets, Crop and Legal solutions

The BCNB accounts for the largest share of the Land Bank performing loan book, followed by the RCB and the REM. The BCNB loan book decreased from R11.38-million in 2007 to R8.65-million in 2009 and then increased to R30.79-million in 2015. Its annual average growth was 17% between 2007 and 2015. The RCB loan book decreased from R3.64-million in 2007 to R2.21-million in 2010, and then increased to R5.11-million in 2015. Its annual average growth was 6% between 2007 and 2015. The REM performing loan book, which only came into existence in 2012, increased from R0.1-million in 2012 to R0.24-million in 2013 before declining to R0.77-million in 2015. Its annual average growth was 133% between 2012 and 2015, but this growth is from a very low base.

The Land Bank also administer some rural development funds on behalf of government departments.

- **The Agri-BEE Fund:** The Land Bank administers the Agri-BEE Fund, as an agent of DAFF. The fund allocates grants to promote the rural community-based empowerment groups. Between 2014 and 2015, disbursements increased to R5.89-million to R5.5-million, which DAFF injected R36.2-million and R33.3-million.

- **Emerging Farmers Support Facility:** In 2011, the Land Bank received R208-million from DRDLR, to use as a guarantee for identified, deserving, emerging farmers who require rescue packages. The identified farmers all have mortgage loans with the Bank and can only access the guarantee after complying with conditions set by DRDLR. This facility has not yet been used.

The RCB and REM are the closest mechanisms through which the Land Bank could contribute to rural development but receive less funding, suggesting a bias towards commercial agricultural business. The Land Bank also allocates most of its resources to its BCNB division, which suggests a bias to funding agricultural cooperatives and businesses rather than emerging farmers in rural areas.

5.4.6 The Industrial Development Corporation

The IDC has three business units/divisions:

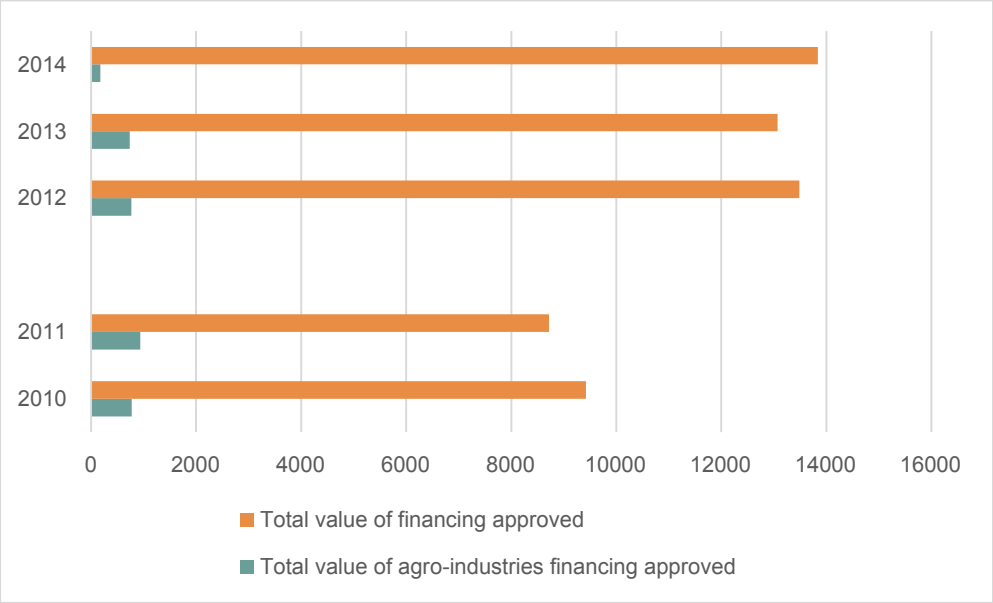
- Agro and New Industries, consisting of Agro-Industries, Green Industries, Strategic High-Impact Projects and Venture Capital.

- Mining and Manufacturing Industries, consisting of Chemicals and Allied Industries, Forestry and Wood Products, Metals, Transport and Machinery Products, Mining and Minerals Beneficiation, as well as Textiles and Clothing.

- Services Industries, consisting of Information Communication, Technology, Healthcare, Media and Motion Pictures as well as Tourism.

The Agro and New Industries is the most relevant division to rural development. It focuses on agro-processing (food and non-food), beverages (alcoholic and non-alcoholic) and aquaculture. The IDC does not fund pure primary agricultural projects. As Figure 40 shows, between 2011 and 2014, the total value of financing approved by the IDC increased from R8.7-billion to R13.8-billion. Of this, agro-industries made up just 1.26% (R175-million) in 2014, compared to 8.17% (R770-million) in 2010.

Figure 40. IDC total value and agro-industries financing approved (2010–2014)



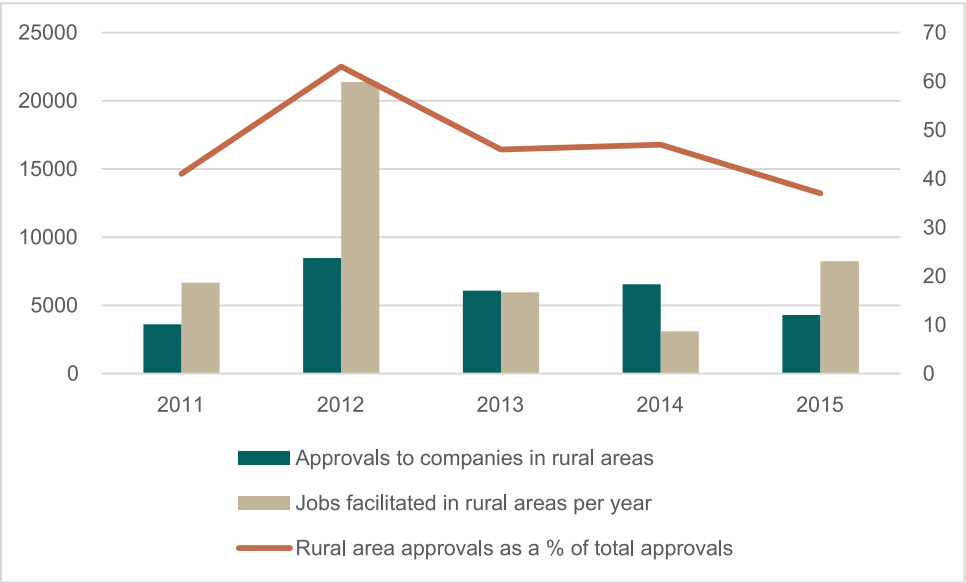
Source: Various IDC Annual Reports

Approvals to companies in rural areas almost doubled between 2010 and 2012 (from R4.6-billion to R8.46-billion) before declining to R4.28-billion in 2015. Out of the total approved financing, companies in rural areas received 49% in 2010, 63% in 2012 and 37% in 2015 (Figure 41). This resulted in thousands of jobs being facilitated: 6664 jobs in 2011, 21382 jobs in 2012 and 8223 jobs in 2015.

Provincial investment by the IDC. The IDC mostly invests in rural provinces, but Gauteng (an urban province) also benefits from IDC investments. Between 2010 and 2014, the Northern Cape received 30% of total IDC investments, while Gauteng received 26%, North West and Limpopo received 9%, and the Free State just 1%.

In 2002, the IDC launched the Agency Development and Support (ADS) Department to support the establishment of local economic development agencies at a municipal level. Through the ADS, 34 municipal agencies have been established with the aim of improving socio-economic development and leverage job creation potential in marginalised communities. In 2013/14, funding of R38.5-million was approved to assist six of these agencies to expand their work in developing, packaging and implementing projects in their areas of operation. These agencies are mainly located in rural areas and play a critical role in facilitating projects that support local economic development in specific municipalities.

Figure 41. IDC approvals to companies and jobs facilitated in rural areas (2010–2014)



Source: Various IDC Annual Reports

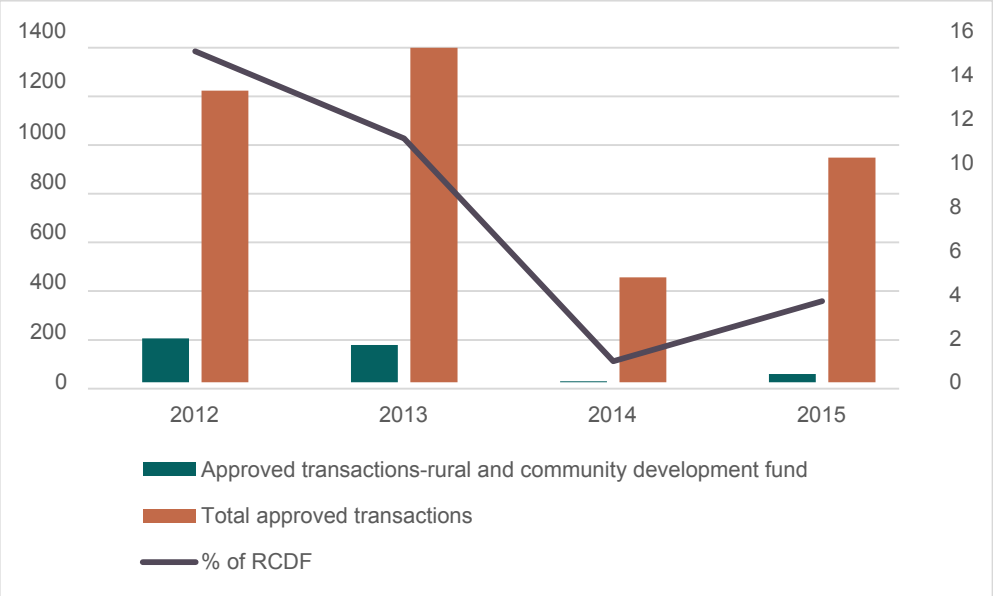
5.4.7 The National Empowerment Fund (NEF)

The NEF has a fund specifically for rural and community development. The fund promotes sustainable change in social and economic relations and supports growth and development in the rural economy through financing sustainable enterprises. Rural communities are mobilised into legal entities or cooperatives in order to participate in the broader economic activities. The fund provides capital for project finance, business acquisition, expansion capital and start-ups/ greenfield enterprises. Funding ranges from R1-million to R50-million. The NEF is also involved in agro-processing investments.

Between 2012 and 2015, the Rural and Community Development Fund (RCDF) declined from R175-million to R33-million, reflecting the decrease in total NEF approved transactions, which amounted to R895-million in 2015 compared with R1.16-billion in 2012). The RCDF's share of total transactions also decreased, from 15.1% in 2012 to 3.7% in 2015. This decline is because other NEF programmes have increased their share of funding. For instance, between 2012 and 2013 the Imbewu Fund increased by 117%, compared to 37% for the RCDF (Figure 42).

The NEF invests mostly in urban provinces, with Gauteng receiving over half (51.1%) of NEF financing between 2010 and 2015. Over the same period, KwaZulu-Natal received 18.7%, of total NEF financing, followed by Western Cape, Eastern Cape and Limpopo, Free State and North West.

Figure 42. RCDF vs. total approved transactions (2012–2015)



Source: Various NEF Annual Reports

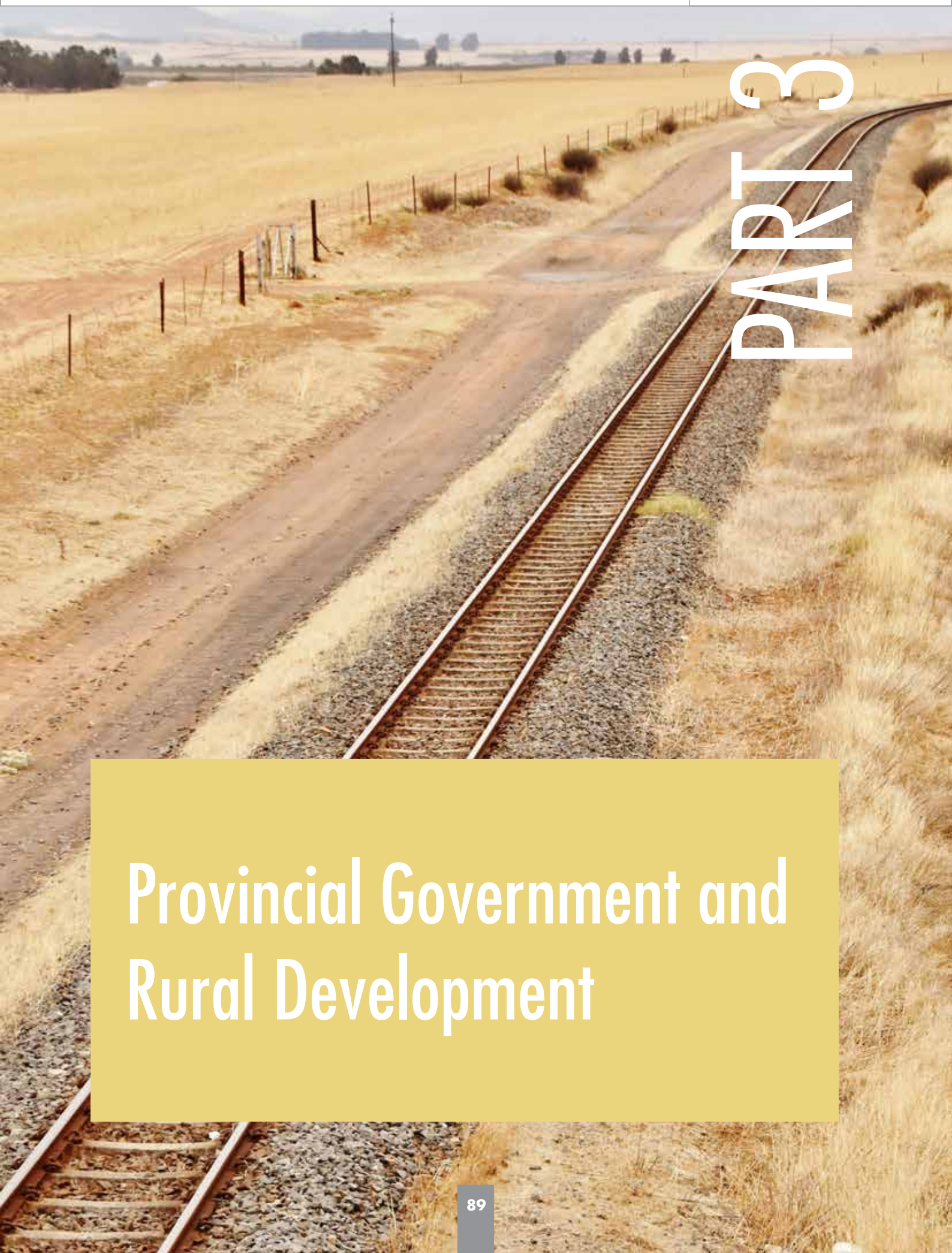
5.5 Conclusion

Rural areas in South Africa are particularly vulnerable in terms of access to services, infrastructure and economic opportunities. Public entities have a responsibility to align to the country's national goals and support government's initiatives aimed at addressing the socio-economic legacy of the past. The four SOCs (Eskom, Telkom, Transnet and SAPO) do not have a specific rural focus, unless such a focus is being driven by the parent/sector department responsible for the SOC (e.g. Eskom). It is also not clear whether SOCs are actually required to have an explicit rural focus/dimension to their activities. SOCs would benefit from clear guidelines on what their roles in terms of furthering South Africa's developmental agenda. Investments by DFIs in rural areas are very small and declining.

5.6 Recommendations

With respect to creating conditions for rural development from infrastructure-led growth by public entities, the Commission recommends that:

- Economic Development Department, in collaboration with the departments of agriculture, forestry and fisheries, rural development and land reform, and public enterprises, designates a single champion for rural finance and development. This champion should guide and coordinate investment by DFIs in rural areas, and encourage crowding-in by the private sector.
- The Department of Telecommunications and Postal Services ensures that SAPO modernises and broadens focus towards becoming a one-stop shop in rural areas, where communities/customers can renew (car, driver's) licences and access financial products such as banking (ATM etc.).
- The Department of Public Enterprises ensures that Transnet contributes to regional economic growth and development by connecting business to customers, goods to markets. Transnet should also transport agricultural goods, so as to include rural communities, from rural areas where they are produced to urban areas where they are consumed, process, or sent out of the country.
- The Department of Telecommunications and Postal Service puts measures in place to improve Telkom's network infrastructure in rural areas, so as to improve cellular network coverage. Telkom and SAPO, under the guidance of the Department of Telecommunications and Postal Services, should forge a partnership to develop the mobile market.



PART 3

Provincial Government and Rural Development

Similar to many other developing countries, South Africa is characterised by disparities across provincial jurisdictions. The distribution of poverty is highly skewed, with the rural provinces carrying the highest burden due to historical social engineering policies and weak regional economies. The higher poverty burden imposes additional demands for services and funding on rural provinces, but the funding framework for provinces is not adequately sensitive to the different developmental needs. Poverty is a manifestation of under-development emanating from a range of factors including historical legacies, under-investment and structural issues. This section focuses on provinces and rural development. Limited economic activity and a narrow tax base impede the ability of rural areas to mobilise sufficient resources to finance their own development programmes, leaving them dependent on the centre for both transfers and interventions. As a result, their spending discretion (i.e. directing resources towards province-specific needs) is limited – the provincial equitable share, which accounts for 80% of revenue, is normally tied to national priorities and statutory responsibilities. Similarly, spending on the remainder of the funding from conditional transfers is restricted to specific sector and expenditure activities. The inability of the rural provinces to intervene in their spaces through the powers and functions assigned to them by the Constitution is evident from their consistent maladministration practices and fiscal management failures. Whereas such failures reflect poor fiscal choices, the lack of appropriate skills in the rural areas may also exacerbate management inadequacies and thus reinforce rural under-development.

CHAPTER 6

Fiscal Transfers and Own Revenue in Funding Provincial Rural Development Mandates

Fiscal Transfers and Own Revenue in Funding Provincial Rural Development Mandates

6.1 Introduction

Traditionally, provincial rural development responsibilities included regional planning, schooling and health facilities, housing, roads and agriculture. However, the Constitution makes no spatial distinction when assigning or classifying functions. It requires (in Section 214(2)) for economic disparities between and within provinces to be taken into account when determining their respective equitable share entitlements. Accordingly, the provincial equitable share (PES) and various conditional transfers allow for different aspects of rural development both in the allocation formulae and spending activities. For instance, the poverty component of the PES is intended to provide a rural bias in the allocation framework in the same way that grants do, e.g. the Rural Household Infrastructure Grant (RHIG) prioritises sanitation provision within rural communities.

The renewed emphasis on rural development, within the context of regional disparities, raises questions about the sources, composition and effectiveness of funding for rural development. Without a clear framework of provincial rural development functions and coordinated spending, the transformation of rural landscape will remain an elusive ideal. This chapter looks at how responsive the PES and conditional grants are to the needs of the rural provinces, by evaluating whether rural provinces are able to mobilise significant own revenue to address rural needs and assessing the responsiveness of fiscal transfers to rural challenges.

For the purpose of this chapter, and as indicated in Chapter 1, the working definition of rural provinces is derived from a composite index of B3 and B4 municipalities. According to this index, the three most rural provinces are Limpopo, KwaZulu-Natal, and Eastern Cape, which is consistent with the historical patterns of development, as the identified provinces were predominantly former homeland areas ("bantustans").

6.2 Provincial Rural Development Mandates

According to Schedule 4(A) of the Constitution, urban and rural development is a concurrent responsibility of national and provincial governments. The Constitution does not provide an explicit description of how the various activities should be shared between the two spheres. This lack of specificity lies at the centre of uncertainties regarding how different spheres perceive their respective roles in, and contribution to, rural development. Complexities ingrained in the definition of rural development further reinforce these uncertainties.

The provincial functions of education, health, welfare services, housing, public transport, roads and agriculture potentially constitute rural development, as they reduce poverty and improve living standards. Yet provinces do not always perceive their education and health spending as rural development, partly because sector policies are mostly driven from the centre, and partly because sectoral allocations and investments are not space-based, and the outcomes are not physically confined to a rural space (like in the case of investments in roads and agriculture).

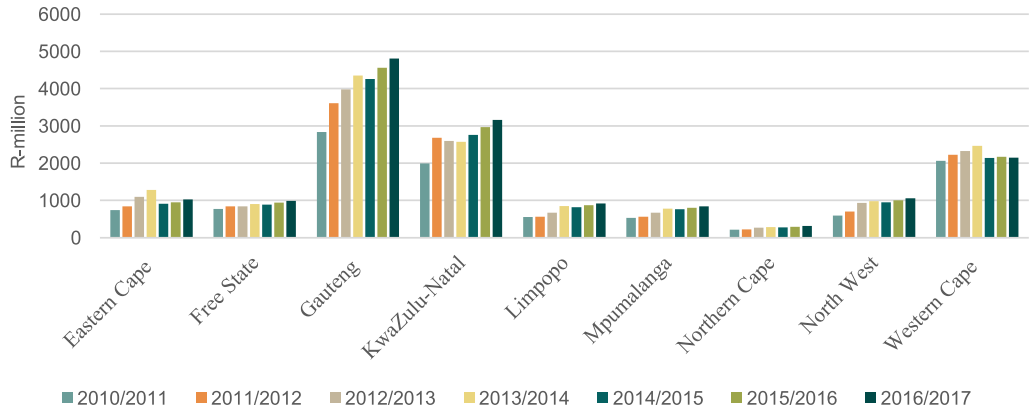
6.3 Own Revenue Mobilisation for Rural Development

South Africa's Constitution purposefully confers limited revenue-raising powers on provinces to promote uniformity and efficiency. Provinces have the right to levy certain taxes and surcharges, i.e. flat-rate surcharges on the tax base of any tax, levy or duty that is imposed by national legislation, other than corporate income tax, value-added tax (VAT), excise levies or property taxes (Mabugu et al., 2009). Provinces may impose these taxes provided they do not prejudice national economic policies, economic activities across provincial boundaries and national goods and service or factor mobility (Ajam, 2006).

Although the Constitution allows provinces to levy surcharges, in practice no province has yet successfully introduced or implemented such a revenue source. Provinces only levy minor taxes (casinos, horse racing, liquor and motor vehicles licensing) that do not generate sufficient revenue to finance a significant part of their expenditures. Provinces are compensated for their lack of revenue-raising powers through the fiscal transfers system. However, accountability is a compelling reason for devolving own revenue-raising powers to provinces. Accountability is central to creating a fiscal culture of expenditure efficiency and providing what is needed and wanted by provincial residents. International studies show that higher levels of tax autonomy at the subnational level are associated with a significant number of other virtuous effects for decentralised systems, including notably improved macroeconomic stability, overall better governance and lower corruption levels (World Bank, 1998).

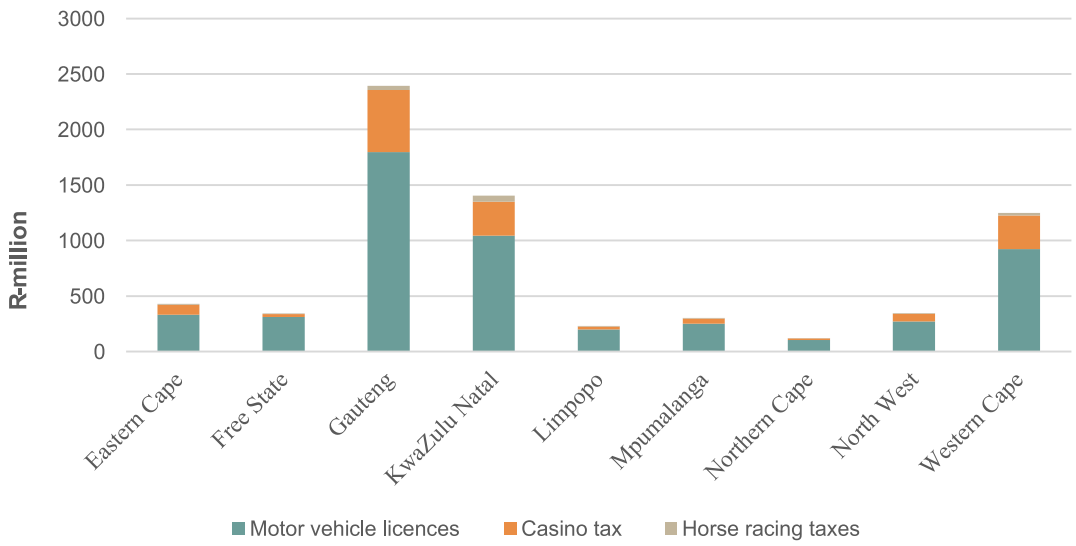
Between 2010 and 2016, own revenue constituted approximately 4% of total provincial revenue, but the amount varies from one province to another (Figure 43). Gauteng and Western Cape collect the largest amount, followed by KwaZulu-Natal, which is a rural province but has relatively high economic and commercial activities compared to other rural provinces.

Figure 43. Provincial own revenue (2010/11–2016/17)



Source: National Treasury (2015a)

Figure 44. Own revenue composition (2005/06–2014/15)



Source: National Treasury (2015a)

Figure 44 shows the own-revenue sources for the provinces. The urban provinces (Gauteng and Western Cape) collect more motor vehicle licensing and casino taxes than the rural provinces of the Northern Cape and Limpopo. These taxes appear not to be linked to any economic activity. When the main own-revenue sources for provinces in Figure 44 are analysed, they are found to consist primarily of price-elastic goods and services, which make the tax bases sensitive to price increases. While this may be applicable to all provinces, it is more pronounced in rural areas. The results for the motor vehicle licensing taxes are influenced by the fact that the headquarters of many companies are in Gauteng and the Western Cape. These companies often register all their vehicles in the province where their headquarters are based, even when their vehicles operate in other provinces.

A representative tax system approach[22] was used to analyse the extent to which provinces are maximising their potential revenue from current revenue sources (their "tax effort"[23]). The analysis found that provinces have very different levels of tax effort. Rural provinces, such as the North West and Eastern Cape, generally have the highest level, whereas the urban provinces of Western Cape and Gauteng have the lowest level of tax effort. An possible explanation for this peculiar phenomenon is that the tax rate levied by rural provinces on a given tax base is higher than that of urban provinces, e.g. rural provinces

>>

[22] Measures the revenue-raising ability of subnational government by applying a standard tax rate on available tax bases.

[23] Measures the amount of revenue collected by a subnational government relative to what could reasonably be collected given the tax base.

charge higher motor vehicle licence fees per vehicle. The noticeable discrepancies in fiscal effort among rural and urban provinces also imply that the provinces have very different tax bases.

Between 2005 and 2014, the tax effort drastically increased across all provinces. The difference between potential and actual tax revenues suggests that some provinces (including Gauteng, Western Cape and KwaZulu-Natal) are relatively optimising their collection of own revenue from selected tax sources and, in some instances, are "overtaxing" their tax bases. Therefore, the scope for provinces to increase revenue collection from their current tax sources is limited. And even if provinces optimised their own-revenue collection, they still would not have sufficient funds to meet provincial rural development responsibilities without intergovernmental fiscal transfers.

6.4 Intergovernmental Transfers for Rural Development

Provinces rely for their funding mostly on transfers from national government, comprising the PES[24] and various conditional grants. The PES, which represents 81% of the national transfers to provinces, is a general purpose grant that provinces can spend at their discretion. Conditional grants, which make up 19% of transfers to provinces, are intended to fund national priorities across a range of mandates. Intergovernmental transfers must be equitable, and their allocation and spending must take into account the interjurisdictional fiscal and developmental disparities. Therefore, the PES allocation framework and selected provincial conditional grants include variables that directly and indirectly compensate for "ruralness".

Since its introduction over 18 years ago, the PES formula has undergone several reforms, including the introduction of components aimed at explicitly addressing rurality. The most notable are the backlogs component (introduced in 2000) and the poverty component[25] (introduced in 2005) that replaced the social welfare component. The aim of the backlogs component was to fund the capital needs of historically neglected provinces or former bantustans, which included the Eastern Cape, KwaZulu-Natal and Limpopo. These three provinces accounted for 65% of the education backlogs factor and 70% of the rural factor within the backlogs component. Similarly, the poverty component was intended to reward provinces with the highest incidences of poor people – generally presumed to be concentrated in the rural areas. The backlogs and poverty components both have a weighting of 3% in the overall PES formula (National Treasury, 2000; 2005).

In 2005, the backlogs component was removed from the PES and replaced by a myriad of infrastructure conditional grants, which are considered more suited to addressing specific regional development disparities, such as rural under-development (National Treasury, 2005). Notwithstanding these grants, the PES formula continues to be criticised for perpetuating regional imbalances. Its poverty component, which is largely regarded as being pro-rural, is small and uses a variable that is not necessarily peculiar to rural areas as a measure of need. As seen from the earlier discussion, the regional distribution of poverty incidence is increasingly becoming urban. Other important (and larger) PES components, such as education and health, are seen as insensitive to rurality because their underlying indicators of need do not specifically distinguish between rural and other developed areas.

Overall, the PES formula is perceived as unresponsive to rural development, which is confirmed by a simple ANOVA[26] test. Table 18 compares the variation in provincial PES per capita allocations over a 13-year period (2000–2013). When the backlogs component was active (between 2000 and 2005), no discernible variation is found in the per capita PES allocations to rural and non-rural provinces. Only from year 2006, following the wholesale PES reforms, do the allocations show statistically significant variations across provinces. However, this variation only appears when Gauteng is included in the analysis, suggesting that the PES is not responsive to rurality. Even when the ANOVA test is applied over a long period, from 2000 to 2013, the results show no material difference in the allocations for all provinces. Overall, the results overwhelmingly support the perceptions that the PES formula is not responsive to rurality and imply a need to redesign the PES formula.

>>

[24] The PES is distributed across the nine provinces through a deterministic model or formula made up of components and/ variables which proxies provincial expenditure mandates and needs.

[25] The poverty component was introduced in 2005 out of a compromise following the removal of the social welfare component and the shifting of a social security function from provinces to national government. The 2005 reforms revealed distortions between the weights assigned to components in the formula and expenditure levels which resulted in some provinces, mostly rural, being short-changed by the shifting of social security funds. The poverty component was introduced to compensate provinces that were spending far beyond the social welfare weighting.

[26] ANOVA is a statistical tool used to evaluate whether there is any significant difference in the means of three or more independent data groups.

In different countries, fiscal transfer equalisation mechanisms invariably take into account indicators to address horizontal fiscal imbalances or disparities. These mechanisms range from elaborate estimations of expenditure needs (in developing economies) to explicit allocation of funds to jurisdictions with special need (ruralness) (Fan and Zhang, 2005). However, no blueprint exists for designing fiscal transfer formulae. The ultimate goal for each formula is to pass the litmus test of being equitable. The PES is not strictly speaking a conventional equalisation transfer, and so PES cannot be considered an inequitable funding instrument simply on the basis of its insensitivity to rurality. Furthermore, the equitable share forms part of a package of IGFR instruments to deal with fiscal disparities.

Table 18. Variation in per capita provincial allocations

Until 2005	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between groups	4187334.711	8	523416.8389	1.540963125	0.177767769	2.208518074
Within groups	12228070.8	36	339668.6335			
Until 2006	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between groups	5212226.918	8	651528.3647	2.35345129	0.033064753	2.152132879
Within groups	12457779.15	45	276839.5367			
2006 Onwards	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between groups	29238931.44	8	3654866.43	2.7096799	0.013855733	2.115223279
Within groups	72836200.03	54	1348818.519			
From 2000 - 2013	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between groups	28044927.47	8	3505615.933	1.839764043	0.077334919	2.025247482
Within groups	205790803.5	108	1905470.403			

Source: Commission's calculations

6.5 Rural Responsiveness of the Conditional Grants

The removal of the backlogs component from the PES in 2005, was followed by the introduction of conditional grants within the broader provincial fiscal framework to address historical infrastructure backlogs in the rural provinces (National Treasury, 2005). Conditional grants are appropriate instruments for funding specific regional expenditure needs that cannot be accommodated by the general transfers. Grants include the Health Facility Revitalisation Grant and the Provincial Infrastructure Grant, which were discontinued in 2011 and disaggregated into the Education Infrastructure Grant and the Provincial Road Maintenance Grant.

Unlike the PES, infrastructure conditional grants are not always formula-driven and do not derive each province's share from expenditure indicators (despite being introduced to remedy historical infrastructure backlogs largely in rural areas). The allocations for infrastructure grants to provinces are based on the number of projects approved and were recently linked to a two-year planning and approval process to minimise under-spending. The responsibility for addressing rural development challenges falls on provinces rather than the grant design.

As Table 19 shows, South Africa's three most rural provinces (Eastern Cape. KwaZulu-Natal and Limpopo) combined were allocated over half (52%) of the Provincial Infrastructure Grant and just under half (46%) of the Health Facility Revitalisation Grant (although over the 15 years, Gauteng received the largest share, i.e. 25%).These three provinces also accounted for nearly two-thirds (63%) of the relatively newer Education Infrastructure Grant. Between 2000 and 2015, most of the allocations went to the rural provinces, which indicates that infrastructure conditional grants are responsive to rural needs. However, whether such infrastructure allocations are beneficial to rural provinces is a matter that requires further research. For instance, the specific types of infrastructure needed in which specific regions, and whether or not a province should invest in deep remote areas, where the marginal returns to infrastructure decrease rapidly due to high cost and low usage levels, or might a more feasible rural development remedy for these remote areas be to move people out of the fragile lands into areas with more jobs (Fan and Zhang, 2004).

Table 19. Average provincial share of the infrastructure allocations (2000–2015)

Province	Provincial Infrastructure Grant (10-year average)	Health Facility Revitalisation Grant (15-year average)	Education Infrastructure Grant (4-year average)
Eastern Cape	17%	16%	21%
Free State	8%	5%	4%
Gauteng	14%	25%	17%
KwaZulu-Natal	20%	16%	22%
Limpopo	15%	14%	20%
Mpumalanga	7%	5%	5%
Northern Cape	5%	6%	3%
North-West	8%	6%	4%
Western Cape	6%	7%	5%

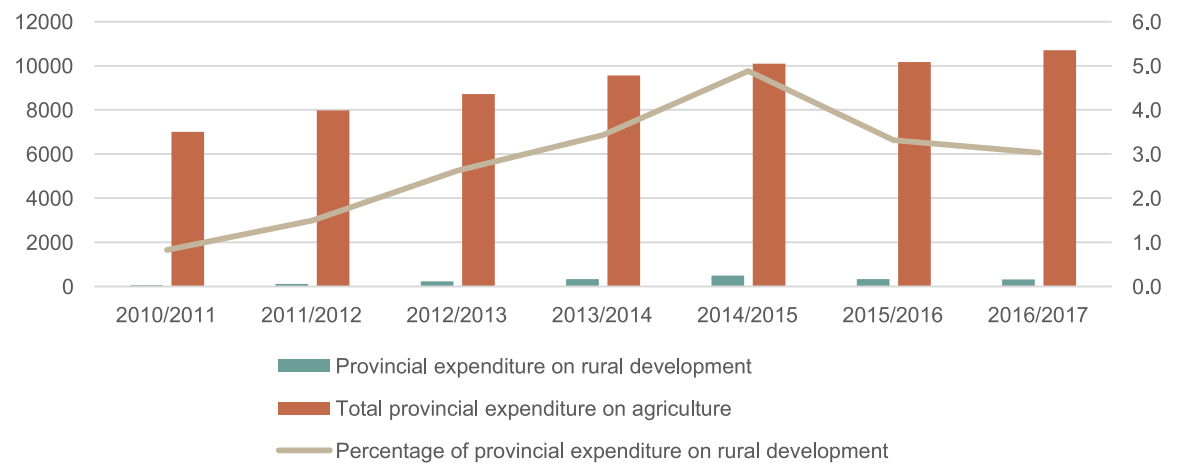
Source: Commission's calculations

6.6 PES Expenditure on Rural Development

The task of channelling the PES towards priority areas rests entirely with the provincial legislatures and executives, albeit within the bounds of national policies, norms and standards. Funding allocated to rural development depends on the importance attached to it by the respective province. As most provincial rural development activities are focused on agriculture, the allocations to the sector provide an indication of to what extent agriculture is prioritised.

