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ACRONYMS

ADS	Agency Development and Support (IDC)
AGOA	African Growth and Opportunity Act
AGSA	Auditor-General of South Africa
ALHA	Agricultural Land Holding Account
ANC	African National Congress
ANOVA	Analysis of Variance
APAP	Agricultural Policy Action Plan
apw	Agricultural Value Added per Worker
AsgiSA	Accelerated and Shared Growth Initiative for South Africa
ASIDI	Accelerated Schools Infrastructure Delivery Initiative
B&CB	Business and Corporate Banking (Land Bank)
BFAP	Bureau for Food and Agricultural Policy
BLA	Black Local Authority
BRICS	Brazil, Russia, India, China and South Africa
BVT	Business Value Tax
CAADP	Comprehensive African Agriculture Development Programme
CASP	Comprehensive Agricultural Support Programme
CGE	Computable General Equilibrium
CLC	Community Law Centre
COGTA	Cooperative Government and Traditional Affairs
CPI	Consumer Price Index
CRDP	Comprehensive Rural Development Programme
CRS	Constant Returns to Scale
CWP	Community Works Programme
DAFF	Department of Agriculture, Forestry and Fisheries
DARD	Department of Agriculture and Rural Development
DBE	Department of Basic Education
DBSA	Development Bank of Southern Africa
DEA	Data Envelope Analysis
DFI	Development Finance Institutions
DHS	Department of Human Settlements
DLA	Department of Land Affairs
DM	District Municipality
DMA	District Management Areas
DME	Department of Minerals and Energy
DOE	Department of Energy
DOH	Department of Health
DORA	Division of Revenue Act
DPE	Department of Public Enterprises
DPME	Department of Planning, Monitoring and Evaluation
DPW	Department of Public Works
DRDA	District Rural Development Authorities
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
ECA	Economic Commission for Africa
ECD	Early Childhood Development
EcoSan	Ecological Sanitation
EDD	Economic Development Department
EPWP	Expanded Public Works Programme
ESTA	Extension of Security of Tenure Act
EU	European Union
FBS	Free Basic Services
FDH	Free Disposal Hull
FEVD	Forecast Error Variance Decompositions
FFC	Financial and Fiscal Commission
FICA	Financial Intelligence Centre Act
FTE	Full-Time Equivalent
GDP	Gross Domestic Product
GEAR	Growth Employment and Redistribution
GHS	General Household Survey
GMM	Generalised Method of Moments
GPP	Gross Provincial Product

GRP	Gross Regional Product
GSM	Government Shareholder Management
GVA	Gross Value Added
HDA	Housing Development Agency
HDDS	Household Dietary Diversity Score
HFSIAS	Household food insecurity access score
HST	Health Systems Trust
ICASA	Independent Communications Authority of South Africa
ICT	Information and Communication Technology
ID	Identity Document
IDC	Industrial Development Corporation
IDP	Integrated Development Plan
IDT	Independent Development Trust
IFAD	International Fund for Agriculture Development
IGFR	Intergovernmental Fiscal Relations
IGR	Intergovernmental Relations
ILO	International Labour Organisation
IMF	International Monetary Fund
INEP	Integrated National Electrification Program
IRF	Impulse-Response Function
ISRDP	Integrated Sustainable Rural Development Programme
ISRDS	Integrated Sustainable Rural Development Strategy
KwH	Kilowatt Hours
KZN	KwaZulu-Natal
LASS	Land Acquisition for Sustainable Development
LBIS	Land Bank Insurance Services (Land Bank)
LED	Local Economic Development
LGES	Local Government Equitable Share
LGFF	Local Government Fiscal Framework
LGNF	Local Government Negotiating Forum
LGTA	Local Government Transition Act
LM	Local Municipality
LRAD	Land Redistribution for Agricultural Development
MDB	Municipal Demarcation Board
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
MISA	Municipal Infrastructure Support Agency
MPF	Municipal Participation Fund
MSA	Municipal Structures Act
MTEF	Medium Term Expenditure Framework
MTSF	Medium Term Strategic Framework
MWIG	Municipal Water Infrastructure Grant
NAMC	National Agricultural Marketing Council
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
OLS	Ordinary List Squares
P&F	Powers and Functions
PCC	Presidential Coordinating Commission
pci	Per Capita Income
PDARD	Provincial Department of Agriculture and Rural Development
PEP	Public Employment Programme
PES	Provincial Equitable Share
PFMA	Public Finance Management Act
PICC	Presidential Infrastructure Coordinating Commission
PIE	Prevention of Illegal Eviction
PIT	Personal Income Tax
PLAAS	Institute for Land and Agrarian Studies
PLAS	Proactive Land Acquisition Strategy
PRC	Presidential Review Commission
PSC	Public Service Commission
PSM	Propensity Score Matching
RADP	Recapitalisation and Development Programme
RBIG	Regional Bulk Infrastructure Grant
RCB	Retail Commercial Banking (Land Bank)
RCDF	Rural and Community Development Fund
RDP	Reconstruction and Development Programme
REM	Retail Emerging Markets (Land Bank)
RHIG	Rural Household Infrastructure Grant
RHIP	Rural Household Infrastructure Programme
RICA	Regulation of Interception of Communications and Provision of Communication-Related Information Act
ROA	Return on Average Assets

