CHAPTER 5

Enhancing the Role of Public Entities in Rural Development

5.1 Introduction

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

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

5.2 Brief Overview of Public Entities

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

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

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

5.2.1 Presidential Review Committee on SOEs

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

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

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

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

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

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

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

5.3 Financial Position of Public Entities

5.3.1 State-owned companies

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

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

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

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

5.3.2 Development finance institutions

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

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

5.4 Findings

5.4.1 Energy

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

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

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

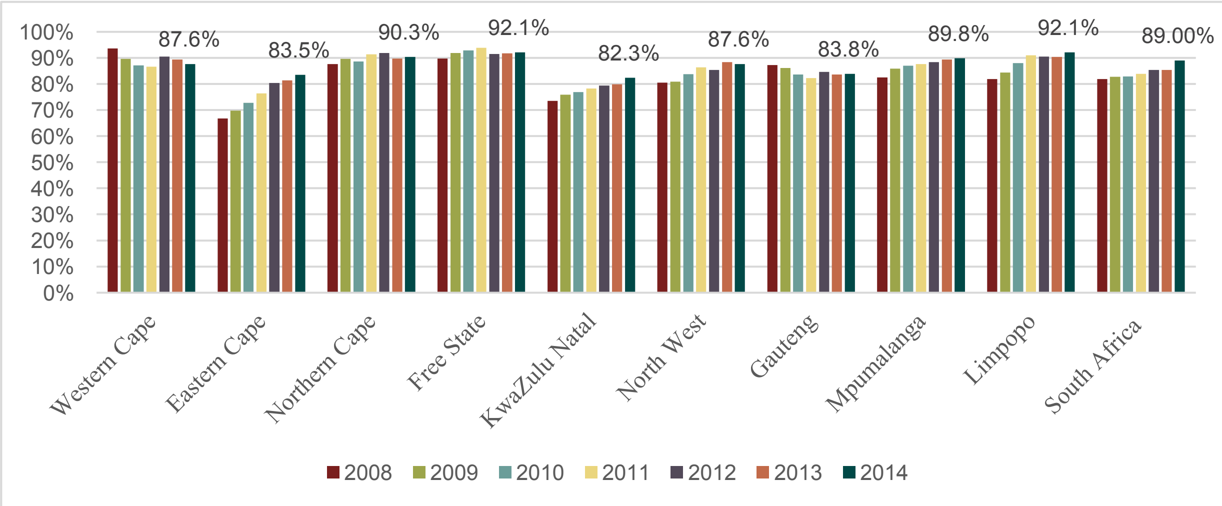
[22] This ratio compares total liabilities to total shareholders' equity. It is a measurement of how much suppliers, lenders, creditors and obligors have committed to the company versus what the shareholders have committed. (http://www.investopedia.com/university/ratios/debt/ratio3.asp#ixzz48FQ6NUra)

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

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

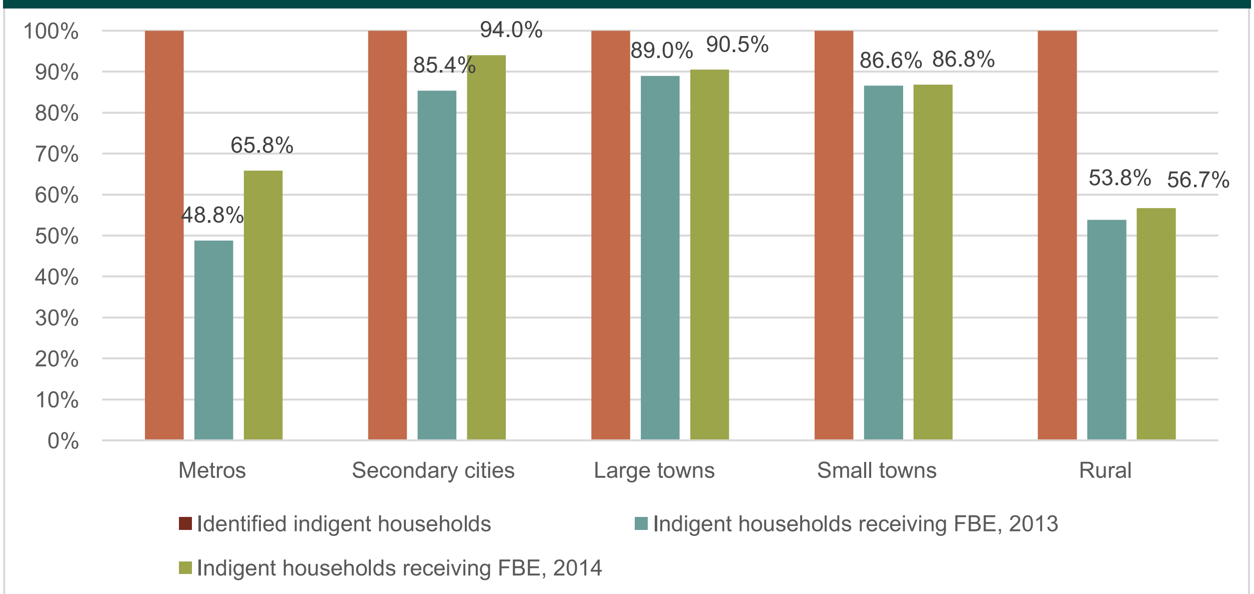
The largest increase in indigent households receiving free basic electricity was in the metropolitan municipalities (Figure 27). Access to free basic electricity remains unacceptably low in rural (B4) municipalities, where only 53.8% and 56.7% of indigent households received this service in 2013 and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