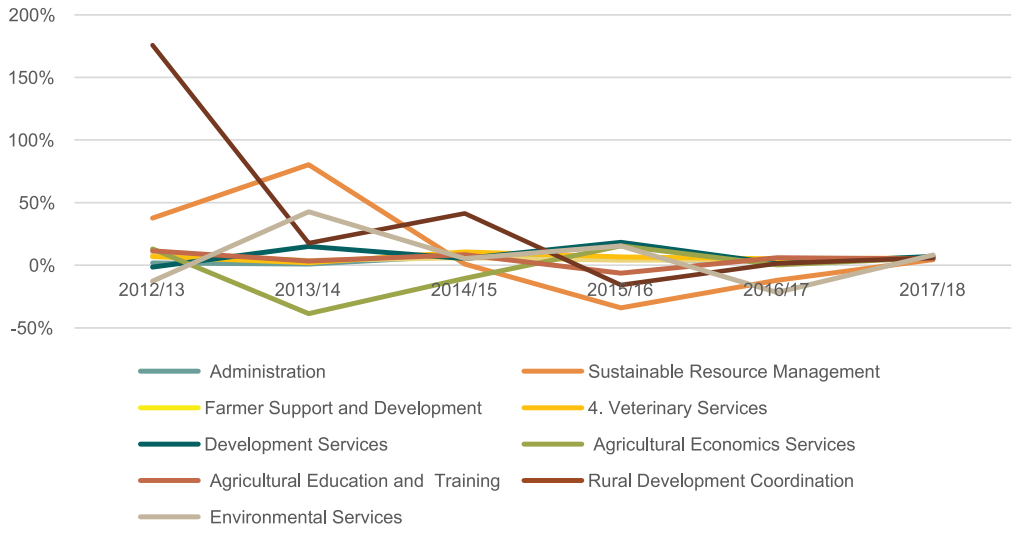
Provinces spend on average approximately 3% (or R10-billion) of their PES allocation on agriculture (Figure 45). Unsurprisingly, the three rural provinces (Eastern Cape, KwaZulu-Natal and Limpopo) allocate the most, i.e. 4%, while Gauteng allocates the least, i.e. 1%. In 2016/17, the rural development programme received just under 3% of the total agriculture budget, compared to 0.08% in 2010/11 and 5% in 2014/15. The growth, albeit from a low base, of the provincial rural development budget coincides with the reintroduction and re-emphasis on rural development through the CRDP in 2009. Allocations to the CRDP are notably small because it is new and because provinces locate many activities that are associated with it under different programmes. For instance, food security initiatives, which generally sit under rural development, are part of the provincial farmer support and development programme. The rural development programme within the provincial department of agriculture is largely limited to consultation with the community (National Treasury, 2015a).

Figure 45. Provincial agriculture and rural development expenditure (2010–2017)



Source: National Treasury (2015a)

Figure 46. Agriculture expenditure growth rates by programme (2012/13–2017/18)



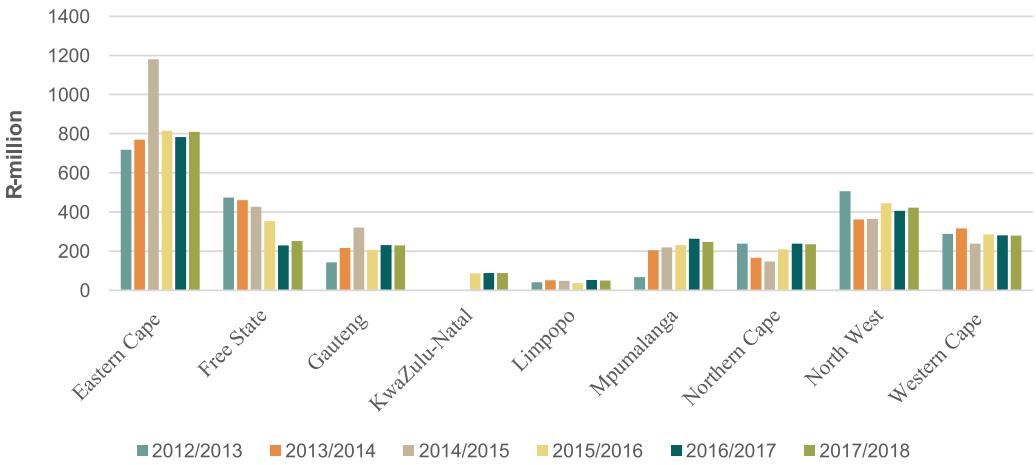
Source: National Treasury (2015a)

As seen in Figures 45 and 46, rural development expenditure grew fast at the beginning of the period, presumably driven by the attention from the Presidency, but then tapered off. The decline in rural development programme allocations from 2014/15 coincides with the overall national expenditure slowdown but also reflects some de-prioritisation of rural development. National priority programmes are usually allocated bigger allocations at inception in response to policy "hype". However, as implementation challenges become apparent, the allocations decline, resulting in devastating consequences for delivery goals. The RHIG, discussed later, is a typical example.

A comparison of rural development expenditure (Figure 47) finds that the Eastern Cape allocates a relatively higher budget to rural development than other provinces, while Limpopo spends the least, despite being a rural province. However, the data provides no conclusive indication of whether or not provinces are prioritising rural development. This is because (i) the extent of rural development needs in each province is unknown; (ii) provincial expenditure reports do not distinguish spatially where funds are spent – expenditure in other functions, such as education, are standardised across beneficiaries irrespective of space, while access to health care facilities or spending per patient is not determined by a person's place of origin (HST, 2015).

This expenditure review shows that provinces perceived generally as rural (with the exception of the Eastern Cape) allocate very little of their own discretionary funding to rural development, which is defined in the narrow sense as part of the agriculture department's sub-programmes. Admittedly the size of the provincial agriculture and rural development budgets are an insufficient measure to determine provincial prioritisation of rural areas.

Figure 47. Rural development expenditure trend by province (2012/13–2017/18)



Source: National Treasury (2015a)

6.7 Conditional Grants Expenditure on Rural Development

Conditional grants are another important source of finance for rural development, albeit driven from the centre. The current provincial fiscal framework consists of many conditional grants specifically targeted at various aspects of rural needs. The main ones are three agriculture grants: the Land Care and CASP (Fetsa Tlala), which have been in existence since 2000 and 2005 respectively, and the Illema/Letsema project, which commenced in 2008. The 2014/15 budget allocated R2.4-billion to the three grants: 78 % to CASP, 19% to Illema and 3% to Land Care. These grants have overlapping objectives, which include increasing agriculture productivity, poverty relief and sustainable resource management. Their allocation framework is neither rural nor agriculture biased, whereas these grants are focused on agriculture, which has been shown not to be a dominant economic activity in rural areas. For instance, the Northern Cape receives the largest share of CASP (34%) and Illima (19%) grants despite contributing the least to total national agriculture output (Table 20). Conversely, the Western Cape, which is commonly regarded as an urban province, has the second highest agriculture output after KwaZulu-Natal, ahead of the other provinces perceived as rural. These findings dispel the view that rural areas have a strong agricultural base, and hence rural development strategies should be agrarian in focus.

Table 20. Comparison of agriculture conditional grant allocations and agriculture outputs (2013/14)

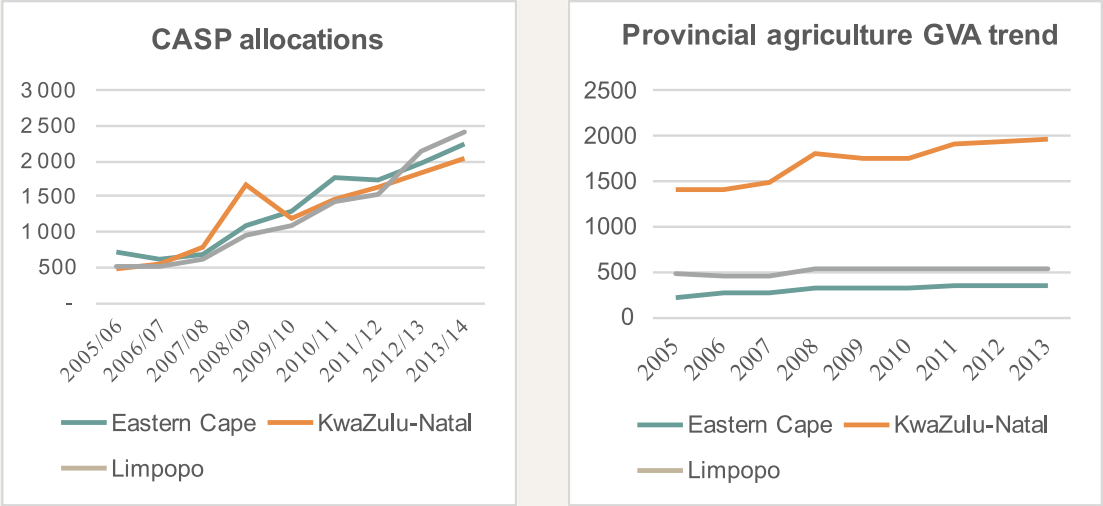
Province (R'000)	2013/14 CASP allocation	% share of CASP allocations	2013/14 Illema allocations	% share of Illema allocations	% Share of agriculture output
Eastern Cape	223 626	12%	45 567	10%	6%
Free State	140 274	7%	57 999	13%	10%
Gauteng	55 880	3%	17 538	4%	6%
KwaZulu-Natal	202 522	11%	65 768	14%	26%
Limpopo	239 978	13%	43 845	10%	8%
Mpumalanga	130 986	7%	43 845	10%	9%
Northern Cape	641 306	34%	84 393	19%	6%
North-West	170 714	9%	43 845	10%	6%
Western Cape	106 376	6%	51 737	11%	22%

Source: Commission's calculations

The skewed distribution of the allocations stems from the land area/mass being considered a more important variable than the other factors that account for rurality, such as households involved in agriculture, restituted land, food insecurity, deprived areas and land degradation (National Treasury, 2015b). The CASP allocation criteria appear to be entirely driven by land size, as the allocations reflect the province's respective land area. This is totally inconsistent with the grant objectives, especially that of increasing productivity. A simple comparison of provincial CASP allocations and agriculture GVA for the three rural provinces shows an unrelated growth pattern, with GVA growing at a flat rate and CASP at a steeper rate. Agricultural transfers do not appear to have any effect on provincial GVA (Figure 48).

In addition to the traditional agriculture-focused conditional grants, the current provincial fiscal framework provides for sectoral grants to finance specific rural infrastructure. In 2009, government adopted the Medium Term Strategic Framework (MSTF), in response to which (in in particular Outcome 7) several departments introduced new conditional grants to fund priority rural infrastructure needs, including sanitation and school infrastructure. The Department of Water and Sanitation oversees the indirect conditional Rural Household Infrastructure Grant (RHIG) that funds sanitation infrastructure, while the Department of Education established the Accelerated School Infrastructure Delivery Initiative (ASIDI) to address school infrastructure in rural areas. The ASIDI is also funded through an indirect conditional grant called the School Infrastructure Backlogs Grant (SIBG).

Figure 48. CASP allocations and agriculture GVA in rural provinces (2005/6–2013/14)



The RHIG was introduced 2009/10, with an MTEF allocation of R1.2-billion, while the SIBG was introduced in 2011/12 with an initial MTEF allocation of R8-billion. The SIBG delivery targets are to replace 496 mud schools and provide water to 1307 schools, sanitation to 536 schools and electricity to 1434 schools within a three-year period. The Eastern Cape receives the largest share (more 90%) of the SIBG and the second largest share (29%) of the RHIG (KwaZulu-Natal receives 34% of the RHIG). Both grants are allocated on the basis of backlogs, but the RHIG is restricted to the 27 CRDP[27] districts. Since inception the two grants have been characterised by significant under-spending (Table 21) and implementation challenges, and have failed to meet the government target of eradicating rural infrastructure backlogs by 2014 (FFC, 2015; AGSA, 2015).

Many of the conditional grants aimed at addressing rural development challenges are profoundly controlled by national government, either through stringent, nationally determined conditions or outright central management of the grants. For instance, in 2013, part of the CASP allocation was diverted into the national Fetsa Tlala (End Hunger) Food Production Initiative, with national government directing provinces to allocate 70% of the CASP to Fetsa Tlala. In the case of the SIBG, the allocation criteria are subjective, as the grant is only allocated to the Eastern Cape, over and above the School Infrastructure Grant allocated to all provinces. Lastly, control of the RHIG has been at the centre of controversy and contestation between national departments and across spheres, presumably because national government wants to control and direct where resources are allocated.

Table 21. Special rural development conditional grants (2010/11–2013/14)

Year	SBIG		RHIG	
	Aggregate allocation (R-millions)	% spent	Aggregate allocation (R-millions)	% spent
2010/11			R100	62%
2011/12	R700	10.9	R258	31
2012/13	R2 065	42%	R340	60%
2013/14	R1 960	70%	R106 (direct) R100 (indirect)	100% 75%

Source: Commission's calculations

>>

[27] The CRDP is the Department of Rural Development and Land Reform's flagship policy that has two focus areas: (i) an integrated programme of land reform and agrarian change, and (ii) a rural development strategy, and is targeted at 27 districts. (See Chapter 3 for more details.)

6.8 Conclusion

Provincial rural development mandates straddle many concurrent functions, which potentially creates duplication when implementing rural development programmes across departments and provinces. In general, rural provinces are optimising revenue collection on their current tax base and, in some instances, are exerting higher than average tax effort. As own revenue is an important element of the IGFR system, the performance of provinces in collecting own revenue should be taken into account and incentivised in the PES equalisation mechanism.

The PES is a key funding instrument for provinces, but is not responsive to rural challenges, as the per capita PES allocations do not differ across provinces (with the exception of Gauteng). PES allocations are primarily driven by population distribution rather than rural need indicators. Incorporating the rural indicators of needs (and the ability to collect own revenue) in the fiscal transfer frameworks may disadvantage the rural provinces because characteristics such as poverty are peculiar to both rural and urban provinces. For this reason, no explicit review of the equitable share formula is proposed. However, these findings would be critical in formulating the terms of reference for a future review.

Notwithstanding the unresponsiveness of the PES, rural provinces allocate a small portion of this discretionary funding instrument to agriculture. The education and health budgetary allocations from the PES are found to be rural-neutral, partly because expenditure levels at schools and health care centres are standardised across beneficiaries and not dependent on a person's place of origin. The rural provinces account for a larger share of the infrastructure conditional grants allocations, but questions remain regarding the extent to which these funds have been used to address rural infrastructure backlogs and how infrastructure investments contribute to better expenditure outcomes.

The misalignment is evident between the allocation formulae of agriculture grants and the policy objectives for promoting agriculture output and food security. The other non-infrastructure conditional grants for promoting rural development are generally managed and implemented centrally and dominated by national policy imperatives. However, centrally controlled grants are associated with poor spending performance and insufficient reporting on expenditure outcomes.

6.9 Recommendations

With respect to enhancing the efficacy of provincial fiscal transfers and own revenues in funding rural development mandates, the Commission recommends that:

1. The Provincial Offices of the Premier, in consultation with the provincial departments of basic education, health, agriculture and rural development and roads, identify the rural development needs in the province and set annual delivery targets against which PES allocations will be assessed by oversight bodies. Departmental budgets and expenditure reports should be disaggregated in accordance with municipal boundaries to help ascertain the extent to which PES allocations are targeted to rural areas' needs.

2. The National Treasury, in collaboration with the departments of basic education, health and those responsible for provincial roads, ensures that the criteria for allocating infrastructure conditional grants take into account spending efficiency, delivery targets and performance, as well as the applicable national norms and standards. This should assist with monitoring of provinces in meeting their developmental goals and facilitate targeted intervention where a province consistently fails to meet delivery targets.

3. The Department of Agriculture Fisheries and Forestry and National Treasury review the framework for allocating agriculture conditional grants to reduce the weighting of agriculture land size and poverty relief and to incorporate factors that are closely aligned to the objectives of the grant, in particular the promotion of emerging farmers or agriculture production in the rural areas, as stipulated in the Agriculture Policy Action Plan.

4. The Department of Planning Monitoring and Evaluation conducts a comprehensive review of expenditure outcomes associated with infrastructure conditional grants targeted at the rural provinces, to ascertain the extent to which infrastructure backlogs have been reduced and the efficacy of the spend. The outcome of the review should be used to form the basis of any adjustments to infrastructure grants earmarked for rural development.

CHAPTER 7

Assessing Government's Fiscal Instruments to Fund Public Employment Programmes in Rural Areas

Assessing Government's Fiscal Instruments to Fund Public Employment Programmes in Rural Areas

7.1 Introduction

For the past 20 years, unemployment has remained stubbornly above 20%. Rural areas are worst affected, particularly in former homeland areas, where unemployment rates are among some of the highest in the world (Klasen and Woolard, 2008). Unemployment imposes huge social and economic costs on society (Philip, 2013). As a response to the unemployment challenge, government introduced a multi-pronged strategy, which includes a large-scale public employment programme (PEP) called the Extended Public Works Programme (EPWP). Introduced in 2004, the EPWP provides short-term temporary "work opportunities" for the unemployed poor. In early 2009, government implemented a second PEP, the Community Works Programme (CWP), which provides a minimum employment guarantee and has a different implementation model from the EPWP.

In the first phase of EPWP, government spent R50-billion, of which only R6.7-billion (13.5%) went to wages (DPW, 2009a). The largest share of grant funding went to infrastructure-related projects because of the job creation potential of this sector. However, there was very little compliance with the requirements of the Division of Revenue Act (DORA), which called for the use of labour-intensive construction methods and skills training for participants. This lack of labour-intensity meant a significant amount of the income did not end up in the pockets of the poor (McCutcheon and Parkins, 2012).

Other criticisms of the EPWP include insufficient attention on rural areas where infrastructure backlogs exist, and an emphasis on employment targets at the expense of providing longer duration employment opportunities (McCutcheon and Parkins, 2012). Another major challenge is the integrated delivery of PEP projects, as the management and implementation of PEPs span all three spheres of government and various government sectors. An important policy question is whether PEPs lead to a reduction in long-run unemployment.

Funding to PEPs is growing faster than most budget programmes. The 2016 Medium Term Expenditure Framework (MTEF) allows for significant increases in PEPs: conditional grants are expected to grow annually by 6% for the EPWP and by 14% for the CWP. This increased funding comes on top of significant funding in previous years and in the context of a fiscally constrained environment. Therefore, it is imperative to assess whether government is getting value for money from these programmes, and whether PEPs can be an effective livelihood mechanism to support poor households that experience the brunt of the economic slowdown.

A comparative analysis is undertaken of the EPWP and CWP to ascertain whether the two funding models produce the same outcomes in rural areas. The specific objectives of this chapter are:

- To measure the effectiveness of fiscal instruments of PEPs in relation to intended outcomes in rural areas.
- To evaluate access/targeting of PEPs in terms of spatial location.
- To comment on the effectiveness of the intergovernmental delivery models of PEPs to deliver services in rural areas.

Both qualitative and quantitative methods are used. A budget analysis determines the allocations and growth of the EPWP and CWP, while descriptive statistics evaluate the rural versus urban access of PEPs, and output/outcome data and programme targets are compared to assess the relative effectiveness of the EPWP and CWP. Data was obtained from various sources, notably the annual Labour Force Surveys between 2005 and 2014. To complement the quantitative analysis, interviews were held with relevant stakeholders, including the Department of Public Works (DPW), which administers the EPWP programme, the Department of Cooperative Governance and Traditional Affairs (COGTA), which administers the CWP programme, and National Treasury.

7.2 Findings

7.2.1 Job creation programmes in rural areas

Table 22 shows the job creation schemes that are being implemented across a range of government departments and agencies. Apart from the Employment Creation Fund and PEPs, most other initiatives do not have an explicit rural bias. The schemes are also not necessarily designed to absorb large numbers of unemployed individuals and have quite onerous and time-consuming compliance requirements. For instance, intensive data collection is necessary to comply with the tax incentive grant's requirements. This suggests that high compliance costs work against the intended benefits of some job creation schemes. Another concern is the funding shortages in some programmes, such as the clothing and textile programme where competition from cheaper imports makes it difficult for companies to remain competitive. With respect to PEPs such as EPWP and CWP, the available funding is also insufficient to cover every citizen that qualifies for the programmes.

Table 22. Selected job creation programmes

Programme name	Description	IGFR implementation modality	Rural focus	Challenges	Allocation (2014/15) R-million
Employment Creation Fund	Set up to fund innovative and relatively higher risk projects, which are unlikely to be funded through government's normal budget processes and/or the commercial financial sector. Government agencies, NGOs and private sector within South Africa qualify under the programme criteria.	The Department of Trade and Industry (the dti) implements the programme; specialists and experts are used for project design and implementation.	Strong bias towards rural and peri-urban areas	The programme lacks capacity where those who are hired cannot fulfil the job specification. There are also bureaucracy and procurement-related challenges.	Unavailable
Clothing and Textiles Development Programme	Aims to encourage manufacturers to become (and remain) competitive against, for example, cheap imports or low-cost producing countries. Thus, the programme seeks to create new jobs and to preserve existing jobs in the sector. The programme has two strands: (i) Customised sector programme (ii) Clothing and textile production incentive	The dti is the parent department, and IDC is the implementing agent.	No rural dimension, although some companies that employ low-skilled individuals who have benefitted from the programme are situated in rural areas.	The programme has been well received, although the shortage of funding is a major challenge.	(i) 163.9 (ii) 723.4
Employment Tax Incentive	Aims to encourage employers to hire young and less experienced work-seekers. The incentive is meant as a temporary programme to stimulate demand for young workers.	SARS implements the programme.	The programme is available in all sectors (apart from the public sector) across the country.	Long data-gathering process (including tax filing, database management, verification and auditing). As this is the first time that government attempts a programme of this nature, some of these issues could be teething problems. The tax incentive may not be creating "new" jobs but rather going to jobs that would have been created in the absence of the incentive.	Unavailable
Jobs Fund	The programme creates jobs by supporting initiatives that generate employment in innovative ways. Grant funding is made available on a matched basis.	National Treasury has taken over as implementing agent from the Development Bank of Southern Africa (DBSA).	Most of the jobs created are in urban and peri-urban areas, as creating jobs in rural areas takes longer.	To get assistance, beneficiaries must have some available seed capital and capacity must be in place. Another challenge is meeting the funding criteria. For example, to qualify for funding, a farming project cannot have an outstanding Environmental Impact Assessment. In addition, some agricultural projects seem viable but cannot be funded because the project does not have any water rights.	1 338 913
EPWP	Aims to provide poverty and income relief for the unemployed through temporary work on socially useful projects. In addition, the programme provides some basic training and work experience for participants, to empower them to earn a living on an ongoing basis.	The programme is cross-cutting and implemented by all spheres of government and state-owned enterprises (SOEs). The DPW is responsible for overall monitoring and evaluation and submitting progress reports to Cabinet.	Both urban and rural	The funding for the programme is not sufficient to accommodate every citizen who qualifies for the programme. Training can be improved to offer better skills and better knowledge	
CWP	Similar to EPWP, the programme provides temporary work opportunities to unemployed and provides basic training and work experience. It falls under the non-state sector.	The programme is coordinated by COGTA, while NGOs implement the programme in municipal areas.	Both urban and rural	Challenges include institutionalising the CWP, getting framework agreements in place, and building the capacity for a much wider roll-out.	2 257.8

Source: Commission's compilation

7.2.2 Overview and spending trends of PEPs

The persistent and structural nature of unemployment created the impetus for government to introduce a wage income safety net for the unemployed poor. At the Growth and Employment Summit in 2003, the introduction of a PEP was seen as a critical priority. The objective was to provide wage income to large numbers of unemployed individuals by providing temporary work opportunities and socially useful work. In April 2004, the first phase of the EPWP was officially launched and targeted four sectors: infrastructure, environmental and culture, social and economic. In the second phase (2010–2014), the non-state sector was added, while the economic sector was largely subsumed under infrastructure. As Table 23 shows, the main focus of the EPWP was creating work opportunities in the infrastructure sector, but in Phase 2 the social and non-state sector absorbed a larger proportion of participants. The bulk of the funding for EPWP comes from the baseline budgets of government departments and municipalities. A total of R49.6-billion was spent during Phase 2, doubling to R111-billion in Phase 2 (Table 24). Phase 2 saw the introduction of conditional grants to fund EPWP activities. These conditional grants are designed to complement departmental and municipal budgets and make up only a small share of the total EPWP funding, amounting to R4.6-billion between 2009/10 and 2013/14.

Table 23. Number of participants per sector

	Phase 1 2004–2009	Phase 2 2010–2014
Infrastructure	312 227	418 006
Environment and culture	114 228	191 900
Social	119 717	272 565
Economic	4 745	0
Non-state sector		
Non-profit organisations		27 124
CWP		200 822

Source: DPW (2005–2015)

Table 24. Spending on PEPs

	Phase 1 2004/5–2008/9	Phase 2 2009/10–2013/14	Average annual real growth rate	
	R'million		2004/5–2008/9	2009/10–2013/14
Total government spending (non-interest expenditure)	2 243 764	4 359 817	7%	7%
EPWP (total spending)	49 686	111 227	75%	-9%
EPWP (conditional grants)	-	4 563	0%	70%
CWP	-	4 238	0%	89%

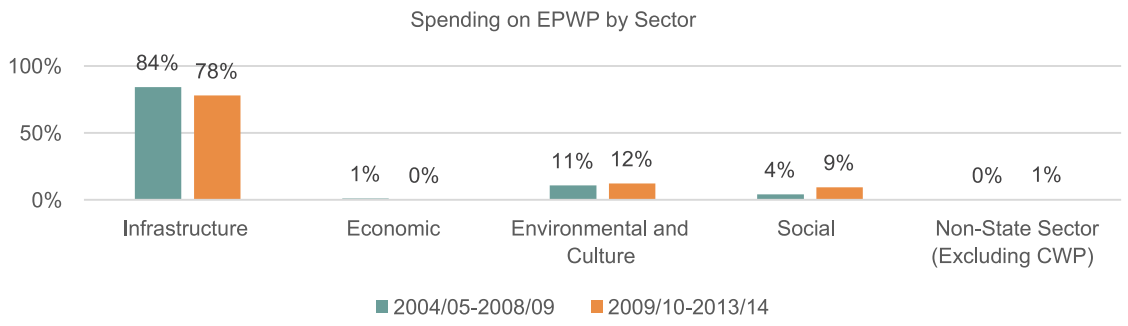
Source: National Treasury (Budget Review, Estimates of National Expenditure, Division of Revenue Bill: various years)

The CWP is funded from COGTA's budget. Between 2009/10 and 2013/14, the programme received R4.2-billion, which is marginally less than the EPWP grant allocations for the same period. The fiscal pressures arising from the global crisis in 2009 has led to departments and municipalities moving away from funding EPWP out of baseline budgets to using more conditional grants, which increased on average by 70% per annum in real terms over this period. Between 2009/10 and 2013/14, CWP grew on average by 89% per annum. Spending on CWP has grown strongly because the programme's implementation was scaled up across the country in order to cushion the poor against the negative fallout of the domestic economy. CWP is growing faster than the EPWP conditional grants, suggesting that government is prioritising CWP as a vehicle for creating temporary jobs for the unemployed.

Huge variations in spending are found when EPWP is disaggregated by sector. Although the infrastructure sector remains the most significant cost driver of EPWP, its share of total spending has declined marginally, from 84% in Phase 1 (2004–2009) to 78% in Phase 2 (2010–2014). A major weakness of the EPWP remains the short-term nature of jobs, particularly in the infrastructure sector. This means that beneficiaries often find themselves unemployed again at the end of the contract period of an infrastructure project (Philip, 2013). To remedy the situation, Phase 2 of the EPWP started targeting sectors where the jobs created could be of longer duration and more sustainable. As a result, the social sector has gained traction (Figure 49).

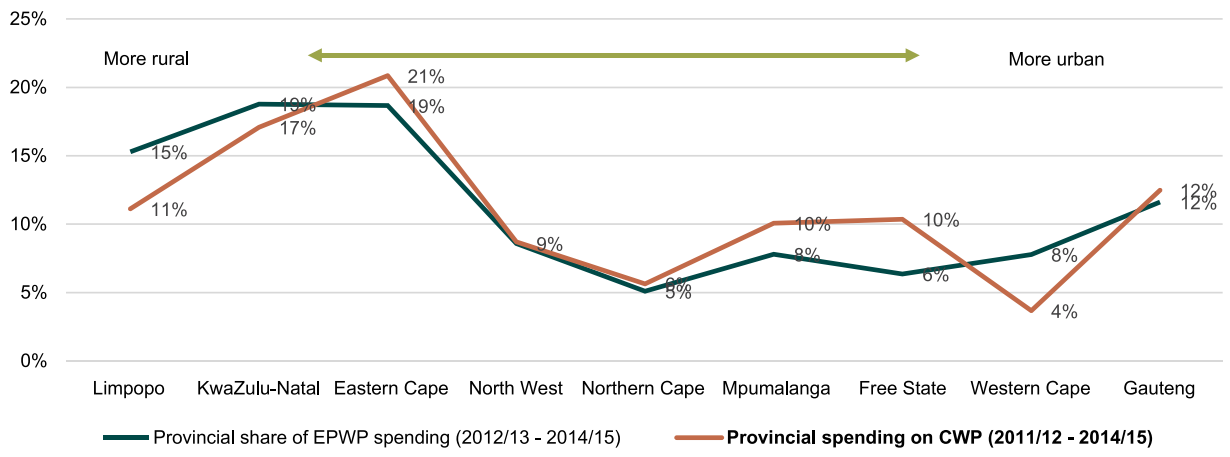
Figure 50 provides a breakdown of provincial spending on EPWP and CWP as a proportion of total spending. The provinces are arranged according to the level of "ruralness" derived from the composite index discussed in Chapter 1.

Figure 49. Spending on EPWP by sector



Source: DPW (2010; 2014):

Figure 50. Breakdown of provincial spending on EPWP and CWP



Source: DPW (2015); CWP Financial Report (2012)

During the period 2011/12–2013/14, over half (53%) of EPWP spending and almost half (49%) of CWP spending occurred in the three most rural provinces (Limpopo, KwaZulu-Natal and Eastern Cape). Just over a quarter of EPWP (26%) and CWP (27%) funding was spent in the three most urban provinces (Free State, Western Cape and Gauteng). This suggests that the EPWP spending is targeted more towards rural provinces than the CWP, although the real difference is marginal. The results show that the bulk of the resources for both programmes are allocated to more rural provinces, where the greater share of unemployed and poor households are found.

Spending on PEPs is growing much faster than total government spending, which declined by 2% in 2016/17 as a result of poor economic growth (Table 25). Allocations are expected to grow in real terms by 53% for the EPWP social sector grant and by 30% for CWP. This is a clear indication that government is targeting PEPs as a soft landing for the unemployed poor who are likely to face the brunt of the economic slowdown.

Table 25. Annual growth in PEPs over the MTEF (2015/16–2018/19)

Percentage	2015/16	2016/17	2017/18	2018/19	Average annual growth (2016/17 –2018/19)
Total government spending	5%	-2%	1%	2%	0%
CWP	40%	30%	13%	-1%	14%
EPWP integrated provincial	-12%	17%	-1%	0%	5%
EPWP social provincial	-18%	53%	1%	0%	18%
EPWP integrated municipal	-7%	6%	2%	0%	3%

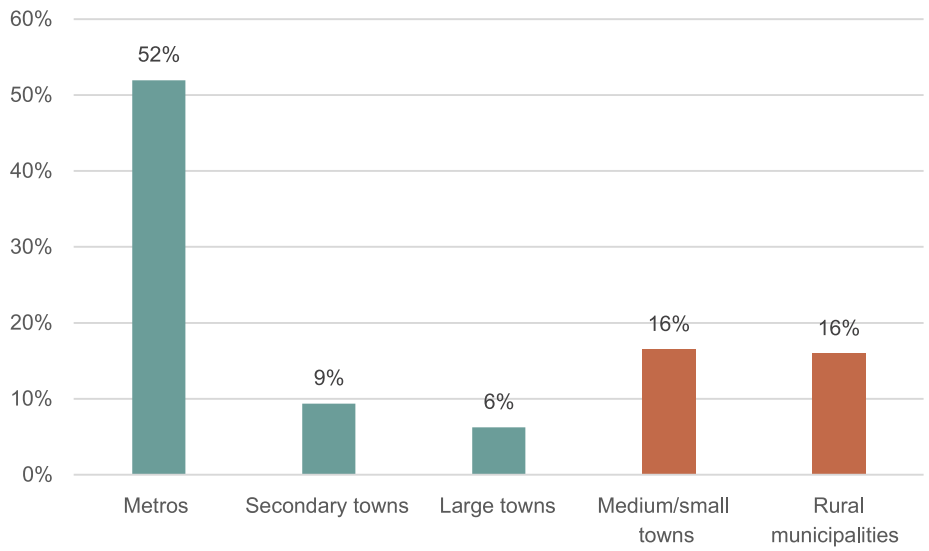
Source: National Treasury (2016a, 2016b)

7.2.3 Access to PEPs

To gain insight around the issue of access, the location of EPWP and CWP-related work opportunities was explored. The actual number of work opportunities created according to the type of PEP (i.e. EPWP or CWP) were disaggregated by province and type over seven years, from 2008/09 to 2014/15.

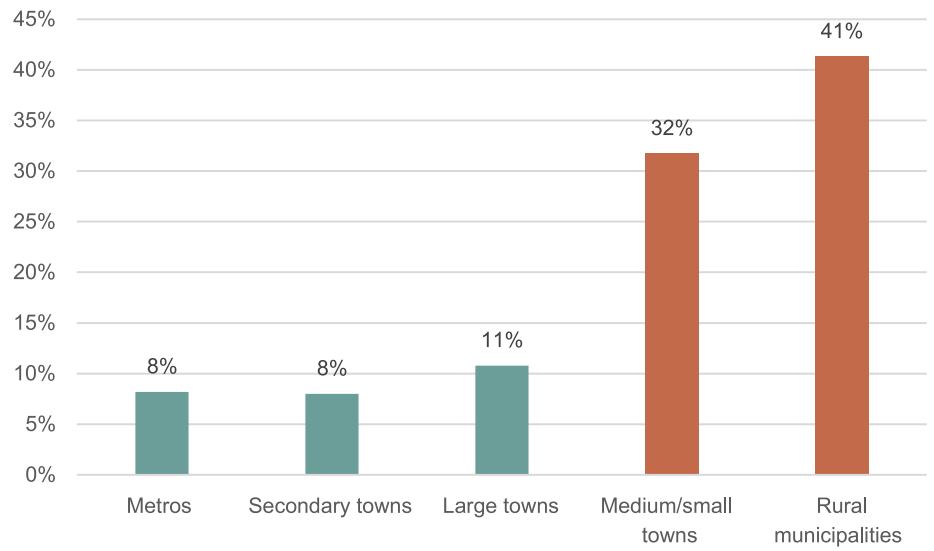
Figures 51 and 52 show the share of work opportunities created through the EPWP and CWP by type of municipal category. While EPWP work opportunities are centred in metropolitan areas, CWP has a much stronger rural focus.

