FINANCIAL AND FISCAL COMMISSION

For an Equitable Sharing of National Revenue

Responding to South Africa's Rural Development Challenge

EXECUTIVE SUMMARY

Rural areas are demographically, economically and politically important, being home to 38% of South Africa's population. Although government has had some impressive achievements since 1994, rural areas remain places of poverty and unemployment characterised by underdevelopment and poor socio-economic conditions. The Financial and Fiscal Commission found that certain conceptual, structural and fiscal challenges impede effective rural development spending and programmes. These are the lack of a common definition of "rural", the complexity of concurrent responsibility for rural development, and the challenges of funding rural municipalities and provinces, which have limited economic activity and a narrow tax base. The Commission highlights a number of opportunities, including that national government should drive efforts towards a comprehensive definition of "rural", agricultural-related transfers should be distributed equitably across provinces, functions assigned to national and provincial government should be reviewed, the growth potential of peri-urban and rural areas should be harnessed, and intergovernmental relations should be strengthened.

Policy Brief 1

Responding to South Africa's Rural Development Challenge

BACKGROUND

The importance of rural areas demographically, economically and politically is undisputed. Rural areas account for about 80% of the land, and are home to 38% of South Africa's population, or about 20.5 million people; this figure is projected to fall to 30% by 2030. 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.

Rural areas are mostly associated with high levels of under-development and poor socio-economic conditions. They are further characterised by high levels of poverty and unemployment, poor connectivity, low access to basic services and sub-optimal levels of economic activity, which reinforce under-development and poor living standards. Rural areas have, therefore, become the focus of government policy aimed. Rural economic development policies include the provision or facilitation of income-earning opportunities, the provision of quality education, health care and basic services, investment in economic and social infrastructure, and protection of the environment.

From a broad perspective, the South African story since 1994 ("22 years of democracy") appears to be one of rural decline, urban growth, and a long-term decline in economic prospects. Intergovernmental fiscal (IGF) instruments can help improve economic wellbeing in rural areas, thereby leading to improved rural growth, reduced poverty and less inequality. However, certain conceptual, structural and fiscal challenges impede effective rural development spending and programmes.

RESEARCH FINDINGS

Lack of common definition of "rural"

Like many other countries, South Africa does not have a government-wide, officially agreed and accepted definition of "rural", which leads to rural development strategies being perceived as ineffective. And, although the importance of rural development in reducing poverty is recognised, the meaning of the concept is sometimes not clearly understood. What is also not always clearly defined is the relationship between rural development and related aspects such as land reform, food security and infrastructure. This lack of a common definition has led to a lack of transparency and a plethora of poorly (or not) aligned rural development programmes across government departments.

Complexity of concurrent functions

The Constitution (Schedule 4, Part A) assigns rural development as a concurrent area of responsibility among provinces, municipalities and national government. This makes rural development policy complex and traversal, involving different state institutions and agencies that are assigned different aspects of rural development. National and provincial governments, rural municipalities, state-owned enterprises (SOEs) and the private sector are all involved in rural development initiatives.

The complexities that result from this concurrency can lead to inertia and duplication of rural development interventions within provinces and across government spheres. In addition, provinces do not always perceive spending on education and health as rural development. This is partly because sectoral allocations and investments are not space-based, and so the outcomes are not physically confined to a rural space as in the case of investments in roads and agriculture.

