CHAPTER 1

Introduction to Rural Development and Intergovernmental Fiscal Relations

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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.

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[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

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[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

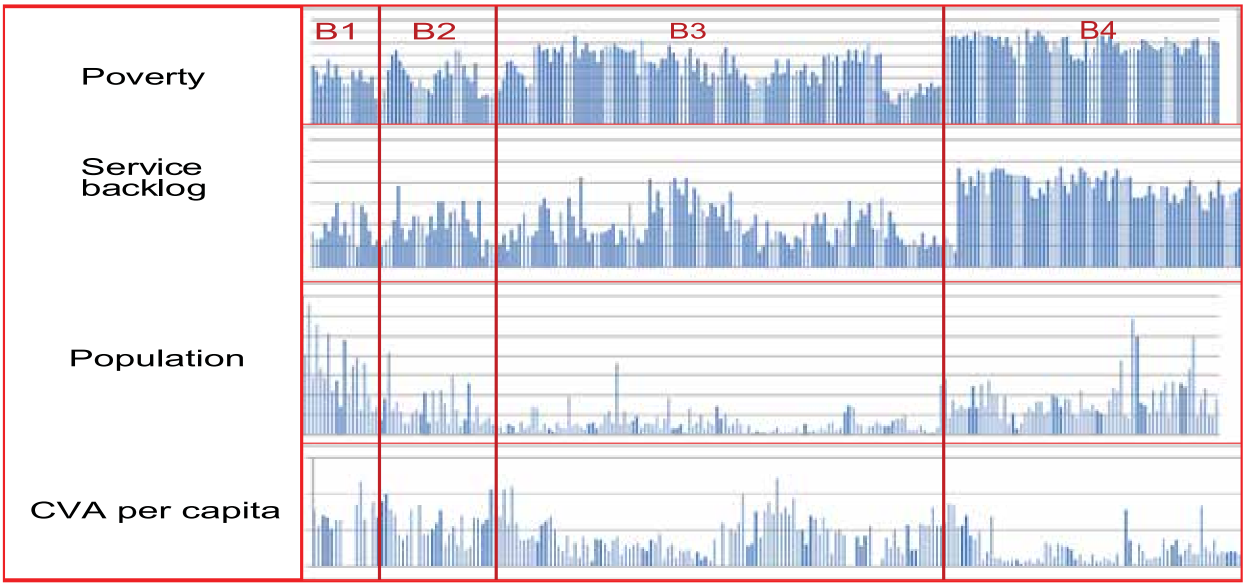
Province	Metros (A)	Secondary cities (B1)	Large towns (B2)	Small towns (B3)	Mostly rural (B4)	Districts (C1)	Districts (C2)	South Africa
Eastern Cape	2		3	19	15	1	5	45
Free State	1	1	3	15		4		24
Gauteng	3	2	3	1		2		11
KwaZulu-Natal	1	3	6	14	27	0	10	61
Limpopo	0	1	1	7	16	1	4	30
Mpumalanga		4	2	8	4	3		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%

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[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)