Figure 51. Work opportunities created through EPWP (2008/09–2014/15)



Source: DPW (2015)

Figure 52. Job opportunities created through CWP (2012/13–2014/15)



Source: COGTA (2015)

7.2.4 Intergovernmental delivery models of PEPs

Suitable projects for CWP and EPWP are identified in different ways. EPWP projects are sector-specific (infrastructure, environment and culture as well as social sector), while CWP projects are area-based, with sites covering several wards in the municipal area. The CWP is a more effective programme because it is designed to suit the communities where the projects are implemented. It uses community participation to identify "useful work" and priorities. This means that the communities themselves own the assets created and the service delivered, and so assets (such as roads, schools, libraries and clinics) would be maintained satisfactorily.

Unlike the EPWP, where the duration of employment is on average between 4-6 months, the CWP is a part-time arrangement but is ongoing: participants can remain on the programme for as long as they need to. This also makes the CWP less prone to labour unrest. In this regard, CWP is more effective at combating poverty – despite EPWP participants receiving training, only 25% of the participants who exit the programme get absorbed in the formal labour market, while 75% remain unemployed (Philip, 2013).

The two programmes are implemented differently. The EPWP is implemented by various sector departments, municipalities and service providers, whereas the CWP is implemented by an implementing agent contracted by COGTA. The lack of technical capacity of municipalities is likely to affect the effectiveness of the EPWP. With respect to programme reporting, both programmes have weaknesses but, unlike the EPWP, CWP annual reports are not available in the public domain.

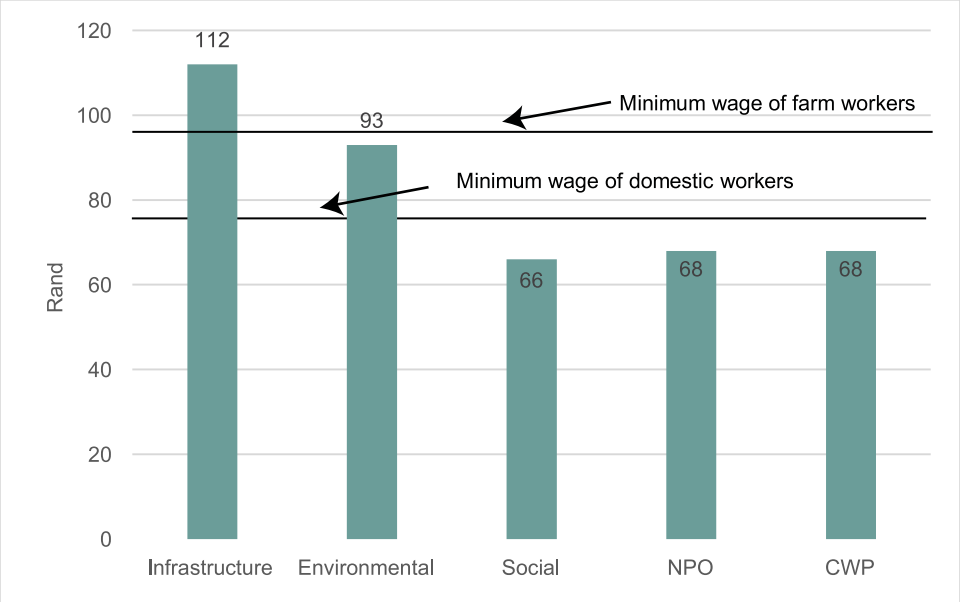
Table 26 outlines the design and implementation features of the EPWP and CWP, and highlights key weaknesses per programme, based on stakeholder interviews conducted with various national and provincial officials, and evidence from external reports.

Table 26. Design and intergovernmental implementation of PEPs

Key Dimensions of the Implementation Model	EPWP	CWP
Target recipients	Across all sectors, the average age of participants is 36.4 years, and on average 1% of participants are persons living with disabilities, 58% of participants are female and come from households consisting of about 5.49 people (DPW, 2009a). Participants are employed in the social sector (45.8%) the environment and culture sector (30.6%) and in the infrastructure sector (23.6%)	The CWP targets areas with high levels of unemployment and, by design, focuses largely in rural areas. CWP local reference committees establish the mechanisms for selection and the recruitment of participants. These committees comprise representatives from local government, the local community and local civic society organisations. The CWP reaches the most vulnerable members of society (DPME, 2015: 22).
Identification of projects and targeting	Projects are identified according to specific sectors: infrastructure, environment and culture, and social sectors. At the planning and beginning of the identification process, municipalities are offered assistance, support and workshops that help them identify projects and ways to create work opportunities. Furthermore, public bodies are expected to develop a business plan that outlines how the grant will be used towards the projects and how many work opportunities the projects are intended to create. The major weakness in the identification process of rural projects is the influence of local elites and traditional leaders who may want to fast-track projects that serve their personal interests and may not benefit the community as a whole. Other weaknesses relate to the fact that projects are limited to certain sectors, which limits job creation, as more jobs could be created if the sectors were expanded.	The CWP is an area-based programme with project sites comprising various wards in a municipal area and located in areas of high unemployment and poverty levels. The programme prioritises labour-intensive activities (COGTA, 2011). The CWP local reference committee advises on the identification of community needs, work priorities and type of projects to implement. Political interference poses a major challenge in the selection of project sites and the identification of projects.
Employment conditions (e.g. stipend paid, number of work days, training)	Participants are paid a wage, which is set at a level that incentivises participation but not too high in order to avoid attracting individuals who are already employed. The duration of the work opportunity is linked to the duration of the project. Furthermore, the duration of work opportunity varies across the different sectors and spheres of government. On average, employment is six months in the environment and culture sector and four months in the infrastructure sector (DPW, 2009a). Participants receive accredited and non-accredited training, and the participants gain sector-specific skills. One of the weaknesses of these employment conditions is that participants are paid according to attendance and not necessarily according to the level of output/work for a day's work.	The programme offers participants a minimum number of regular days of work, typically two eight-hour days per week, eight days a month or 100 days a year. Although a part-time arrangement, the CWP is an on-going programme and therefore has no specific contract expiry date. Training is available to the programme participants and covers a wide range of skills in various industries. A widely reported weaknesses in the programme's employment conditions is the issue of non-payment by implementing agents. This could be due to the lack of banking services in rural areas.
Programme implementation and intergovernmental coordination	The EPWP is implemented by various public bodies, which include government departments, municipalities and service providers (e.g. subcontractors who only implement the labour-intensive component). Provincial steering committees, sector committees, district coordination forums and political forums in certain provinces facilitate intergovernmental engagements and coordination of the programme itself and all interactions between the departments and stakeholders or other public bodies. One issue is that participants do not always wanting to exit the programme at the end of the contract, which leads to labour unrest. Other implementation weaknesses are: stakeholders under-reporting work opportunities created, the money spent not equating to the reported work opportunities, full-time equivalent (FTE) targets not being met, and the incentive grant being underspent.	An implementing agent is appointed to develop a CWP project site, and provide financial, logistics and project management. Within each province, provincial departments in charge of local government are responsible for the planning, coordination and oversight of the programme. COGTA undertakes the overall management of the programme. Intergovernmental coordination is through local and provincial reference committees, and the CWP national steering committee. In certain municipalities, the CWP local reference committee structure is a duplication of existing structures and therefore could not be established. Implementation weaknesses relate to political interference and lack of good service delivery by the implementing agent in certain areas. Furthermore, it can sometimes take up to three months to authorise participants, which delays the implementation of the programme
Reporting	The DPW is responsible for reporting to Cabinet on the programme's progress, while provincial departments report to the national EPWP database. A major weakness in the reporting system is that work opportunities are under-reported. For example, participants require an identity document (ID) in order to be correctly captured on the system, and so for those who are part of the programme but have lost their IDs end up not being captured, which leads to the under-reporting of work opportunities. In addition, what is reported does not include the physical output, and the data reported is inconsistent. For instance the data reported by the EPWP unit differs from that reported by Stats SA.	Implementing agents are required to submit monthly financial and output reports, as well as EPWP monthly reports to COGTA. COGTA is responsible for reporting to Cabinet on the programme's progress. A weakness is that CWP data is not publicly available.

Source: Commission's compilation

Figure 53. EPWP and CWP daily rates compared to domestic and farm workers (2013/14)



Source: DOL (2013a; 2013b)

Figure 53 shows the average daily rates for the EPWP and CWP compared to two minimum wage rates for domestic and farm workers.

In 2013/14, the daily minimum wage rate for R93 for farm workers and R77 for domestic workers. The average daily rates paid in the social and non-profit (NPO) sectors of EPWP and CWP are below both minimum wage levels, although very close to the minimum wage of domestic workers. In the infrastructure sector, the daily rates are higher than both minimum wage levels, while the environmental sector's daily rates are on par with the minimum wage level for farm workers. This suggests that some employed individuals, particularly domestic workers, could be incentivised to switch from their current employment to an EPWP work opportunity, particularly in the infrastructure and environmental sectors. Given the lack of resources in some sectors, such as the social and NGO sectors, beneficiaries are sometimes paid below the minimum rate prescribed by the ministerial determination.

7.2.5 Effectiveness of PEPs

Table 27 compares the effectiveness of EPWP and CWP (the EPWP is disaggregated by sector in order to present a nuanced analysis). Over the three-year period, the cost of creating one full-time equivalent (FTE) is significantly lower in the CWP than in the EPWP, with the exception of the NPO sector. In addition, costs vary considerably within the EPWP. For example, in 2013/14, one FTE in the infrastructure sector cost R119,387 compared to R17,370 in the NPO sector. In other words, to create seven FTEs in the NPO sector costs the same as one FTE in the infrastructure sector. The reason for the infrastructure sector's poor performance is partly because of its low labour-intensity rate. In 2013/14 this was only 16% compared to 59% for the CWP and 89% for the NPO sector.

The results from Table 27 clearly demonstrate that, despite significant resources being pumped into infrastructure sector over the past 10 years, government has received very little value for money. In comparison, government is achieving greater value for money in the CWP, and the NPO and social sectors of the EPWP. Thus, the nature of the PEP activity being funded has a critical bearing on the impact of expenditure. Activities that are more labour-intensive, such as in the NPO sector, will naturally be more cost effective in creating jobs. However, of note is the rising cost of creating one FTE in both the NPO sector and the CWP, although the cost escalation is much higher in the CWP. These increases are a result of higher management costs and better conditions of service attached to employment.

In 2013/14, a total of just over R18-billion was spent on creating 305 000 FTE jobs through PEPs. This is significantly below the one million jobs projected for 2015 in the National Development Plan (NDP). Interestingly, if the total PEPs funds had been spent exclusively in the NPO sector, government would have achieved its target of one million jobs. And, if the funds were spent exclusively on CWP, a total of 685 000 FTE jobs would have been created. Therefore, if government wants to achieve the NDP target of two million FTE jobs by 2020, the nature of spending on PEPs would need to change, especially given the weaker economy, which is unlikely to be able to maintain long-term continued growth in allocations to PEPs.

Table 27. Effectiveness of EPWP and CWP (2011/12–2013/14)

	2011/12	2012/13	2013/14
Expenditure (R'million)			
Infrastructure	16 461.3	9 598.4	12 398.0
Environmental and culture	2 038.6	217.0	2 103.2
Social	1850.1	662.0	1 932.3
NPOs	135.6	177.3	191.1
CWP	623.5	1 289.9	1 721.7
Job opportunities			
Infrastructure	374 591	N/A	391 555
Environmental and culture	164 475	N/A	205 870
Social	164 662	N/A	191 516
NPOs	39 552	N/A	51 645
CWP	105 218	205 494	172 000
Full-time equivalents			
Infrastructure	107 491	N/A	103 847
Environmental and culture	52 203	N/A	59 076
Social	67 297	N/A	67 447
NPOs	9 974	N/A	11 003
CWP	33 167	52 714	64 313
Cost per FTE (Rand)			
EPWP			
Infrastructure	153 141	N/A	119 387
Environmental and culture	39 051	N/A	35 602
Social	27 491	N/A	28 649
NPOs	13 591	N/A	17 370
CWP	18 799	24 470	26 771
Labour intensity			
Infrastructure	12%	N/A	16%
Environmental and culture	40%	N/A	53%
Social	37%	N/A	58%
NPOs	70%	N/A	89%
CWP	59%	59%	59%

Source: National Treasury (2016b); DPW (2015); The Presidency and COGTA (2015); Commission's calculations

7.4 Conclusion

Government invests large sums in indirect interventions such as training programmes and bursary schemes, but it is difficult to gauge the success of these initiatives in transitioning unemployed individuals into full time jobs. Other than the PEPs, many of the job creation initiatives do not have an express rural focus and are not designed to absorb large numbers of unemployed individuals into any gainful employment. This suggests that PEPs are well designed as an employment and social safety net, targeting the unemployed poor who are unlikely to find employment, even if conditions in the economy were to improve.

Although the PEPs were not established with the express intent of addressing unemployment in rural areas, the CWP appears to be more effective than the EPWP at creating employment opportunities in these areas. This suggests that attributes of the CWP could be insightful in conceptualising and implementing other government initiatives aimed specifically at the rural space.

Allocations to PEPs are insufficient to fund all qualifying beneficiaries who want to participate. Therefore, PEPs need to prioritise the most needy, especially recipients who are unemployed and without access to any type of state grant. This implies giving special priority to rural areas through the various funding instruments, as urban municipalities have a larger tax base that enables them to complement targeted transfers with own revenue to support PEPs. Rural municipalities have much smaller tax bases and are largely dependent on transfers to create jobs through PEPs.

The daily rates and work durations currently offered by the PEPs are unlikely to lift a person out of poverty. Therefore, the critical policy issue is whether PEPs are intended as a poverty alleviation mechanism or merely as an additional source of livelihood support. If policy-makers view PEPs as a poverty alleviation mechanism, any push to significantly alter the conditions of service could blur the distinction between job opportunities created through PEPs and employment offered through the formal labour market. However, this may be less significant in rural areas, where economic activity is low and formal sector jobs are scarce. Instead, ways of reducing the costs of rural participation should be investigated, especially in relation to access to banking facilities and re-registration processes.

From a policy perspective, an important consideration for allocating resources is the potential trade-off between improving service conditions and expanding the programme. Increasing daily rates or average work durations may come at the cost of slower expansion of the programme, unless budgets are increased proportionately.

Clearly, the nature of PEP spending needs to change if government is going to come close to reaching the NDP target of creating two million FTE jobs by 2020. The cost of creating job opportunities through infrastructure is unaffordable, even though government's stated growth strategy is infrastructure-led. More jobs can be created with fewer resources, if more funds are directed to CWP, and the social and NPO sectors of the EPWP, which are more labour-intensive and have activities that are easily implementable in rural areas.

A critical weakness in both the EPWP and CWP is the lack of training opportunities afforded to participants. If PEPs are going to be a vehicle for transitioning individuals into full-time employment, recipients should be provided with appropriate training, especially in entrepreneurship and business skills. These skills are more likely to encourage individuals to create their own enterprises, if the formal labour market remains rigid and is incapable of absorbing the unemployed poor.

7.5 Recommendations

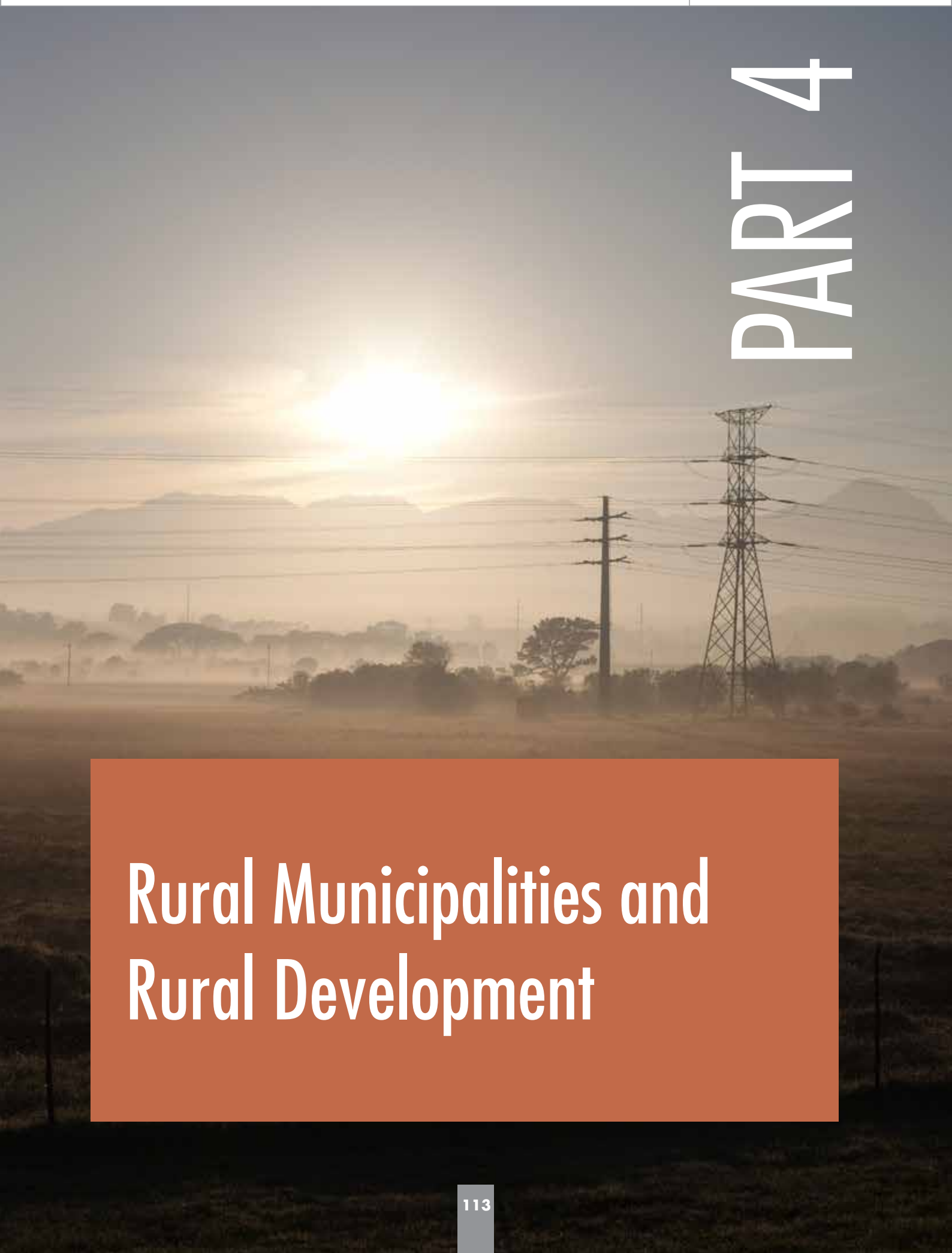
With respect to creating conditions for rural job creation from PEPs, the Commission recommends that:

1. Government, through the dti, National Treasury, the Department of Social Development and the Department of Public Works, considers narrowing the focus of PEPs and using the CWP, and the social and NPO sectors of the EPWP as an explicit strategy for addressing rural poverty. Job opportunities created in these sectors are the most cost effective and labour intensive, and easily implementable in rural areas.

    - Ways of reducing the costs of rural participation in PEPs should be explored, including easier accessibility to services such as banks and re-registration processes.

2. Priority is given to unemployed individuals without access to a grant, as PEP funding is insufficient to cover all unemployed. At present, many participants either receive a social grant or are employed elsewhere. Government should also carefully balance the need to improve the conditions of employment and the need to expand PEPs.

3. The Department of Public Works and National Treasury ensure that EPWP grant frameworks in the Division of Revenue Act include an explicit condition that appropriate training of recipients (especially in skills that promote self-employment) is mandatory, given that only a small portion of EPWP beneficiaries transition into formal sector jobs. An assessment of microenterprises in rural areas that are viable self-employment options should be conducted and inform the roll-out of training programmes to EPWP beneficiaries.
4. Funding of job creation initiatives is viewed in an integrated way, with priority given to programmes that absorb unemployed poor individuals, especially if they are targeting high unemployment nodes in B3 and B4 municipalities.



PART 4

Rural Municipalities and Rural Development

Poor access to adequate levels and standards of basic services compound the challenges of poverty and unemployment in rural areas. Dealing with these challenges requires not only a strong national government but also a capable and capacitated local government – the sphere of government closest to the people. However, despite increased funding and interventions over the years, this has not translated into commensurate service delivery improvements in the majority of rural municipalities. Initiatives underway include the recent review of the local government equitable share formula introduced in 2013, the ongoing "Back to Basics" initiative, as well as the infrastructure grant reviews. In addition, amalgamations of municipalities are being experimented with in order to turnaround the fortunes of this sphere of government. Yet many municipalities continue to under-spend their budgets, and suffer from inefficient procurement and irregular and wasteful spending, bad management and outright corruption. For many rural municipalities, their dilemma is one of expanding expenditure requirements and shrinking fiscal space. They have limited scope for economic diversification, deficient services and infrastructure, and face declining revenue bases because of high unemployment and population losses through migration. This section looks first and foremost at whether the resources transferred to the sector are adequate and used efficiently and effectively. It then considers the extent and costs of farm displacements, and how rural local municipalities can deal with this problem and the associated costs. Lastly, the focus turns to finding innovative ways of tapping into economic activity of rural areas, and developing new sources of municipal income while arresting the decline in existing sources.

CHAPTER 8

Financing Rural Local Municipalities for Rural Development

Financing Rural Local Municipalities for Rural Development

8.1 Introduction

Local government is facing a myriad of challenges that include poor economic growth, and high levels of unemployment and poverty. According to the Department of Cooperative Governance and Traditional Affairs (COGTA), a third of municipalities are dysfunctional and unviable (whatever the definition), while another third are at risk, and the remaining third are functional and viable. The majority of unviable municipalities are in rural areas and depend significantly on grants to fulfil their mandate. The government is aiming to minimise this dependency, as shown by the recent proposal by COGTA to amalgamate many municipalities to make them self-reliant.

These amalgamations were motivated by a desire to eliminate dependency and improve municipal functionality. They provide an interesting case study, as for the first time in the history of South Africa, demarcations were motivated by the desire to optimise the financial viability of municipalities. In the COGTA proposal, financial viability equates self-reliance or self-sufficiency. Dependency on grants is considered to be an indicator of financial unviability and a problem that can be addressed through the demarcation instrument, i.e. dividing the country into spaces that have roughly even revenue bases. The assumption is that amalgamating municipalities will bring economies of scale and create municipalities that are functional and large enough to deliver financially and technically on their mandates. The question is whether the current funding model, which seeks to ensure that all municipalities are financially viable, is appropriate for rural municipalities, considering their weak and fragile revenue bases.

If the current financing model is not appropriate, then many rural municipalities will have to rely permanently on transfers. In essence transfers are supposed to supplement own revenues, as own revenues constitute a small proportion of rural municipalities' budgets. A perception that requires scrutiny is that many rural municipalities face challenges because of insufficient local government equitable share (LGES) and conditional grant funding. Another aspect to be considered is alternative own-revenue sources for rural municipalities that would lessen their dependency on transfers. Urban municipalities derive on average 75% of their operating expenditures from own revenues, whereas rural municipalities derive an average of just 25%. These averages mask a lot of disparities because some rural municipalities receive over 95% of their revenues from transfers. The rural tax base is highly constrained, despite rural municipalities being endowed with land and mineral resources. Ideally, a significant proportion of own revenues in rural areas should be from property taxes on vast tracts of land and service charges on mining giants and other rural-based conglomerates. Therefore a key issue is what obstacles are preventing the exploitation of these rural revenues.

The methodology used in this chapter is three-pronged:

- Case studies of amalgamated municipalities are used to evaluate the feasibility of creating self-sufficient rural municipalities. Their revenue-raising capacity is measured using various key drivers of fiscal capacity: grant dependency ratio; per capita income of a municipality; per capita gross value added (GVA); per capita property rates; poverty and employment. In addition, as the COGTA proposal aims to eliminate dysfunctional municipalities, a functionality index was developed based on four factors: (i) institutional management, (ii) financial management, (iii) governance and (iv) service delivery. Municipalities are grouped into "doing well", "at risk of being dysfunctional" and "dysfunctional".

- An Excel-based model is used to eliminate the cost of basic services in order to establish whether funding for municipalities is sufficient. Unlike the current Division of Revenue cost estimates of basic services (which are not informed by any objective costing framework), a robust model is used that factors in an elaborate array of cost-influencing factors, e.g. topography (flat, rolling or mountainous terrain), location (coastal or inland); distance from economic centres; and development status (referring to number of settlements and densities). Capital costs are determined through costing backlogs and new investments. Service access backlogs are based on the 2011 Census data, adjusted to 2015. The operational costs include: bulk purchases, contractual services, employee-related costs (salaries and wages), insurance, other materials, rent of facilities and equipment, repairs and maintenance, and transport costs. The estimated costs of basic services are then compared with LGES and conditional grants allocations to rural municipalities.

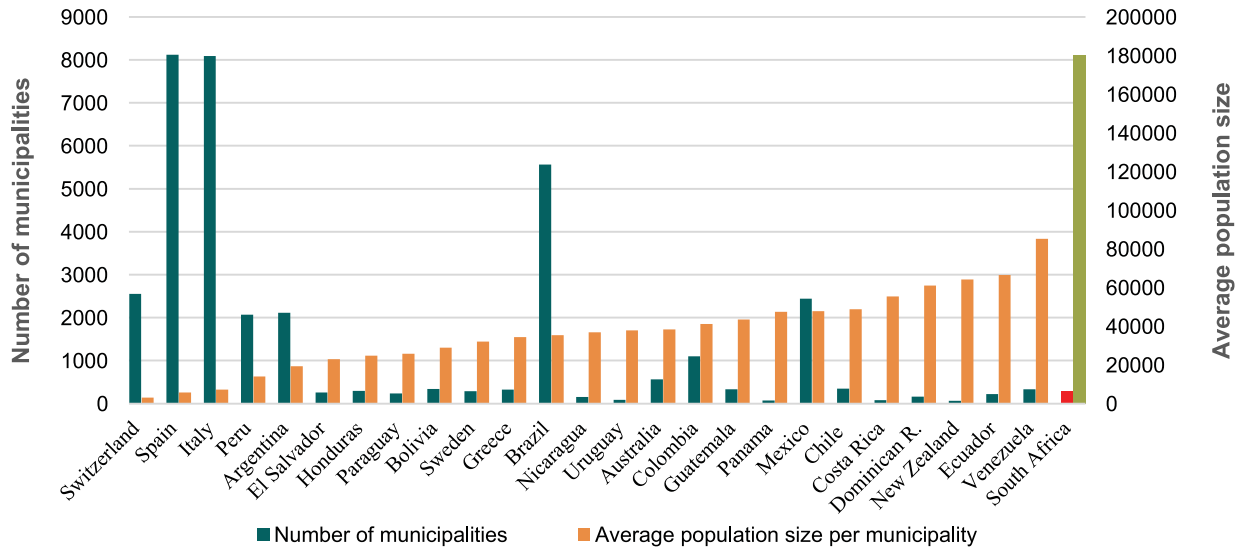
- Case study information from six rural municipalities with agricultural and mining activities is used to ascertain the potential for additional own revenue taxes in rural areas. The six municipalities, which were identified through purposive sampling, are Abaqulusi and Endumeni in KwaZulu-Natal, Dihlabeng and Maluti-a-Phofung in the Free State, Emakhazeni in Mpumalanga, and Ikwezi in the Eastern Cape. In addition, information was gathered from personal interviews and focus group discussions with chief financial officers (CFOs) and senior managers responsible for planning and electricity reticulation in the selected municipalities, supplemented by secondary data from municipal records.

8.2 Historical Context of Municipal Demarcations

With the reduction in number of municipalities from 278 to 257, a comparison with other countries is pertinent. International literature is clear that no standard size of a municipality exists, whether by geographical space, population size, or political representation. However, compared to other countries, South Africa is at the extreme end of the spectrum for three characteristics: number of municipalities, average population size per municipality and number of citizens per local councillor.

South Africa has one of the lowest number of municipalities and one of the highest average population size per municipality (Figure 54), as well as one of the highest number of citizens per councillor (Table 28). This has far-reaching implications for political representation, and democratic and governance accountability. When a local government structure is large, access to authority through public hearings, meetings, elections or direct contact is difficult; political representatives are far removed from the electorate; and citizen participation is weaker.

Figure 54. Number of municipalities and average municipal population sizes



Source: IMF (2010); World Bank (2014); Federation of Canadian Municipalities (2015)

Table 28. Number of citizens per councillor

	Number of councillors	Number of citizens per councillor
Republic of Ireland (2014)	949	4861
New Zealand (2000)	1892	2039
Philippines (2000)	2102	37075
Malaysia (2000)	2921	7654
Nepal (2000)	3344	7099
Australia (2000)	6637	2886
South Africa (2011)	9090	5671
Canada (2014)	19534	1819
Japan (2000)	62452	2031
China (2000)	653244	1933

Source: Drage (2001); IMF (2010); World Bank (2014); Morna and Mbadlanyana (2011); Federation of Canadian Municipalities (2015)

Amalgamation in the local government sphere is not a new phenomenon in South Africa. Between 1948 and 1994, the country's decentralisation experience demarcated jurisdictions and organised governance on the basis of race, rather than on the basis of functional linkages or similar criteria (van Ryneveld, 1996). The racially driven, decentralised governance system consisted of two main categories: white local authorities (WLAs) and black local authorities (BLAs).

WLAs represented the earliest example of fiscal decentralisation in South Africa. Established in the early 1900s, they covered most of the country's urban areas and were primarily responsible for providing services to urban white, coloured and Indian citizens living in areas outside of the homelands. Access to relatively wealthy sections of society meant that WLAs enjoyed a high degree of fiscal autonomy. In fact the notion of a viable municipality comes from the era of WLAs. WLAs were "viable" in the sense that they were self-sufficient. They had all the tax bases (property taxes and fees) and so relied entirely on own revenues but served only a small section of the population. In contrast, post-1994 municipalities have a fundamentally different mandate, do not have all the tax bases, rely significantly on transfers and cover entire populations, including rural areas. Therefore, it is difficult to subscribe to the same notion of viability.

The BLAs were unable to develop productive tax bases because of apartheid restrictions on economic development in black areas, insufficient socio-economic infrastructure that could generate service fees, and a lack of access to property, quality education and formal employment among blacks. As a result, BLAs generated very little own revenue, operated inefficient fiscal systems, and lacked the capacity to provide the necessary socio-economic services.

A major prerequisite for the 1995 local government elections was to amalgamate the inherited apartheid-era local government structures. The motive underpinning the demarcations was to de-racialise municipalities that were segregated along apartheid spatial lines and to an extent redistribute resources from affluent municipalities to poor municipalities. For example, in Cape Town, the main rationale for amalgamation in 1996 was to redistribute from rich municipalities to poor municipalities. However, amalgamating previously black and white local authorities created problems, such as collapsing infrastructure (e.g. water and sewerage systems) because of the increasing number of people that now had to be serviced. Other challenges included financial stress due to increasing salaries, limited experience and lack of capacity. In 2002, financial viability became a demarcation issue after the Presidential Coordinating Council (PPC) passed a number of resolutions on local government, including the need to build financially viable municipalities.

The issue of municipal financial viability is not new but has still not been resolved 15 years after developing local government.

8.3 Findings

8.3.1 Amalgamation and municipal viability

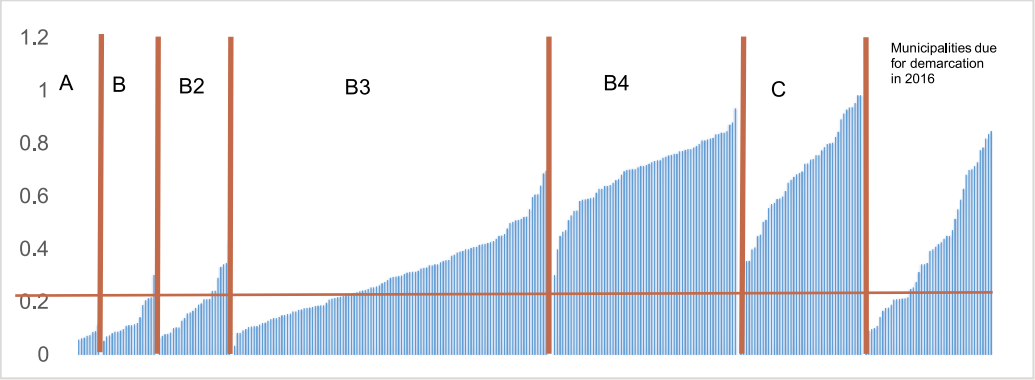
In the COGTA proposal, viability refers to the ability of municipalities to fulfil their constitutional mandates using their own resources. In other words, the demarcations will result in municipalities that are self-reliant and self-sufficient, have a sound fiscal base to support their constitutional mandates and minimum dependency on intergovernmental transfers. Fiscal capacity is crucial for a municipality to be viable/self-sufficient, and so the fiscal capacity of the soon-to-be demarcated municipalities is evaluated using a number of indicators, including revenue-raising capacity. As with other studies (Bandyopadhyay, 2013; City of Fort Lauderdale, 2013; Yilmaz et al., 2006), all measures of fiscal capacity were indexed to the average, i.e. the average figure for South Africa was equated to 100 and used as a base against which to compare individual municipality indicators. These indicators are not measures of the fiscal health of a municipalities but simply a relative gauge of whether a particular municipality can sustain all the assigned mandates using its own resources without intervention from national and provincial governments. Furthermore, the South African average is not necessarily the optimum but, in the absence of norms or standards, gives an indication of where an average municipality is operating in South Africa. These measures evaluate a municipality's fiscal capacities relative to the national average, not their absolute fiscal capacities.

Dependency on transfers

Self-sufficient municipalities do not depend on transfers for their basic needs and are capable of delivering a range of services using own revenues. A simple dependency ratio (transfers/operating revenues) can reveal whether municipalities can sustain their mandates without significant assistance from national and provincial governments. The ratios used are: the LGES as a percentage of municipal operating revenue and the total transfer capital funding as a percentage of total capital funding (Figures 55 and 56).