ROE	Return on Assets
SAHRC	South African Human Rights Commission
SALGA	South African Local Government Association
SAM	Social Accounting Matrix
SAPO	South African Post Office
SARB	South African Reserve Bank
SARS	South African Revenue Services
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
TMC	Transitional Rural Council
UCLG	United Cities and Local Governments
UN	United Nations
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
USA	United States of America
USDG	Urban Settlement Development Grant
VAT	Value Added Tax
VECM	Vector Error Correction Model
VIP	Ventilated Improved Pits
VRS	Variable Returns to Scale
WHO	World Health Organization
WLA	White Local Authority
WSA	Water Service Authority
WSP	Water Service Providers
WTA	World Trade Atlas

FOREWORD AND EDITORIAL

The Financial and Fiscal Commission (the Commission) tables at Parliament its Annual Submission for the Division of Revenue every year. The 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 of 1997) and Section 4(4c) of the Money Bills Amendment Procedure and Related Matters Act (No. 9 of 2009).

This Submission is part of the Commission's constitutionally defined processes, to advise Parliament and state organs on how the money collected by national government should be allocated fairly and equitably among the three spheres of government, to enable them to carry out their constitutional and other legal mandates. Intergovernmental fiscal transfers are a dominant feature in South Africa, as the bulk of government revenue is raised at national level and then allocated to subnational government (municipalities and provinces) through the equitable share and other grants. On 27 May 2016, the Commission tabled at Parliament its Annual Submission for the 2017/18 Division of Revenue. This volume of technical chapters is published as a companion document to the Annual Submission.

The theme of this year's Submission is the Intergovernmental Fiscal Relations System and Rural Development in South Africa. Rural areas cover 80% of South Africa's land and are home to almost 40% of the population. Although poverty and economic deprivation have declined significantly since 1994, rural areas lag behind the country as a whole. Despite increased funding, 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. Poverty is a manifestation of under-development emanating from a range of factors, including historical legacies, under-investment and structural issues. As a result of historical social engineering policies and weak regional economies, rural areas carry the highest burden of poverty. This burden imposes additional demands for services and funding on rural provinces and municipalities.

Government has recognised the need for integrated rural development – one of the key objectives of the National Development Plan (NDP) is an "Integrated and Inclusive Rural Economy" by 2030, while rural development is one of the priority areas identified in the Medium Term Strategic Frameworks (MTSF) of 2009–2014 and 2014–2019. However, this new approach has not yet been accompanied by a substantial reallocation of resources. Part of the problem is that, like many other countries, South Africa does not have a government-wide, officially agreed and accepted definition of "rural". This lack of a common definition has led to a plethora of rural development programmes across government departments.

