

# CHAPTER 1

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## Introduction to Rural Development and Intergovernmental Fiscal Relations

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## 1.1 Rural Development: Why it Matters

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

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

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

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

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

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

This chapter begins by clarifying what is meant by the concept of rural development and discusses the evolution of literature on the mechanics of development. This is

followed by the development of the conceptual model that underlies the Technical Report and, after defining rural areas, municipalities and provinces, the chapter examines the socio-economic characteristics and the state of service delivery in rural areas. It then looks at how rural regions are coping with major economic changes and the performance of recent rural and agricultural policies and programmes, and concludes with recommendations.

## 1.2 Rurality and Rural Development

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

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

“Rural development”<sup>1</sup> is essentially about revitalising and strengthening the rural, and thus includes non-farm rural industries and land uses, and new rural occupations that result in higher per capita income. This involves repositioning the rural, making it more attractive, more accessible, more valuable and more useful for society as a whole (including rural dwellers). The World Bank (1975: 3) defines rural development as:

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

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

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

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

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

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

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

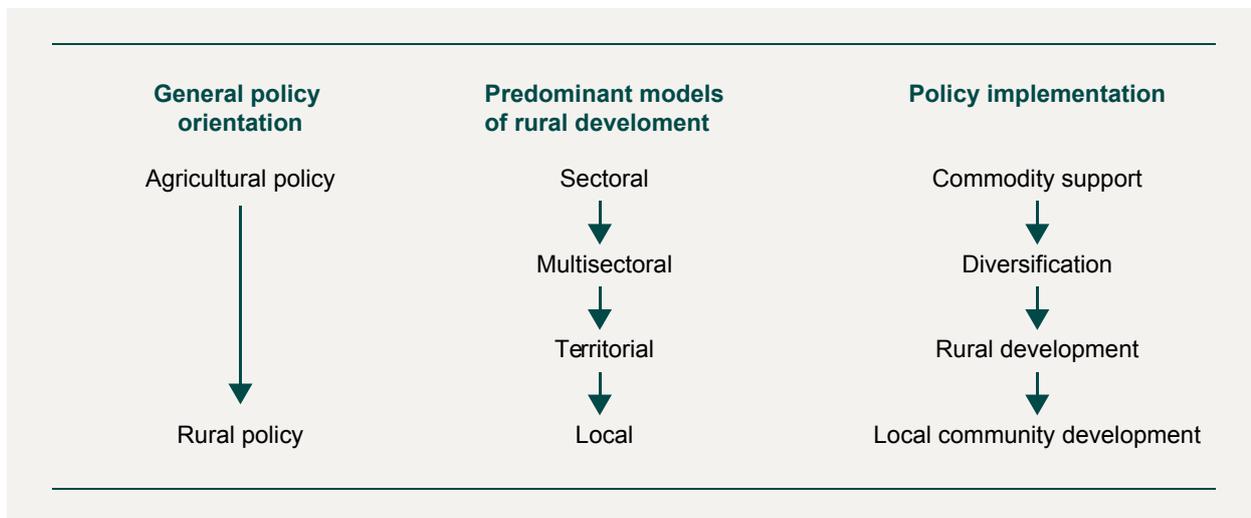
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<sup>1</sup> The concept of rural development is both ambiguous and contested. This ambiguity is not intrinsic to the concept but due to the many social struggles (including classification struggles) at the many interfaces within the agricultural sector, between agriculture and wider society, within society, and within policy.

Figure 1 illustrates the four predominant models of rural development. Immediately after World War II, the priority was increasing food production, and so the focus was on the agricultural sector, with rural employment and services seen as following directly from the production support given to the agricultural sector. Since then, the approach has shifted to multi-sectoral, territorial and local approaches. The multi-sectoral policy recognises agriculture as one of several economic sectors through which devel-

opment objectives can be attained. While the focus is still on farming, agricultural diversification is encouraged. The territorial approach recognises the importance of social, environmental and economic issues within the rural areas. Lastly, the local approach differentiates among rural areas and seeks solutions that are specific to individual circumstances. These changes in approach have major implications for the methodologies used to analyse rural problems and evaluate policies.

**Figure 1. Evolution of rural development policies**



Source: Hodge (1997)

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

to cities for employment and for cultural reasons. Rural economies are becoming more diverse, while rural places are increasingly accessible, adjacent to expanding urban areas, and have rising incomes and preferred amenities.