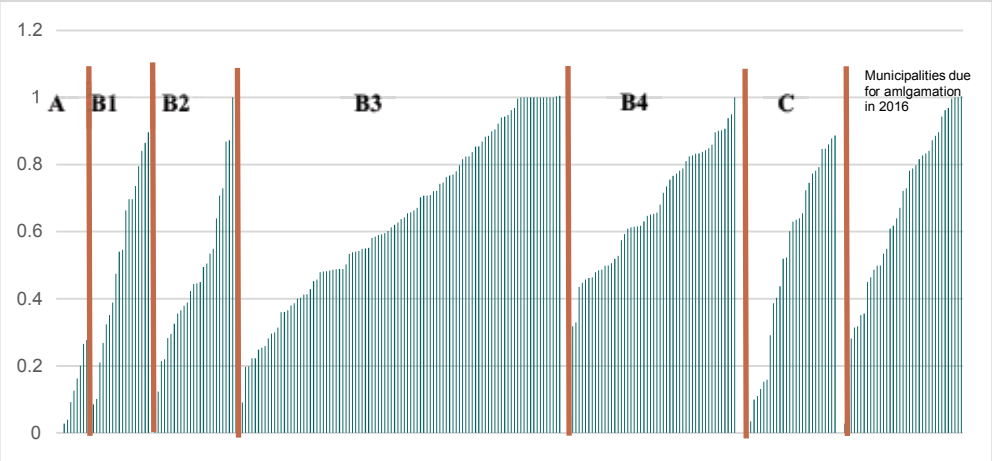
As Figure 55 shows, the dependency ratios vary widely, from metros (A) that derive less than 10% of their revenues from transfers, to district municipalities (C) that rely on transfers for almost 90% of their total revenues. The majority of rural municipalities (B3s and B4s) virtually all depend on transfers for more than 20% of their revenue, with most B4s relying on transfers for more than 50% of revenue. These municipalities are unlikely to be self-reliant and will always be dependent on transfers. In the case of the municipalities that are due for demarcation, a majority of them depend on transfers for more than 50% of their operational revenues. A similar picture emerges for capital funding (Figure 56).

Figure 55. LGES as a percentage of operating revenue



Source: Commission's calculations

Figure 56. Total transfer capital funding as a percentage of total capital funding



Source: Commission's calculations

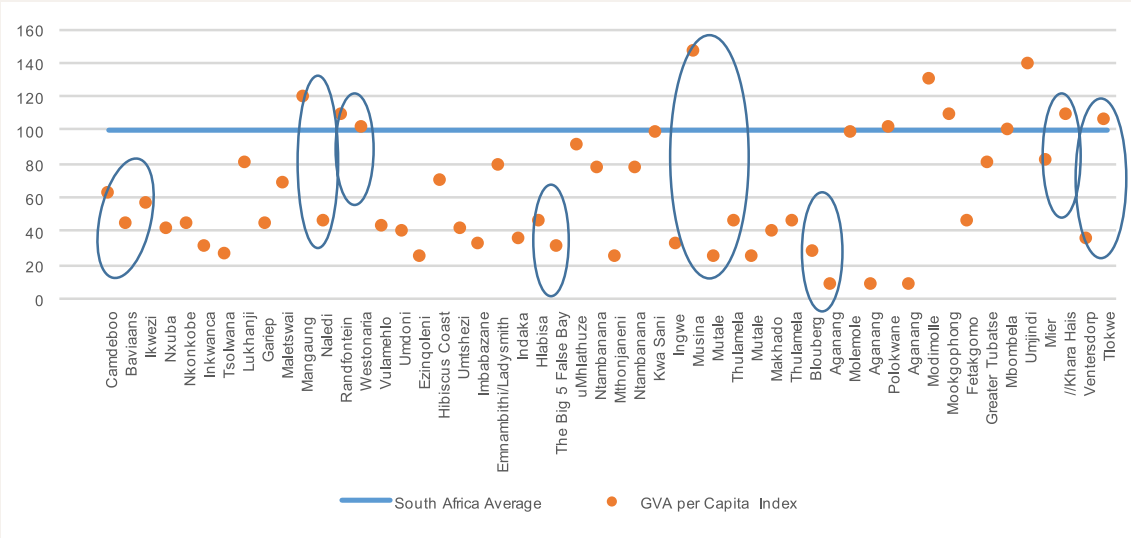
What Figures 55 and 56 show is that, given the present configurations, rural municipalities and municipalities due for demarcation will never sustain their activities without transfers. Therefore, amalgamation will not make them self-reliant because of their limited revenue base and high levels of dependency.

Per capita gross value added (GVA) index

This indicator measures the value of goods and services produced by a municipality over a given period. A municipality with a higher per capita GVA has a potentially larger revenue base and greater ability to pay taxes. All municipalities due for demarcation were compared to the average for all municipalities (Figure 57).

It is quite clear that the majority of municipalities due for demarcation in 2016 are below the South African average, and over 80% of them have a weak potential revenue base. Examples of amalgamations that consist of municipalities with GVA per capita indices below average include Camdeboo, Baviaans and Ikwezi; Hlabisa and The Big Five False Bay; and Blouberg and Aganang. This suggests that some of the proposed amalgamations will not necessarily result in municipalities with a better revenue base.

Figure 57. GVA index

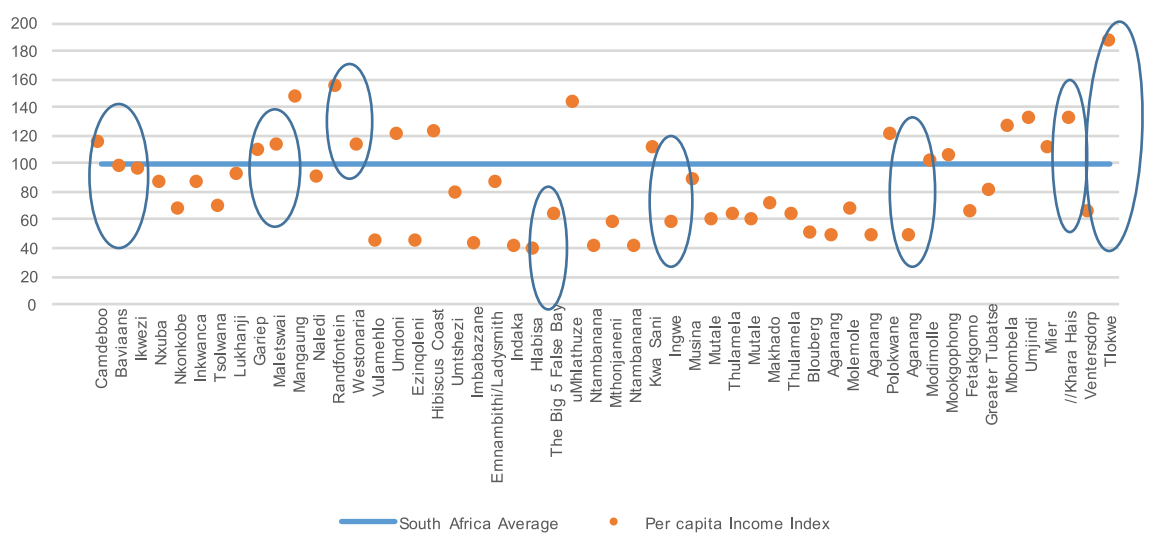


Source: Commission's calculations

Per capita income

Another well-known indicator of fiscal capacity is per capita income (Tannenwald 1999; Bandyopadhyay 2013; Yilmaz et al., 2006). Like per capita GVA, the per capita income measure captures the wealth or income potential of a municipality through a community's ability to meet its financial needs. As Figure 58 shows, around 70% of the municipalities to be demarcated in 2016 fall below the South African average for per capita income. This is a further indication that, all other things held constant, the communities of such municipalities (e.g. the Hlabisa and Big 5 False Bay amalgamation) would be hard pressed to meet their financial needs.

Figure 58. Per capita income index

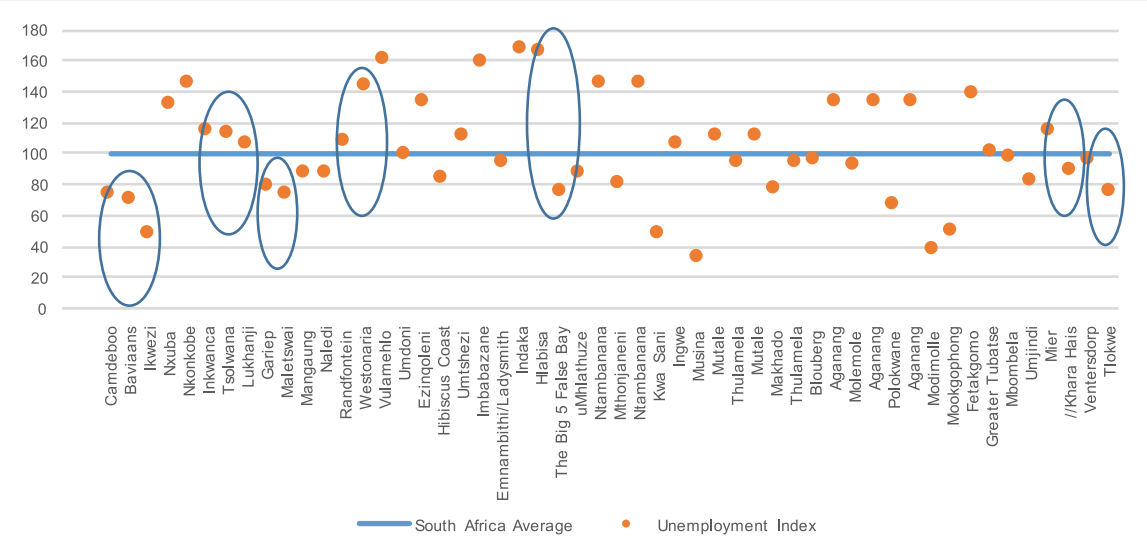


Source: Commission's calculations

Employment

A municipality's revenue base also depends on the employed population within its jurisdiction. The likelihood of a municipality generating a steady stream of revenues is high when a significant proportion of its population is employed. Conversely, the tax base is constrained when the unemployment rate is high. Figure 59 shows that almost half of the municipalities due for amalgamation in 2016 have below-average unemployment rates, indicating a weak revenue base. Clusters with above-average unemployment rates include Camdeboo, Baviaans and Ikwezi; Inkwanca, Tsolwana and Lukhanji; and Ventersdorp and Tlokwe.

Figure 59. Unemployment index

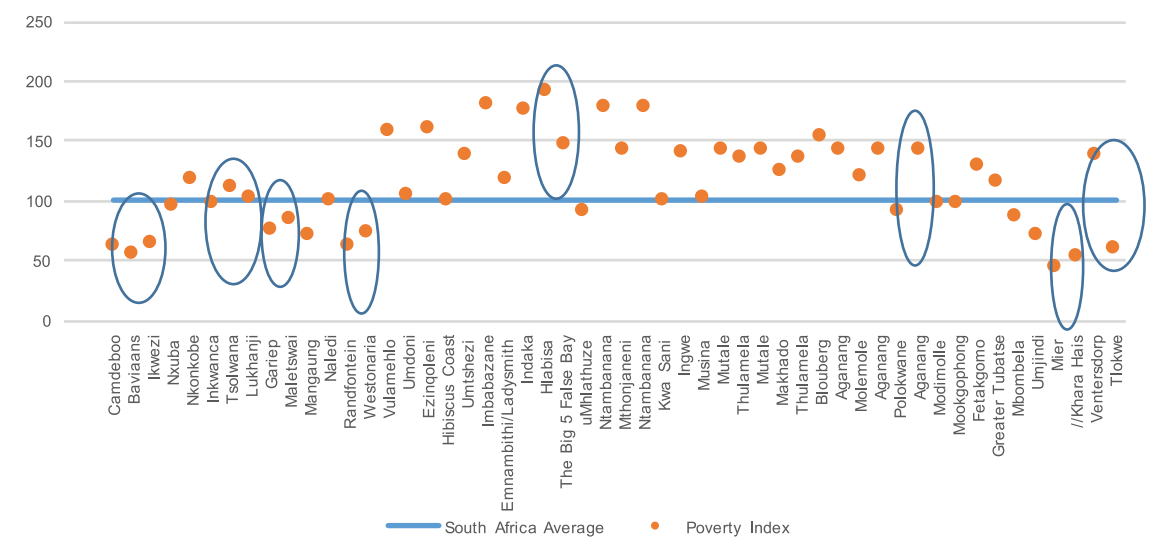


Source: Commission's calculations

Poverty index

Poverty is another variable that explains a municipality's fiscal capacity, with high levels of poverty implying a weak revenue capacity. Poverty levels for all municipalities due for demarcation were compared with the average poverty level for all South African municipalities. Figure 60 indicates that over 60% of municipalities fall below the average poverty level. This suggests that for many municipalities (e.g. Hlabisa and The Big 5 False Bay), the mergers will not improve their poverty levels or their revenue base.

Figure 60. Poverty index

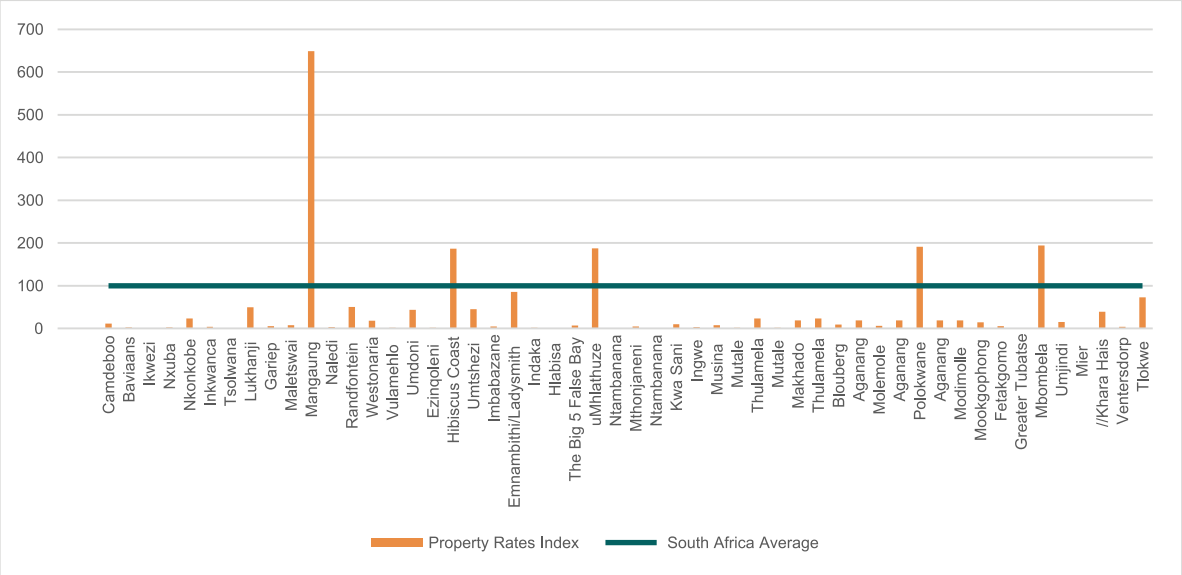


Source: Commission's calculations

Property rates per capita

Worldwide, local governments rely heavily on property rates for revenue. A sound property rates base signifies that a municipality is able to deliver on its mandate. Figure 61 compares property rates revenues for municipalities due for demarcation with the average South African municipality. All municipalities except for Mangaung, Hibiscus Coast, Polokwane and Mbombela have a property rates base below the South African average. This suggests that municipalities due for amalgamation collect few own revenues from properties, which is unlikely to change with amalgamation.

Figure 61. Property rates per capita



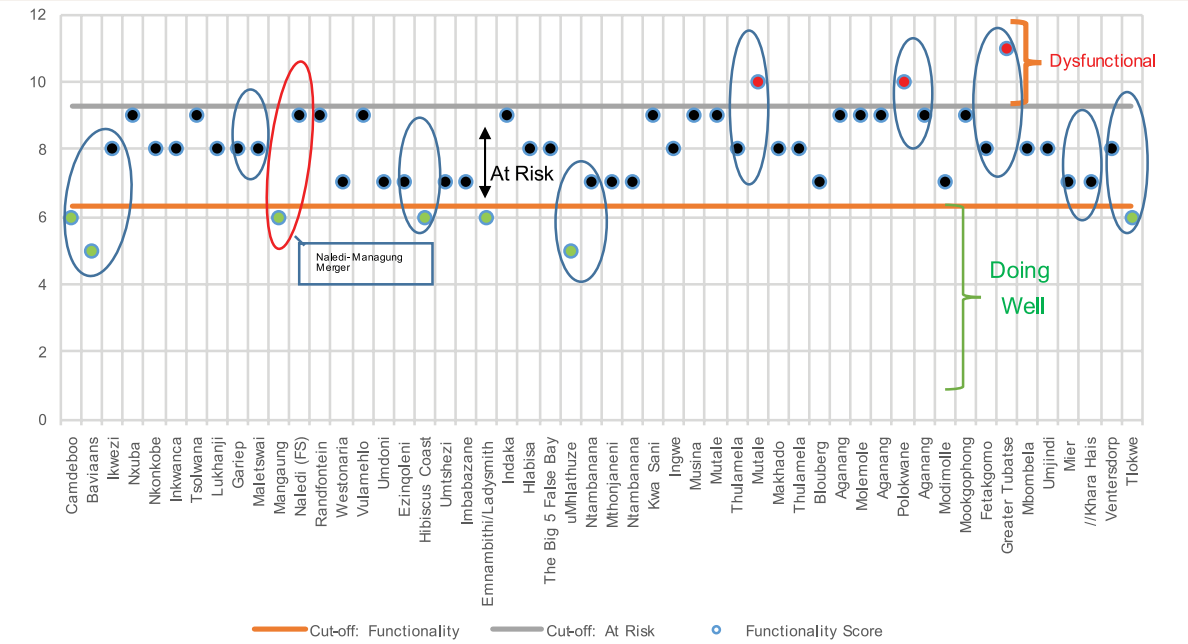
Source: Commission's calculations

8.3.2 Can amalgamations correct for municipal dysfunctionality?

Figure 62 shows the dysfunctionality index based on the above-mentioned indicators. Most municipalities (80%) are at risk of being dysfunctional and 6% are dysfunctional. Amalgamating municipalities that are at risk of being dysfunctional may actually worsen the problem. An interesting result from this index concerns the amalgamation of a functional metro (Mangaung) and a dysfunctional rural area (Naledi). While this merger may achieve financial viability/self-reliance, two important elements of municipal viability – governance and democracy – may be compromised. With the amalgamation, political representation for marginalised communities in Naledi virtually disappears, and in many ways rural governance of these communities becomes less functional, as an urban core governs and administers rural areas. Although Naledi may not be able to achieve financial viability, it may serve a critical constitutional and democratic role.

Given that many municipalities due for demarcation are not functioning well, the question becomes whether demarcation is the appropriate instrument for addressing their challenges and whether functionality can be a criterion for demarcating municipalities. In reality, many factors can cause a municipality to be dysfunctional. They include service delivery, institutional management, financial management, community satisfaction, and governance or political stability. Furthermore, such factors do not have a direct bearing on (or can be influenced by) boundary changes. For example, using demarcation to correct for financial mismanagement is akin to providing a patient with the wrong pill, which may do more harm than good. The primary mandate of the Municipal Demarcation Board (MDB) is to demarcate municipal boundaries, delimit wards and carry out municipal capacity, as spelt out in the Local Government: Municipal Demarcation Act (No. 27 of 1998). Correcting for dysfunctionality in municipalities is clearly not part of the MDB mandate but that of national and provincial governments, which have a range of monitoring, support, regulatory and intervention powers at their disposal. As there are no apparent connections between municipal boundaries and municipal functionality, elevating the issue of functionality to a demarcation criterion may simply raise expectations that will never be fulfilled by demarcation. In addition, dysfunctionality problems are often temporary and transient, and cannot be solved by a long-term drastic measure such as demarcation.

Figure 62. Municipal functionality



Source: Commission's calculations

This analysis suggests that transfers will remain the main revenue source of rural local municipalities. It is also important to note that the Constitution does not require all municipalities to be financially viable but makes provision for some to be transfer-dependent. Thus some municipalities should exist to serve other, equally important roles, such as ensuring that communities are politically and democratically represented. Therefore, if transfers continue to be the mainstay of rural local municipalities, the next question is whether such transfers are adequate.

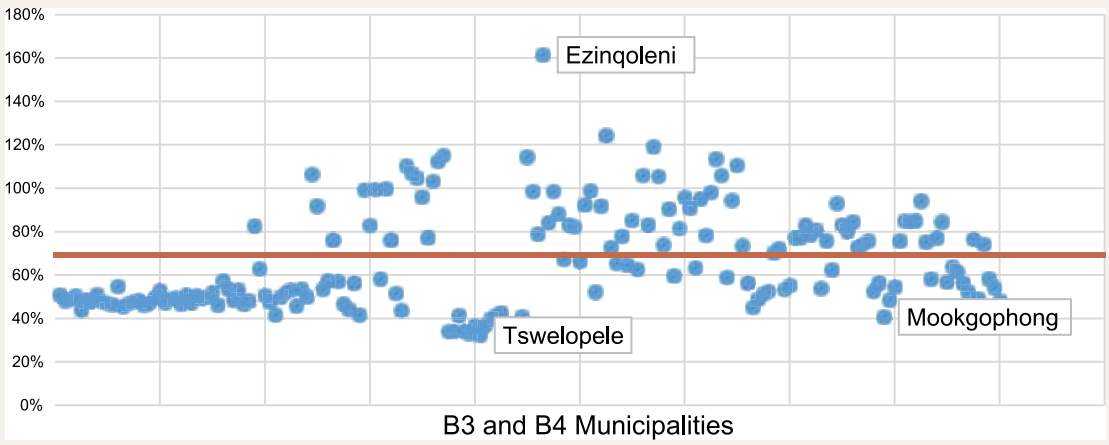
8.4 The Adequacy of Transfers

8.4.1 Does the LGES sufficiently compensate rural local municipalities?

The Constitution is clear on the purpose of the LGES, stating in Section 227(a): "Local Government and each province is entitled to an equitable share of revenue raised nationally to enable it to provide basic services and perform the functions allocated to it". In addition, Section 214(2)(e) says that the LGES has to achieve equity in the provision of basic services and must take into account the "fiscal capacity and efficiency" of municipalities. This implies that the LGES is a useful instrument for compensating municipalities that lack fiscal capacity. Therefore, the effectiveness of the LGES in compensating rural municipalities for lack of own revenue is tested, by comparing the operational costs calculated from the model with the LGES allocations for rural municipalities (Figure 10).

Given that own revenues account for almost 30% of rural municipalities' budgets, the LGES would be expected to cover about 70% of their operational expenses. Using this rough guide, the LGES fully compensates about 40% of rural municipalities for their estimated operational expenses, and covers between 40% and 70% of operational expenses for the other 60% (Figure 63). Furthermore, rural municipalities are heavily indebted to water boards and Eskom, which makes the gap even wider.

Figure 63. LGES vs. actual operational costs



Source: Commission's calculations

The next step was to look at whether conditional capital grants sufficiently compensate rural local municipalities for the lack of own revenues. This was done by comparing capital grants for electricity, solid waste, roads and storm water, water and sanitation to the amount of investment required for each service. The costs of backlogs were estimated based on the assumption that municipalities are able to service 15% of the existing backlogs per annum. So for 2015 the costs of the backlogs will be equal to 15% of the existing backlogs.

8.4.2 Adequacy of funding for electricity

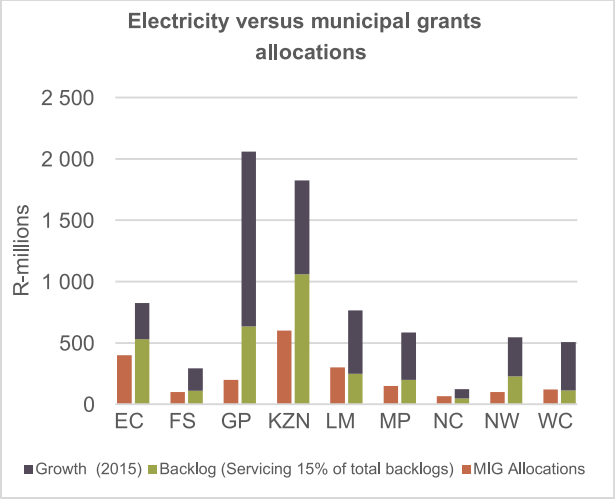
The assumption made is that all municipalities buy bulk electricity from Eskom, and so the extent of off-grid supply is not material – hence generation infrastructure is excluded from the scope of infrastructure to be funded. Figure 64 compares the capital investments required for electricity and the grant allocations for electricity per province. The left graph shows clearly that, in every province, the Municipal Infrastructure Grants (MIG) allocations are far lower than the capital investments required. The largest shortfall is in Gauteng, where the MIG covers just 10% of the required electricity capital investment. As some of the electricity grants are channelled via Eskom through the Integrated National Electrification Programme (INEP), the graph on the right compares the sum of municipal and Eskom grants with the need on the ground. Together, the municipal and Eskom grants are adequate to service 15% of the backlogs and new infrastructure in the Eastern Cape, Limpopo and the Northern Cape. Gauteng has the largest shortfall, which is too wide to be closed by own revenues.

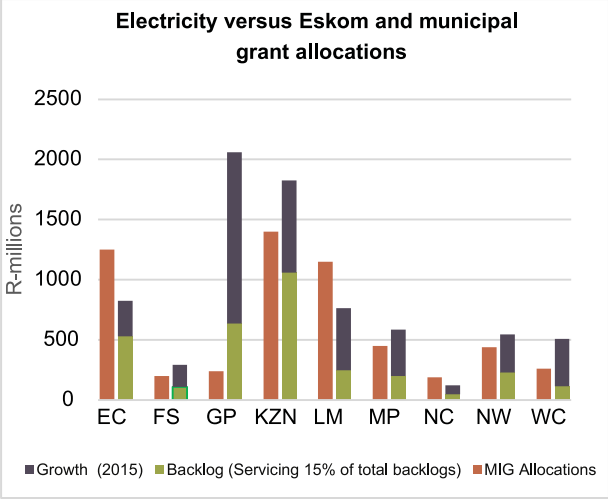
The same comparison is done for rural municipalities only (Figure 65). As the left graph shows, MIG allocations are not sufficient to cover electricity capital costs. However, what is clear from the right graph is that when the two funding streams (MIG and INEP) are combined, electricity is over-funded in all provinces, especially KwaZulu-Natal, Eastern Cape and Western Cape.

8.4.3 Adequacy of funding for solid waste

The estimated total capital required to cover the need (backlogs plus growth) for solid waste is about R659-million for all provinces. Figure 66 compares the infrastructure needs for solid waste to the relevant part of the MIG allocated to municipalities. The MIG here represents 86% of the "Other" component in MIG, as case studies show that municipalities use on average 86% of the "Other" component of MIG for refuse removal. The figure shows that the grants are insufficient to address the need in all provinces except for Northern Cape and Free State. The shortfall is largest (over 50%) in KwaZulu-Natal, Limpopo and North West.

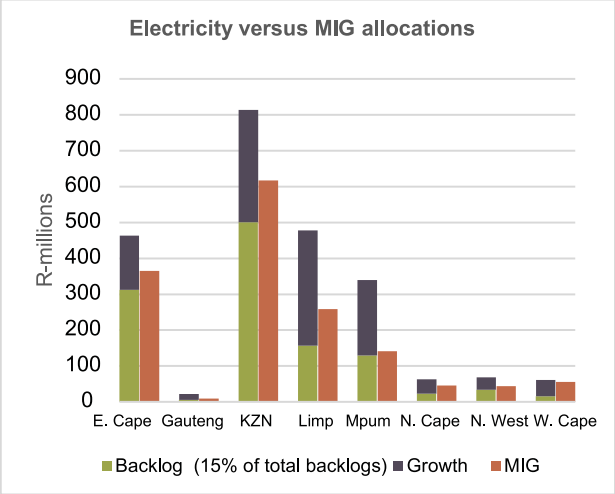
Figure 64. Capital investments required for electricity (2015)

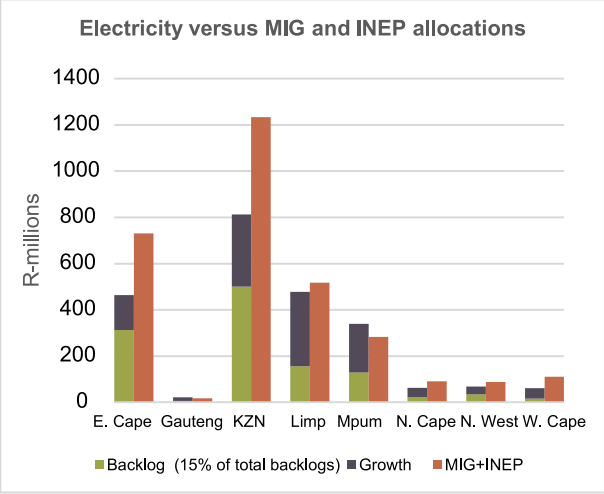




Source: Commission's calculations

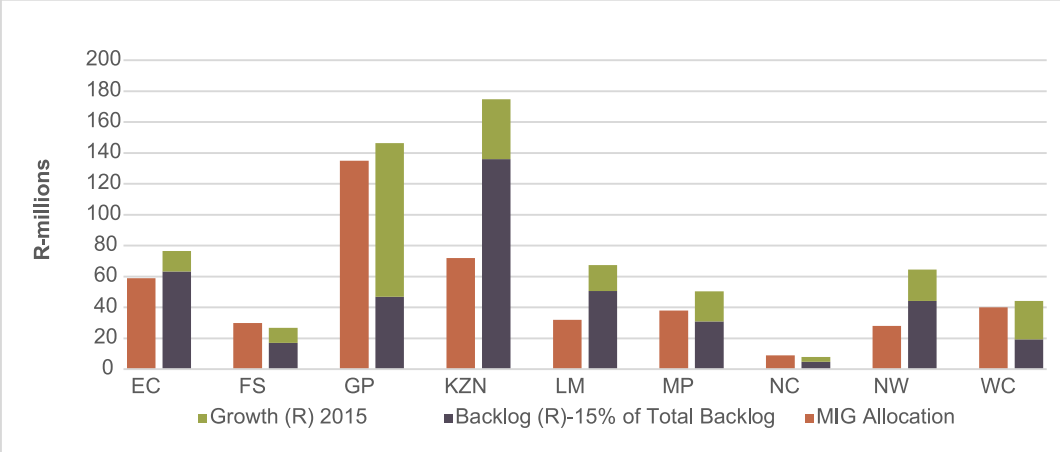
Figure 65. Capital investments required for electricity in rural municipalities (2015)





Source: Commission's calculations

Figure 66. Capital investments required for solid waste vs. MIG allocation (2015)



Source: Commission's calculations

8.4.4 Adequacy of funding for roads and storm water

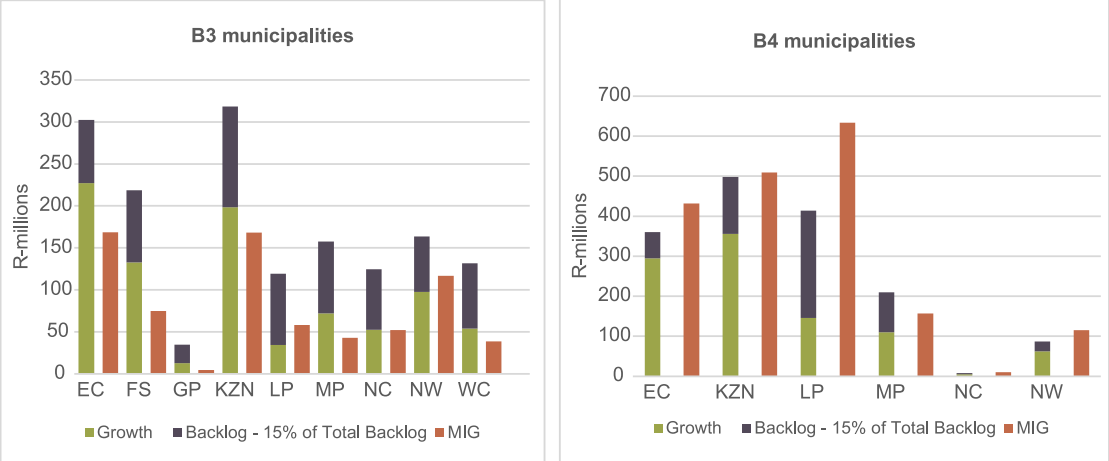
The main roads and storm water capital spending include pavements, storm water systems, public utilities, road furniture and public utilities. The estimated requirement for new infrastructure and servicing backlogs is R18.5-billion. Figure 67 compares roads and storm water capital requirements with the MIG allocations for B3 municipalities (left graph), and for B4 municipalities (right graph). The MIG allocations alone are inadequate to cover roads and storm water in B3 municipalities but adequate for B4 municipalities in the Eastern Cape, Limpopo and North West.

8.4.5 Adequacy of funding for water

Water is examined separately from sanitation. The main components of water capital budgets are dams and boreholes, bulk mains, distribution, reservoirs, connections, pump stations and water treatment centres. The estimated capital investments requirements for water amount to R8.8-billion in 2015, with growth infrastructure accounting for R4.7-billion of this amount. The need for new infrastructure is greatest in Gauteng municipalities, while the need for servicing backlogs is greatest in KwaZulu-Natal municipalities.

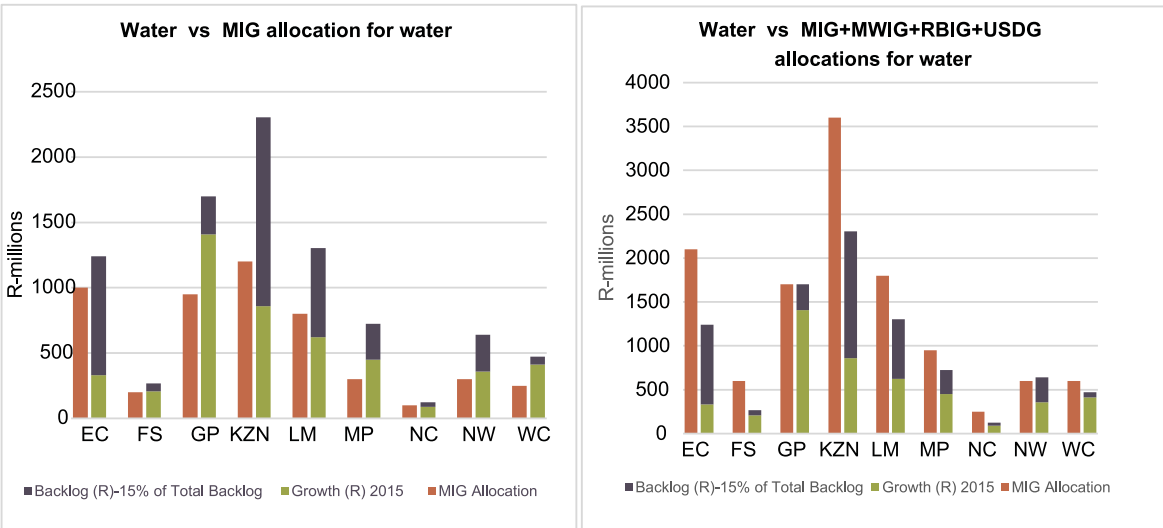
In Figure 68, the infrastructure needs are compared with the basic MIG grant to municipalities (left graph) and (right graph) with 50% of the total infrastructure grants, i.e. MIG + Municipal Water Infrastructure Grant (MWIG) + Regional Bulk Infrastructure Grant (RBIG) + Urban Settlements Development Grant (USDG), as these grants are assumed to be split equally between water and sanitation. The basic MIG underfunds water infrastructure, whereas when all relevant grants are considered, water appears to be overfunded in all provinces except for North West and (to a lesser extent) Gauteng.