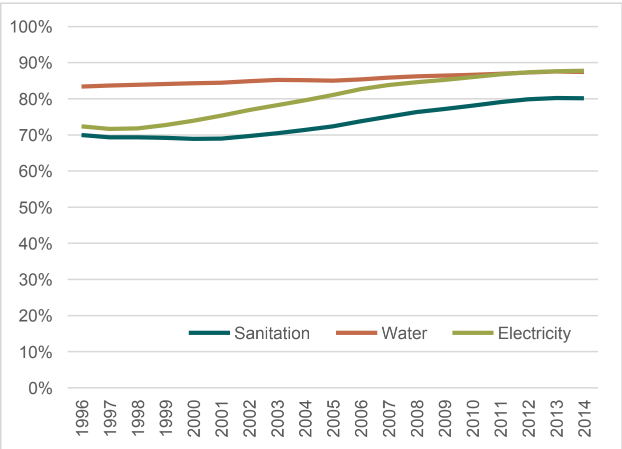
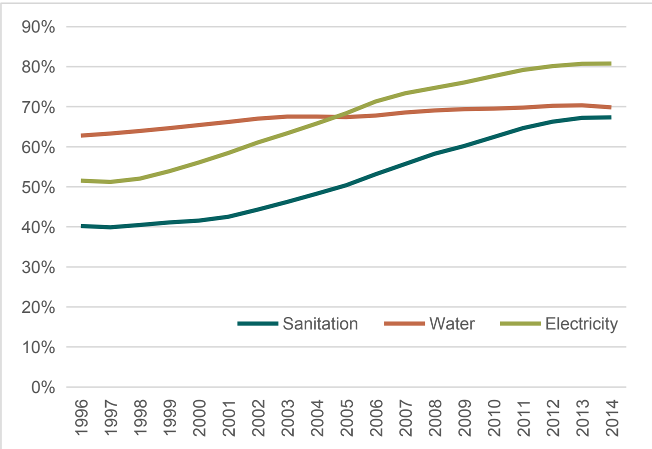


Figure 3: Access to services in rural municipalities (1996–2014)