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



Source: Stats SA (2014)

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



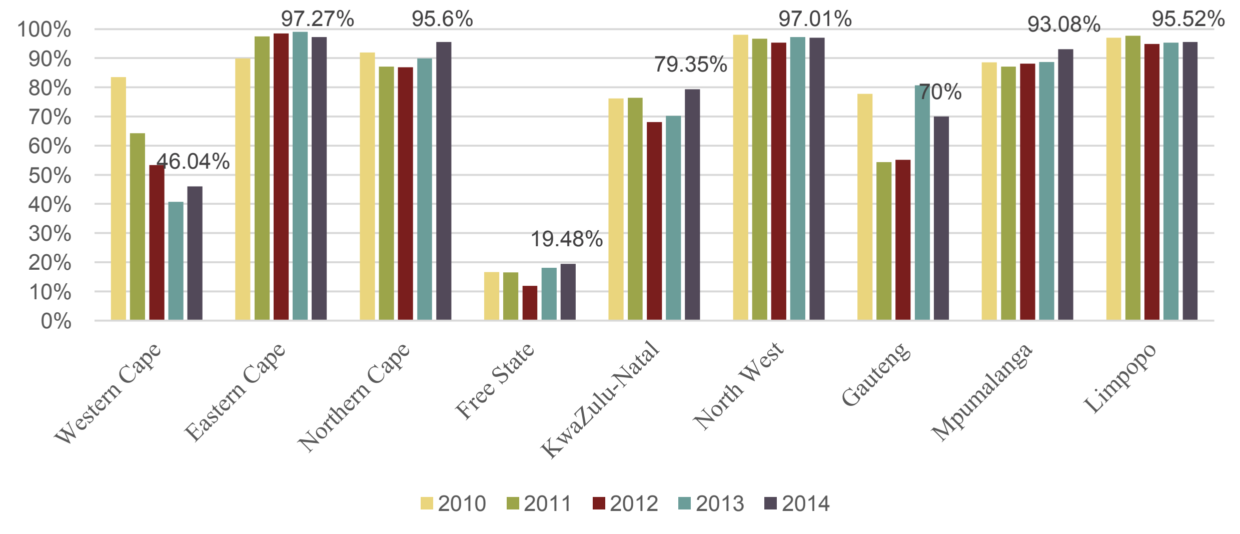
Source: Stats SA (2015)

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

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

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

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



Source: Stats SA (2011–2015)

5.4.2 Telecommunications

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

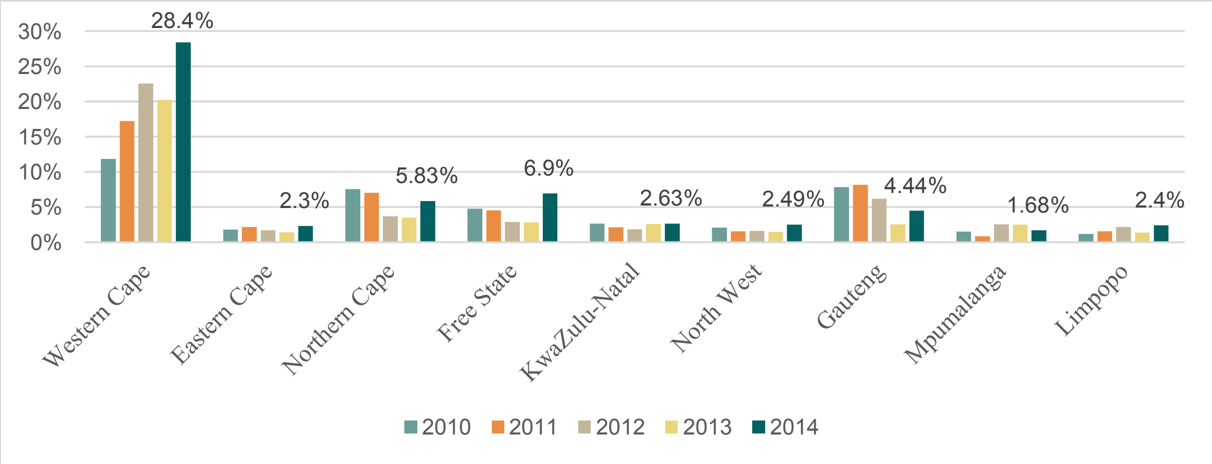
Figure 29 shows the percentage of rural households in each province with access to a functional landline telephone. Between 2010 and 2014, access to landline telephones increased in the Western Cape and the Free State, declined in the Northern Cape and Gauteng and remained fairly constant in the other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