To date, the fiscal framework has not had a significant impact on rural development for various reasons, including (a) the transfer system from national government; (b) uncollected property rates and/or service charges that are not cost-reflective; (c) leakages, including bad management, inefficient procurement, under-spending and institutional challenges. The Submission provides evidence on how improving the efficiency of intergovernmental fiscal relations can assist national government, public entities, provinces and municipalities to stimulate rural development through prioritising public investments and interventions.

Rural development is a complex process and is not just about agricultural development, as agriculture contributes less than 3% to South Africa's economy. Indeed farm families increasingly rely on off-farm employment and social grants. Therefore, land reform needs to go beyond agriculture and farm-based activities. Rural areas require new economic engines and initiatives that seek to expand industrial activities, enhance agricultural productivity, and foster greater production linkages within agro-processing industries.

Given this complexity, rural development requires proper coordination among the institutions and departments involved. Coordination is needed at both local level and between national and subnational governments, in order to integrate sectoral approaches, to involve private partners and to achieve the appropriate geographic scale. Public entities, such as state-owned companies (e.g. Eskom, Telkom) and development finance institutions (e.g. Land Bank, Industrial Development Corporation) also have a responsibility to support rural development. However, they invest modestly in rural areas and do little to crowd in the private sector.

Perhaps the most challenging aspect of rural development is ensuring that provinces and municipalities are well funded, through own-revenues and transfers from nationally collected revenue. Rural provinces have limited economic activity and a narrow tax base, which means that they rely heavily on central government for funding. As a result, they have little spending discretion (i.e. ability to direct resources towards province-specific needs). While the principle of supporting the poorer regions or provinces through grants or special projects is generally well-supported, there is no agreed method for determining poverty levels and related needs among regions. In addition, government's current rural strategies are often sector-based and do not allow for the different developmental needs of rural regions, many of which depend 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. This sector-based approach, coupled with the lack of intergovernmental coordination, has led to the two main rural grants servicing the same target audience and funding the same activities. Greater alignment is needed between the land reform programme and other rural development policies.

Like rural provinces, the majority of municipalities in rural areas depend heavily on transfers to fulfil their mandate. This is in part because they have limited scope for economic diversification, exhibit deficient services and infrastructure and revenue bases are declining because of high unemployment and population losses through migration. In addition, rural municipalities face the dilemma of expanding expenditure requirements, including caring for the farm workers and dwellers who are evicted from farms – these evictions are the unintended consequences of laws introduced since 1994 to regulate the rights of farm workers. Municipalities have to use their own funds because currently the intergovernmental fiscal instruments do not cater for evictions.

The main purpose of this Technical Report is to explore how improving the efficiency of intergovernmental fiscal relations (IGFR) can assist national government, provinces and municipalities to stimulate rural development through prioritising public investments and interventions. If managed properly, fiscal reforms for rural development can bring about greater inter-regional equity and potential economic growth. While the focus is on rural areas, the debate should not be an "either-or" choice between urban and rural development, as both exist in parallel throughout South Africa. The Commission is also interested in urban development, as both rural and urban regions can contribute to national growth and poverty alleviation.

A vexing methodological question confronting practitioners 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[1], and what determines success or failure. This is because isolating the impact of cross-sectoral policies is difficult, especially in quantitative terms.

Two pillars dominate the conceptual framework underpinning the work in this volume:

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.

At the broadest level, this Technical Report will enhance our understanding of emerging trends in rural-urban development and their theoretical and practical implications for South Africa. Reflecting the diversity of systems and practices, the Report adopts a multi-layered and multi-levelled approach, covering local, regional and provincial aspects, and encompassing many actors, institutions, enterprises, state enterprises and social movements. While these multiple 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 urban areas can affect poverty directly or indirectly, and at different levels (i.e. household, municipal, provincial or national), while the magnitude and direction of impacts will depend on the type of investment. Therefore, the impacts of investments must be assessed holistically. In essence, this is the concept of a general equilibrium, in that the inter-relations, interactions, exchanges and positive externalities are expressed simultaneously across all dimensions. Similarly, the general equilibrium concept is not limited to urban areas 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 urban 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.