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

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

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

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

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

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

diversity of programmes, and to build “vibrant and sustainable communities”, through a coordinated and integrated broad-based agrarian transformation, rural development infrastructure, and an improved land reform programme.

## 1.3 Explaining Change in Rural Development

The Technical Report documents and analyses broad trends in rural development and intergovernmental fiscal relations (IGFR) instruments, with a view to providing new insights into sustainable national development. Rural development is inextricably linked to industrialisation and modernisation, both historically and among rapidly growing developing countries today. The good economic reasons for this relation are supported by both theoretical and empirical work. The literature covers inter-related topics of (a) structural transformation, and (b) surplus labour, migration and growth.

### 1.3.1 Structural transformation literature

Economic transformation is a long process, from agriculture to manufacture, and then to services. Its anchors are the classic papers by Rostow (1960) and Kuznets (1966), and the modern literature can be partitioned into three blocks: transition to modern economy and industrial transformation; activation of the industrial transformation process; and recent quantitative analysis that uses dynamic general equilibrium models.

#### Transition to modern economy and industrial transformation

Long-term economic development is a four-stage model driven by increasing returns to specialisation, which lead to the transition from household to market production, knowledge and human-capital accumulation and then industrialisation (Goodfriend and McDermott, 1995). The increasing returns to specialisation are made possible by a growing population and ultimately trigger a learning technology that activates industrial growth, which in turn moves the economy to a balanced, fully market-based growth path (ibid).

The movement of labour force from a more land-intensive to a less land-intensive technology drives the transition process from stagnation to growth (Hansen and Prescott, 2002). Over time, the share of land in production should decline endogenously, enabling an escape from Malthusian stagnation towards the modern Solow type of growth – this transition (from Malthus to Solow) denotes the diminishing importance of land as a factor of production (ibid). Given the decline in the importance of agriculture, as labour shifts from agriculture to manufacturing and services, the balanced macroeconomic growth models need to be questioned (Kongsamut et al., 2001). While widely used in macroeconomics because of their consistency with the famous

Kaldor facts of economic growth, these growth models are inconsistent with the equally important massive structural change, as labour moves away from agriculture in “one of the most striking regularities of the growth process” (ibid, 2001: 869).

Gollin et al. (2002a) also emphasise the importance of agriculture’s declining share to development – development is associated with a relative decline in the weight of the agricultural sector in the economy, in terms of its share of employment and per capita output. Thus advances in agricultural productivity are essential for providing the means to allow labour to be reallocated to the modern sector (ibid). Agricultural productivity is negatively related to the share of employment in agriculture, and a negative relationship exists between the productivity of agriculture and the productivity of non-agriculture. Thus the growth in a country’s agricultural productivity (as measured by food output per capita) is positively related to the movement of labour out of agriculture, whereby a shift of labour from agriculture to non-agriculture raises average productivity (Gollin et al 2002b).

The factors of production are important in determining the transition process, while growth is influenced by the interaction between capital deepening and differential capital shares across sectors (Acemoglu and Guerrieri, 2008). Differences in capital intensity across sectors bring about a faster growth of output and employment in sectors with relatively lower capital shares. Differential sectoral capital intensities generate both relative price changes across sectors and sectoral shifts, resulting in more capital-intensive sectors (because of capital deepening) and, at the same time, capital and labour being reallocated away from those capital-intensive sectors (ibid). However, in the industrial transformation process, job losses may exceed job creation immediately following the establishment of a modern industry, while income distribution may worsen (Wang and Xie, 2004). If implemented inappropriately, development policy programmes could fail, resulting in a poor country.

The transition to a “new economy” is characterised by faster manufacturing productivity growth, in terms of output per hour, and driven by an increasing pace of technical change (Atkeson and Kehoe, 2007). The three main aspects of such a transition are productivity paradox (a remarkably lagged response of the productivity growth rate to the increased rate of technological change), slow diffusion of new technologies and significant ongoing investment in old technologies (ibid). While this model may not fit all transitions, a transition to a “new economy” following prolonged increases in the rate of technological change is not always slow, as the speed of an existing technological change will determine the speed of the transition. Thus, the type of the transition following any technical revolution depends very much on its historical context (ibid).

### **Activation of the industrial transformation process**

Increases in per capita income lead to a changing structure of demand, which consequently drives the economy’s structural changes, in particular the rise of a mass consumption society (Matsuyama, 2002). The distribution of income across households is critical in determining whether a productivity improvement two-way causality produces expanding markets and virtuous cycles of productivity gains. Income distribution should not be too equal or too unequal: if it is too equal the process does not take off, and if it is too unequal, the process will stop prematurely (ibid). As productivity improves in the industries affected by the increase in consumption, consumer goods prices decline, enabling more and more households to afford increasingly large numbers of consumer goods. Thus larger markets for consumer goods are generated, further improving productivity – the development process is characterised by a series of sectors that take off one after another (ibid).