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

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

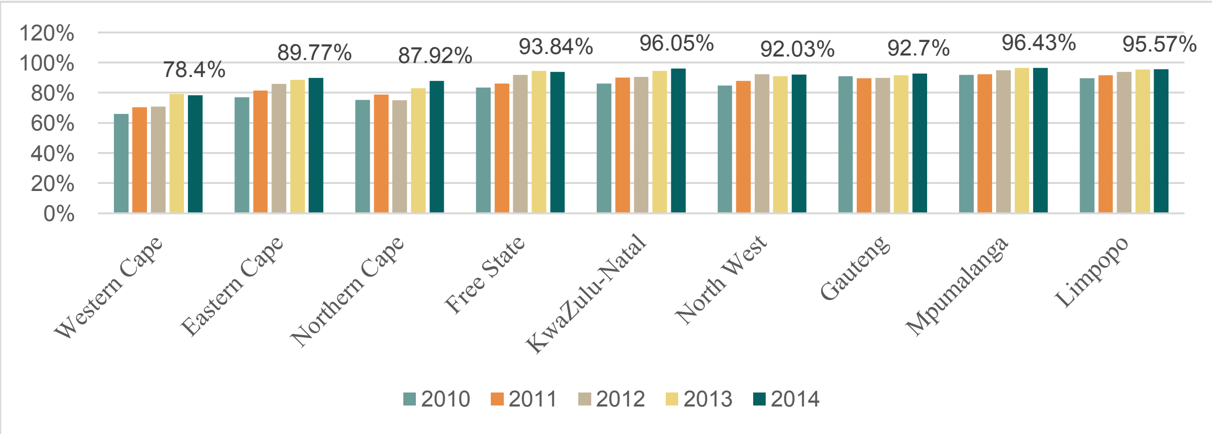
Figure 31 shows the access to the internet at home among rural households over the period 2010–2014.

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



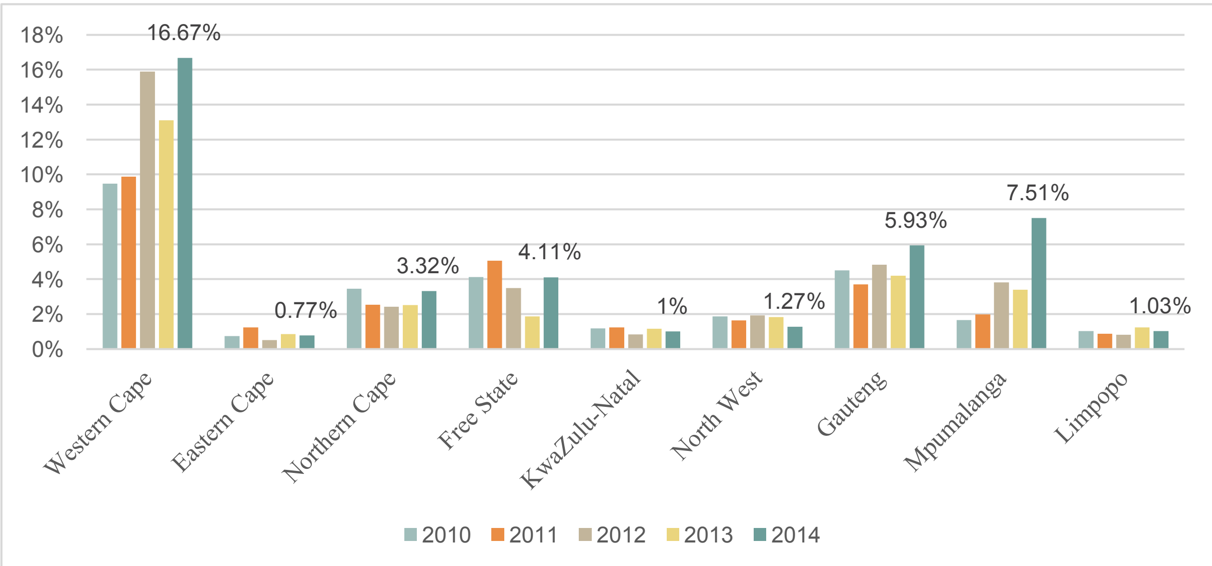
Source: Commission calculations using data from Stats SA(2010–2014)

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



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

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



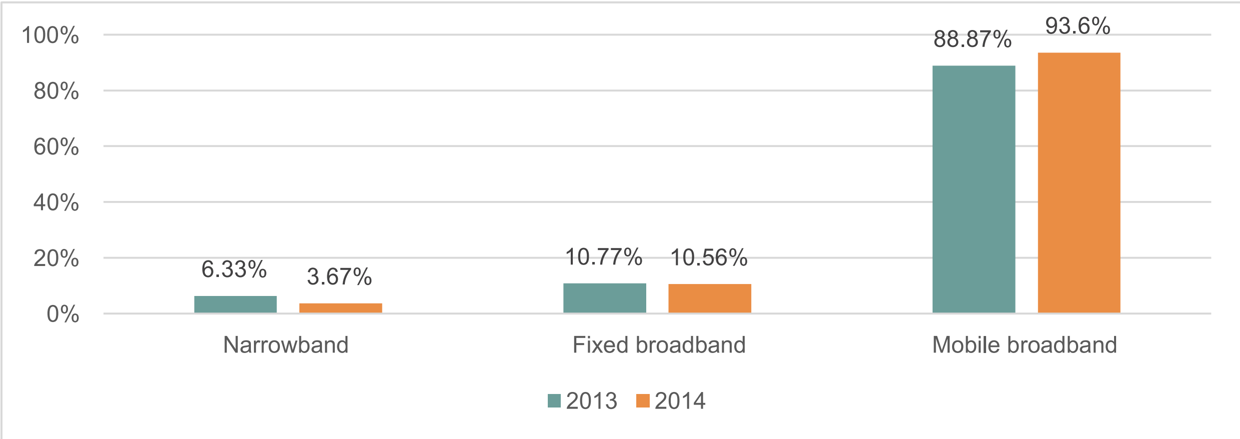
Source: Commission calculations using data from Stats SA (2010–2014)