Figure 67. Capital investments required for roads and storm water vs. MIG allocations (2015)



Source: Commission's calculations

Figure 68. Estimated capital requirements for water

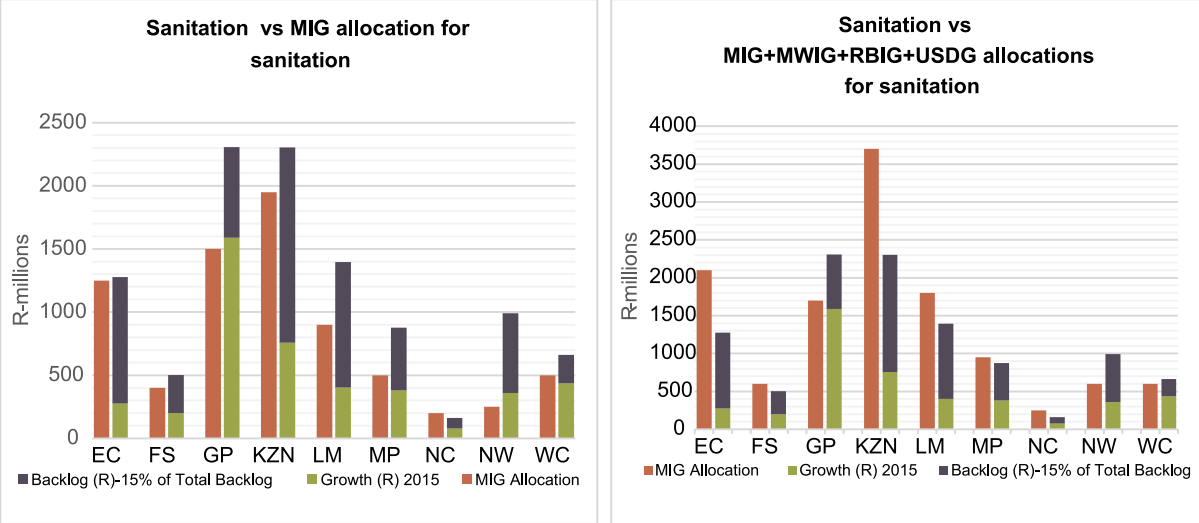


Source: Commission's calculations

8.4.6 Adequacy of funding for sanitation

The estimated infrastructure needs for sanitation for 2015 stand at R10.5-billion. Figure 69 compares the infrastructure needs for sanitation with the MIG allocations (graph on left) and with the 50% of the total infrastructure grants (MIG+MWIG+RBIG+ USDG), as these grants are assumed to be split equally between water and sanitation (except for specific grants such as the bucket eradication). Figure 69 shows clearly that the grants are insufficient to address the new infrastructure needs and 15% of backlogs. The gap is very small in municipalities in the Eastern Cape and widest in municipalities in the North West, Mpumalanga and Gauteng. When all capital grants for sanitation are taken into account, it should be possible to eradicate the backlogs at a higher rate than the assumed 15% per annum.

Figure 69. Estimated capital requirements for sanitation (2015)

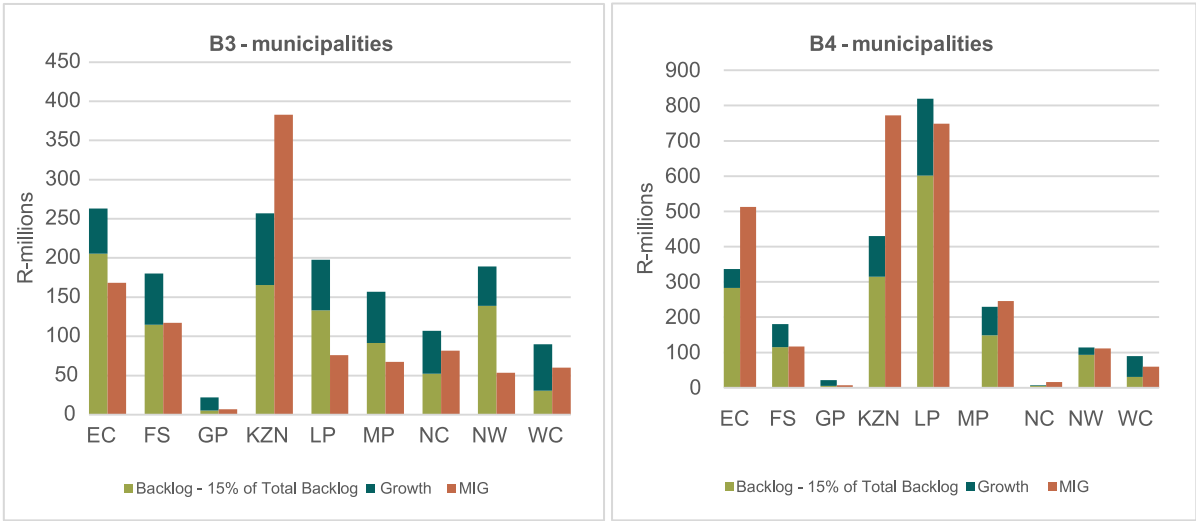


Source: Commission's calculations

Figure 70 shows the sanitation capital requirements for B3 and B4 municipalities separately. Apart from in KwaZulu-Natal, B3 municipalities are not adequately funded, whereas B4 municipalities are adequately funded in all provinces.

This assessment shows that transfers adequately compensate rural local municipalities for lack of own revenues in some services but not all. Therefore, the allocation of resources needs to be reviewed on a regular basis to avoid a situation where some services are over-compensated while others are not. This result also highlights the importance of evaluating the potential for additional own revenues to fill the resources deficit in areas where this is evident.

Figure 70. Estimated sanitation capital requirements for B3 and B4 municipalities



Source: Commission's calculations

8.5 Local Government Own Revenue: Challenges and Possibilities

If transfers are inadequate for some services, then rural local municipalities will need to explore additional own-revenue sources. These might include rating and levying agricultural land, introducing tourism taxes or mining levies, or viewing electricity provision as a constant and reliable source of own revenue.

8.5.1 Property taxes from communal and/or agricultural land

In rural municipalities, collecting property taxes faces the triple challenge of unemployment, property valuation difficulties and tax administration challenges. Further compounding the challenges of assessing, billing and collecting property taxes are the unclear division of powers, and sometimes acrimonious relationship, between the municipality and traditional leaders (in the form of chiefs). Households also prefer to pay flat levies rather than taxes based on the value of the property because municipalities have not adequately communicated the role of value-based property taxes to residents. Most municipalities interviewed do not know what the role of chiefs is in the rating of communal land and property on this land, and agree that more could be done to exploit property tax as an own-revenue source. The Local Government: Municipal Property Rates Act (No. 6 of 2004) extends property taxation to rural properties (Franzsen 2007: 12), but property registers and valuation rolls are often outdated or not in place, administrative capacity to manage such a tax is often limited, political support to enforce the property tax is lacking and politicians interfere with revenue collection. For example, cases where ward councillors order municipal officials to levy flat property rates instead of rates based on the property's value.

8.5.2 Electricity as a source of revenue

Electricity user charges are an important source of revenue, accounting for more than half of municipal own revenues in certain jurisdictions. However, in some municipalities, one area gets electricity from the municipality, while another area gets it directly from Eskom. For instance, in Dihlabeng Local Municipality, Bohlokong Township receives electricity directly from Eskom, while the commercial and some residential areas of Bethlehem buy electricity from the municipality. Eskom has a service level agreement with the municipality to provide electricity to Bohlokong. Electricity prices are regulated by the National Energy Regulator of South Africa (NERSA), which limits the extent to which municipalities can increase own revenue by passing increased costs onto end users. Given the developmental role that local government must play, this limitation has consequences that are more far-reaching than simply foregone revenue. Some municipalities charge different end-user tariffs (e.g. Abaqulusi, Ikwezi and Endumeni) in order to increase the municipal revenue base. Other factors that contribute to diminished revenue from electricity include the theft and loss of electricity through illegal connections and tampering with conventional meters.

8.5.3 Mining levies/fees as a source of revenue

Mining levies/fees were not found to be a viable sources of revenue for municipalities. Two local municipalities (Endumeni and Maluti-a-Phofung) have little knowledge of the exact mining activities taking place within their respective jurisdictions, other than a mine exists. The officials interviewed felt that municipalities do not any constitutional or legal mandate to levy fees related to mining. Furthermore, they do not know whether the mines are paying taxes to the province or to central government, and in what form the taxes are paid.

8.5.4 Other sources of own revenue

Other possible own-revenue sources, outside of property taxes, mining levies and electricity service charges, include charging "user fees" for social amenities (such as parks and community halls) and "restaurant/hotel fees" in areas with viable and vibrant tourism industries. Most of the municipalities interviewed conceded that their biggest constraint is the inadequate capacity to administer such fees, and the unwillingness of communities to pay for facilities that they feel entitled to freely use and enjoy. Blouberg and Endumeni municipalities suggested a surcharge[28] as an added source of revenue but conceded that, if residents feel no value has been added to a particular service, they are unlikely to pay an "extra fee". If properly captured, these additional revenue sources could enable rural development to become a reality. However, in exploring additional revenue sources, the buy-in of traditional leadership must be prioritised.

>>

[28] A surcharge is a fee or other charge that is added to the cost of a good or service. It is typically added to an existing tax, and may be temporary (e.g. fuel surcharge) or permanent in nature.

8.6 Conclusion

Government seeks to make rural municipalities self-sufficient and less dependent on transfers and, in 2015, proposed using demarcations to achieve financial viability or self-sufficiency, and to improve functionality among rural municipalities. However, an analysis found that amalgamations will not necessarily result in financially viable municipalities and may worsen the situation of some demarcated municipalities. Many rural municipalities will continue to be transfer dependent, as their revenues bases are fragile and weak. Therefore, the funding model of rural local municipalities should not ignore the fact that transfers will remain the mainstay of rural local government. The transfer system must also cater for the Constitution's acknowledgment of transfer-dependent municipalities.

The research found that the current system of transfers to rural local government, in particular the LGES and conditional capital grants, adequately compensates rural local municipalities for their lack of own revenue in some (but not all) services. Thus every transfer stream would need to be reviewed regularly, to ensure that needs and resources are always aligned. Furthermore, viewing a grant in isolation may give the impression that a service is underfunded and yet when all grants are included, the service may be fully funded. This suggests that grants designed to achieve the same outcome should be consolidated.

Municipalities require diverse and "non-traditional" revenue sources, if they are to be able to meet their growing responsibilities and to fund operations. Property taxes are generally considered to be a reliable source for local governments, but this is not the case for rural municipalities because of inadequate property tax administration. Rural municipalities need to explore additional revenue sources, outside of property taxes and electricity user changes. These could include charging for entry to social amenities (e.g. parks) and levying fees on hotels and restaurants in areas with a vibrant tourism industry.

8.7 Recommendations

With respect to financing rural local municipalities for rural development, the Commission recommends that:

1. With assistance from the national and provincial Departments of Cooperative Governance and Traditional Affairs, rural municipalities ensure that:

    - Property registers and valuation rolls in rural areas are in place and up-to-date.

    - Rural municipalities are adequately capacitated to collect and administer such a tax.

2. The National Treasury and the Department of Cooperative Governance:

    - Note that, by their nature, some municipalities will never be self-funding, and so demarcation processes must go beyond financial viability, to consider issues of democratic representation and community participation, which are equally important and should be funded by the transfer system even in "financially unviable" municipalities.

    - Seek to achieve "financial viability" in municipalities by increasing or developing tax bases through economic development rather than amalgamating municipalities.

3. The Department of Cooperative Governance:

    - Amends the Municipal Demarcation Act to ensure that the full financial impact of demarcations on a new municipality are assessed before any amalgamations are done.

    - Seeks to correct for dysfunctionality through relevant legislative, policy and capacity-building measures rather than through amalgamations.

    - Monitors whether mergers have been successful, and the actual cost of the mergers.

4. National Treasury continues to consolidate grants (as previously recommended by the Commission) because viewing grants in isolation gives the impression that some services are underfunded, whereas services may be fully or overfunded when viewing the grants holistically.

5. National Treasury ensures that the Local Government Equitable Share and conditional grants are informed by objectively derived cost estimates, without which the viability of rural municipalities will always be under threat.

CHAPTER 9

Effectiveness of Transfers to Local and District Municipalities for Rural Development

Effectiveness of Transfers to Local and District Municipalities for Rural Development

9.1 Introduction

The Constitution entrenches the developmental role of local government, which is further underscored in the National Development Plan (NDP). Section 152(1) of the Constitution mandates municipalities, among other things to:

a. to provide democratic and accountable government for local communities;

b. to ensure the provision of services to communities in a sustainable manner;

c. to promote social and economic development;

d. to promote a safe and healthy environment; and

e. to encourage the involvement of communities and community organisations in the matters of local government.

According to Section 153 of the Constitution, municipalities are expected to:

a. structure and manage its administration, and budgeting and planning processes to give priority to the basic needs of the community, and to promote the social and economic development of the community; and

b. participate in national and provincial development programmes.

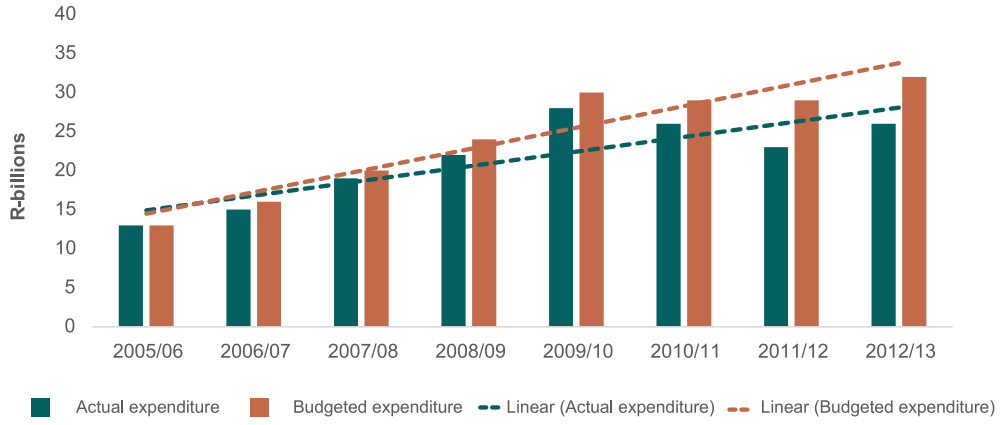
In the NDP, rural local government in particular has a pivotal role to play in reducing poverty and inequalities through providing basic services and infrastructure. The Constitution provides for a Local Government Fiscal Framework (LGFF) that includes own revenue, borrowing and intergovernmental transfers as revenue instruments.

Ideally, increased resources to municipalities translate into improved delivery of basic services and thus development. However, this has not been the case, especially within rural municipalities that have difficulties in executing their constitutional obligations. Difficulties include limited revenue capacities, poor audit results and maladministration, under-spending on capital budgets, service delivery protests and backlogs in virtually all basic services. In addition, rural municipalities are failing to service their debt (to Eskom for bulk electricity and to water services boards for water services) and have been unable to attract and retain skilled managers, professionals, and technicians (COGTA, 2009). These problems are compounded by the ambiguous allocation of powers and functions between district municipalities (DMs) and local municipalities (LMs) that sometimes overlap. Given the persistence of these challenges, this chapter looks at how effective and efficient rural municipalities can be in driving rural development. It also examines whether the distribution of powers and functions of DMs and LMs is conducive for rural development. A data envelopment analysis (DEA) was used to examine the efficienc[29] issue, while the role and responsibilities of district municipalities were evaluated through descriptive information.

9.2 Background

Figure 71 and 72 show the spending patterns of rural municipalities between 2005/06 and 2012/13. Under-spending is rampant among rural municipalities. Although DMs have improved their spending, both DMs and LMs spend less than their budgeted amounts.

Figure 71. Actual vs. budgeted expenditure in rural local municipalities (2005/06–2012/13)

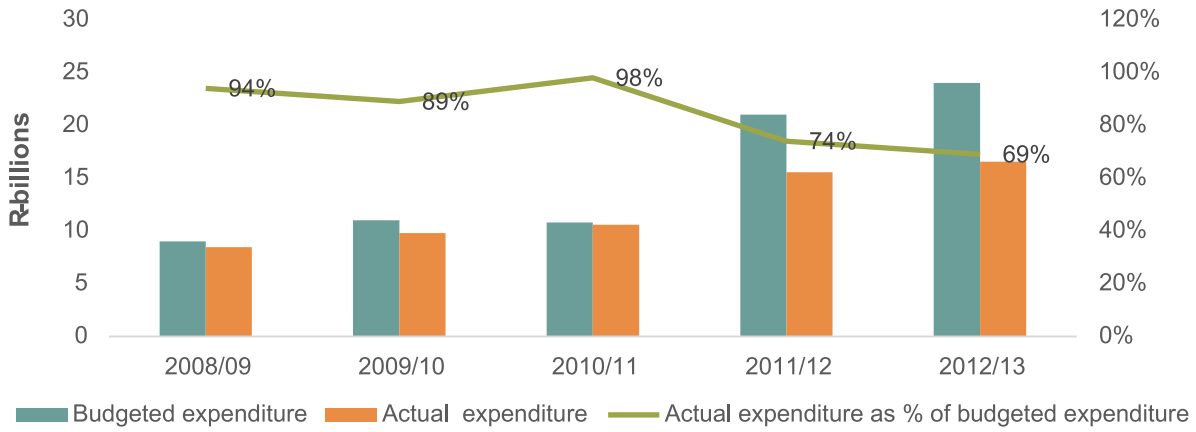


Source: National Treasury (2012)

>>

[29] Technical efficiency in this context is when goods and services are provided at the minimum cost. It measures the extent of misallocation of resources.

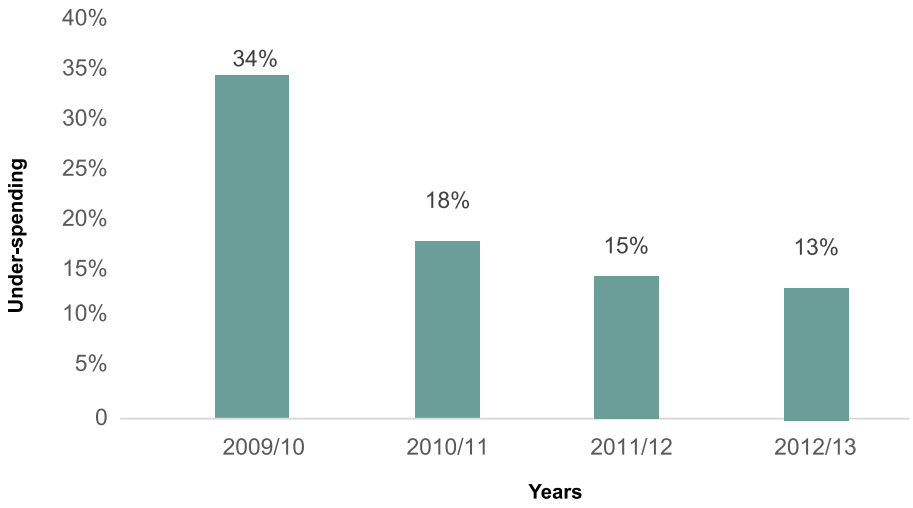
Figure 72. Actual vs. budgeted expenditure in rural district municipalities (2008/09–2012/13)



Source: National Treasury (2012)

A worrying trend is the under-spending of capital budgets in rural areas (Figure 73). Although it has improved, under-spending in 2012/13 still amounted to 13%, which is quite significant for poor communities. Under-spending implies ineffective and inefficient use of resources and, importantly, forgone or postponed investments. Considering the relatively high infrastructure backlogs, rural areas can ill afford such under-spending. Similarly, rural municipalities do not prioritise maintenance spending: between 2008/9 and 2012/13, the average spending by rural municipalities was about 4%, far below the National Treasury recommended range of 8–10%.

Figure 73. Under-spending on capital grants in rural municipalities (2008/09–2012/13)

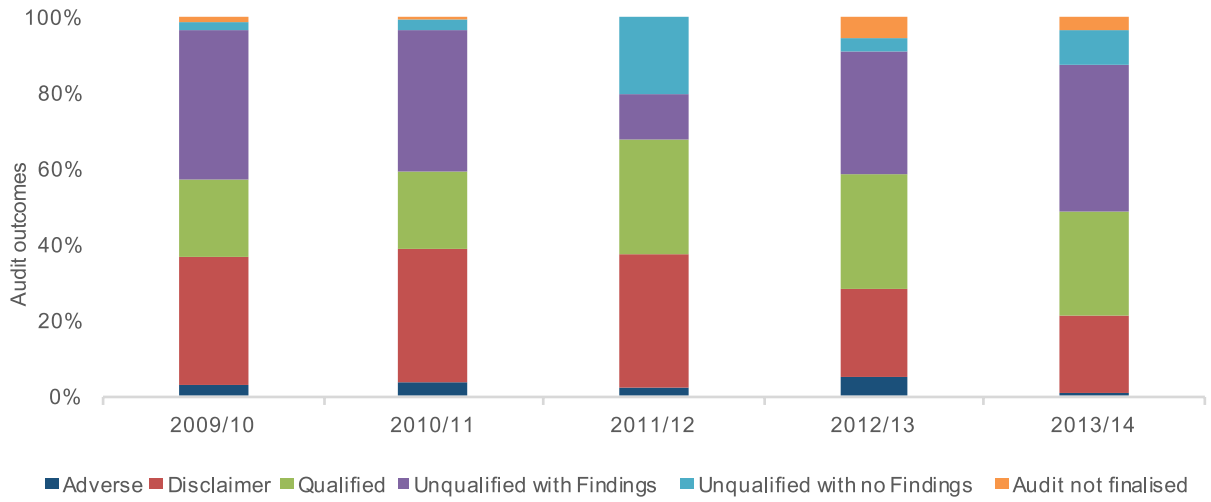


Source: National Treasury (2012)

Audit outcomes are another important indicator, as they measure the overall performance of municipalities in terms of operating and capital expenditure, unauthorised, irregular and fruitless expenditure, supply chain, compliance and governance deficits, among other things. Figure 74 shows the audit outcomes for rural municipalities.

Although audit outcomes have improved slightly, with unqualified audits increasing from 39% to 39.9% between 2009/10 and 2013/14, the majority of rural municipalities continue to receive poor audit results. In 2013/14, nearly half (49%) received adverse, disclaimer and qualified opinions. The Auditor-General (AGSA, 2013) attributes the persistence of poor audit results to the high levels of unauthorised, irregular, fruitless and wasteful expenditure. These findings confirm that rural municipalities are not using resources effectively and efficiently.

Figure 74. Audit findings for rural municipalities (2009/10–2013/14)



Source: AGSA (2009–2014)

9.3 Findings

Table 29 provides technical efficiency scores obtained from the DEA analysis of 87 LMs. These scores measure the ability of a municipality to achieve the maximum output given the set of resources at its disposal. A municipality with a score of 1 is regarded as efficient, while those with less than 1 are regarded as inefficient.

The number of efficient municipalities is low but increased between 2008/09 and 2012/13 from 2 (2%) to 11 (13%). Over this period, the mean efficiency scores for local municipalities ranged between 0.31 and 0.38. This implies that the municipalities could produce, on average, more than 60% additional output with the same amount of resources. The minimum average efficiency score was 0.04 throughout the period. This implies that technical inefficiencies remain high in certain municipalities, which could produce about 90% additional output if they used their resources properly.

Table 29. DEA efficiency scores for local municipalities

Years	2008/9	2009/10	2010/11	2011/12	2012/13
Number of municipalities	87	87	87	87	87
Number efficient municipalities	2	1	6	8	11
Share of the total sample	2%	1%	7%	9%	13%
Number of inefficient municipalities	85	86	81	79	76
Mean efficiency	0.31	0.32	0.40	0.37	0.38
Minimum efficiency	0.04	0.04	0.04	0.04	0.04
Maximum efficiency	1	1	1	1	1

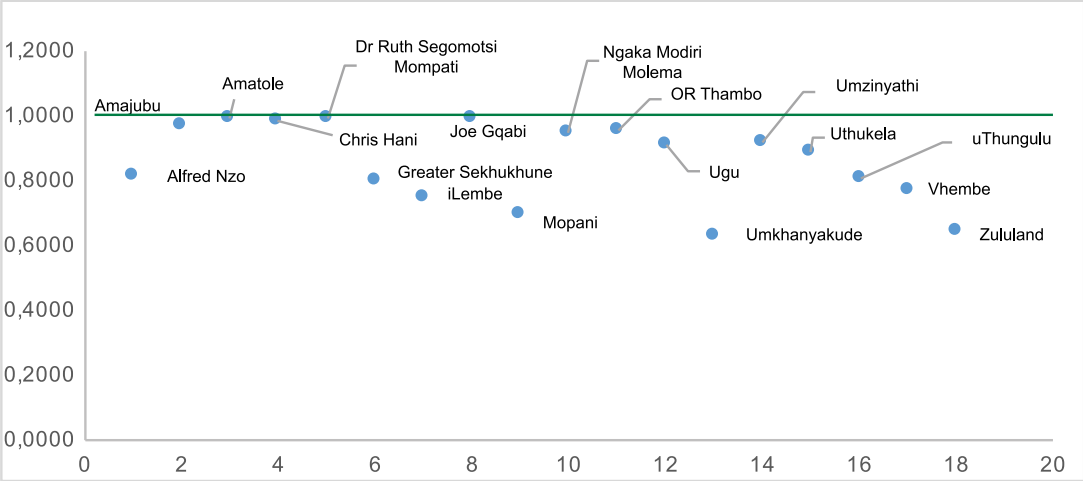
Source: Commission's computations

Table 30. Average efficiency scores for district municipalities

Years	2008/9	2009/10	2010/11	2011/12	2012/13
Sample size	18	18	18	18	18
Efficient municipalities	0	0	0	7	3
Inefficient municipalities	18	18	18	11	15
Mean efficiency	0.83	0.84	0.86	0.89	0.87
Minimum efficiency	0.56	0.60	0.63	0.66	0.68
Maximum efficiency	0.99	0.99	0.99	1	1
Maximum efficiency	1	1	1	1	1

Source: Commission's calculations

Figure 75. Annual average efficiency scores by municipality



Source: Commission's calculations

Turning to DMs, as Table. 30 shows, the DEA indicates that the average level of efficiency in rural DMs ranges between 0.83 and 0.87 (Table 30). This suggests that DMs are producing between 83% and 87% of what is expected given their resources.

Figure 75 depicts the annual average efficiency scores for each rural DM between 2008 and 2013. All of the DMs register scores below the frontier, implying that they have not used their resources efficiently. Umkhanyakude and Zululand are the most inefficient district municipalities, while Amatole and Dr Ruth Segomotsi Mompati are relatively more efficient.

9.3.1 Factors affecting spending efficiency in rural municipalities

Table 31 presents findings on the determinants of the DEA efficiency scores. The determinants of municipal efficiency used are the provision of free basic services (FBS), vacancy rate for senior management, reliance on intergovernmental transfers, municipal size and municipal economic performance.

The provision of FBS has a negative effect on municipal efficiency. This is because a municipality is unable to recover the cost of providing services to indigent households that receive FBS. High vacancy rates also result in municipal inefficiency, which concurs with the Auditor-General report of 2014 that highlights the lack of institutional capacity as a major cause of the poor municipal performance (AGSA, 2014). Grant reliance and economic performance have a positive impact on municipal efficiency.

The regression analysis reveals that rural municipalities use their resources very inefficiently. LMs fare much worse than DMs, as DMs have better institutional capacity and so are able to take on more complex strategic infrastructure projects for rural development. Given this, a critical analysis was carried out of the role and responsibilities of DMs.

Table 31. Results from the truncated regression analysis

Independent variable	Coefficient	Standard-error	t-value
Water (FBS)	-7.9854	7.6169	0.9731
Electricity (FBS)	-1.2895	4.8399	6.2348
Refuse (FBS)	-3.8686	1.1599	-3.3353
Sanitation (FBS)	-3.7053	5.3851	-6881
Vacancy rate	-9.444	1.2041	-0.0784
Grant reliance	3.0733	8.269	0.3717
Population	2.5181	2.1086	11.9423
GVA	6.4299	2.70728	2.3789
Sigma	3.1037	2.0275	15.3081
Intercept	7.4123	7.6169	0.9731

Source: Commission's calculations

9.3.2 Powers and functions of district municipalities

The 1996 Constitution of South Africa introduced a three-tier system of local government: metropolitan municipalities (metros), DMs and LMs. However, the Constitution was silent on the role of DMs, which was only clarified in the 1998 White Paper on Local Government. The White Paper conceded that a variable system of district governance was the way to go and envisioned four distinct roles for DMs:

(i). Integrated district-wide planning

(ii). Planning and development of bulk infrastructure in non-metropolitan areas

(iii). Provision of direct services to consumers in areas where municipalities are not established

(iv). Provision of technical assistance and capacity building in LMs

The mandate of DMs contained in the White Paper found legal meaning in Section 83 of the Local Government: Municipal Structures Act (MSA) (No. 117 of 1998). The Act provided the legal framework for a single-tier metropolitan government system and a two-tier local government system. Sections 84(1)(a) to (p) defines the powers and functions of DMs, and any residual powers not contained in this section are vested in LMs. Two subsequent Acts amended the role of DMs in a fundamental departure from the White Paper, which limited the role of DMs.

- The Local Government: Municipal Structures Amendment Act (No. 33 of 2000) made DMs direct service providers of electricity, sanitation, water and health services.
- The Intergovernmental Relations Framework (IGR) Act (No. 13 of 2005) added the role of IGR coordinator and channel of communication between the province and LMs.

The powers and functions of DMs listed in the MSA are not absolute and can, under certain circumstances, be altered. Section 85 of the MSA allows the MEC for local government in a province to:

> *adjust the division of functions and powers between a district and a local municipality as set out in section 84(1) or (2), by allocating, within a prescribed policy framework, any of those functions or powers vested-*
>
> *(a) in the local municipality, to the district municipality; or*
>
> *(b) in the district municipality (excluding a function or power referred to in section 84 (1) (a), (b), (c), (d), (i), (o) or (p), to the local municipality.*

The MEC can re-allocate powers or functions if "the municipality in which the function or power is vested lacks the capacity to perform that function or exercise that power", provided a consultative process is followed. Then, in 2003, the Minister for Provincial and Local Government issued new directives on the powers and functions of LMs and DMs, whereby LMs were to provide bulk electricity until the restructuring of the industry was completed, DMs were vested with powers to provide municipal health services, while water and sanitation functions were to be determined on a provincial case by case basis. In the end, municipalities were authorised to continue providing water and sanitation in 22 of the 46 districts.

This has resulted in a highly variable system of district governance, costly overlaps and duplications, and real risks of confusion, contestations and even conflict in the IGR system, as well as possible further distortions in accountability lines. Furthermore, MECs often alter the powers and functions of DMs and LMs following Municipal Demarcation Board (MDB) capacity assessments, resulting in much uncertainty in the local government space and the potential of compromising development.

Following the legislative and policy changes, the roles of DMs can best be summarised as:

- Provision of services (health, sewage disposal, domestic wastewater and potable water supply) to end user
- Redistribution of resources within their jurisdiction
- District-wide services, such as district roads, airports, solid waste disposal sites, firefighting services, abattoirs, markets, local tourism
- Coordination and district-wide planning
- Technical assistance and capacity-building for LMs in their jurisdiction
- Direct governance of DMAs
- IGR coordinator and link between provincial and local governments

The following sections interrogate the role of DMs against their mandated functions (as listed above) in order to define an appropriate place for DMs in the local government sphere.

9.3.3 District municipalities and service provision

As noted earlier, the MSA mandates DMs to provide services to end users, e.g. health services, sewage disposal systems, domestic wastewater and potable water supply systems, and bulk electricity. However, DMs are not performing their core service functions as envisaged in the MSA (Wahid and Steytler, n.d.). According to the MDB capacity assessment report of 2009, "76% of DMs are performing less than 50 percent of their statutory functions and only two DMs are performing more than 75 percent of their functions" (Steytler, 2010). Money to spend on core services is crowded out by expenditure on non-core activities, with half of the expenditure by DMs going to governance, administration, and planning (Wahid and Steytler, n.d.). From as early as 2007, the MDB's assessments were showing that services were increasingly being shifted from DMs to LMs (CLC, 2007), in particular refuse removal, roads, firefighting and cemeteries (MDB, 2011). In 2014, only 45% of DMs were providing water and sanitation services (compared to 61% in 2008) and only 2% were providing refuse removal services (down from 23% in 2008).

The reduction in water, sanitation and refuse removal services provided by DMs is more pronounced in urban areas than in rural areas. Between 2008 and 2014, the proportion of urban DMs providing water and sanitation services halved, from 22% to 11%, whereas in rural areas, 54% of DMs provided these services in 2014, down from 71% in 2008 (a decline of 24%). Similarly, in the case of refuse removal services, urban DMs providing these services have declined by 100% compared to 90% for rural DMs. This analysis shows that urban DMs are not providing many services to consumers, whereas rural DMs still play a significant role in rural development. The implication, therefore, is that rural DMs should be strengthened, while the role of urban DMs needs to be reviewed.

In many countries with two-tier systems of local government, large urban municipalities are often left out of the system. In South Africa, strong secondary cities dominate urban DMs in every aspect, e.g. budgets, population size, economic GVA and capacity (Table 32), rendering DMs ineffective in fulfilling their mandated functions.

A solution is to establish a single-tier system in urban areas and to maintain a two-tier system in rural areas. India and Germany have a similar local government system: one tier for urban areas and two tiers for rural areas. In the case of two tiers, the upper tier does not normally supply services directly to households, unless the lower tier lacks capacity or the services are bulk services.

Social participation and social accountability are weak in the current model of DMs, which is why some believe that DMs should not provide services such as water directly to consumers because these services require effective participation by citizens and accountability to society. Only 40% of district councillors are directly elected by voters in the DM – the other 60% are appointed by the constituent municipalities and so are not directly accountable to the electorate.

Despite the weaknesses described above, DMs in rural areas are visible and have a history of providing services directly to consumers. Moreover some rural LMs have weak capacity and need the support of DMs, while some DMs provide services in District Managerial Districts (DMAs), where no direct services exist. This should continue unless close-by LMs have the capacity and could provide services to the DMAs through a service level agreement.