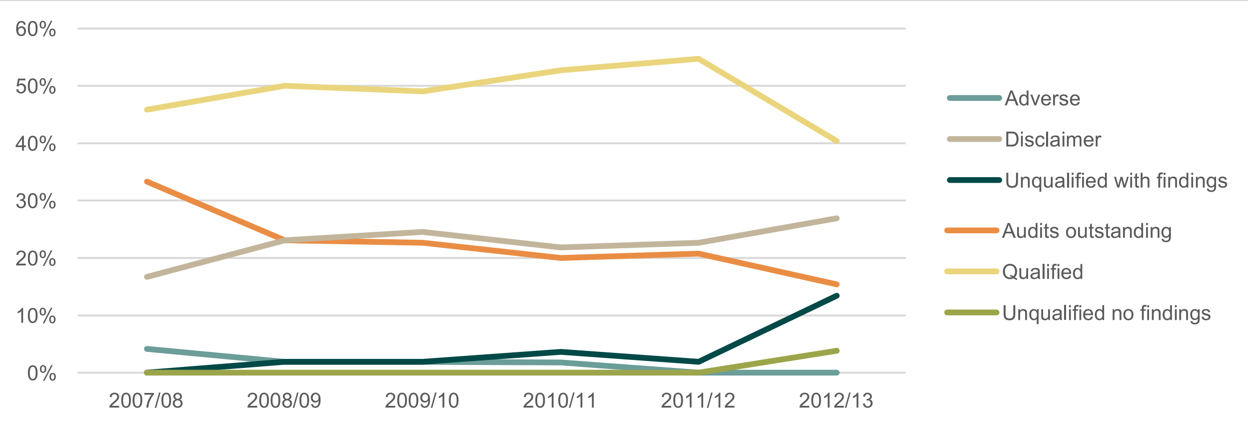


Source: Commission's computations based on Global Insight data

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

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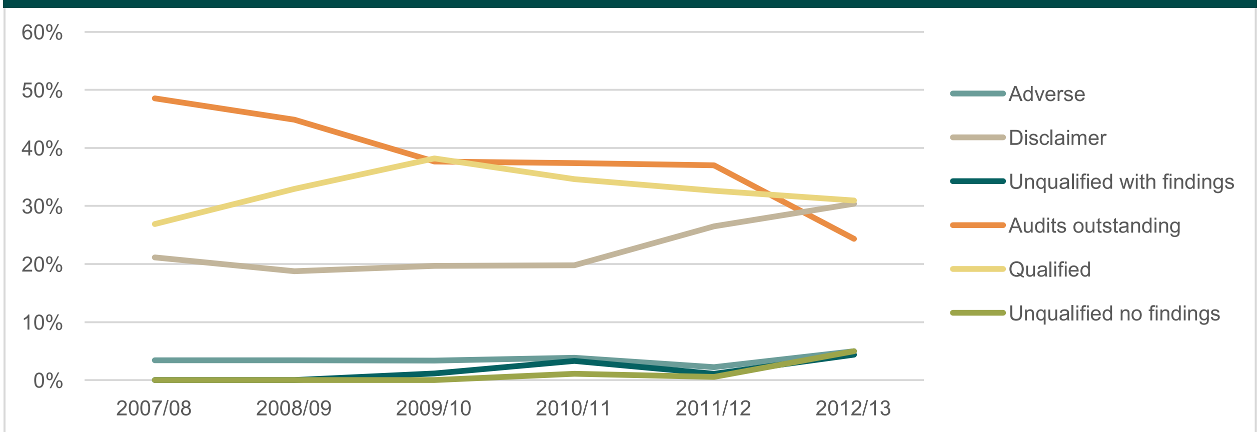
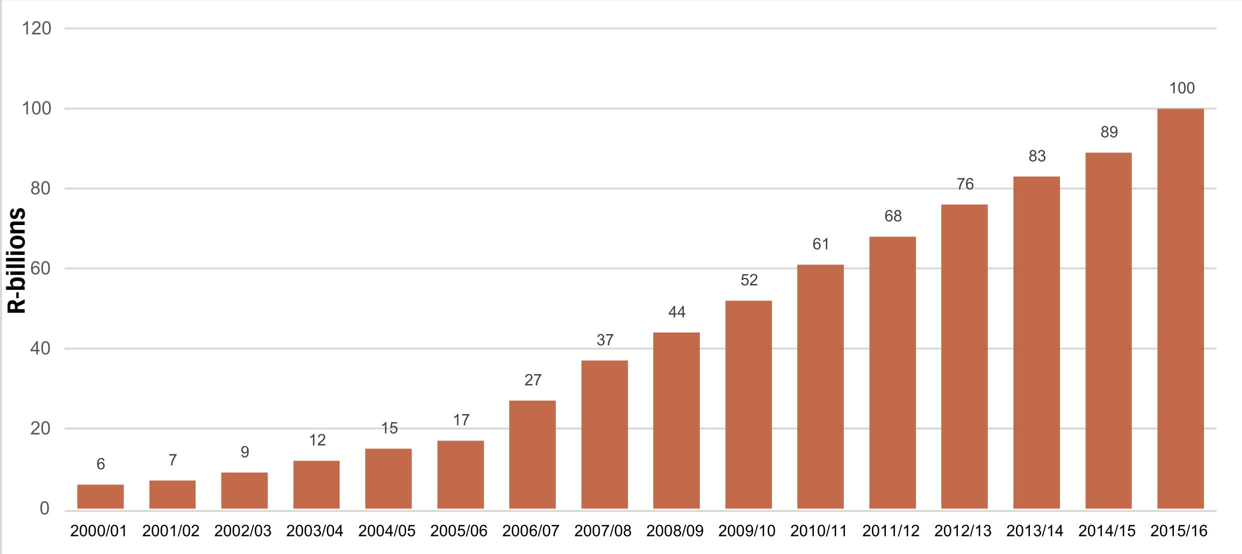


Source: Commission's computations based on Global Insight data

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.