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

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

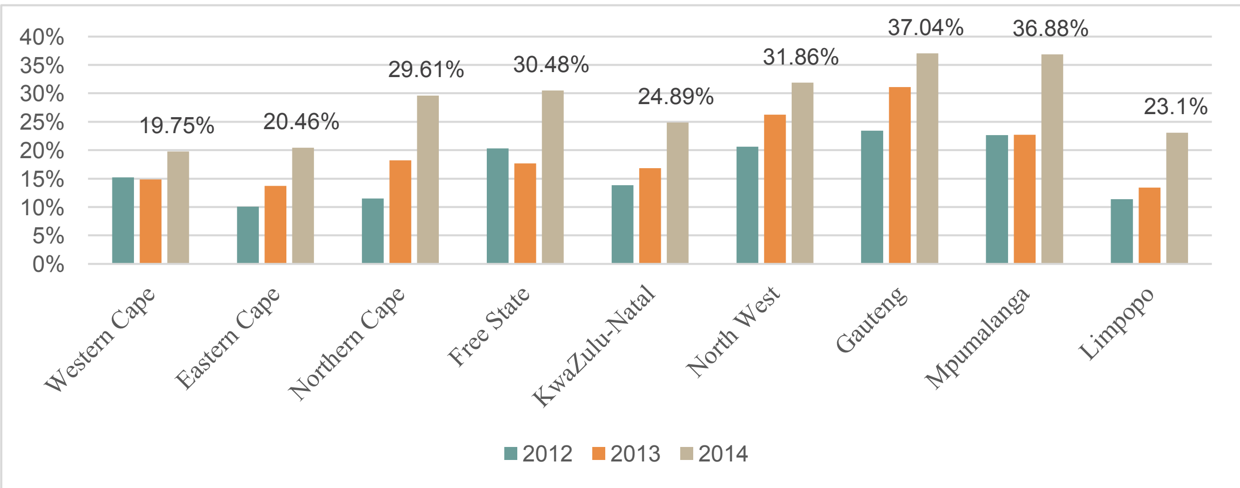
In 2014, the majority (93.6%) of rural households with internet access at home used mobile broadband, compared to 88.17% in 2013. Between 2013 and 2014, households using narrowband and fixed broadband declined, from 6.33% to 3.67% and from 10.77% to 10.56% respectively.

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



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

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



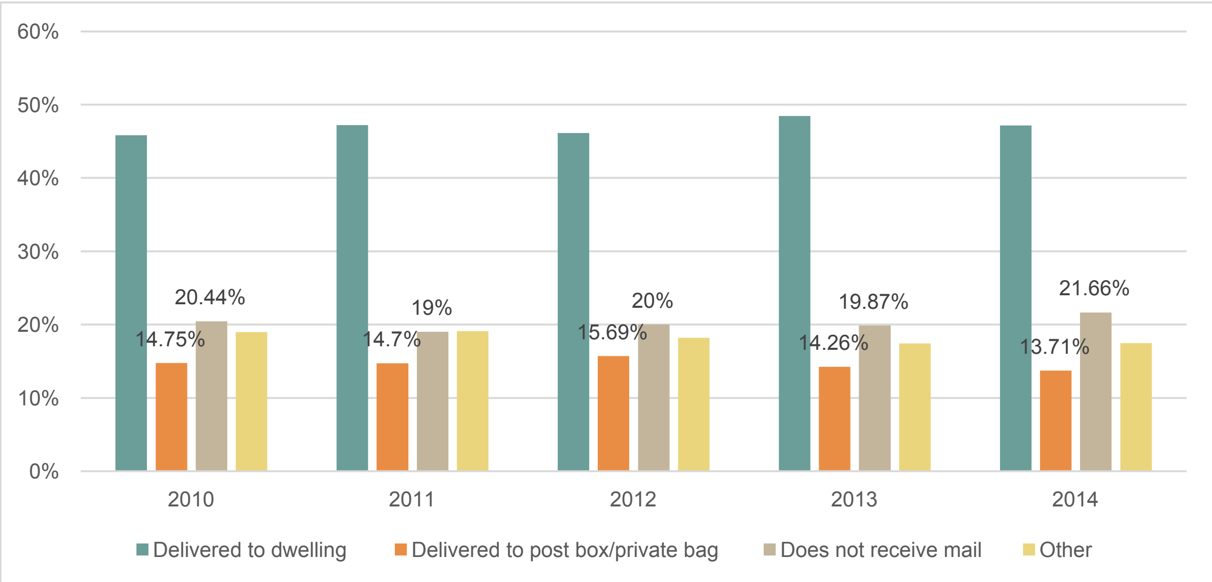
Source: Commission's calculations using data from Stats SA (2012–2014)