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[1] 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. Perhaps the best known place-based policies are those that target underperforming areas, such as deteriorating rural areas or relatively disadvantaged areas eligible for regional development aid such as former Bantustans.

Reflecting the ambitions of this volume, each of the chapters takes the form of a structured narrative, which (unlike descriptive accounts) maps the interaction between multiple variables that the literature suggests may contribute to institutional change. In line with this approach, a mix of econometric and simulation/modelling methods and tools are used to assess the impacts of IGFR instruments in rural areas. To attach numbers to relationships requires quantification and modelling. However, identifying the types of socio-economic models that can be used to analyse rural policy issues is fraught with difficulty. The model types used take into account the different policy measures corresponding to each generic policy issue and thus the "compatibility" of each measure with types of socio-economic models that are able to carry out the analysis.

Defining the policy effects that models can capture is complicated. A policy-impact analysis can be directed towards more than one type of effect, 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 (e.g. 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 researchers' relevant experience in research and policy analysis, 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. These factors include 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 examine the interlinking issues of farm evictions and municipal finances in selected municipalities that have experienced actual farm expulsions.

The Technical Report consists of 15 chapters that are organised into four parts:

1. Macro-Micro and Fiscal Context of Rural Development

2. National Government and Rural Development

3. Provincial Government and Rural Development

4. Rural Municipalities and Rural Development

Part I presents the methods and tools applied in the analysis of the many different topics, as well as an overview of the definitions 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 have 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 Technical Report, 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 agricultural 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.

Part II presents chapters focusing on national government and rural development. Over the past decade, South Africa has implemented many rural development strategies focused on mostly 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 state-owned companies (SOCs) and development finance institutions (DFIs) do in rural spaces and what they need to do in order to be drivers of rural growth.

In **Part III,** the primary focus is on provincial government and rural development. Like 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. 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.

Part IV addresses 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 turn around 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. This part of the Technical Report 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. Furthermore, the section evaluates the role of district municipalities in rural development. Lastly, the focus turns to finding innovative ways of tapping into economic activity in rural areas, and developing new sources of municipal income while arresting the decline in existing sources.

The chapters that make up the four parts of this Technical Report are briefly described below.

In Chapter 1, Ramos Mabugu outlines and addresses IGFR problems associated with rural development. After describing the main rural development issues (i.e. rural development, 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. Next, the conceptual framework underlying the Technical Report is developed, taking into account the strong interdependence of national, provincial and local government and differences across municipalities. 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 report.

The aim of Chapter 2, by Hammed Amusa, is to examine the role of targeted intergovernmental transfers in reducing rural poverty. This chapter looks at the contribution of the agricultural and non-agricultural sectors to poverty reduction and local/regional economic growth. The study found that agricultural activities represent an important driver of incomes and local economic growth in rural municipalities because of their positive effect on non-agricultural sectors. However, growth within the non-agricultural sector can lead to resources leaving the agriculture sector, causing a slow-down in productivity growth or a decline in overall value-added output. Growth within the agriculture sector exerts significant poverty-reducing effects and can be a powerful tool for lifting people out of poverty. However, this comparative edge over growth in the non-agricultural sector declines in the presence of a large public sector and deep poverty. In such instances, growth in non-agriculture per-capita value added is a more powerful tool for reducing poverty. The chapter recommends reviewing the agricultural grants targeted at small-scale farmers and creating linkages between the agriculture and non-agricultural sectors.