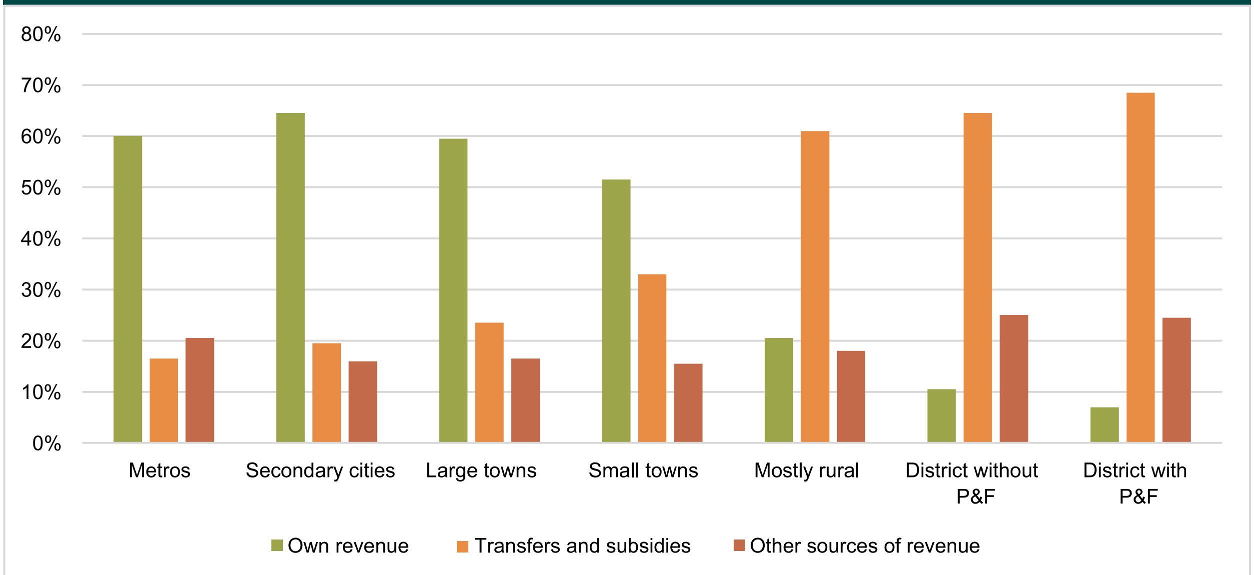
As Figure 7 shows, between 2003/04 and 2012/13, intergovernmental transfers was the dominant source of revenue in the smaller towns and mostly rural municipalities, whereas own revenue represented a greater share of revenue for metros, secondary cities, and large and small towns .

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)