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

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

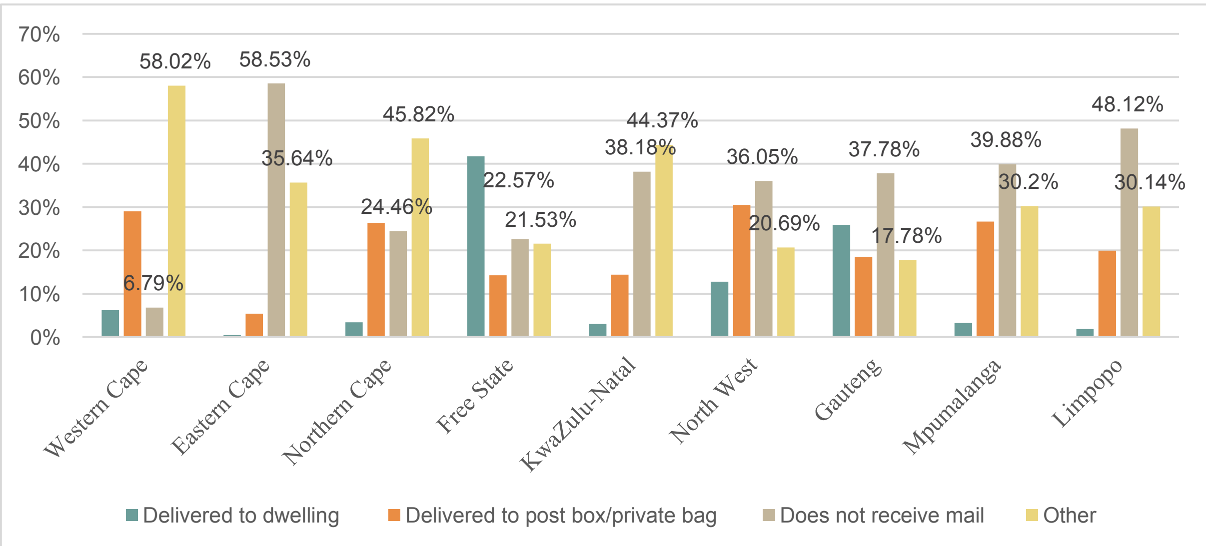
Nearly half of all households have their post delivered to their dwelling as opposed to a post box or "other", which includes to the workplace, to the house of a relative, neighbour or friend and to a shop. Between 2010 and 2014, the proportion of households that have their post delivered to their dwelling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

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



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

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



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

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

The following information was provided through interactions with SAPO:

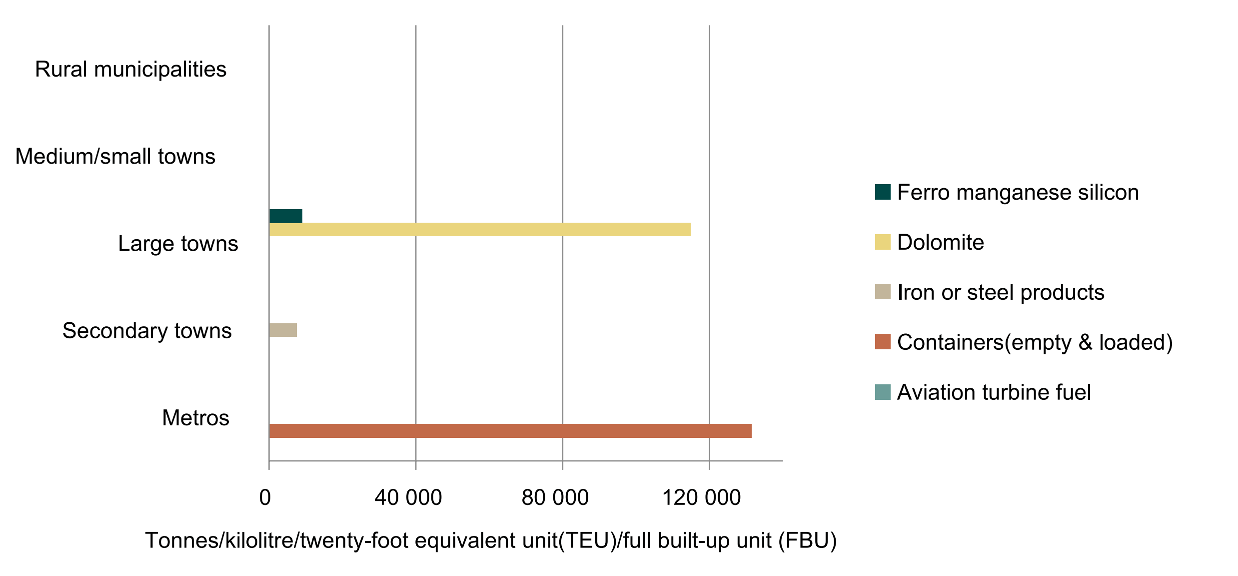
- Programmes implemented by SAPO in rural areas include rolling out addresses and retail branches, and converting off-line retail postal agencies to fully fledged outlets.
- The process for identifying and prioritising rural development programmes includes conducting a demand study, so as to ascertain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