Ghalieb Dawood evaluates the national land reform programme's impacts on rural development in Chapter 3. 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 Recapitalisation and Development Programme (RADP) and the Comprehensive Agricultural Support Programme (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 4 by Sasha Peters, Poppie Ntaka and Thembie Ntshakala analyses ways of enhancing the role of state-owned companies (SOCs) in rural development. SOCs 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. This chapter's overarching objective is to assess the role of SOCs in rural development. The study found that the studied SOCs (Eskom, Telkom, Transnet and the South African Post Office or SAPO) do not have a specific rural focus. The chapter recommends reconfiguring and modernising the South African Post Office (SAPO) to broaden its focus, improving Transnet's contribution to regional economic growth and expanding Telkom's network infrastructure in rural areas.

Chapter 5 by Thando Ngozo analyses ways of enhancing the role of development finance institutions (DFIs) in rural development. DFIs are expected to play an instrumental role in the implementation of developmental policies and act as catalysts for accelerated industrialisation, economic growth and human resource development. The chapter examines the role of four DFIs – the Land Bank, Development Bank of Southern Africa (DBSA), Industrial Development Corporation (IDC) and the National Empowerment Fund (NEF) – in enhancing rural economic development, and how they can support rural development. The study found that 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.

In Chapter 6, Thando Ngozo evaluates the extent to which provincial own-revenues respond to rural development needs. The fiscal decentralisation and IGFR systems entrenched by the Constitution assign to provinces narrow-based taxes, which means that they have lower fiscal autonomy and tax-raising powers than other government spheres. This constitutional constraint means that all provinces – and especially rural provinces – have a limited ability to generate own-revenues. This chapter explores the scope for increasing provincial own-revenues and examines the shared tax base model as a viable alternative. The study found that, with the exception of KwaZulu-Natal, rural provinces have low own revenues (because of narrow tax bases) and high levels of poverty – poverty constrains the ability of provinces to generate own revenues. The chapter recommends investing in infrastructure and quality education and training in order to enhance economic growth and employment, and thereby grow the tax base.

Chapter 7 by Eddie Rakabe evaluates the extent to which provincial fiscal transfers (provincial equitable share and conditional grants) respond to rural development needs. Rural provinces in South Africa have the heaviest burden of under-development, and are characterised by weak economic activity, poor socio-economic conditions and high infrastructure backlogs. The chapter assesses the responsiveness of the fiscal transfers to the needs of rural provinces and the extent to which rural provinces prioritise development. The study found that 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. The grants supporting agrarian development and the eradication of other rural-specific infrastructure backlogs have 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.

In Chapter 8, Poppie Ntaka, Ghalieb Dawood and Sasha Peters assess government's fiscal instruments to fund job creation in rural areas, and in particular public employment programmes (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. The 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. In order to achieve the NDP target of two million full-time recipients by 2020, the chapter recommends that the training component of PEPs be strengthened and that PEP spending be restructured, so that more resources can be directed at the CWP and the non-profit and social sectors of the EPWP, which are labour-intensive and more cost-effective, and have activities that are easily implementable in rural areas.

Chapter 9, by Zanele Tullock, is about developing rural local municipalities' own-revenue sources. Municipalities require diverse and "non-traditional" revenue sources to address their growing responsibilities and pay for their operations, infrastructure and maintenance. This chapter examines the potential for additional own-revenue taxes that could benefit rural municipalities and explores constraints to the property revenue base. The study found that, despite property taxes being generally deemed to be a reliable source for local governments, this is not the case in rural municipalities because of deficient property tax administration. 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 rural municipalities ensure their property registers and valuation rolls are up to date and be capacitated to collect such taxes.

Chapter 10, by Mkhululi Ncube and Jabulile Monnakgotla, is about financing rural local municipalities for rural development needs. Government is seeking to make rural municipalities self-sufficient and less dependent on transfers, through amalgamating municipalities. This chapter examines whether the model (whereby all municipalities are financially viable) is appropriate for rural municipalities, considering their weak and fragile revenue bases. The study found that amalgamations are a weak instrument for pursuing financial viability of rural municipalities and the wrong one for improving the functionality of municipalities. The chapter recommends that the transfer system be sensitive to financially unviable municipalities, and that financial viability be achieved through economic development and functionality through legislative, policy and capacity-building measures.