As discussed in the previous section, a diminishing agriculture sector is important. Subsistence consumption of agricultural goods can lead to a downward trend in agricultural employment and, as per capita income rises, the consumption share of expenditure on agricultural products declines while the share of services rises (Kongsamut et al, 2001). Growth in per capita income is also associated with a decline in the share of agriculture and an increase in the share of services, not only in employment but also in gross domestic product (GDP).

Buera and Kaboski (2012) postulate a theoretical framework for understanding how the disproportionate service sector growth is influenced by specialised high-skilled labour. They argue that the movement of consumption into more skill-intensive outputs drives the growth in services. As demand shifts to more skill-intensive outputs, payment for high-skilled labour rises, ultimately pushing up the relative price of services associated with that level of skill. Empirical evidence highlights the rise in the importance of skill-intensive services, which increase as relative wages and the number of high-skilled labour increase (ibid). This theory is based on the increase in the quantity and price of skilled labour rather than the generic skill-biased technical change.

### **General equilibrium models**

Analysing the structural change of an economy is crucial for informed policy-making, and such analysis is best undertaken using computable general equilibrium (CGE) analysis (Buetre and Ahmadi-Esfahani, 1996).

In Sri Lanka, Gunawardena (2012) found that rising agricultural productivity has a positive impact on the economy. However, improved agricultural productivity could result in reduced agricultural employment, with relatively lower short-run real household income in agricultural provinces

(ibid). Salami et al. (1998) used a four-sector model to study how the Iranian economy is affected in the short run by several types of technical change in the agricultural sector. They found that self-sufficiency in agricultural commodities is supported by capital-saving and labour-using technical change with a general growth in productivity, and such a technical change leads to an increase in the country's overall employment. However, if the capital-saving and labour-using technical change is not accompanied by increased productivity, the result is a reduced agricultural sector, a decrease in employment, dampened economic growth and, consequently, reduction in overall welfare (ibid).

Agricultural policy reforms can have complex impacts on diversified economies, particularly in developing countries (Taylor et al., 1999). When the support price of staples is decreased, and the decrease in price is compensated by a lump-sum income transfer to staple producers, households shift their resources out of staple production to other competing activities, and migration effects are minimal (ibid).

Using CGE-microsimulation analysis, Otchia (2014) compared agriculture modernisation models in the Democratic Republic of the Congo to see which contribute more (or less) to growth and poverty. The results suggest that labour-intensive technological change creates relative and absolute pro-poor effects, while capital-intensive technological change generates immiserising growth. What is important for pro-poor agricultural modernisation is "developing input supply networks, securing tenure among smallholders, and improving access to land for women" (Otchia, 2014: 1).

### Dynamic CGE models

Using a dynamic CGE model that takes into account technical and institutional rigidities in the economy, Storm (1994) assessed the macroeconomic impact of various agricultural policies between 1985 and 1990 on growth, income distribution, and balance of payments, inflation and government budget. The simulation found that public investment in irrigation is more effective at achieving growth than fertiliser subsidisation and procurement pricing.

Bussolo et al. (2014) used a dynamic CGE-microsimulation analysis to assess medium to long-term poverty and distribution impacts of different growth patterns, in support of their argument that a massive reduction in employment in the agricultural sector in Brazil in recent years could have contributed to poverty reduction in the country. The simulations included: changes in the agricultural and non-agricultural labour income of unskilled labour, changes in the labour income of skilled labour and changes in the

sectoral (agriculture vs. non-agriculture) composition of the unskilled labour (Bussolo et al., 2014: 13). The results indicate that the rural poor in Brazil benefit relatively more than the average population, driven by growing labour demand and related higher wages in agriculture.

### 1.3.2 Surplus labour, migration and growth literature

The pioneering work on surplus labour economies is by Lewis<sup>2</sup> (1954), Fei and Ranis (1961, 1964) and Sen (1966) who analysed implications of surplus labour economies for labour-market performance and economic development. The term "dual economy" refers to the existence of traditional and modern sectors within one economy (Lewis, 1954). The traditional sector typically uses traditional technology with low capital intensity and features low productive and paid labour. In contrast, the modern sector uses advanced technology and is relatively capital intensive, with high productive and paid labour. In the Lewis model, agriculture supplies labour and food to industry: labour migrates from agriculture to industry until the surplus of labour is exhausted, i.e. convergence in urban and rural wages (Harris-Todaro equilibrium conditions discussed below).