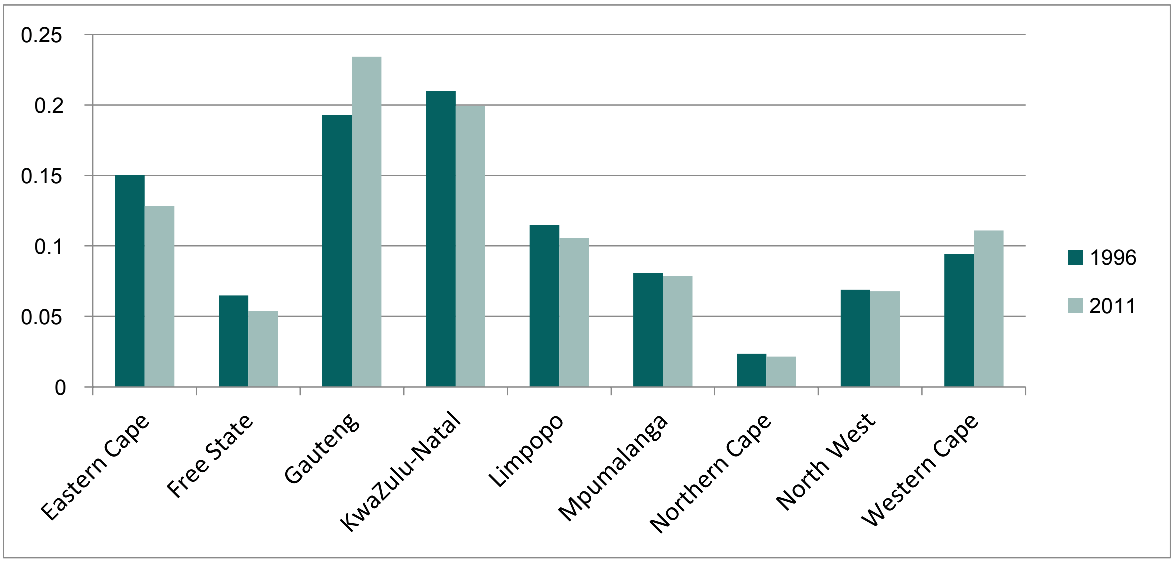


Source: Commission's computations based on National Treasury data

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

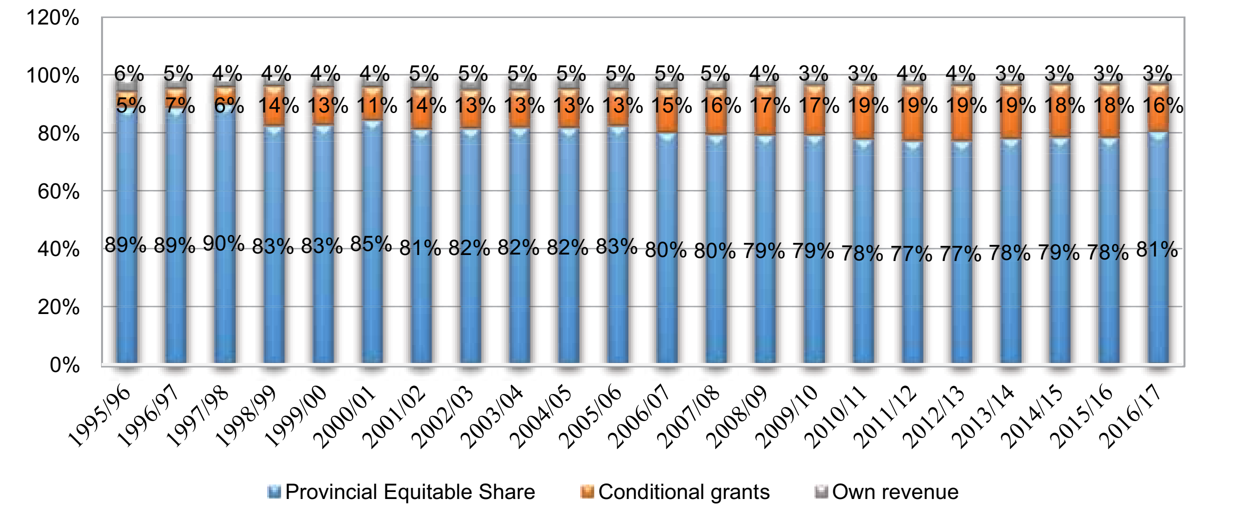
Table 6. Provincial development disparities

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).

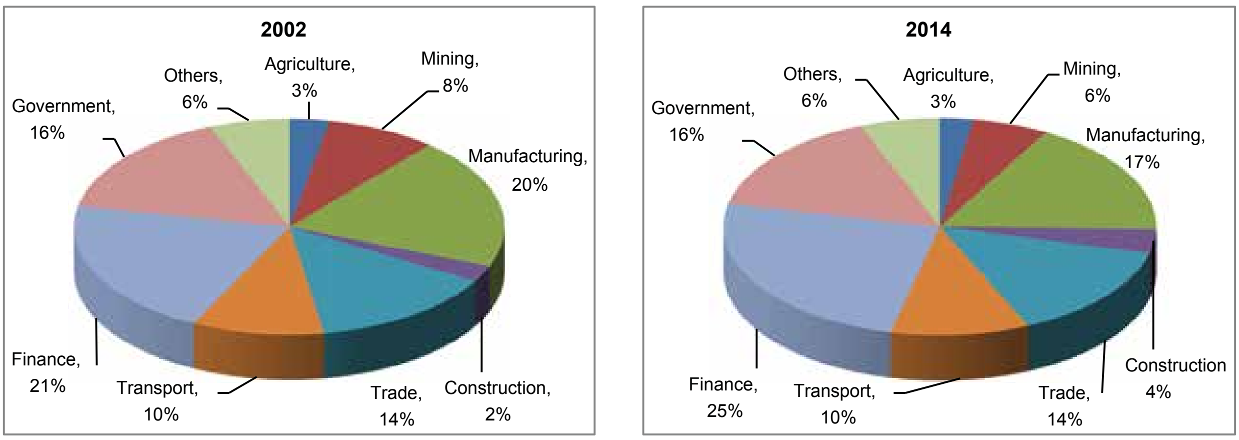
Over the past 22 years, the economy has seen a shift away from the primary sector towards the secondary sector, as Figure 12 illustrates.