5.4.3 Transportation

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

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

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



Source: Transnet (2015)

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

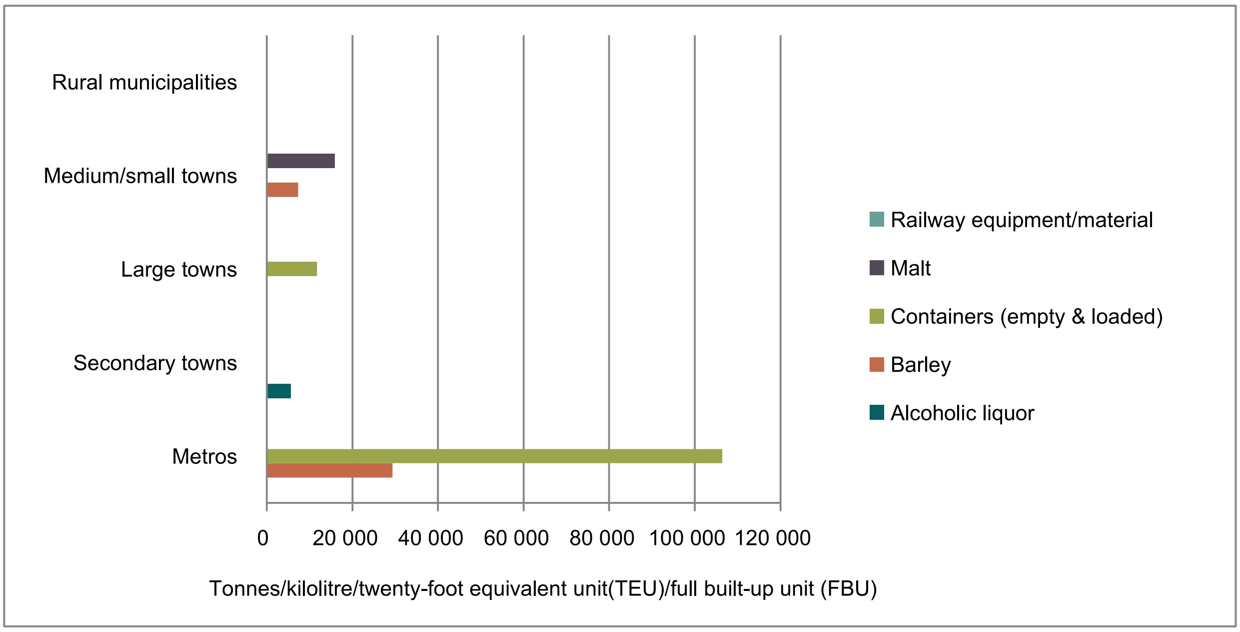
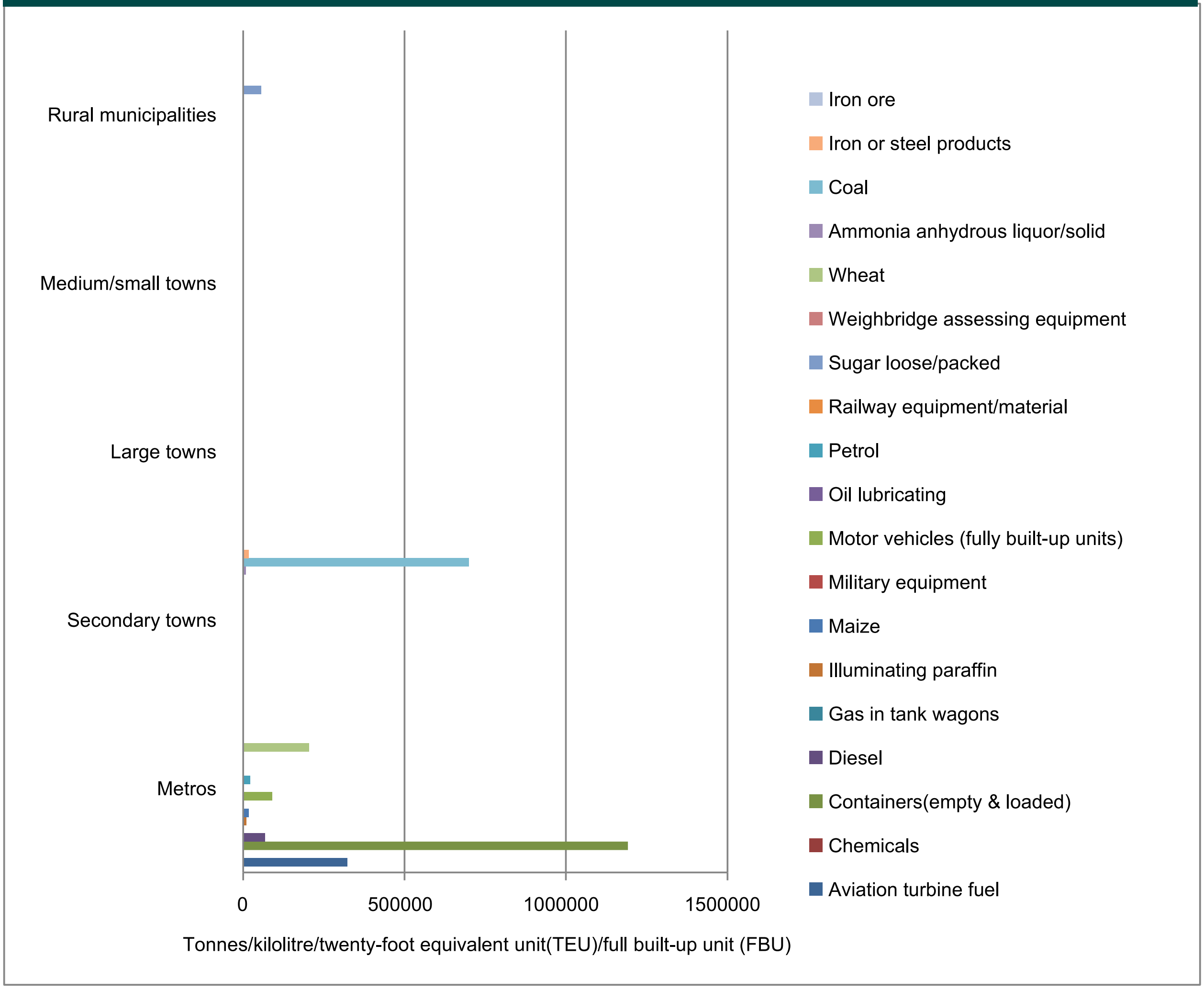