Table 32. Urban LMs by indicators showing relations to DMs

DM	DM population (000)	DM budget in (R'000)	DM GVA (R-millions)	LMs	B1	B1 population (000)	Percentage	B1 budget (R-millions)	B1 GVA (R-millions)	Percentage B1 GVA/DM	Percentage B1 own revenue
Lejweleputswa	686	106251	15295	5	**Matjhabeng**	426	62%	1579	12482	82%	75%
Sedibeng	947	325263	20242	4	**Emfuleni**	784	83%	3555	14740	73%	84%
West Rand	888	251977	21710	3	**Mogale City**	352	40%	1472	9915	46%	85%
Amajuba	520	193514	9146	3	**New castle**	614	71%	2684	7393	81%	83%
Umgungundlovu	1035	456546	22968	7	**Umsunduzi**	370	59%	1235	17026	74%	83%
Uthungulu	984	574227	22954	6	**Umhlathuze**	350	36%	2019	9352	41%	87%
Capricon	1268	571812	26442	5	**Polokwane**	555	44%	2064	17788	67%	78%
Ehlanzeni	1556	192290	31171	5	**Mbombela**	513	33%	1804	20560	66%	73%
Gert Sibande	967	257677	34337	7	**Govern Mbheki**	238	25%	1076	19949	58%	79%
Nkangala	1095	317768	42818	6	**Emalahleni**	297	27%	1227	19556	46%	84%
					Steve Tshwete	153	14%	1110	16204	38%	88%
Frances Baard	360	104183	12814	4	**Sol Plaatie**	225	63%	1323	11155	87%	86%
Siyanda	225	95744	8546	6	**Khara hais**	87	39%	401	2334	27%	83%
Bojanala	1276	488633	53951	5	**Rustenburg**	415	33%	2331	32793	61%	89%
					Madibeng	373	29%	984	11541	21%	79%
Kenneth Kaunda	643	168938	16976	4	**City of Matlosana**	385	60%	1740	10591	62%	80%
					Tlokwe	138	21%	767	5730	34%	100%
Ngaka Modiri Molema	820	531287	14188	5	**Mafikeng**	278	34%	462	8110	57%	72%
Cape Winelands	728	470063	23864	5	**Drakensburg**	224	31%	1396	7368	31%	85%
					Stellenbosh	137	19%	904	5791	24%	86%
Eden	525	243277	18554	7	**George**	173	33%	1184	5814	31%	75%

*Note: where: *** is statistical significance at the 1% level, ** is statistical significance at the 5% level, and * is statistical significance at the 10% level.*

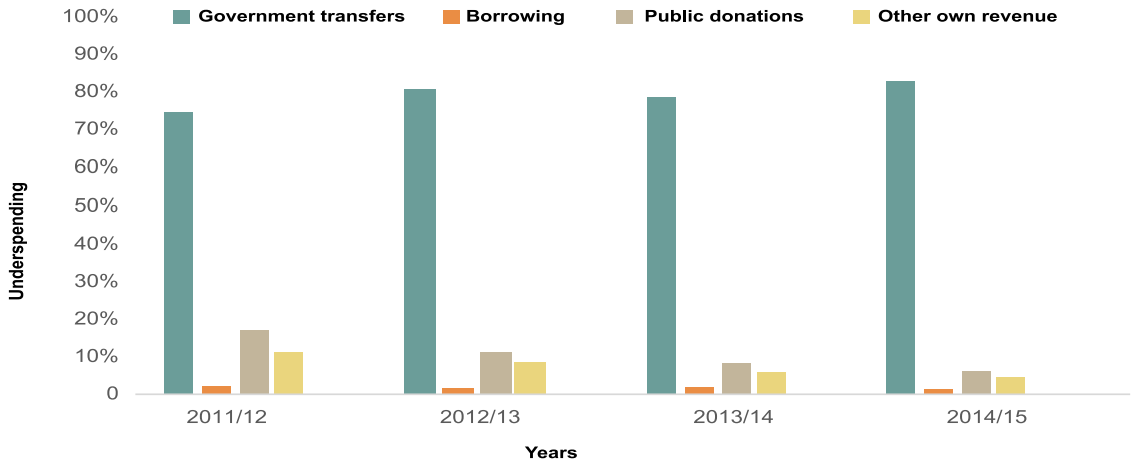
Social participation and social accountability are weak in the current model of DMs, which is why some believe that DMs should not provide services such as water directly to consumers because these services require effective participation by citizens and accountability to society. Only 40% of district councillors are directly elected by voters in the DM – the other 60% are appointed by the constituent municipalities and so are not directly accountable to the electorate.

Despite the weaknesses described above, DMs in rural areas are visible and have a history of providing services directly to consumers. Moreover some rural LMs have weak capacity and need the support of DMs, while some DMs provide services in District Managerial Districts (DMAs), where no direct services exist. This should continue unless close-by LMs have the capacity and could provide services to the DMAs through a service level agreement.

9.3.4 District municipalities and redistribution

As cross-municipality authorities, the assumption is that DMs will facilitate the redistribution of resources from rich municipalities to poorer municipalities. This may not be possible for rural DMs, as many rural municipalities do not contain a large anchor town whose wealth could be used to subsidise rural areas. The cross-subsidisation argument also presupposes that districts have abundant own revenues to use in order to distribute wealth fairly and equitably. However, since the scrapping of the RSC levies[30] in 2006, DMs have no substantial own-revenue sources and remain grant dependent (Figure 76). As a result, DMs have no muscle to influence municipal spending and thus the overall distribution of wealth (Mlokoti, 2007). Therefore, redistribution should be left to national government because, as the Commission has noted before (in 2001), the Constitution provides the national sphere with expenditure (e.g. transfers) and tax levers to redistribute wealth across municipalities (CLC, 2007). National Treasury has also argued that DMs are not the suitable institution to tackle the issue of income redistribution (ibid). Furthermore, achieving equity within a district will not necessary result in an equal South Africa.

Figure 76. Composition of total revenue for DMs



Source: National Treasury (2012)

9.3.5 District municipalities and services with spill-over effects

The central argument for establishing DMs was that they can provide services that transcend many municipal jurisdictions more cost effectively. Such district-wide services include roads, airports, solid waste disposal sites, firefighting services, abattoirs, markets and local tourism. A cross-municipality structure can also benefit from economies of scale in the case of services with high fixed investment costs, such as bulk infrastructure (e.g. water). While this economy-of-scale argument may be true in theory, it is not in practice because of South Africa's model of local government. A two-tier system of local government is common in countries with many smaller municipalities (e.g. Germany, Spain, and India), whereas a single-tier local government system is found in countries with a few large municipalities (e.g. Canada, Australia and Nigeria). However, South Africa appears to be the exception, as it has a two-tier system of local government but only a few, very large (in terms of population) LMs.

- Average population: an average South African local municipality is home to 200 000 people, whereas in Germany 40% of municipalities (kreise) have populations of less than 1000, and in Spain 80% of municipalities have populations of less than 5000.

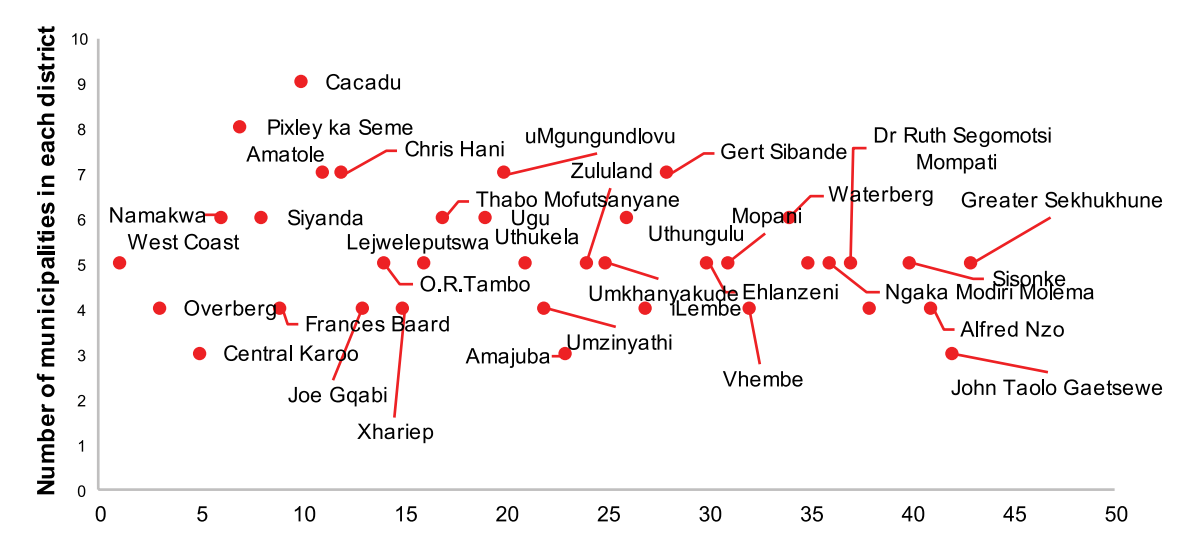
>>

[30] Regional Services Council (RSC) levies, which were basically two levies applicable to employers: the Regional Services Levy, based on gross remuneration of employees, and the Regional Establishment Levy, based on the turnover of each business.

- District size: some of the DMs in South Africa are larger than many countries in the world. For instance, Switzerland is smaller than some of the districts in South Africa but is divided into 26 cantons, each with its own parliament, that are divided into 2700 communes (equivalent to LMs).

Thus the economy-of-scale argument is more applicable to the German, Swiss and Spanish models than to the South African model. In South Africa, an average DM covers 4–5 municipalities, and some DMs have even less municipalities (Figure 77). For example, Amajuba DM contains three municipalities and is dominated by the Newcastle municipality, which is home to 66% of the district's population. Newcastle is a large town and a B1 municipality with the capacity to provide its own bulk infrastructure. Therefore, the Amajuba DM focuses only on the two smaller LMs: Emadlangeni and Dannhauser, and so no economies of scale are achieved. Economies of scale can be a factor for DMs with six or more municipalities, such as Cacadu DM and Gert Sibande DM.

Figure 77. Number of municipalities in each district



Source: Global Insight (2014)

9.3.6 District-wide planning and coordination

Regional planning and coordination of regional development plans are best suited to a cross-municipality authority. Over the years, all DMs have coordinated district-wide planning through developing frameworks for integrated planning within District Information Forums. These forums comprise of representatives of constituency municipalities and the DM, and are chaired by the district mayor. The district planning frameworks form the basis for local municipal integrated development plans (IDPs). However, many municipalities resent this top-bottom approach to planning and feel that IDPs should inform the district planning frameworks, not the other way round. Anecdotal evidence also suggests that district-wide planning has not been effective in districts containing one or more of the municipalities with a large dominant secondary city. As these municipalities often have better capacity to plan and coordinate their activities than the DM, the DM is left to facilitate the planning and cooperation among smaller municipalities.

Therefore, as suggested earlier, urban areas should be left out of the two-tier system of local government, while a two-tier system would continue in rural areas, where DMs would continue to play a coordination and planning role. This arrangement seems to be the trend elsewhere in the world, i.e. where there is a large number of LMs, a few overarching institutions coordinate the planning process. For example, Spain has 50 provincial governments that coordinate the regional planning for about 8000 municipalities, of which nearly 80% have a population of less than 5000 (CLC, 2007). This proposal also aligns with the ANC 4th National Policy Conference resolution that DMs "should focus on coordinating, planning and support of local municipalities functions' and that DMs 'should exists only in areas where there are weak local municipalities" (ANC, 2012).

DMs are also required to coordinate IGR issues in their jurisdiction and to provide communication platforms for provinces and LMs. Again, this makes sense when the DM is speaking for many LMs. However, anecdotal evidence

indicates that many MECs and provincial premiers ignore DMs and deal directly with municipalities on IGR issues, especially in urban areas. Nevertheless, if appropriately resourced and capacitated, DMs are best placed to coordinate IGR policy issues in the rural local government space, and to act as a communication platform for national and provincial governments on one hand, and rural LMs on the other.

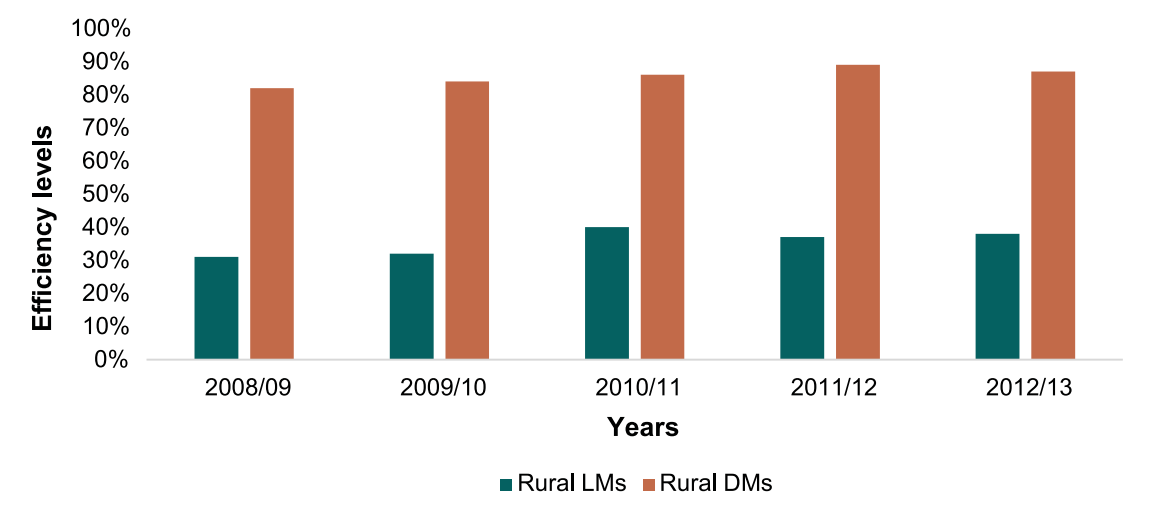
9.3.7 District municipalities and technical assistance to local municipalities

DMs are supposed to build capacity of LMs where necessary and to provide services directly to consumers if the LMs have weak capacity. The question is whether districts have better human and institutional capacities than the LMs within their jurisdictions. Capacity is evaluated by looking at the vacancy rates and efficiency scores of DMs. High vacancy rates signify weak institutional and human capacity, while efficient decision-making units are often better capacitated units. The efficiency scores in Figure 78 reflect whether the DMs and LMs are spending their resources optimally.

Figure 78 shows clearly that, on average, rural DMs are better capacitated than rural LMs. In 2012/13, DMs produced 87% of what they could produce given resources at their disposal, whereas LMs produced just 38%. Over the five years, these scores have remained fairly constant (i.e. above 80% for DMs and below 40% for LMs). The results suggest that there is merit in the argument for using DMs to provide complex cross-municipality services (e.g. bulk water) in rural areas where capacity deficits are more pronounced.

DMs are also better capacitated than LMs based on average senior management vacancy rates. In 2014/15, the average vacancy rate was 2% for DMs compared to 8% for B3s and 9% for B4s (Stats SA, 2014). Therefore, rural DMs should be capacitated to render quality assistance to rural municipalities and, in this regard, government agencies such as the Municipal Infrastructure Support Agency (MISA), COGTA and National Treasury could assist.

Figure 78. Average efficiency levels: rural LMs vs. DMs (2008/09–2014/15)



Source: Global Insight (2014)

9.4 Conclusion

This chapter assessed the effectiveness and efficient use of intergovernmental transfers in South African rural local government space and evaluated the role of DMs in rural development. The budget analysis showed underspending on conditional grants and on infrastructure repairs and maintenance, which does not augur well for rural development.

The DEA revealed that rural LMs are less efficient than DMs at providing water, electricity, sanitation and refuse removal services. LMs could improve their performance by up to 60% without having to increase the amount of resources at their disposal. The major causes of technical inefficiencies in rural municipalities were found to be the provision of FBS and the lack of institutional capacity, whereas economic performance, municipal size and grant reliance have positive effects on municipal efficiency. Rural LMs can do more with the available resources, but their challenges cannot be solved simply by giving them more money. What is needed is to improve efficiency and human and institutional capacity.

The analysis found that many DMs are not performing their core legislative functions, which is compromising local economic development. Reasons for the poor performance of DMs include:

- DMs have no significant own-revenue sources and are grant dependent, and so do not have the muscle to influence the redistribution of income by LMs.
- Half of their expenditure is on governance, administration, and planning, with little going to their legislated mandates
- The powers and functions of DMs changed following MDB capacity assessments and various policy shifts, resulting in uncertainty and confusion in the local government space.
- DMs have weak accountability because they have no wards and PR councillors and so do not account to any constituencies, which makes it difficult to provide services that require citizen participation.
- Clarity on powers and functions in the local government space is lacking, which results in wasteful duplication, tension and sometimes completion between DMs and LMs.

Despite these structural and performance weaknesses, DMs do have a role to play, especially in rural development and in supporting weaker rural municipalities. However, DMs in urban areas are no longer playing the role envisaged in the MSA, and so a single-tier local government system should be considered for urban areas in South Africa. The two-tier system would continue in rural areas where the capacity of DMs should be strengthened to enable better support to rural LMs. DMs are also best placed to coordinate region-wide planning and IGR issues and to act as a communication link between the LMs and other government spheres and entities.

9.5 Recommendations

With respect to turning local municipalities and district municipalities into useful vehicles for rural development, the Commission recommends that:

1. National Treasury includes, as part of the principles underlying grants to rural municipalities, more stringent expenditure supervision, in order to minimise wastage and improve efficiency. The national and provincial governments should evaluate the effectiveness of existing supervision methods with a view to strengthening them.

2. The Department of Cooperative Governance and Traditional Affairs:

    - Pronounces on the role that urban district municipalities should play, with a view to introduce a single tier-local government system in urban areas and to strengthen a two-tier local government system in rural areas.
    - Reviews the accountability mechanisms of district municipalities in order to make them more accountable to citizens.
    - Provides clarity, as a matter of urgency, on the functions and powers of district municipalities. In line with the White Paper on Local Government, their powers and functions should encompass district-wide planning, coordination of strategic development and intergovernmental relations policy issues, provision of technical assistance to local municipalities, provision of district-wide services, and provision of bulk water, sanitation, refuse removal, and services to District Management Areas.
    - Ensures that the MISA prioritises the capacity-building of rural district municipalities in the areas of coordination and planning, so that they can in turn provide quality technical support to local municipalities.

CHAPTER 10

Farm Evictions and Increasing Rural Local Municipalities' Responsibilities

Farm Evictions and Increasing Rural Local Municipalities' Responsibilities

10.1 Introduction

Since the inception of democracy in 1994, government has introduced numerous laws, policy and initiatives to regulate and improve the situation and rights of farm dwellers[31] and farm workers. The land reform policy programmes introduced fall under three pillars: land restitution, land redistribution and land tenure. However, an unintended consequence of the land reform programmes is the creation of a climate of uncertainty in the sector, which has resulted in illegal farm occupations and prompted farmers to evict farm dwellers and workers.

Despite the Extension of Security of Tenure Act (ESTA) (No. 62 of 1997), farm dwellers and workers remain among the most vulnerable in society and at risk of being evicted from the farms. In some instances, farmers relocate their workers to rural towns in order to avoid possible land reform measures emanating from legislation such as the ESTA. Local municipalities increasingly have deal with the ramification of this influx into rural towns in terms of shelter, services and consequences of unemployment. In a recent ruling, the Constitutional Court placed the challenge of these migrations firmly at the door of local municipalities. It ruled that, although the housing function is shared between the national and provincial government, local government is responsible for providing shelter and other services to the evictees from the municipal budgets.

Therefore, when workers are evicted from farms, rural municipalities are responsible for providing services and caring for the destitute, despite being ill-equipped and having no budget, resulting in an unfunded mandate. This chapter looks at the extent of the burden caused by farm evictions and explores how fiscal instruments can respond to this widespread situation.

10.2 Legal Precedent Relevant to Human Rights and Farm Evictions

10.2.1 The Grootboom case (2000)[32]

In this case, the applicants (who included a number of children) were evicted from the private land that they were unlawfully occupying. Following the eviction, they camped on a sports field in the area. The Constitutional Court held that the state had an obligation to ensure, at the very least, that the eviction was executed humanely. It stated that "[t]he respondents were evicted a day early and to make matters worse, their possessions and building materials were not merely removed, but destroyed and burnt". The Court found that the manner in which the eviction was carried out amounted to a breach of the obligation embodied in the right of access to adequate housing recognised under Section 26(1) of the Constitution (Grootboom [88]).

Housing entails more than bricks and mortar. For a person to have access to adequate housing, there must be land, services and a dwelling. Therefore, available land, appropriate services, such as water provision and sewage removal, and a house are all needed and have to be financed. A right of access to adequate housing also suggests that the state is not the only party responsible for providing housing, but that other role-players (including the individuals) must be enabled to provide housing. The state's duty is to "create the conditions for access to adequate housing for people at all economic levels of our society" (ibid [35]), and to "take reasonable legislative and other measures, within its available resources, to achieve the progressive realisation of this right" (ibid [19]).

The Constitutional Court found the state to be in violation of Section 26(2) of the Constitution, which "requires the state to devise and implement within its available resources a comprehensive and coordinated programme progressively to realise the right of access to adequate housing" (ibid [99]). Although the state housing programme satisfied all the other requirements of the reasonableness test, the state was unreasonable in that "no provision was made for relief to the categories of people in desperate need" (ibid [69]). Accordingly, a declaratory order was made requiring the government to meet the obligations of Section 26(2), which included devising, funding, implementing and supervising measures aimed at providing relief to those in desperate need.

10.2.2 Blue Moonlight case (2011)[33]

In this case, the owner of property in the inner city of Johannesburg sued the occupiers for eviction in the South Gauteng High Court (High Court) under the Prevention of Illegal Eviction (PIE) Act (No. 19 of 1998). The occupiers (poor people who had lived on the property for many years) claimed that the eviction would render them homeless. They joined the City of Johannesburg (the City) in the case, maintaining that the City was obliged to provide them

>>

[31] Farm dwellers are defined here as people living on farms in farm areas of South Africa (ILO, 2015).

[32] Government of the Republic of South Africa and Others v Grootboom and Others (CCT11/00) [2000] ZACC 19; 2001 (1) SA 46; 2000 (11) BCLR 1169 (4 October 2000)

[33] City of Johannesburg Metropolitan Municipality v Blue Moonlight Properties 39 (Pty) Ltd and Another (CC) [2011] ZACC 33; 2012 (2) BCLR 150 (CC); 2012 (2) SA 104 (CC) (1 December 2011)

with emergency housing. They contended that the City's housing policy was unconstitutional because it did not oblige the City to furnish them with emergency housing.

The City appealed to the Constitutional Court, saying that it was not obliged to provide emergency housing, its housing policy was good and that it had no resources to provide the housing in any event. The Court found that the City was obliged to provide temporary emergency accommodation for the occupiers. The Court was not persuaded that the City did not have sufficient resources to provide this accommodation, holding that the City had wrongly budgeted on the basis that it was not obliged to provide them with emergency housing.

10.2.3 Implications of farm evictions for rural local municipalities

Case law has ruled that, in an attempt to find suitable alternative accommodation for the potential evictee, the relevant municipality, the land owner and the occupier are supposed to have a so-called "meaningful engagement" (ILO, 2015: 192). However, these have become mere procedural formalities. Although evictees are supposed to contact the Department of Rural Development and Land Reform (DRDLR) for help, they often end up on the doorstep of the municipalities. And municipalities are "generally unsure of how to implement the emergency housing policy" (ILO, 2015: 193).

The National Housing Code provides for an Emergency Housing Programme, and the national Department of Human Settlements allocates funds for emergency housing to provincial departments of human settlements. Municipalities are considered "the first party responsible for responding to emergencies" and can therefore obtain funding for such emergency housing from provincial government (HDA, 2012: 20). The Emergency Housing Programme is designed to offer temporary relief, through providing secure access to land, engineering services and shelter. It stipulates that "emergency housing should be limited to absolute essentials" (ibid: 16). This means that emergency housing is unlikely to meet the requirements of "suitable, alternative accommodation" as defined by ESTA (ILO, 2015: 194).

Rural local municipalities have a mandate to deliver services to citizens, (including the farm evictees) living within their area of jurisdiction. Yet the same municipalities face many challenges. On the one hand, they have to deal with the perception that democracy means basic services will be provided for free (Breier and Visser, 2006), and on the other hand, they are often financially unviable because they have minimal own revenue sources, when the "collection of own revenue is a critical determinant of the financial viability of municipalities" (Manyaka, 2014: 127). As a result, municipal managers are overwhelmed, clearly frustrated and unsure of what they should do (ILO, 2005: 192), especially given the long waiting lists, lack of available funding for housing and existing settlements that are bursting at their seams.

10.3 Extent and Scale of Evictions

Agriculture has in the past played a major role in providing formal employment, although at very low wages. However, the new minimum wage for farm workers (introduced in December 2012) and strikes by farm workers have led to a harsh backlash against farm workers and their organisations, "including a spate of dismissals and retrenchments, and of farm evictions and lockouts" (ILO, 2015: 83).

According to the 2011 Census, 759 127 households (or 2 732 605 people, equal to 5.28% of the national population) live in farm areas. Of these, 592 298 households (or 2 078 723 people) live on farms (ILO, 2015). Excluding employed people who earn no income (typically business owners and family members working in those businesses) and those who did not specify their incomes, in 2011 over 80% (82.3%) of employed farm dwellers earned less than R3200 per month: 65.1% earned less than R1600 and 17.2% earned between R1601 and R3200. However, 2.5% earned more than R25,600 per month (Stats SA, 2013b) cited in (ILO, 2015:10).

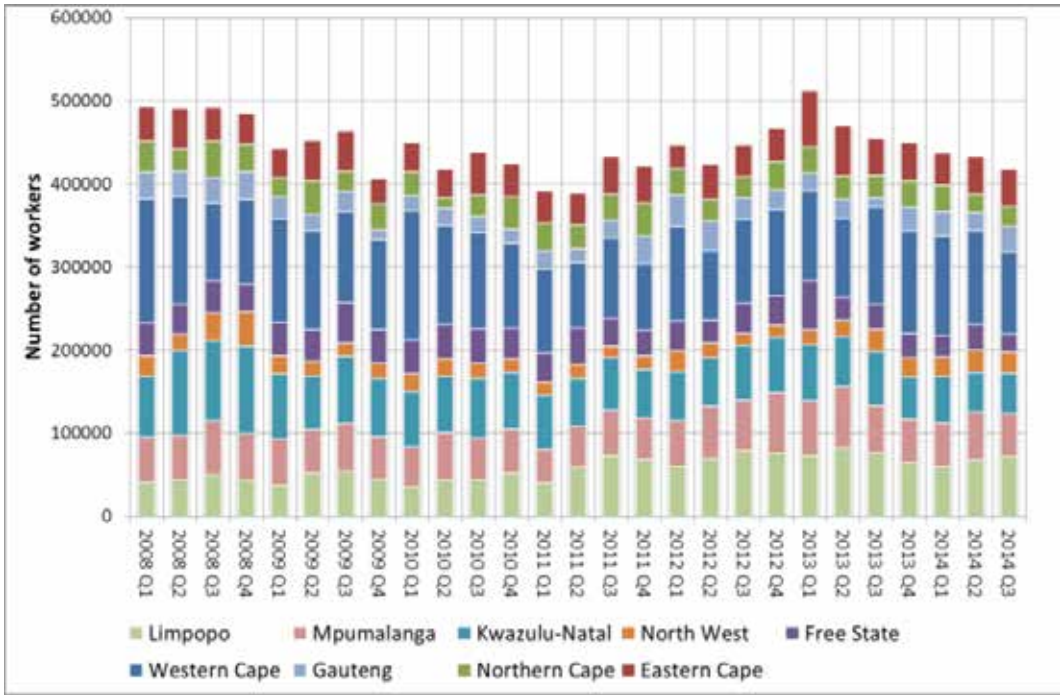
Between 2008 and 2014, the number of farm workers and labourers has declined throughout South Africa (Figure 79). The nature of farming is changing (ILO, 2015: 1), as "feudal relationships between farmers and farm workers are increasingly breaking down through movement off farms (for various reasons, including, but not only, evictions) and a shift away from use of permanent workers towards the use of indirect labour and short-term employment contracts".

Figure 80 shows that, although numbers fluctuate, the number of farm workers and labourers show a persistent decline in three provinces: Free State, KwaZulu-Natal and North West.

Thirteen case study municipalities were selected, based on whether the municipality was (i) located in a rural province, and (ii) experiencing farm evictions (and thus was classified by the DRDLR as a "hotspot" for land tenure disputes). Furthermore, as the case studies were selected in order to provide a representative spread of all nine provinces in South Africa, certain municipalities were selected based on agriculture being one of their main economic sectors (with reported land tenure disputes in their area of jurisdiction), increase in population and service delivery backlogs (water, sanitation and electricity).

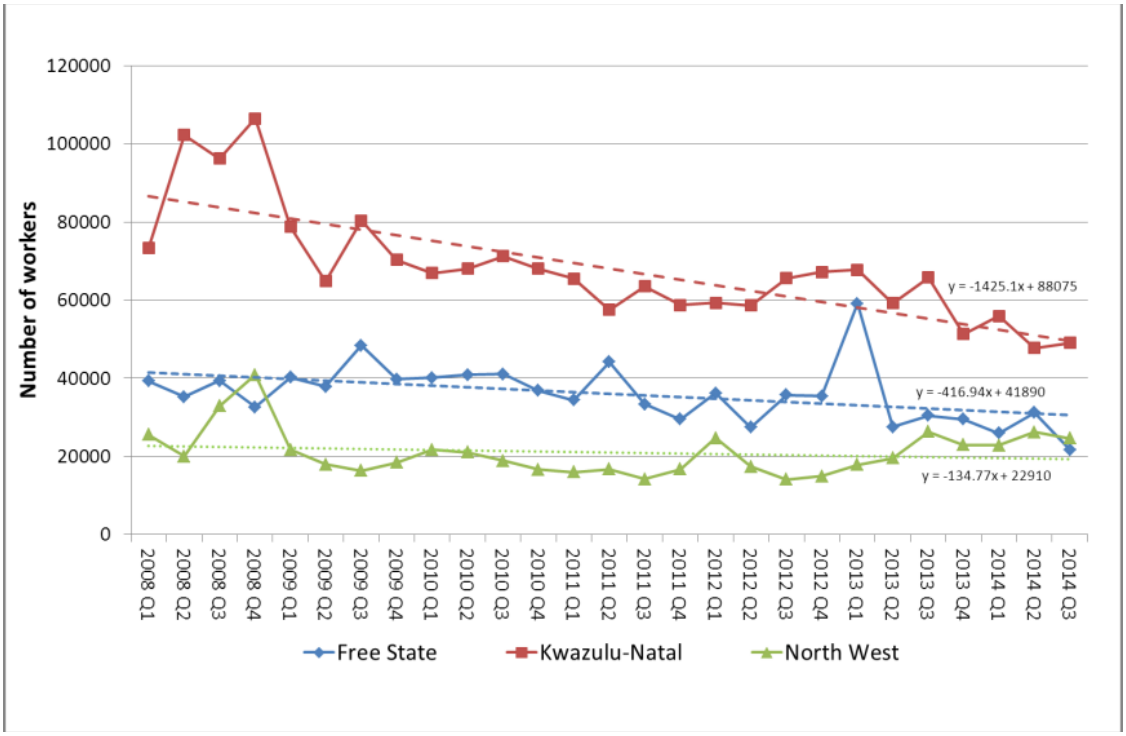
Within all the case study municipalities, employment in the agriculture sector has declined continuously since 2005 (Figure 81). This decline concurs with Figure 79, which shows a decline in the number of farm workers in most provinces in the country.

Figure 79. Formally employed farm workers and labourers in the agriculture sector (2008–2014)



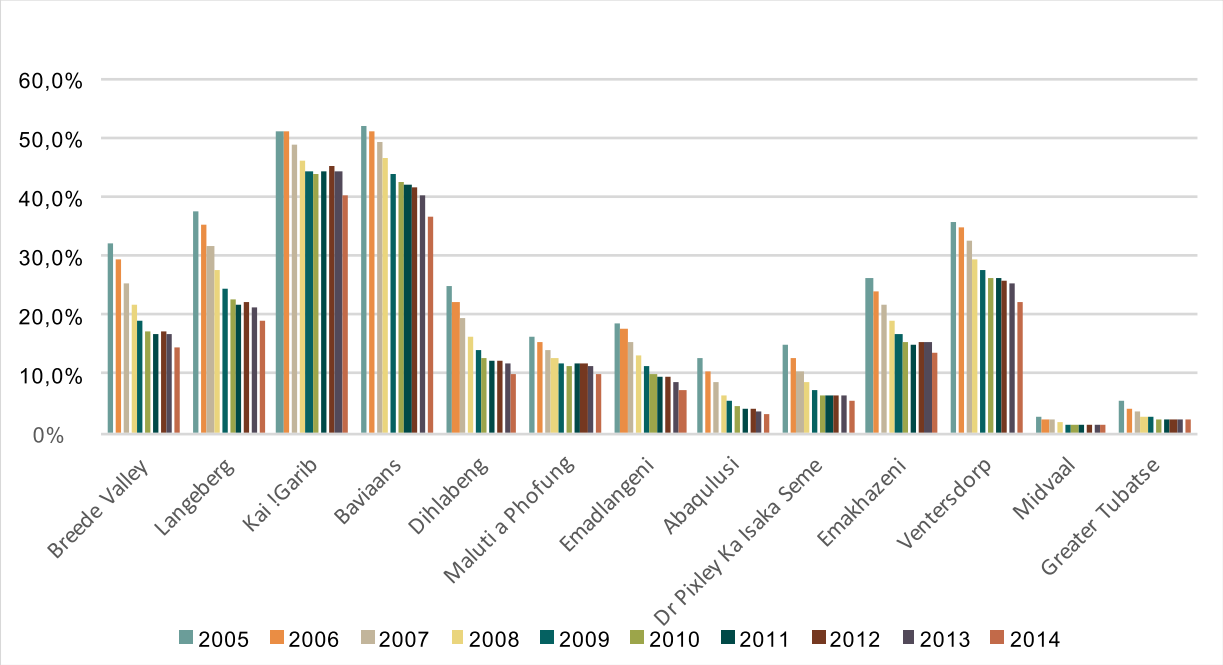
Source: ILO (2015: 19)

Figure 80. Formally employed farm workers and labourers in the agriculture sector in Free State, KwaZulu-Natal and North West (2008–2014)



Source: ILO (2015: 19)

Figure 81. Employment in the agriculture sector for the 13 municipalities (2005–2014)



Source: Global Insight (2015)

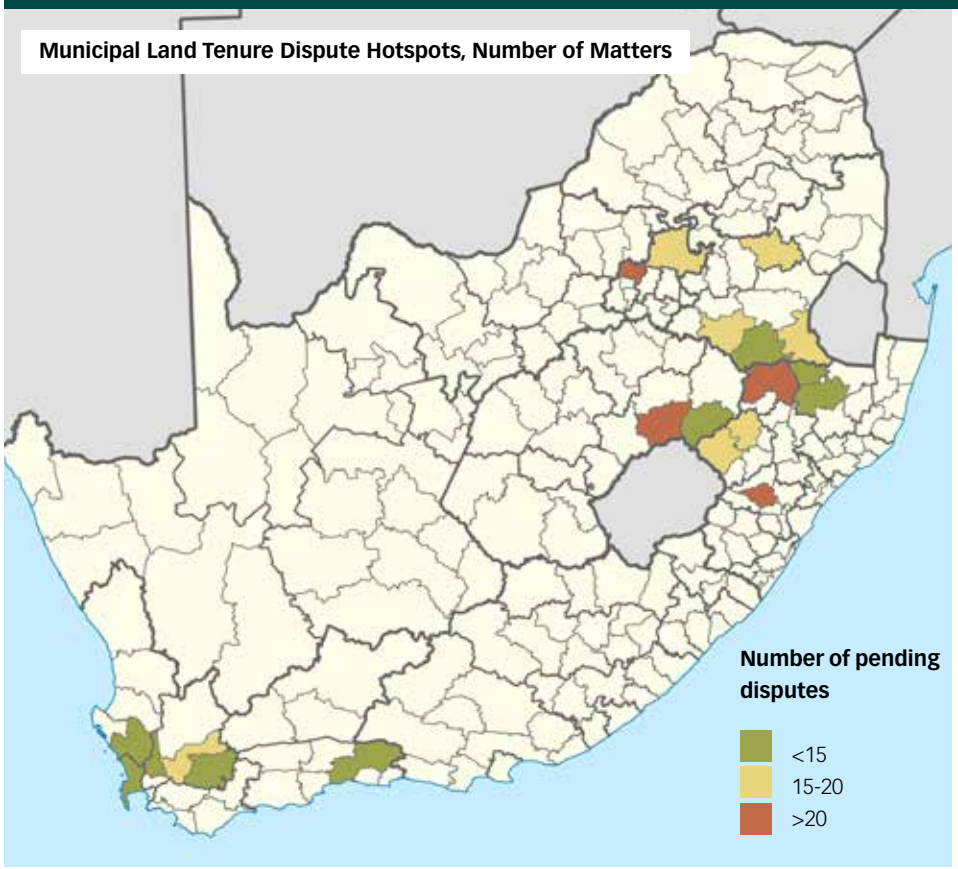
10.4 Findings

10.4.1 The scale of farm evictions problem

The maps in Figures 82 and 83 show the municipal hotspots, or the distribution of municipalities with at least 10 pending land tenure disputes for 2014 and 2015. Those with more than 20 disputes are shaded in red, while those with 15–20 disputes are shaded in yellow, and those with less than 15 disputes are shaded in green. The country as a whole has 21 municipal hotspots.