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

	Year: 1996	Growth (%)	Year: 2014
Population (Million)	41	33%	54
Employment (Million)	9	56%	14
GDP ($ Billion)	143	194%	420
Urbanization (%)	46	37%	63
Access to Water (%)	61	21%	74
Access to Electricity (%)	58	47%	85
Access to Sanitation (%)	50	26%	63
White Owned agricultural Land (%)	70	-4%	67

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

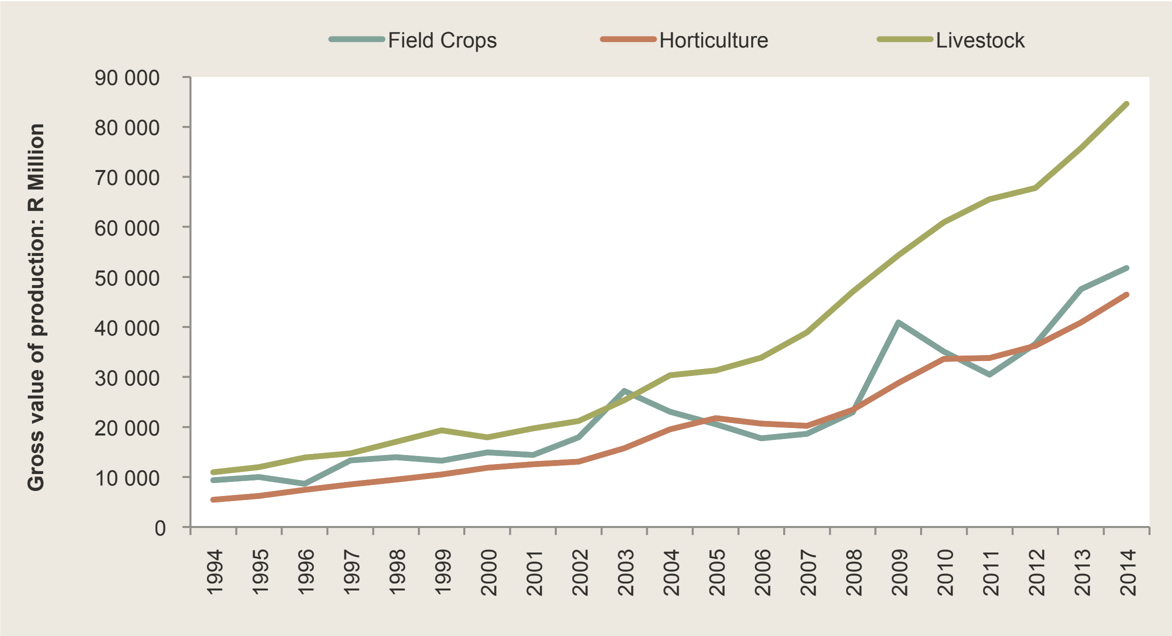


Source: Commission's computations based on Stats SA data
Note: Both 2002 and 2014 charts are generated from data published in Stats SA (2014)

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 development, 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