Figure 38. Freight commodities Natal–Gauteng corridor (2015/16)



Source: Transnet (2015)

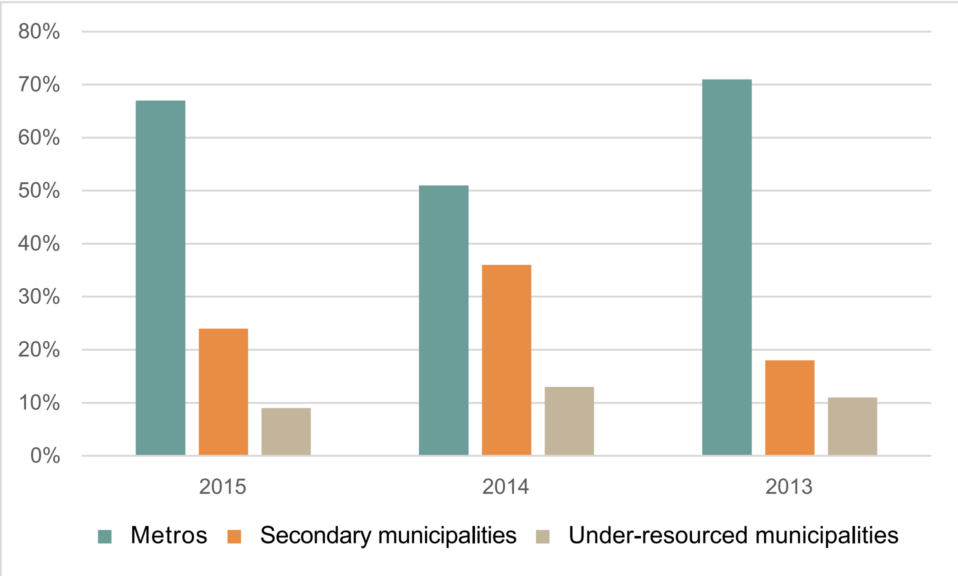
5.4.4 The Development Bank of Southern Africa

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

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

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

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



Source: DBSA (2013; 2014; 2015)

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

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

5.4.5 Land Bank

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

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

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

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

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

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

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

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

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

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

5.4.6 The Industrial Development Corporation

The IDC has three business units/divisions:

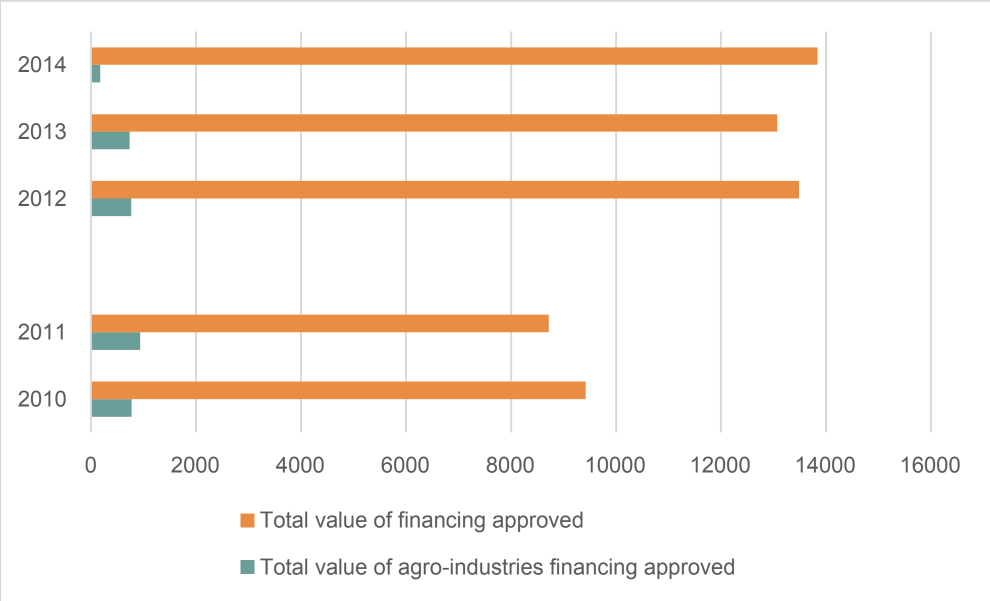
- Agro and New Industries, consisting of Agro-Industries, Green Industries, Strategic High-Impact Projects and Venture Capital.