Following these seminal works, there has been an explosion of work focusing on the implications of rural surplus labour in a dual economy. Perhaps the most influential papers are by Todaro (1969) and Harris and Todaro (1970), (hereinafter referred to as HT). In the HT papers, urban unemployment and labour policies are examined under an institutionally fixed minimum wage (above its equilibrium level) in the urban areas. Extensions of HT include Khan (1980) who re-examined generalised HT models through a trade theory lens (Heckscher-Ohlin). The findings are that a uniform subsidy to labour with a differential subsidy to capital is optimal (in the sense of second-best).

A number of studies look at the growth debate from a trade viewpoint. Batra and Naqvi (1987) evaluate gains from trade in an urban unemployment setup, with the optimal policy being a uniform subsidy to labour together with free trade (no tax levied on goods). Beladi and Marjit (1996) feature a rural sector that employs labour and an intermediate good (no capital), while in the urban area, both the intermediate good and final good employ capital and labour. A tariff on the final good in urban areas lowers capital rental and raises urban employment, provided the urban final good sector is capital intensive. Chang et al. (2009) argue that a tariff reduction improves production efficiency but distorts labour markets in a simple HT setting.

Another strand of the literature brings dynamics into the analysis, with two variants. One is by Drazen and Eckstein

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<sup>1</sup> Lewis's two-sector model assumptions are that (a) the traditional sector is agriculture and (b) the modern sector is industry.

(1988) who construct a two-period overlapping generations framework. Land is a specific factor in the rural sector and capital is a specific factor in the urban sector. The decentralised equilibrium in this setup is suboptimal. The other variant is by Glomm (1992) who proposes an infinite lifetime model that allows for rural-urban migration. Higher urban productivity is explained by lower costs of communication with higher population density. Unlike in the Overlapping Generations Model, the decentralised equilibrium is found to be Pareto optimal.

A final strand of the literature worth mentioning uses rural-urban migration to explain equilibrium low-growth traps under informational asymmetries. For instance Ben-civenga and Smith (1997) argue that adverse selection of workers into urban areas perpetuates low growth, and that rural-urban migration as well as underemployment can cause development traps. They observe that two important features of economic development are usually omitted from conventional neoclassical growth models: (a) pronounced migration from rural to urban employment sectors has consistently accompanied modern economic development, and (b) some level of unemployment is present in all economies.

For Banerjee and Newman (1998), the modern urban sector has imperfect credit markets and associated higher agency costs, and migration is a very important channel through which modernisation takes place. They model a general equilibrium modernising economy with an urban sector characterised by high productivity and large information asymmetries, and a rural sector that has low productivity and small information asymmetries. The trade-off between productivity and credit availability due to agency costs in the urban sector implies that not everyone will be able to move to the urban sector (*ibid*).