Chapter 11, by Mkhululi Ncube and Jabulile Monnakgotla, is about the adequacy of the local government equitable share (LGES) and conditional grants for rural development needs. This chapter investigates whether the LGES and conditional grants compensate municipalities sufficiently for their lack of own revenues, and whether the new LGES has had the desired outcomes. The study found that transfers adequately compensate rural local municipalities for the lack of own revenues in some services and not in others. Viewing a grant in isolation, rather than taking a holistic view of all grants, may give the impression that a service is underfunded, when this is not the case. The chapter recommends that grants continue to be consolidated and reviewed regularly to ensure needs and resources are aligned, and (along with the LGES) that they are informed by objective cost estimates.

Chapter 12 by Nomfundo Vacu is about the effectiveness of transfers to local municipalities for rural development needs. The main objective of this chapter is to assess the effectiveness and efficient use of intergovernmental transfers in South African rural municipalities. The study found that conditional grants are under-spent, and yet these municipalities have significant backlogs in almost all services. Rural municipalities are not prioritising their spending, as shown by the resources spent on employee costs compared to vital expenditure needs such as repairs and maintenance of existing infrastructure. It also found that the performance of rural municipalities can be improved without necessarily increasing the amount of resources. The provision of FBS and the lack of institutional capacity are the major causes of technical inefficiencies in rural municipalities, whereas economic performance, municipal size and grant reliance have positive effects on municipal efficiency. The chapter recommends more stringent expenditure supervision of rural local municipalities by national and provincial governments.

Chapter 13, by Mkhululi Ncube and Nomfundo Vacu, evaluates the effectiveness of district municipalities (DMs) for rural development. DMs have an important role to play in rural development and in assisting local municipalities to fulfil their mandate. This chapter assesses the effectiveness and efficient use of intergovernmental transfers in the South African rural local government space and evaluates the role of DMs in rural development. The study found that DMs under-spend on conditional grants and on infrastructure repairs and maintenance, and that many DMs are not performing their core legislative functions, which is compromising local economic development. The chapter recommends that DMs should be retained in rural (not urban) areas and be tasked with more complex tasks, in particular water and electricity infrastructure, in addition to strategic regional planning and coordination. The chapter recommends strengthening the capacity of DMs so that they can support weaker municipalities, and making DMs more accountable to citizens.

Chapter 14, by Thembie Ntshakala, analyses the extent of farm evictions and the increasing responsibilities of rural local municipalities. Since 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 workers and dwellers 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. The study found that 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.

In **Chapter 15**, Sabelo Mtantato reviews the effectiveness of fiscal instruments and governance in enhancing sanitation in rural areas. 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 study found that 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.

Ramos Mabugu, Research and Recommendations Programme Director

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Ramos Mabugu is Head of the Research and Recommendations Division at the Commission and a Fellow at the University of Stellenbosch, South Africa. He has published on topics related to applied economics, public finance, tax policy, and intergovernmental fiscal relations. Most of his economic modelling work is on the application of computable general equilibrium (CGE) models, social accounting matrix (SAM) methods, input-output methods, and macroeconomic models. In collaboration with colleagues, Ramos has pioneered the first applications of CGE microsimulation (static and dynamic) in two Southern African countries. He has taught and supervised at postgraduate level at the University of Zimbabwe and the University of Pretoria, South Africa. While at the University of Pretoria, Ramos was instrumental in setting up a collaborative environmental economics MSc and PhD training programme. He has served as a consultant for many organisations and was an external examiner for several universities. Ramos has also taught economic modelling courses at the Ecological and Environmental Economics Programme at the Abdus Salam International Centre for Theoretical Physics (ICTP) in Italy. In 2003/04, Ramos gave technical advice at the Centre for International Forestry Research (CIFOR), Indonesia, and Sida, Sweden. In 2006 he was awarded the visiting fellowship award from Curtin University in Australia, in recognition of his contributions to intergovernmental fiscal relations modelling. He earned his PhD in economics from the University of Gothenburg, Sweden.

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