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

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

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

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



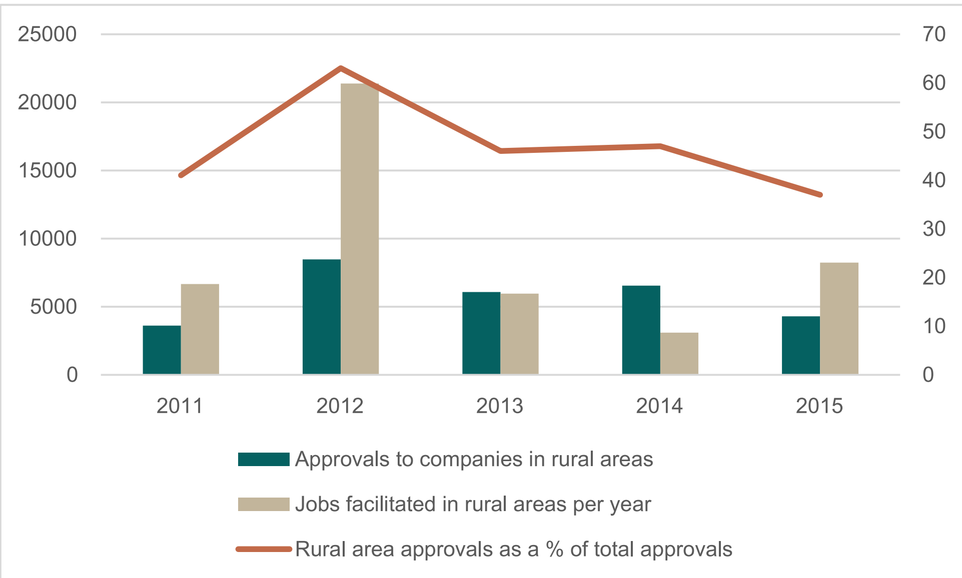
Source: Various IDC Annual Reports

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

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

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

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



Source: Various IDC Annual Reports

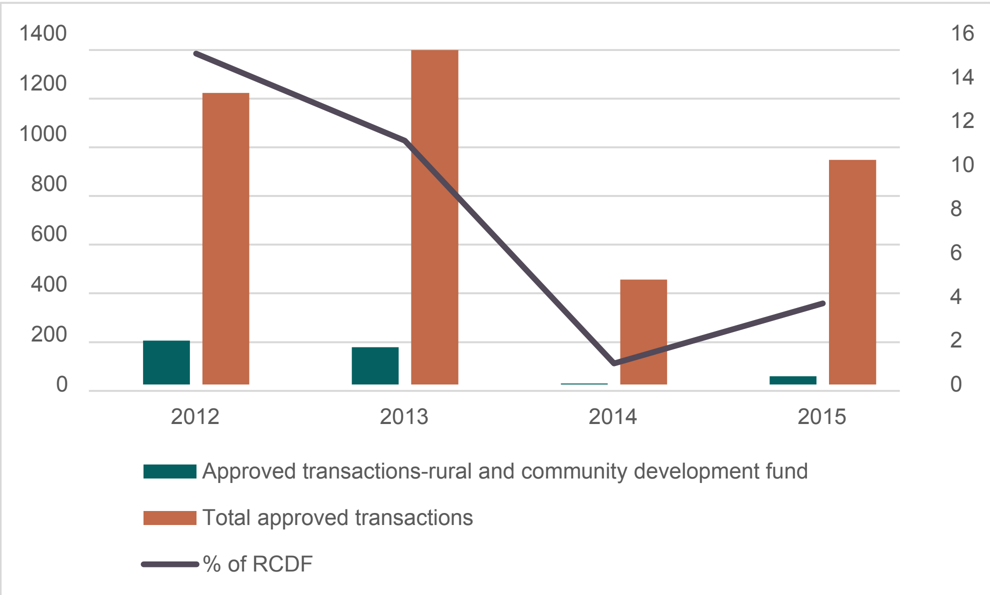
5.4.7 The National Empowerment Fund (NEF)

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

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

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

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



Source: Various NEF Annual Reports

5.5 Conclusion

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

5.6 Recommendations

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

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