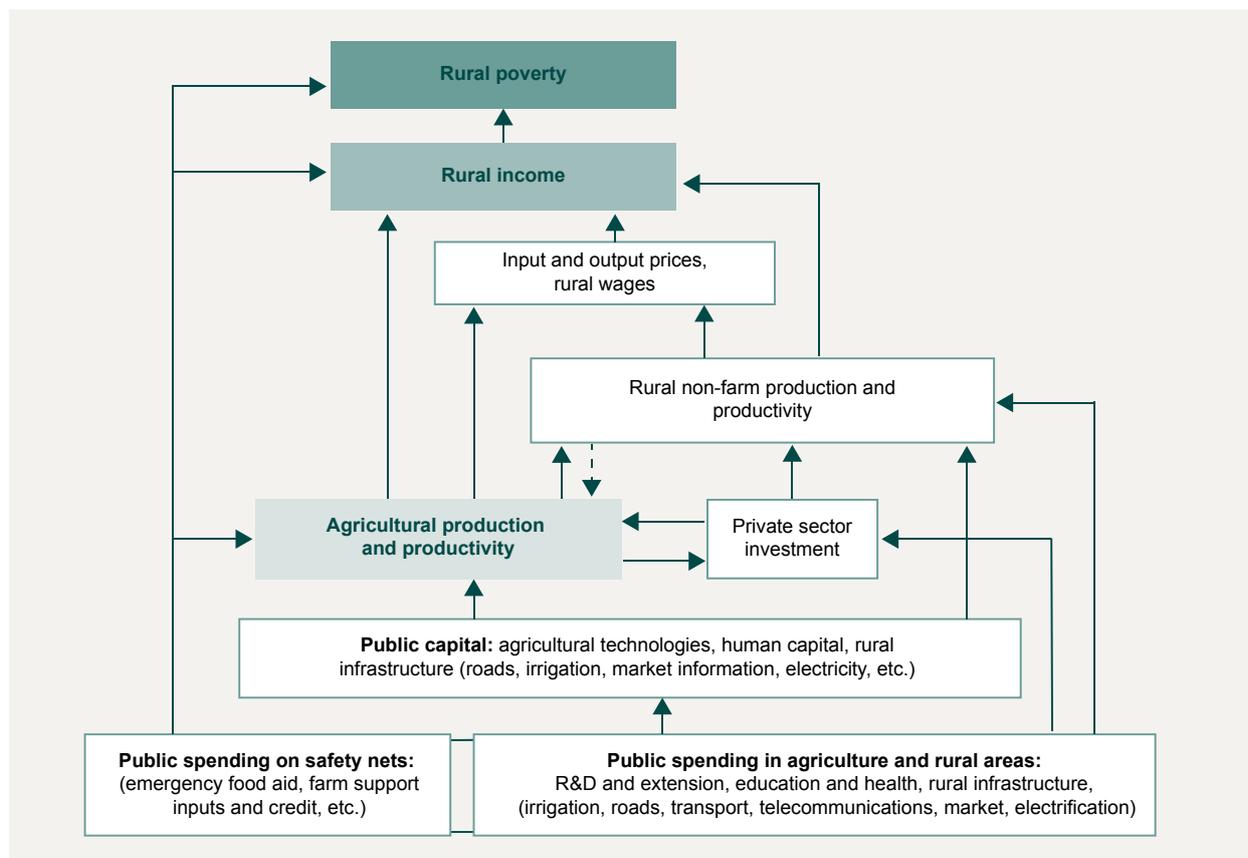
Lucas (2004) offers a variant to the HT model, whereby rural-urban migration is modelled as a “transition from a no-growth agricultural sector using traditional technology to an urban sector where there is persistent growth due to human capital accumulation”. Urban sector workers choose to allocate their time between accumulating human capital and working. There is a persistent wage differential between the urban and rural sectors, which in essence reflects the return to human capital accumulation that workers must engage in when they migrate to

the city. Other causes of rural-urban migration include the loss of income-earning opportunities because of gains in agricultural productivity and extensive uses of capital (Barkley, 1990); the differential urban/ rural wage (Dennis and Iscan, 2007); higher levels of rural unemployment or better prospects of getting employment in urban areas (Gebremariam et al., 2011); declining farming programmes and the transfer of manufacturing plants to suburbs and metro areas (Goetz and Debertain, 1996); diversification, as a household responds to the gains from an expansion of economic choices and opportunities (Arzagli and Rupasingha, 2013); and the need for social and natural amenities (Deller et al., 2001).

#### 1.4 The Conceptual Framework Underpinning the Technical Volume

The model underpinning the volume is multi-layered and multi-levelled, covering local, regional and provincial and encompassing many actors, institutions, enterprises, state enterprises and social movements. While these various dimensions are modelled here as distinguishable from one another, in reality they cannot be separated, as they are intertwined in various ways. For example, public investment in agriculture and rural areas can affect rural poverty directly or indirectly and at different levels (i.e. household, municipal, provincial or national), and the magnitude and direction of impacts will depend on the type of investment. Therefore, the impacts of investments must be assessed holistically (Figure 2).

The framework’s premise is that when governments invest in agriculture and rural areas, government-owned assets (i.e. public capital) are created or increased, which are then used as a vehicle for increased agricultural production and productivity. Improvements in agricultural production and productivity then affect rural incomes either directly or through its impacts on input and output prices, rural wages, rural non-farm production and productivity. As rural incomes improve, rural poverty is expected to decline. The framework in Figure 2 highlights the complementarities between the two interventions proxied by public capital (IGFR instruments) and productivity (institutions): public capital stock affects the productivity of private capital (along with other factors of production) and its contribution to farm wages and incomes and poverty reduction (Anderson et al., 2006).