In 2014 and 2015, the municipal hotspots were found in KwaZulu-Natal, Mpumalanga, Western Cape, Free State and Gauteng. The provinces that contained municipal hotspots with more than 20 disputes pending (i.e. shaded in red) were KwaZulu-Natal, Mpumalanga and the Free State.

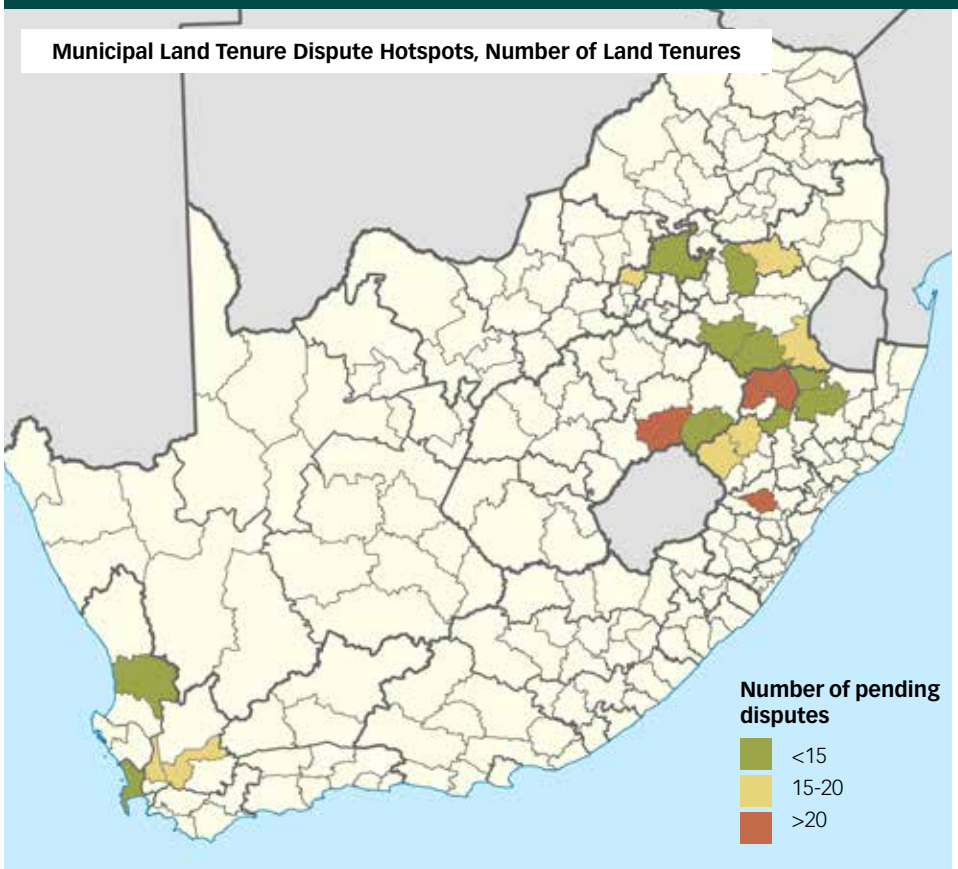
Figure 82. Municipal hotspots in South Africa (2014)



Prov	LM	Matters
FS	Maluti a Phofung	12
FS	Dihlabeng	53
GT	City of Tshwane	15
GT	Mogale City	15
KZN	eDumbe	11
KZN	Abaqulusi	12
KZN	Okhahlamba	16
KZN	Emnambithi/Ladysmith	20
KZN	uMngeni	25
KZN	Emadlangeni	38
KZN	Newcastle	59
MP	Pixley Ka seme	14
MP	Lekwa	15
MP	Emakhazeni	16
MP	Mkhondo	17
WC	Swartland	10
WC	City of Cape Town	11
WC	George	11
WC	Langeberg	14
WC	Drakenstein	14
WC	Breede Valley	20

Source: DRDLR (2014)

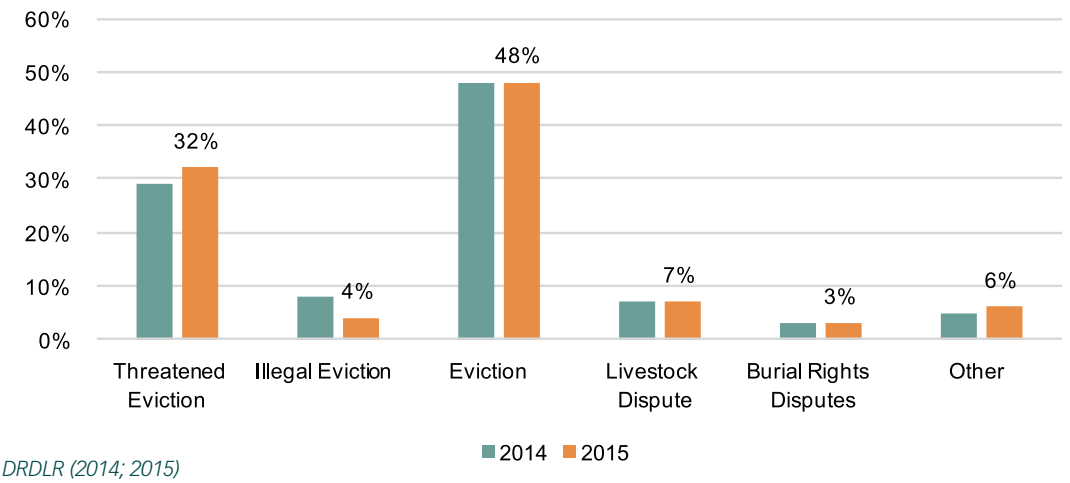
Figure 83. Municipal hotspots in South Africa (2015)



Prov	LM	Land Tenure
FS	Maluti a Phofung	10
FS	Dihlabeng	53
GT	City of Tshwane	11
GT	Mogale City	16
KZN	eDumbe	11
KZN	Endumeni	10
KZN	Abaqulusi	13
KZN	Okhahlamba	19
KZN	Emnambithi/Ladysmith	20
KZN	uMngeni	27
KZN	Emadlangeni	37
KZN	Newcastle	55
MP	Pixley Ka seme	11
MP	Lekwa	11
MP	Steve Tshewte	13
MP	Emakhazeni	17
MP	Mkhondo	20
WC	City of Cape Town	11
WC	Cederberg	10
WC	Drakenstein	17
WC	Breede Valley	20

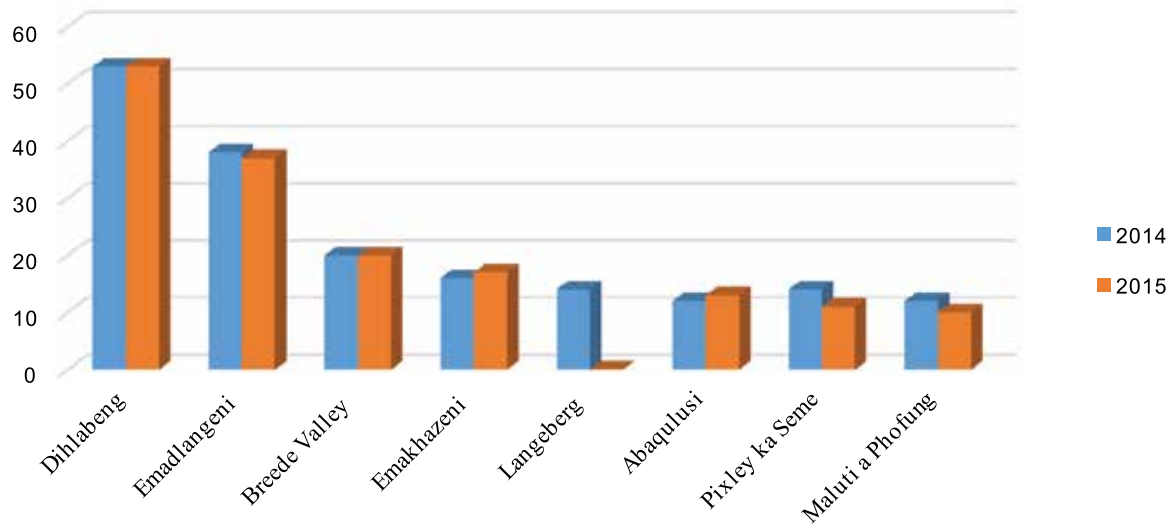
Source: DRDLR (2015)

Figure 84. Tenure security cases in South Africa (2014 and 2015)



Source: DRDLR (2014; 2015)

Figure 85. Land tenure disputes in municipal hotspots



Source: DRDLR (2014; 2015)

In 2015, over half (52%) of all tenure security cases in South Africa concerned evictions, and of these, 48% were evictions and 4% illegal evictions.[34] A third (32%) of all cases were threatened evictions, which might lead to either legal or illegal evictions (Figure 84).

When the number of land tenure disputes are compared between 2014 and 2015 (Figure 85), two of the municipalities (Emakhazeni and Abaqulusi) experienced an increase in the number of disputes (from 16 to 17 and from 12 to 13 respectively), while three municipalities (Emadlangeni, Pixley ka Seme and Maluti-a-Phofung) saw a decrease.

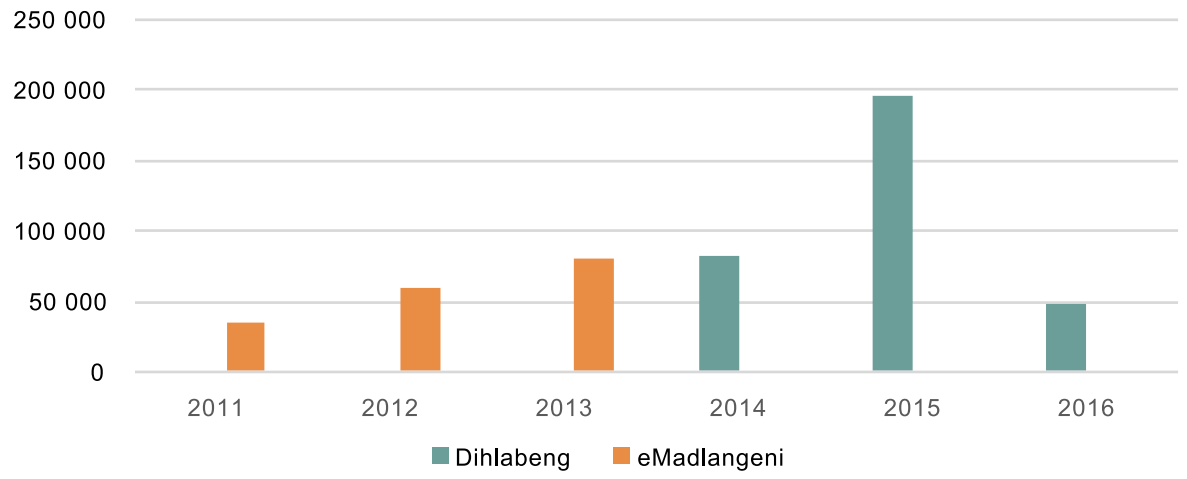
10.4.2 Cost implications of farm evictions

Farm evictions result in costs that are carried by the local municipalities. Between 2011/12 and 2015/16, Dihlabeng municipality had 21 reported farm eviction incidences, affecting 126 people, and Emakhazeni, had 65 incidences. In a three-year period (2011–2013), six incidences were reported to the Emadlangeni municipality. However, the actual number of incidences are likely to be much higher, as many evictions go unreported.

>>

[34] Illegal evictions include all situations in which ESTA occupiers have moved off farms against their will and in the absence of a court order for their eviction (Hall, 2003:8).

Figure 86. Expenditure related to farm eviction incidents in Dihlabeng and Emadlangeni



Source: Commission's calculations based on municipal data 2016

Figure 86 shows the direct costs for the two municipalities with the highest farm evictions: Emadlangeni in 2011–13 and Dihlabeng in 2014–2016.

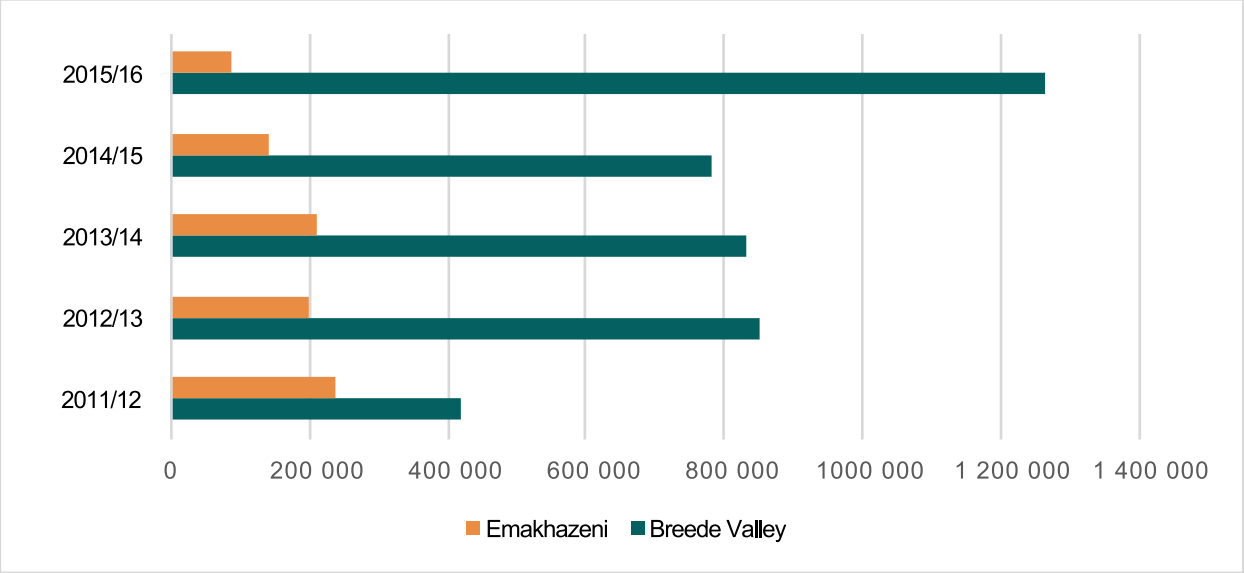
This expenditure represented 0.1% of Dihlabeng's local government equitable share (LGES) in 2014 and 0.2% of its LGES in 2015. Over the three-year period, Dihlabeng has spent about R326,000 in total, including nearly R50,000 (R49,095.70) during the first two months of 2016, and the final costs for 2016 are likely to be far higher than in 2015 if the trend of previous years continues. Emadlangeni spent a total of about R175,000 over a three-year period, or the equivalent of 0.4% of its LGES in 2011, 0.5% in 2012 and 0.6% in 2013 respectively.

This expenditure represented 0.1% of Dihlabeng's local government equitable share (LGES) in 2014 and 0.2% of its LGES in 2015. Over the three-year period, Dihlabeng has spent about R326,000 in total, including nearly R50,000 (R49,095.70) during the first two months of 2016, and the final costs for 2016 are likely to be far higher than in 2015 if the trend of previous years continues. Emadlangeni spent a total of about R175,000 over a three-year period, or the equivalent of 0.4% of its LGES in 2011, 0.5% in 2012 and 0.6% in 2013 respectively.

The expenditure includes only the direct costs incurred for providing temporary and indefinite accommodation (renting flats at municipal costs, erecting shacks on municipal property, buying tents) and providing food parcels and blankets. Other indirect costs carried by the municipalities are not specified. For example, the cost of providing temporary water and sanitation facilities for the destitute families. As Figure 86 illustrates, expenditure related to farm evictions in both Dihlabeng and Emadlangeni has increased over the years, and yet no intergovernmental fiscal (IGR) instruments are in place to support this type of expenditure.

Figure 87 shows the expenditure for Emakhazeni (in Mpumalanga) and Breede Valley (in the Western Cape). The Breede Valley municipality spent (in direct costs) the equivalent of 1% of its LGES every year over a three-year period (2012/13–2014/15). Over five years (2011/12–2015/16), the municipality spent over four million rands (R4,146,164) on emergency/housing, squatter/informal settlement control and legal services related to farm evictions. Emakhazeni also spent the equivalent of 1% of its LGES in 2012/13 and in 2013/14. Over five years (2011/12–2015/16), Emakhazeni spent R875,000.

Figure 87. Expenditure related to farm eviction incidences in Emakhazeni and Breede Valley



Source: Commission's calculations based on municipal data 2016

10.5 Conclusion

According to the legislation and recent court rulings, municipalities are responsible for caring for vulnerable evictees. This creates an unfunded mandate, as providing shelter and other services for the evictees must come out of the municipal budget. Such an unfunded mandate has a far greater impact on the finances of rural local municipalities, given their financial situation that cannot be equated to metropolitan municipalities (e.g. City of Johannesburg). Metros are financially better off than rural local municipalities, which collect less (sometimes no) revenue and depend on grants for funding. The IGR instruments currently do not cater for evictions, and so municipalities have to use their own funds.

10.6 Recommendations

With respect to addressing the negative impact of farm evictions on rural municipalities' finances, the Commission recommends that:

1. The current Municipal Disaster Grant is allowed to cater for eviction-related emergencies. The same approach of accessing the portion of the Disaster Grant should be applicable to farm eviction incidences. This approach is aligned with the findings from previous research by the Commission that provinces and municipalities, rather than national government, appear better at ensuring grant funding is spent.
2. Government strengthens the coordination and implementation of existing programmes targeted at displaced farm workers and dwellers, through:
   - Including farm evictees among the beneficiaries for housing in rural towns, access to land for own production and agri-villages programme.
   - Centralising the reporting of evictions and improve data collection.
3. The following government departments should be involved in coordinating and implementing programmes: DRDLR, the departments of agriculture, fisheries and forestry, home affairs, human settlements, cooperative governance and traditional affairs, social development, SAPS and municipalities.

CHAPTER 11

Reviewing Effectiveness of Sanitation Fiscal Instruments and Governance in Enhancing Rural Development

Reviewing Effectiveness of Sanitation Fiscal Instruments and Governance in Enhancing Rural Development

11.1 Introduction

Adequate sanitation[35] infrastructure and services are important for the health and dignity of people. Improving sanitation infrastructure and services, and educating households on the importance of good sanitation practices, reduces the risk of infection from excreta-related diseases (including diarrhoea) that affect in particular children aged 3–5 years. Diarrhoea is the second leading cause of death globally (after pneumonia) of all deaths in children under the age of 5 years (Liu et al., 2012). In South Africa, about 21% of children under the age of 5 years died as a result of diarrheal diseases in 2007 (Nannan et al., 2012).

Since 1994, government has introduced specific programmes aimed at reducing the high sanitation infrastructure and maintenance backlogs. These backlogs are a nationwide challenge but are more serious in rural areas than urban areas. The Bucket Eradication Programme and Rural Household Infrastructure Programme (RHIP) are two of the programmes introduced to address sanitation backlogs in rural areas. Bucket toilets are found in both formal and informal settlements. The government has not achieved its objective of eradicating the bucket system in established formal settlements by the end of 2007, and the end date has now shifted to 2019. The RHIP was introduced specifically to reduce sanitation backlogs in rural areas but has seriously underperformed. Other funding sources for sanitation infrastructure and services include the Municipal Infrastructure Grant (MIG), the local government equitable share (LGES), conditional grants and municipal own revenue. However, as sanitation backlogs remain a challenge particularly in rural areas, the adequacy and effectiveness of these funding instruments are questionable.

This chapter looks at the constraints in the current intergovernmental fiscal relations (IGFR) system and the institutional arrangements that are undermining government's efforts to address sanitation backlogs in rural areas.

The chapter's three main objectives are:

- To analyse the reduction in sanitation backlogs between 1996 and 2015 in different municipal categories.
- To evaluate and analyse the effectiveness of the current sanitation funding arrangements with respect to rural municipalities.
- To evaluate governance and institutional issues relating to the provision of sanitation and focusing on rural municipalities.

11.2 Effect of RHIG on Sanitation Backlogs

The different sources of funding for sanitation infrastructure were analysed, including part of the MIG and conditional grants, as well as RHIG that specifically focuses on rural areas. A mixture of qualitative and quantitative analyses was used to look at design issues, performance and challenges for these IGFR instruments.

The effect of the RHIG on sanitation backlogs was assessed using a sampling method to select municipalities that had received the RHIG in 2012. One of the key assumptions was that implementing the RHIP leads to a decrease in the sanitation infrastructure backlogs. Therefore, the sanitation backlog was analysed in 2012 and 2013, before and after the RHIP was implemented through the RHIG, to see whether or not it had declined.

In 2012, a total of 52 municipalities benefited from the RHIG. After calculating the change in sanitation backlogs, the municipalities were put into three categories based on the level of improvement: less than 2%, between 2% and 3%, and between 4% and 5% (Table 33).

Table 33. Municipal ranking based on improvement in sanitation backlog (2012)

Ranking	Number of municipalities	Percentage of municipalities	2010/11
4–5%	8	15.4%	87
2–3%	21	40.4%	6
Less than 2%	23	44.2%	7%

Source: Commission's computations

>>

[35] Sanitation covers a wide range of activities including the collection, transport, treatment and disposal of waste (including human waste) and associated hygiene promotion.

Table 34. Randomly selected municipalities per improvement category (2012)

Improvement		
Between 4-5%	**2-3%**	**Less than 2%**
Engcobo	Maluti-a-Phofung	Umzumbe
Umzimvubu	Thulamela	Umzimkhulu
Mbizana	Greater Giyani	Dannhauser
Nyandeni	Amahlathi	Phumelela
Matatiele	Ratlou	Ramotshere Moilao

Source: Commission's computations

From this ranking, five municipalities were chosen from each category using a random sampling. A total of 15 (29%) out of 52 municipalities were chosen.

Data for selected rural municipalities was sourced from Global Insight, while data on the general performance of RHIG was sourced from National Treasury and Department of Human Settlements (DHS) publications. Other data and information for secondary analysis were sourced from other studies undertaken on sanitation and RHIP, including studies undertaken by the Auditor-General and by the DHS (AGSA, 2015; DHS, 2012).

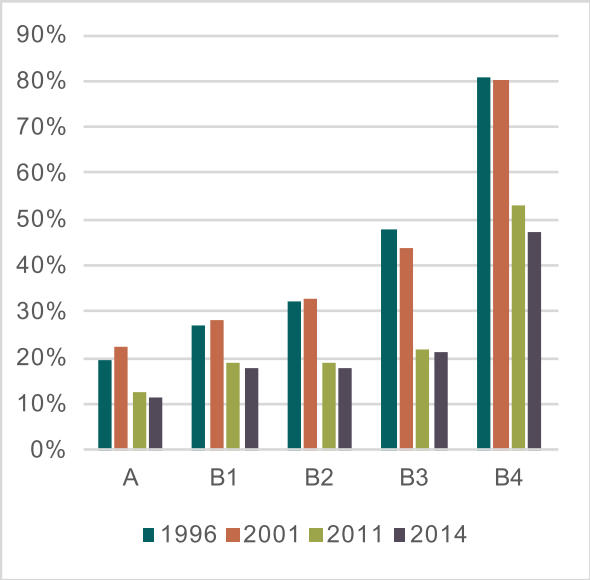
To confirm the analysis and understand institutional challenges, meetings with key stakeholders were held, including with Independent Development Trust (IDT), one of key stakeholders contracted by the DHS to implement RHIP over the past few years. Meetings were also held with the South African Local Government Association (SALGA) and the Department of Water and Sanitation (DWS).

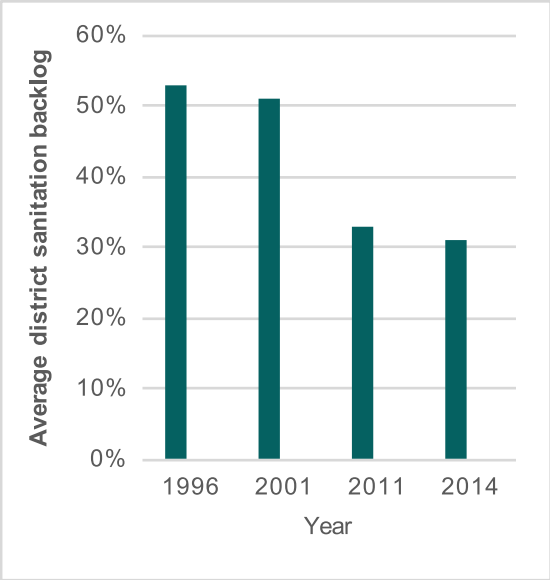
11.3 Findings

11.3.1 Progress on sanitation backlogs

Currently, local municipalities are divided into those that are Water Services Authorities (WSA) and those that are not. Local municipalities that are WSA are responsible for implementing and managing water and sanitation services and/or projects within their jurisdictions. Local municipalities that are not WSA rely on district municipalities (C2) to implement and manage water and sanitation infrastructure and services. As Figure 88 illustrates, the sanitation backlog overall has decreased since 1996, but B4 municipalities and district municipalities still had high backlogs, of 47% and 31% respectively in 2014. The backlogs in the other categories were considerably lower, at 11% for A municipalities, 18% for B1s and B2s and 21% for B3s.

Figure 88. Sanitation backlogs by municipal category (1996–2014)





Source: Commission's computations based on data from IHS Global Insight (2015)

11.3.2 Intergovernmental instruments

Sanitation infrastructure and services are funded in a very unsystematic manner, and "sanitation in particular has up to now been mainly funded on an ad-hoc basis, while water has enjoyed the benefit of a more matured ring-fenced funding regime"[36]. The effectiveness of the various funding instruments (which include MIG, LGES, RHIG and municipal own revenue) is discussed in the following sections.

Municipal Infrastructure Grant

The MIG consolidates all previous capital grants for municipal infrastructure and is supposed to be the main funding source for sanitation. Table 35 describes the MIG's different components.

According to the MIG conditions, 75% of the MIG allocation should be used to fund the B component, and of this share 72% should be for water and sanitation; the other 25% is split between components P and E. A formula determines the share received by each municipality, and then the municipality can decide which type of infrastructure to prioritise and fund through the MIG. Based on the proportion going towards sanitations services, MIG funding is inadequate to address the extent of sanitation needs. While a quota of 6000 litres of water has been determined, beyond which people start to pay, there is no similar quota for sanitation; hence it does not receive adequate resources.

Table 35. MIG's components

Component	Purpose
B	To fund basic residential infrastructure, which includes water and sanitation, electricity, roads and other (street lighting and solid waste removal).
P	To fund public municipal services infrastructure
E	To fund social institutions and micro-enterprises and (the N-Component) nodal municipalities

Local Government Equitable Share

The LGES is a formula-based allocation to municipalities, as stipulated by Section 214 of the Constitution. It is designed to provide municipalities with the resources to render basic services to low income and poor households and to build administrative infrastructure. It also provides municipalities with funds to cover operational costs associated with providing free basic services to indigent households. Rural municipalities heavily rely on the LGES as their primary revenue source because their revenue base is low.[37] They use LGES funding to finance their operations, which leaves little or no resources to fund basic infrastructure needs, including sanitation. This implies that LGES funding to rural municipalities is not necessarily an effective instrument for providing and maintaining sanitation infrastructure and services.

Rural Household Infrastructure Grant

In 2010/11 RHIG was introduced as an indirect conditional grant through which national government provides sanitation infrastructure for rural households where connector-services would be inappropriate. As an indirect grant, the national government (or its agents) spends all funds on behalf of municipalities, and no funds are transferred to municipalities (unless a municipality is acting as an implementation agent). Then, in 2013/14, a direct component of RHIG was introduced. However, since being established, RHIG has performed very poorly (Table 36). In its Submission for the 2016/17 Division of Revenue, the Commission recommended that National Treasury and line departments consider the using indirect grants as a measure of last resort, based on an analysis of the performance of some grants including the RHIG.

>>

[36] Speech made by the Minister of Water and Sanitation, Nomvula Mokonyane (26 August 2014) in response to a debate on "Moving with utmost speed to provide water and sanitation to our people to eliminate the bucket system".

[37] Chapter 8 of this Submission gives a clear breakdown of transfer shares for rural municipalities compared to other municipal categories.

Table 36. RHIG budget and expenditure

Year	Allocation (R-million)	Expenditure (R-million)	Percentage spent
2014/15	113.1 65.6 (direct) 47.5(indirect)	22.6	34.45%
2013/14	240.4	215.3	89.56%
2012/13	340.6	205.6	60.36%
2011/12	258	187.3	72.60%
2010/11	100	62	62.00%

Source: Commission's computations

One reason for the under-spending of the RHIG is that business plans from municipalities are either received very late or are not detailed enough to comply with the Division of Revenue requirements.

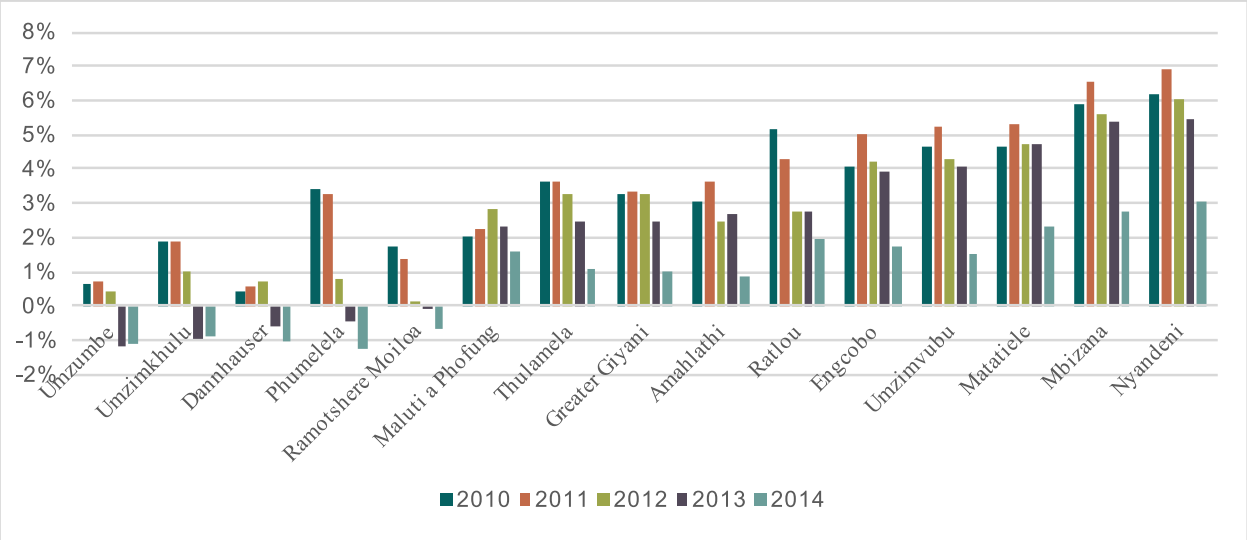
Although the unavailability of data makes it difficult to separate out the impact of a particular grant (MIG vs. RHIG), Figure 89 shows the year-on-year change in the sanitation backlog across the rural municipalities that were part of the RHIP. In brief:

- In some municipalities (Matatiele, Ratio, Engcobo and Umzimvubu), sanitation backlogs remain the same before and after the RHIP was implemented.
- Some municipalities (Nyandeni, Mbizana, Thulamela, Maluti a Phofong and Greater Giyani) saw a marginal reduction of about 1% in their backlogs between 2012/13 and 2013/14.
- Some municipalities (Umzumbe, Umzimkhulu, Dannhauser, Phumelea and Ramotshere Moiloa) had an increase in sanitation backlogs.

Unlike other grants, which are spread over a number of years, the RHIG is funded on an annual basis. Some municipalities receive funding for only one financial year, while others are funded for more than a year. What is not clear is why the RHIG funding is discontinued when the sanitation backlog is still high, i.e. the grant has not achieved its objectives. As Table 37 illustrates, some municipalities only received funding for 2012/13 despite their increasing backlogs, i.e. Umzimkhulu, Umzimvubu and Phumelela. Other municipalities received only for 2013/14, while others received for both 2013/14 and 2014/15.

There is some duplication in the sanitation objectives of RHIG and MIG, showing a lack of alignment between these grants. The MIG provides capital finance for basic municipal

Figure 89. Year-on-year percentage change in sanitation backlogs



Source: Commission's computations based on data from IHS Global Insight (2015)

Table 37. RHIG recipients (2012/13 –2014/15)

2013/14 and 2014/15	2013/14 only	No RHIG received after 2012/13
Umzumbe	Matatiele	Engcobo
Ratio	Mbizana	Umzimvubu
Dannhauser	Nyandeni	Umzimkhulu
Maluti a Phofung	Amahlathi	Phumelela
Thulamela	Ramotshere Moiloa	
Greater Giyani		

Source: Commission's computations

infrastructure backlogs for poor households, micro enterprises and social institutions servicing the poor, while RHIG provides capital funding for the eradication of rural water and sanitation backlogs.