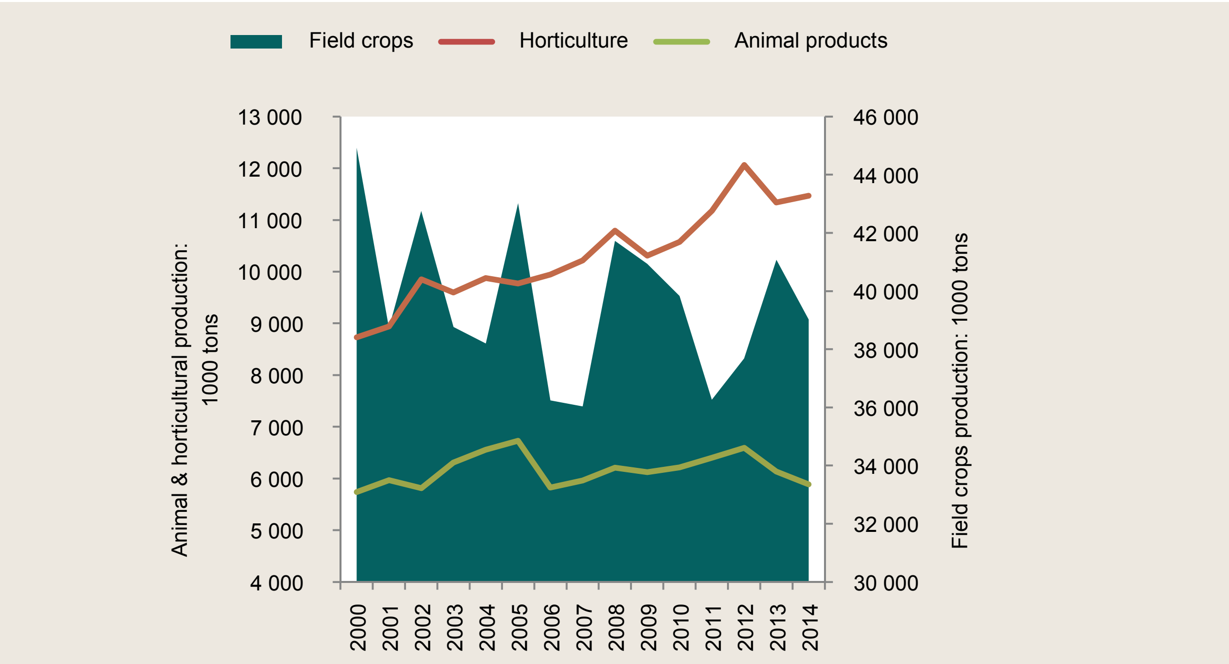
A key feature of post-1994 agricultural trade policy in South Africa has been tariffs replacing direct controls over imports and exports (as per the Marketing Act of 1936 amended in 1968), and the lowering of those tariffs below the bound rates agreed to in the Marrakech Agreement of 1994 (Ngqangweni, 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).

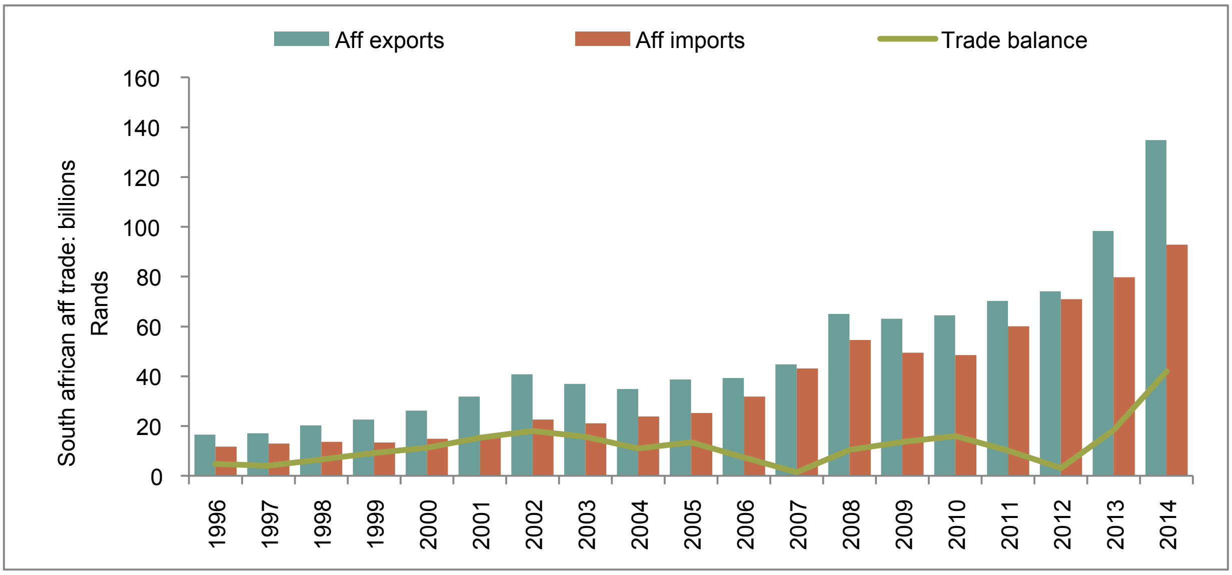
The South African agricultural sector (including forestry and fisheries) generates income mainly from export markets. In 2014, exports by the agricultural sector amounted to R134-billion, driven mainly by citrus fruit, wine, maize, fish and wood pulp commodities (DAFF, 2014). South Africa exports unprocessed 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