Table 8. Mandate and funding of three government spheres

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

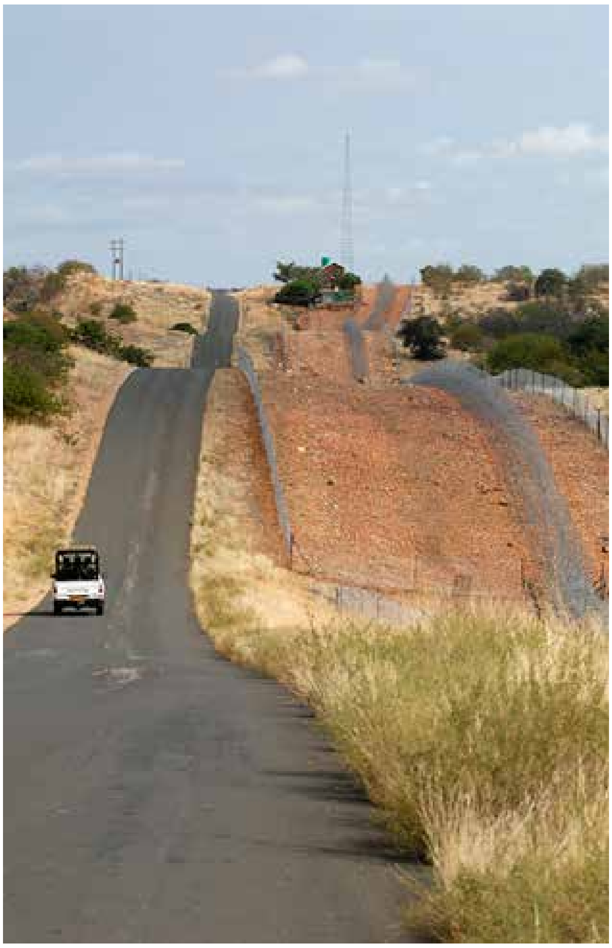
Source: Commission's compilations

The challenge of funding

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 municipalities and provinces have limited economic activity and a narrow tax base, which means that they rely heavily on central government for funding. However, the fact is that South Africa's current economy is simply not strong enough to sustain the tax burden needed to fund infrastructural programmes that stimulate demand and create employment.

Furthermore, while the principle of supporting the poorer regions or provinces through grants or special projects is generally well-supported, no agreed method is in place for determining poverty levels and related needs among regions. The provincial equitable share (PES) formula also makes no discernible distinction in provincial allocations to address the unique developmental challenges of rural provinces. The 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.

Rural municipalitieshave limited scope for economic diversification, deficient services and infrastructure, and declining revenue bases because of high unemployment and population losses through migration. The current system of transfers adequately compensates for the lack of own revenue in some (but not all) services, but rural local municipalities are generally inefficient in using transfers and their possible new revenue sources are limited, partly because of deficient property tax administration. The problem is compounded by the ambiguous allocation of powers and functions between district municipalities and local municipalities. In addition, rural municipalities face the dilemma of expanding expenditure requirements, including caring for the farm dwellers and workers 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 IGF instruments do not cater for evictions.



CONCLUSION

As South Africa faces the challenge of reducing rural poverty, it is worth re-emphasising that rural development efforts should continue to focus on improving the incomes of the poor. However, the rural poor need not only agriculture and agrarian reforms, but also education, health care, social and economic infrastructure, the creation of employment opportunities as well as a change in the economic geography of rural areas. Thus, rural development is a complex process that requires proper coordination among the departments and role-players involved.

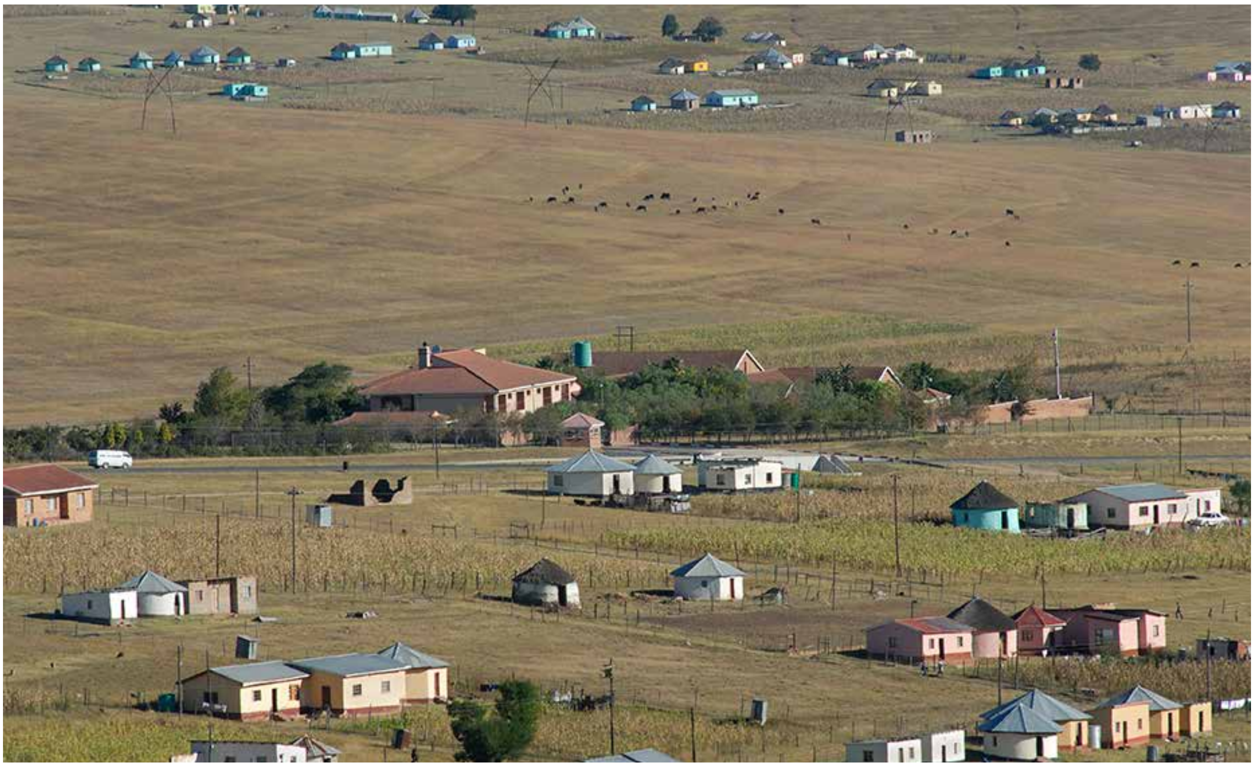
There are a number of opportunities:

- National government should drive efforts towards a comprehensive definition of "rural areas" and "rural development" that is applied across government spheres and is simple to measure and use as a budgeting tool. Responsibilities should be clearly articulated and respective norms and standards clearly spelt out. Only then can adequate fiscal frameworks that respond to rural development effectively and efficiently be designed.

- Grants should be designed, so that agriculture-related intergovernmental transfers are distributed across provinces in an equitable manner that ensures access for emerging and subsistence farmers. This can be achieved through expanding the current disbursement criteria to incorporate weights for a province's share of national rural population, the proportion of a province's of rural population with incomes below official poverty levels/measures, and the extent of subsistence and smallholder farming in the province. Nevertheless, the caveat remains that funding should be preceded by efforts to get a clear operational definition of rural development and then to use a combination of infrastructural and other funds to improve the quality of the rural areas.

- The assignment of functions between national and provincial government should be reviewed, in order to allow relatively more discretion in implementing national policies at a provincial level. Given that the coordination of intergovernmental relations is not the best, it may be useful to redefine roles with a view to improving the role that provinces play in coordinating activities at a local level based on national and province specific priorities.

- The growth potential of peri-urban and rural areas should be harnessed. Out-migration from rural towards urban regions is growing, no doubt as a result of the democracy dividend that brought freedom of movement to all. Policy efforts are needed to sustain productivity growth within peri-urban and rural areas. 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.



- Intergovernmental relations should be strengthened. Incentives for performance need to be boosted (local revenue mobilisation, policy and administrative capacity for service delivery, etc.), especially in provinces with large regional disparities, while weaknesses need to be overcome (coordination failures, governance complexity, etc.).
    - Provinces can promote rural economic development through the concerted provision of quality education and health care and general improvement in governance (as some of the rural challenges are related to the inability to submit business plans). Investment in education and health improves rural and urban linkages in the same way that investment in roads foster functional economic linkages with urban centres. Provinces need to embrace community participation and coordinated planning in order to realise the full benefits of rural development. Sector departments plan separately, independent from municipalities which are the custodians or rural spaces, thus leading to duplication. The respective nine Offices of the Premiers appear best placed to provide central and strategic coordination of rural development from a multi-sectoral perspective rather than the provincial departments of agriculture and rural development (as is currently the case).
    - Rural municipalities have a pivotal role to play in reducing poverty and inequalities through providing basic services and infrastructure. Treasuries need to put in place more stringent expenditure supervision measures, in order to minimise wastage and improve efficiency. The Department of Cooperative Governance and Traditional Affairs should consider introducing a single-tier local government system in urban areas, while at the same time strengthening a two-tier local government system in rural areas.
    - National government should coordinate primarily the role of public entities in rural spaces. 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 and rest of the rural economy. Coordination is needed at both local level and between national and subnational governments, to integrate sectoral approaches, to involve private partners and to achieve the appropriate geographic scale. 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.

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