Municipal own revenue

Municipal own revenue includes funds from the municipality's tax base e.g. funds collected for municipal service, property taxes, various consumer tariffs levied, etc. These funding sources are very limited in rural municipalities because of their weak tax base. As a result, rural municipalities are limited in their ability to raise sufficient revenue to cover both their operating costs and infrastructural needs.[38] Therefore, the funding of basic services for poor households is mostly addressed through other capital grants and equitable share transfers, and own revenue is not a source of funding for sanitation infrastructure in rural municipalities.

11.3.3 Green technology and waterless toilets

Various technologies can be used to improve sanitation, particularly in rural areas. In South Africa, ventilated improved pits[39] (VIPs) are commonly used to improve sanitation, whereas other countries in the world have moved towards ecological sanitation (EcoSan) or waterless toilet technologies. EcoSan is an environmental friendly, sustainable waterless sanitation system that regards human waste as a resource for agricultural purposes rather than something to be disposed of (WaterAid, 2011). It is environmentally sound, as it does not contaminate ground water and other freshwater sources, and reduces the waste by 5–10% percent of its original mass, to be then used as compost. Furthermore, EcoSan technologies do not need expensive vehicles, such as vacuum trucks or tankers ("honey suckers") to remove the waste. In South Africa, EcoSan is currently not considered an option for dry sanitation, despite the presence of EcoSan toilet manufacturers in the country.

11.3.4 Institutional arrangements

The three spheres of government have different roles and responsibilities with respect to sanitation. According to the Constitution, municipalities are generally responsible for ensuring a safe and healthy environment and providing communities with services in a sustainable manner. The role of national and provincial governments is to support and strengthen municipal capacity, to enable municipalities to exercise their powers and perform their functions. However, a number of challenges relating to institutional arrangements emerged from interviews with stakeholders.

a) Poor coordination of plans by various relevant departments

Programmes are not aligned among the different levels of government (e.g. between a national/provincial department and a municipality), resulting in inefficiencies and lack of service delivery. For instance, the DHS provides housing with full waterborne sanitation technologies, but the municipality has not planned bulk water infrastructure in the area. In these cases, beneficiaries find themselves living in housing units with no working toilet facilities.[40]

b) Poor communication between district and local municipalities

For example, the district municipalities did not consult Ditsobotla and Butterworth municipalities about the sanitation projects being implemented. The two local municipalities only knew about these sanitation projects when they were interviewed by the Ministerial Sanitation Task Team (DHS, 2012) – they were unable to provide their sanitation status, which only district municipalities could do.

c) RHIG and MIG duplication and underfunding

As RHIG funding is available, some rural municipalities do not allocate or reduce their MIG allocation. As a

>>

[38] Refer to Chapter 8 of this Submission for more detail about own revenue for rural municipalities.

[39] A VIP is a "dry" toilet facility that is an improvement on standard pit latrines that eliminates flies and odour.

[40] Presentation by Department of Human Settlements to the Select Committee on Public Services on 25 October 2011

result, they rely heavily or only on RHIG funding, which compromises service delivery. The two grants also have common objectives, resulting in duplication. Although sanitation appears to be under-funded by these grants, it is difficult to make a strong case for additional funding when rural municipalities fail to spend the allocated funding. According to a DWS official, National Treasury is willing to increase funding for rural sanitation, but first spending and infrastructure delivery must improve.

d) Shifting of the function from one department to the other

The shifting of the sanitation function from one department to another affects the continuity of planning and implementation of sanitation projects, which has an impact on delivery outcomes.

e) Funding operations and maintenance

Major challenges occur after the infrastructure has been delivered. Most rural municipalities do not include sanitation plans in their IDPs or have operational and maintenance plans in place, and so allocate little or no funding to infrastructure. A study undertaken by the DHS (2012) found that sanitation facilities developed through the RHIP are not sustainable because of poor operation and maintenance. However, the study was unable to determine how much is allocated to operating and maintaining VIPs.

11.4 Conclusion

Improving sanitation infrastructure is key for a number of reasons, including reducing the risk of infection from excreta-related diseases and thereby saving lives, particularly those of children under the age of five years. Since 1994, sanitation backlogs have decreased but remain high in rural areas, despite government interventions, such as the Bucket Eradication Programme and the RHIP. Rural municipalities can use a number of funding instruments to provide and maintain sanitation infrastructure, including the MIG, LGES and RHIG. The RHIP has not achieved its expected outcomes because of various reasons, including the grant's design (as an indirect grant), discontinued funding in some municipalities despite high backlogs remaining, and under-spending because of the late transfer of funding, as a result of poor quality and late submission of business plans. Furthermore, in some municipalities sanitation is not included in their IDPs and so is not prioritised. Another challenge is the lack operations and maintenance plans, and funding. These challenges must be overcome in order to reduce the sanitation backlogs and to ensure the health and dignity of South Africans.

11.5 Recommendations

With respect to intergovernmental instruments and institutional issues pertaining to the provision and maintenance of sanitation infrastructure in rural municipalities, the Commission recommends that:

1. Rural municipalities that are Water Services Authorities prioritise the delivery of sanitation infrastructure, which must be reflected in municipal IDP. SALGA should play an oversight role in ensuring compliance with this recommendation.

2. Rural municipalities that are Water Services Authorities explore and prioritise EcoSan waterless technologies where feasible and develop a complete municipal sanitation infrastructure project delivery plan, which includes the following:

   - Technologies to be used for emptying toilet latrine pits (VIPs), taking into account community dynamics.

   - Scheduled periodical maintenance of sanitation infrastructure.

   - Full costs of maintenance and sources of funding.

3. SALGA and the national and provincial departments of water and sanitation develop and implement monitoring tools for this recommendation.

4. The Department of Planning, Monitoring and Evaluation, National Treasury and the Department of Water and Sanitation undertake a comprehensive evaluation of the impact of sanitation grants on rural municipalities before discontinuing the grants.

5. District and rural municipalities that are Water Services Authorities submit compliant business plans timeously to the national Department of Water and Sanitation. Should they fail, executives should be held accountable. In cases where Water Services Authorities lack capacity, the national and provincial departments of water and sanitation should intervene and provide requisite capacity.

REFERENCES

References for Chapter 1

AGOA.Info. 2016. AGOA Information website. Available: www.agoa.info.

BFAP (Bureau for Food and Agricultural Policy). 2015. Farm Sectoral Determination: An Analysis of Agricultural Wages in South Africa 2015. Available: www.bafap.co.za.

Byerlee, D, de Janvry, A and Sadoulet, E. 2009. Agriculture for development: toward a new paradigm. Annual Review of Resource Economics, Vol. 1(1): 15–3.

DAFF (Department of Agriculture, Forestry and Fisheries). 2012. SA-EU Trade Development and Cooperation Agreement. Available: www.daff.gov.za.

DAFF. 2014. Agricultural Industries Statistics: Agricultural Abstract. Pretoria: DAFF, Directorate of Economics and Statistics.

Deininger, K. 2003. Land Policies for Growth and Poverty Reduction. Washington: The World Bank.

Dinkelman, T and Ranchod, V. 2012. Evidence on the impact of minimum wages laws in an informal sector. Journal of Development Economics, Vol. 99(1): 27–45.

DPME (Department of Planning, Monitoring and Evaluation). 2014. Twenty Year Review: South Africa 1994–2014. Pretoria: DPME.

DRDLR (Department of Rural Development and Land Reform). 2015. Progress on Agri-Parks Programme Implementation. Pretoria: DRDLR, Directorate of Spatial Planning.

Erasmus, G. 2016. The AGOA saga in a trade governance context. Working Paper. Available: www.tralac.org.

FANRPAN. 2014. Comprehensive Africa Agriculture Development Programme (CAADP). Available: www.fanrpan.org.

Feder, G, Onchan, T, Chalamuong, Y and Honglardaran, C. 1998. Land Policies and Farm Productivity in Thailand. Baltimore: The Johns Hopkins University Press.

Goldmann Sachs. 2014. What South Africa Is Doing With It, and What Now Needs To Be Done. Johannesburg: Goldmann Sachs.

Inman, RP and Rubinfeld, DL. 2013. Understanding the democratic transition in South Africa. American Law and Economics Review, Vol. 15(1): 1–38.

Isserman, AM. 2007. Getting state rural policy right: definitions, growth and program eligibility. Special Issue on Rural Development Policy – Journal of Regional Analysis and Policy, Vol. 37(1): 72–79.

Jacobs, P, Lahiff, E and Hall, R. 2003. Evaluating land and agrarian reform in South Africa. An Occasional Paper Series No. 10. Bellville: UWC, School of Government, PLAAS.

Mabugu, R, Chitiga, M and Josie, J. 2013. Experience With Equitable Sharing in South Africa. Midrand: Financial and Fiscal Commission.

NAMC (National Agricultural Marketing Council). 2014. South African Agricultural Food Cost Review: Annual Publication. Pretoria: NAMC, Market and Economic Research Centre.

National Treasury, 2012. Budget Review. Pretoria: National Treasury.

National Treasury, 2014. Budget Review. Pretoria: National Treasury.

National Treasury. 2011. Local Government Budget and Expenditure Review. Pretoria: National Treasury.

Ngqangweni, S. 2010. Southern African Development Community (SADC) Regional Agricultural Policy Review. Report prepared for SADC Secretariat (unpublished).

NPC (National Planning Commission). 2011. National Development Plan: Vision for 2030. Available: www.npconline.co.za.

OECD (Organisation for Economic Co-operation and Development). 2015. Agricultural Policy Monitoring and Evaluating. Paris: OECD.

Petchey, J, MacDonald, G, Mabugu, R, Josie, J and Kallis, D. 2007. A Grant Scheme for the Progressive Realization of Constitutionally Mandated Basic Services in South Africa: A Simulation Model. Midrand: Financial and Fiscal Commission.

PLAAS (Institute for Land and Agrarian Studies). 2012. Land Reform Update (as at September 2012). Umhlaba Wethu 9.1. Available: www.plaas.org.za.

Place, F, Roth, M and Hazell, P. 1994. Land tenure security and agricultural performance in Africa: overview of research methodology. In Bruce, JW and Migot-Adholla, SE (eds.). Proceedings of the 11th International Farm Management Congress, Vol. 1: 245–56. Alberta, Canada: International Farm Management Association and the Canadian Farm Business Management Council.

Stats SA (Statistics South Africa). 2011. Population Census 2011. Available: www.statssa.goc.za.

Stats SA. 2014a. Contributing Sector Tables for Supply Use: 2002–2014. Available: www.statssa.goc.za.

Stats SA. 2014b. Poverty Trends in South Africa: An examination of absolute poverty between 2006 and 2011. Report No. 03-10-06. Pretoria: Stats SA.

Stats SA. 2015. Quarterly Labour Force Surveys: Raw Data. Available: www.statssa.goc.za.

Timmer, CP. 1988. The agricultural transformation. In Chenery, H and Srinivasan, TN (eds.). Handbook of Development Economics Vol. 1. Amsterdam: North-Holland, pp. 275–331.

TIPS. 2015. Overview of AGOA Potential. Available: www.tips.org,za.

UNICEF (United Nations Children's Fund). 2012. Children's Right to an Adequate Standard of Living. Available: unicef.org.

Vacchiani-Marcuzzo, C. 2005. Mondialisation et Système de Villes (unpublished PhD thesis). Paris: University of Paris.
Vink, N and Van Rooyen, J. 2009. The economic performance of agriculture in South Africa since 1994: implications for food security. Working Paper Series No 17. Midrand: DBSA.
World Bank. 2006. Enhancing Agricultural Innovation: How to Go Beyond the Strengthening of Research. Available: http://siteresources.worldbank.org/INTARD/Resources/Enhancing_Ag_Innovation.pdf
WTA (World Trade Atlas). 2014. Global Trade Database. Available: www.gta.org (controlled access).

References for Chapter 2

Anderson, E, de Renzio, P and Levy, S. 2006. The role of public investment in poverty reduction: theories, evidence and methods. Working Paper 23. London: Overseas Development Institute.
Benin, S, Nin Pratt, A, Fan, S, Breisinger, C, Mogues, T, Thurlow, J and Diao, X. 2008. Growth and poverty reduction impacts of public investments in agriculture and rural areas: assessment techniques, tools and guide for practitioners. ReSAKSS Working Paper No. 7. International Food Policy Research Institute (IFPRI).
Byerlee, D, de Janvry, A and Sadoulet, E. 2009. Agriculture for development: toward a new paradigm. Annual Review of Resource Economics, Vol. 1(1): 15–3.
Chambers, R and Conway, G. 1992. Sustainable rural livelihoods: practical concepts for the 21st century. IDS Discussion Paper 296. University of Sussex, UK: Institute of Development Studies (IDS).
Chambers, R. 1983. Rural Development: Putting the Last First. Harlow, England: Longman Scientific and Technical.
Everatt, D, Smith, MJ and Solanki, G. 2006. Baseline Survey of the 21 ISRDP and URP Nodes. Pretoria: Department of Social Development.
Gramlich, E. 2003. A policymaker's guide to fiscal decentralization. National Tax Journal, Vol. 46(2): 229–235.
Greene, WH. 1993. Econometric Analysis. New York, USA: Macmillan Publishing Company.
Hemson, D, Meyer, M and Maphunye, K. 2004. Rural Development: The Provision of Basic Infrastructure Services. Pretoria: Human Science Research Council.
Hodge, I. 1997. The integration of the rural economy. Built Environment, Vol. 23(3): 192–200.
Jung, HS and Thorbecke, E. 2003. The impact of public education expenditure on human capital, growth, and poverty in Tanzania and Zambia: a general equilibrium approach. Journal of Policy Modeling, Vol. 25: 701–725.
Leon, Y. 2005. Rural development in Europe: a research frontier for agricultural economists. European Review of Agricultural Economics, Vol. 32(3): 301–317.
Lofgren, H and Robinson, S. 2008. Public spending, growth and poverty alleviation in sub-Saharan Africa: a dynamic general equilibrium analysis. In Fan, S. (ed.). Public Expenditures, Growth, and Poverty: Lessons from Developing Countries. Baltimore, MD: Johns Hopkins University Press.
Nemes, G. 2005. Integrated rural development: the concept and operation. Discussion Paper. Budapest: Hungarian Academy of Sciences: Institute of International Economics.
Oates, W. 1972. Fiscal Federalism, New York: Harcourt Brace Jovanovich.
Oates, W. 1994. Federalism and government finance. In Modern Public Finance. Cambridge, MA: Harvard University Press.
OECD (Organisation for Economic Co-operation and Development). 2006. The New Rural Paradigm: Policies and Governance. Paris: OECD.
Van der Ploeg, J, Renting, H, Brunori, G, Karlheinz, K, Mannion, J and Marsden, T. 2000. Rural development: from practices and policies towards theory. Sociologia Ruralis, Vol. 40(4): 391–408.
World Bank. 2006. Enhancing Agricultural Innovation: How to Go Beyond the Strengthening of Research. Available: http://siteresources.worldbank.org/INTARD/Resources/Enhancing_Ag_Innovation.pdf

References for Chapter 3

Anríquez, G and López, R. 2007. Agricultural growth and poverty in an archetypical middle income country: Chile 1987–2003. Agricultural Economics, Vol. 36(2): 191–202.
Bourguignon, F and Morrison, C. 1998. Inequality and development: the role of dualism. Journal of Development Economics, Vol. 57: 233–257.
Business Enterprises at UP (University of Pretoria). 2015. Impact Evaluation of the Comprehensive Agricultural Support Programme (from its inception in 2004 to February 2013). Report prepared for the Presidency and DAFF.
Cervantes-Godoy, D and Dewbre J. 2010. Economic importance of agriculture for poverty reduction. OECD Food, Agriculture and Fisheries Working Papers No. 23. Paris: OECD.
Christiansen, L, Demery, L and Kuhl, J. 2011. The (evolving) role of agriculture in poverty reduction – an empirical perspective. Journal of Development Economics, Vol. 96: 239–254.
Dorosh, P. and Haggblade, S. (2003). Distributional impact of agricultural growth in Pakistan: A multiplier analysis. Pakistan Development Review, 42 (3): 249 – 275.
GCIS (Government Communication and Information System). 2011. South African Yearbook: 2010/2011. Available: http://www.gcis.gov.za/content/resourcecentre/sa-info/pocketguide-2010-11
Grewal, B, Grunfeld, H and Sheehan, P. 2012. The Contribution of Agricultural Growth to Poverty Reduction. ACIAR Impact Assessment Series Report No. 76. Canberra: ACIAR (Australian Centre for International Agricultural Research).

Hall, R and Aliber, M. 2010. The case for re-strategising spending priorities to support small-scale farmers in South Africa. Working Paper 17. Bellville: UWC, School of Government, PLAAS. Available: http://www.plaas.org.za/sites/default/files/publications-pdf/WP17.pdf
Hasan, R and Quibria, MG. 2004. Industry matters for poverty: a critique of agricultural fundamentalism. Kyklos, Vol. 57(2): 253–264.
Johnston, BG and Mellor, JW. 1961. The role of agriculture in economic development. American Economic Review, Vol. 87(2): 566–593.
Jung, HS and Thorbecke, E. 2003. The impact of public education expenditure on human capital, growth, and poverty in Tanzania and Zambia: a general equilibrium approach. Journal of Policy Modeling, Vol. 25: 701–725.
Loayza, N and Raddatz, C. 2010. The composition of growth matters for poverty alleviation. Journal of Development Economics, Vol. 93(1): 137–151.
Nzimande, B. 2014. Build the rural motive forces to accelerate comprehensive transformation. Umsebenzi, Vol, 3: 4.
Ravallion, M and Chen, S. 2007. China's (uneven) progress against poverty. Journal of Development Economics, Vol. 82(1): 1–42.
Ravallion, M and Datt, G. 1996. How important to India's poor is the sectoral composition of economic growth? World Bank Economic Review, Vol. 10(1): 1–25.
Stats SA (Statistics South Africa). 2014. Poverty trends in South Africa: An examination of absolute poverty between 2006 and 2011. Report No. 03-10-06, Pretoria: Stats SA. Available: http://beta2.statssa.gov.za/publications/Report-03-10-06/Report-03-10-06March2014.pdf.
Tiffin, R and Irz, X. 2006. Is agriculture the engine of growth? Agricultural Economics, Vol. 15: 79–89.

References for Chapter 4

Chitonge, H and Ntsebeza, L. 2012. Land reform and rural livelihood in South Africa: does access to land matter? Review of Agrarian Studies, Vol. 2(1): 87–111.
Deininger, K and May, J. 2000. Can there be growth with equity? An initial assessment of land reform in South Africa. Policy Research Working Paper 2451. Washington DC: World Bank.
Deininger, K, Jin, S and Nagarajan, HK. 2009. Land reforms, poverty reduction, and economic growth: evidence from India. Journal of Development Studies. Vol. 45(4): 496–521.
Dorosh, P and Haggblade, S. 2003. Distributional impact of agricultural growth in Pakistan: A multiplier analysis. Pakistan Development
DPME (Department of Planning, Monitoring and Evaluation). 2013. Implementation Evaluation of the Recapitalisation and Development Programme (from its inception in 2010 to 2012). Report compiled by Business Enterprise, University of Pretoria.
DRDLR (Department of Rural Development and Land Reform). 2015. Annual Report 2014/15. Pretoria: DRDLR.
Hall, R. 2014. Land redistribution: The politics of not making policy. In Meyiwa, T, Nkondo, M, Chitiga-Mabugu, M, Sithole, M and Nyamnjoh, F. (eds.). State of the Nation: South Africa 1994–2014: A Twenty-Year Review of Freedom and Democracy. Cape Town: HSRC Press, pp. 171–182.
Kariuki, S. 2009. Agrarian reform, rural development and governance in Africa: A case of Eastern and Southern Africa. Policy Brief 59. Johannesburg: Centre for Policy Studies.
Lahiff, E. 2007. State, market or the worst of both? Experimenting with market-based land reform in South Africa. Occasional Paper No. 30. Bellville: UWC, School of Government, PLAAS.
Lahiff, E and Cousins, B. 2005. Smallholder agriculture and land reform in South Africa. IDS Bulletin, Vol. 36(2): 127–131.
Mearns, KF. 2011. Ekaluka farmers' association and the land reform programme: expectations and success factors. Development Southern Africa, Vol. 28(2): 241–255.
Moroaswi, QM. 2013. A Financial Analysis of Management Models in Land Reform in South Africa. MA Thesis. University of Pretoria.
SAHRC (South African Human Rights Commission). 2013. Monitoring and Investigating the Systemic Challenges Affecting the Land Restitution Process in South Africa. Available: http://www.gov.za.
Veda Associates. 2009. Housing and Land Funding Programmes Review Report in Support of the LAND First Approach. Available: http://www.urbanlandmark.org.za/downloads/ULM_Funding_Programme_Review.pdf.

References for Chapter 5

DBSA (Development Bank of Southern Africa). 2013, Integrated Annual Report. Available: http://www.dbsa.org/EN/About-Us/Publications/Pages/DBSA-Annual-Reports.aspx
DBSA. 2014. Integrated Annual Report. Available: http://www.dbsa.org/EN/About-Us/Publications/Pages/DBSA-Annual-Reports.aspx
DME (Department of Minerals and Energy). 2003. Free Basic Electricity Policy. Available: http://www.energy.gov.za/files/policies/Free%20Basic%20Electricity%20Policy%202003.pdf.
DPE (Department of Public Enterprises). 2014. State Owned Companies. Available: http://www.dpe.gov.za/state-owned-companies.
FFC (Financial and Fiscal Commission). 2015. Submission on the 2015 Fiscal Frameworks and Revenue Proposals. Available: www.ffc.co.za.
IDC (Industrial Development Corporation). 2010. Annual Report. Available: http://www.idc.co.za/about-the-idc/financial-results.html
IDC. 2011. Annual Report. Available: http://www.idc.co.za/about-the-idc/financial-results.html
IDC.2012. Integrated Annual Report. Available: http://www.idc.co.za/about-the-idc/financial-results.html
IDC. 2013. Integrated Annual Report. Available: http://www.idc.co.za/about-the-idc/financial-results.html
IDC. 2014. Integrated Annual Report. Available: http://www.idc.co.za/about-the-idc/financial-results.html
National Treasury. 2015. Budget Review 2015. Available: http://www.nefcorp.co.za/ResourcebrCenter/AnnualReports.aspx
National Treasury. 2016. Budget Review 2016. Available: http://www.treasury.gov.za/documents/national%20budget/2016/review/

chapter%208.pdf
NEF (National Empowerment Fund). 2011. Annual Report. Available: http://www.nefcorp.co.za/ResourcebrCenter/AnnualReports.aspx
NEF. 2012. Annual Report. Available: http://www.nefcorp.co.za/ResourcebrCenter/AnnualReports.aspx
NEF.2013. Annual Report. Available: http://www.nefcorp.co.za/ResourcebrCenter/AnnualReports.aspx
NEF. 2014/15. Integrated Annual Report. Available: http://www.nefcorp.co.za/ResourcebrCenter/AnnualReports.aspx
PRC (Presidential Review Committee). 2013. Presidential Review Committee on State-Owned Entities: Volume 1: Executive Summary. Available: http://www.thepresidency.gov.za/electronicreport/downloads/volume_1/volume_1.pdf
Stats SA (Statistics South Africa). 2011. General Household Survey. Available: http://www.statssa.gov.za.
Stats SA. 2012. General Household Survey. Available: http://www.statssa.gov.za.
Stats SA. 2013. General Household Survey. Available: http://www.statssa.gov.za.
Stats SA. 2014. General Household Survey. Available: http://www.statssa.gov.za.
Stats SA. 2015. Non-Financial Census of Municipalities. Available: http://www.statssa.gov.za/?page_id=1854&PPN=P9115&SCH=6343
Transnet. 2015. Integrated Report 31 March 2015. Available: www.transnet.net

References for Chapter 6

AGSA (Auditor-General of South Africa). 2015. Special Audit of the Rural Household Infrastructure Grant and Rural Household Infrastructure Programme. Pretoria: AGSA.
Ajam, T. 2006. Fiscal federalism. In Black, PA, Calitz, E, Steenekamp, TJ and associates. 2011. Public Economics 5th Edition. Cape Town: Oxford University Press.
Fan, S and Zhang, X. 2004. Infrastructure and regional economic development in rural China. China Economic Review, Vol 15: 203–214.
FFC (Financial and Fiscal Commission). 2015. Submission for the Division of Revenue, 2016/17. Midrand: FFC.
HST (Health Systems Trust). 2015. District Health System Barometer. Durban: Health Systems Trust.
Mabugu, R, Chitiga, M and Amusa, H. 2009. The economic consequences of a fuel levy reform in South Africa. South African Journal of Economic and Management Sciences, Vol 12(3).
National Treasury. 2000. Budget Review. Pretoria: National Treasury.
National Treasury. 2005. Budget Review. Pretoria: National Treasury.
National Treasury. 2010. Division of Revenue Bill. Pretoria: National Treasury.
National Treasury. 2015a. Estimates of Provincial Revenue and Expenditure. Pretoria: National Treasury.
National Treasury. 2015b. Division of Revenue Bill. Pretoria: National Treasury.
National Treasury. 2016. Budget Review 2016. Available: http://www.treasury.gov.za/documents/national%20budget/2016/review/chapter%208.pdf
World Bank. 1998. Rethinking decentralization in developing countries. The World Bank Sector Studies Series. Washington, DC: World Bank.

References for Chapter 7

COGTA (Department of Cooperative Governance and Traditional Affairs). 2011. Community Work Programme: An Implementation Manual. Pretoria: COGTA.
COGTA. 2012. Community Work Programme: January 2012 Financial Reports. (Unpublished).
COGTA. 2015. Employment opportunities created through Community Works Programme, disaggregated by municipalities. [Data file]. Unpublished dataset, cited with permission.
DOL (Department of Labour). 2013a. Sectorial Determination on Minimum Wages for Domestic Workers in 2013/14. Accessed: www.labour.gov.za
DOL (Department of Labour). 2013b. Sectorial Determination on Minimum Wages for Domestic Workers in 2013/14. Accessed: www.labour.gov.za
Review, Vol. 42(3): 249–275 DPW (Department of Public Works). 2005. Annual Report 2004/05. Pretoria: DPW. Pretoria: DPW. Available: http://www.publicworks.gov.za/docsreports.html
DPW. 2006. Annual Report 2005/06. Pretoria: DPW. Pretoria: DPW. Available: http://www.publicworks.gov.za/docsreports.html
DPW. 2007. Annual Report 2006/07. Pretoria: DPW. Pretoria: DPW. Available: http://www.publicworks.gov.za/docsreports.html
DPW. 2008. Annual Report 2007/08. Pretoria: DPW. Pretoria: DPW. Available: http://www.publicworks.gov.za/docsreports.html
DPW. 2009a. EPWP Five-Year Report: 2004/5–2008/09. Available: http://www.publicworks.gov.za/
DPW. 2009b. Annual Report 2008/09. Pretoria: DPW. Pretoria: DPW. Available: http://www.publicworks.gov.za/docsreports.html
DPW. 2010. Annual Report 2009/10. Pretoria: DPW. Pretoria: DPW. Available: http://www.publicworks.gov.za/docsreports.html
DPW. 2011. Annual Report 2010/11. Pretoria: DPW. Pretoria: DPW. Available: http://www.publicworks.gov.za/docsreports.html
DPW. 2012. Annual Report 2011/12. Pretoria: DPW. Pretoria: DPW. Available: http://www.publicworks.gov.za/docsreports.html
DPW. 2013. Annual Report 2012/13. Pretoria: DPW. Pretoria: DPW. Available: http://www.publicworks.gov.za/docsreports.html
DPW. 2014. Annual Report 2013/14. Pretoria: DPW. Pretoria: DPW. Available: http://www.publicworks.gov.za/docsreports.html
DPW. 2015. Employment opportunities created through Expanded Public Works Programme, disaggregated by municipalities. [Data file]. Unpublished dataset, cited with permission.

Klasen, S and Woolard, I. 2008. Surviving unemployment without state support: unemployment and household formation in South Africa. Journal of African Economies, Vol. 18(1): 1–51.
McCutcheon, R and Parkins, T. 2012. The expanded public works programme: policy, rhetoric, reality and opportunity foregone during the expenditure of over R40 billion on infrastructure. Civil Engineering (July).
National Treasury. 2014. Provincial Budgets and Expenditure Review: 2010/11 -2016/17. Pretoria: National Treasury.
National Treasury. 2016a. Division of Revenue Bill 2016. Available: http://www.treasury.gov.za/legislation/bills/2016/bills2016_bill02-2016.pdf.
National Treasury. 2016b. Estimates of National Expenditure 2016. Available: http://www.treasury.gov.za/documents/national%20budget/2016/ene/FullENE.pdf.
Philip, K. 2012. The rationale for an employment guarantee in South Africa. Development Bank of Southern Africa. Vol. 29(1): 177–190.
Philip, K. 2013. The transformative potential of public employment programmes. Occasional Paper Series No.1/2013.
The Presidency and COGTA. 2015. Implementation Evaluation of the Community Work Programme. Available: www.thepresidency-dpme.gov.za.

References for Chapter 8

Bandyopadhyay, S. 2013. Estimating fiscal health of cities: a methodological framework for developing countries. Working Paper Series No. 49. International Center for Public Policy.
City of Fort Lauderdale. 2013. Fiscal Capacity Study. Fort Lauderdale: City Managers' Office, Division of Budget/ CIP and Grants.
Drage, J. 2001. Women in Local Government in Asia and the Pacific: A Comparative Analysis of Thirteen Countries. Victoria, New Zealand: University of Wellington.
Federation of Canadian Municipalities. 2015. Elected Officials Gender Statistics.
FFC (Financial and Fiscal Commission) and SALGA (South African Local Government Association). 2015. Costing of Basic Services to Inform DORA Allocations, Final Report.
Franzsen, R. 2007. Property taxation in anglophone Africa. Land Lines, Vol. 19(2): 8–13.
IMF (International Monetary Fund). 2010. Kenya: Poverty Reduction Strategy Paper. IMF Country Report No. 10/224.
Morna, CL and Mbadlanyana, N. 2011. Gender in the 2011 South African Local Government Elections. Johannesburg: Gender Links. Available: http://genderlinks.org.za/wp-content/uploads/imported/articles/attachments/13193_gender_in_the_2011_south_african_localgvtelections_final___nmclm_062011.pdf.
Tannenwald, R. 1999. Fiscal disparity among the states revisited. New England Economic Review (July/August): 3–25.
Van Ryneveld, P. 1996. The making of a new structure of fiscal decentralization. In Helmsing, B, Mogale, T and Hunter, R. (eds.). Restructuring the State and Intergovernmental Fiscal Relations in South Africa. University of Witwatersrand: Friedrich-Ebert-Stiftung & Graduate School of Public and Development Management, pp 4–24.
Yilmaz, Y, Sonya, H, Matthew, N, Kim, R and Robert, T. 2006. Measuring Fiscal Disparities across the U.S. States: A Representative Revenue System/Representative Expenditure System Approach, Fiscal Year 2002. Washington, DC: Urban–Brookings Tax Policy Center and New England Public Policy Center.
World Bank. 2014. Development Database. Washington DC: World Bank.

References for Chapter 9

ANC (African National Congress). 2012 Recommendations from the 4th National Policy Conference. Available: http://www.anc.org.za/docs/pol/2012/policy_conferencev.pdf.
AGSA (Auditor-General of South Africa). 2014. South Africa Audit Reports, 2009/10 to 2013/14. Available: http://www.agsa.co.za/Documents/Auditreports.aspx.
CLC (Community Law Centre). 2007. Redefining the Role and Application of District Municipalities. Bellville: UWC, CLC, Local Government Project.
COGTA (Department of Cooperative Governance and Traditional Affairs). 2009. State of Local Government in South Africa. Overview Report National State of Local Government. Available: www.cogta.gov.za/index.
Global Insight. 2014. Global Economic Data. IHS International.
Mlokoti, V. 2007. Are district municipalities still relevant? Local Government Bulletin, Vol. 9(2): 7–9.
MDB (Municipal Demarcation Board). 2011. Review of the State of Municipal Capacity Assessment. Available: www.demarcation.org.za
National Treasury. 2012. Local Government Database. Pretoria: National Treasury.
Stats SA (Statistics South Africa). 2014. Annual Report. Pretoria: Stats SA.
Steytler, N. 2010. Demarcating district municipalities. In Steytler, N. The First Decade of the Municipal Demarcation Board: Some Reflections on Demarcating Local Government in South Africa. Pretoria: MDB.
Wahid, AJ and Steytler, N. [n.d.]. The reform of the two-tier local government system: creating new stand-alone urban municipalities. Bellville: UWC, Department Public Law.

References for Chapter 10

Breier, M and Visser, M. 2006. Community-based provision of development services in rural South Africa. South African Journal of Economics, Vol. 74: 2.

DRDLR (Department of Rural Development and Land Reform). 2014. Quarterly Report on Land Management Facility. Pretoria: DRDLR.

DRDLR. 2015. Quarterly Report on Land Management Facility. Pretoria: DRDLR.

Hall, R. 2003. Evaluating land and agrarian reform in South Africa. An Occasional Paper Series. Bellville: UWC, School of Government, PLAAS.

HDA (Housing Development Agency). 2012. Implementation of Emergency Housing: Guidelines. Johannesburg: HDA.

ILO (International Labour Organization). 2015. Farm Workers' Living and Working Conditions in South Africa: Key Trends, Emergent Issues, and Underlying and Structural Problems. Pretoria: ILO.

Manyaka, RK. 2014. Collection of municipal own revenue in South Africa : challenges and prospects. Journal of Public Administration, Vol. 49(1): 127–139.

References for Chapter 11

AGSA (Auditor-General of South Africa). 2015. The Rural Household Infrastructure Grant and Rural Household Infrastructure Programme. Available: https://www.agsa.co.za/Documents/Valueaddingauditreports/Specialauditreports.aspx

DHS (Department of Human Settlement). 2012. Ministerial Sanitation Task Team Report: Review, Investigation and Evaluation of the National Sanitation Programme – Towards Continuous Improvement. Available: http://www.dhs.gov.za/sites/default/files/documents/publications/Sanitation_Task_Team_Report_July2012.pdf

Liu, L, Hope, L, Johnson, S, Jamie, P, Susana, S, Joy, E, Igor, R, Harry, C, Richard, C, Mengying, L, Colin, M and Robert, E. 2012.. 2012. Global, Regional, and National Causes of Child Mortality: an Updated Systematic Analysis for 2010 with Time Trends since 2000. Report of the Child Health Epidemiology Reference Group of WHO and UNICEF. Available: http://www.who.int/immunization/diseases/tetanus/lancet-2012-global-child-mortality.pdf

Nannan, N, Dorrington, R, Laubscher, R, Zinyakatira, N, Prinsloo, M, Darikwa, T, Matzopoulos, R and Bradshaw, D. 2012. Under-5 Mortality Statistics in South Africa: Shedding Some Light on the Trend and Causes 1997–2007. Available: http://www.mrc.ac.za/bod/MortalityStatisticsSA.pdf

WaterAid. 2011. Technical handbook: Construction of Ecological Sanitation Latrine. Available: https://sanitationupdates.wordpress.com/2011/10/18/wateraid-technical-handbook-construction-of-ecological-sanitation-latrine/.