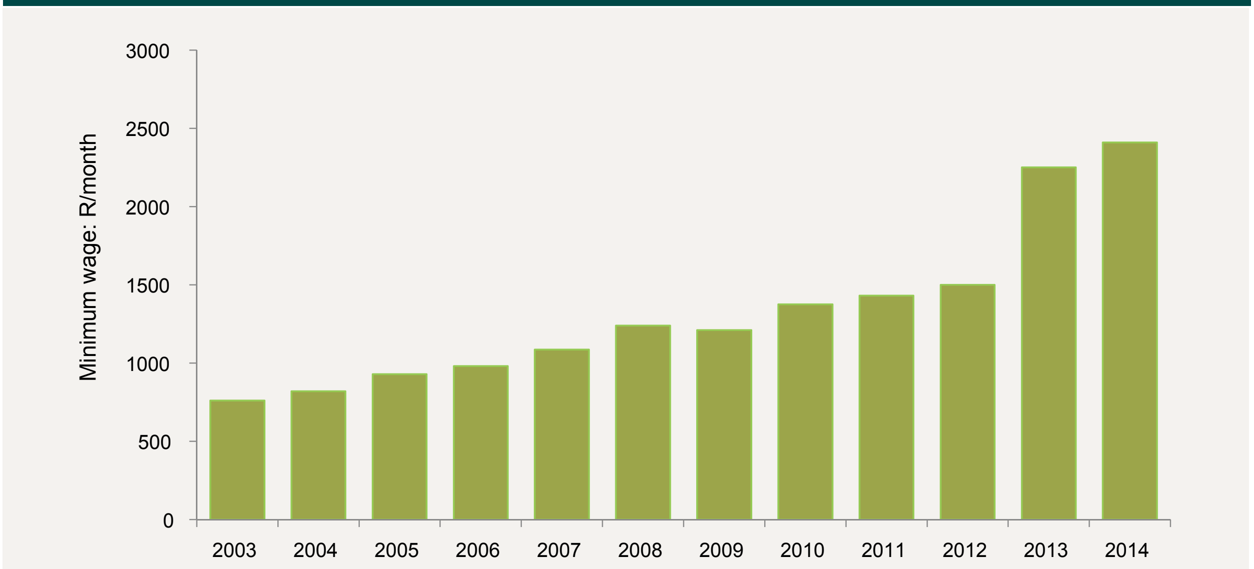
Over the 10-year period, agricultural exports grew by 183%, increasing from R23.5-billion to R66.7-billion. The main export markets, accounting for 83% of total exports, were the EU, Africa and Asia. However, exports are slowly shifting away from Europe to Asia and Africa: the EU's share declined by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

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