**Figure 2. Growth and poverty-reduction pathways of rural policies**

Source: Benin et al. (2008)

Figure 2 also captures the direct and indirect (via agricultural production and productivity, and rural incomes) impacts on rural poverty of public spending on safety nets. Safety nets increase the productivity of target groups by, for example, investing in their human capital through education, skills, health, and nutrition (Schultz, 1982), thereby contributing to poverty reduction. However, safety nets might also induce recipients to no longer work on farms, which could reduce agriculture production.

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

In assessing the impact of public investments in agriculture and rural areas, the importance of institutional arrangements

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

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<sup>3</sup> Also referred to as “general equilibrium” effects when combined.

<sup>4</sup> The 2015 boundary redeterminations will result in a reduction of local government structures by 21 municipalities, from 278 to 257.

**Table 1. Mandate and funding of three government spheres**

Government sphere	Constitutional mandate for rural growth and development	Funding
National	<ul style="list-style-type: none"> <li>Overall coordination of rural development, land and agrarian reforms.</li> <li>Agricultural development.</li> </ul>	Taxes and duties
Provincial	<ul style="list-style-type: none"> <li>Economic: rural development, regional planning and development, agriculture, industrial promotion, etc.</li> <li>Social: education, health, social welfare.</li> <li>Oversight over sub-provincial governance structures: municipalities, traditional authorities.</li> </ul>	Own revenue Provincial equitable share Grants (conditional, indirect and other) No borrowing
Local	<ul style="list-style-type: none"> <li>Economic: local planning, infrastructure and services for economic activities: electricity, water, roads, markets, abattoirs, etc.</li> <li>Social: early childhood development (ECD).</li> </ul>	Own revenue Local government equitable share Grants (conditional, indirect and other) Borrowing

Source: Author's computations

At national government level, rural development programmes are mostly located within the DRDLR and the Department of Agriculture, Forestry and Fisheries (DAFF), which each have a dedicated programme for delivering services to rural people. As rural development is multi-faceted, government has adopted a joint implementation approach, which among other things addresses coordination failures. This joint approach is outlined in the MTSF implementation plan. Table 2 shows the various outputs, policy targets and responsible government ministries for each NDP rural development outcome. The government

departments responsible for the different activities cut across the spectrum of provincial mandates. It can thus be concluded that national policy acknowledges the role of provinces in implementing various aspects of rural development. The main provincial responsibilities of expenditure for local governments are: administrative costs; provision of the basic services (electricity, water, sanitation and refuse removal); building and maintaining of municipal roads; local social and economic development; community services, such as parks, sports, recreation etc.; and disaster management and fire services.

**Table 2. Selected rural development outputs and departmental responsibilities**

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

Source: Author's computations

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

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

Municipalities have two core responsibilities with respect to rural development: the effective provision of basic services, and associated support to local economic development (LED).<sup>5</sup> The purpose of LED is to build up the economic capacity of a local area to improve residents' quality of life. It is a process whereby the public, business and social sectors work collectively to create better conditions for economic growth and employment generation. Since 1995, considerable energy and resources have gone into enabling municipalities to play a meaningful role in LED. However, the resources are not sufficient for implementing large-scale projects outside of strong partnerships with other public and private agencies. Expenditure is also very limited compared to local government's other service delivery priorities, with on average less than 1% of municipal operating budgets going towards LED initiatives, either directly or through municipal entities (development agencies). Initiatives include the tourism and agricultural sector, and depend on the geographical location and comparative advantages of each municipality. For instance, in most coastal municipalities, LED initiatives are focused on tourism development and urban regeneration initiatives that will further attract investment and tourism.

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

- The Agency Development and Support Programme, which is an initiative of the Industrial Development Corporation (IDC) and supports the establishment of municipal LED agencies. Currently, 32 such agencies are being established or are operational. However, the concern is that using the agency route creates another level of governance and bureaucracy, which is costly to manage and dilutes the developmental impact.
- Electricity reticulation by Eskom and district municipalities. Most rural municipalities have very limited functions because of the asymmetric division of functions between municipalities and historical legacies of poor capacity. As a result, Eskom and district municipalities play a crucial role in the reticulation of electricity and water respectively in rural areas.
- The Rural Economic Development Initiative, which is a DBSA project currently being piloted in three municipalities. Its aim is to explore ways of implementing seven common development principles for effective LED: plotting the path; shifting stakeholder focus from the consumption economy to the productive economy; acknowledging the importance of a large, diversified economic development portfolio; identifying bold projects; promoting and facilitating partnerships; improving municipal performance; and developing strategic policies to promote sound economic development.

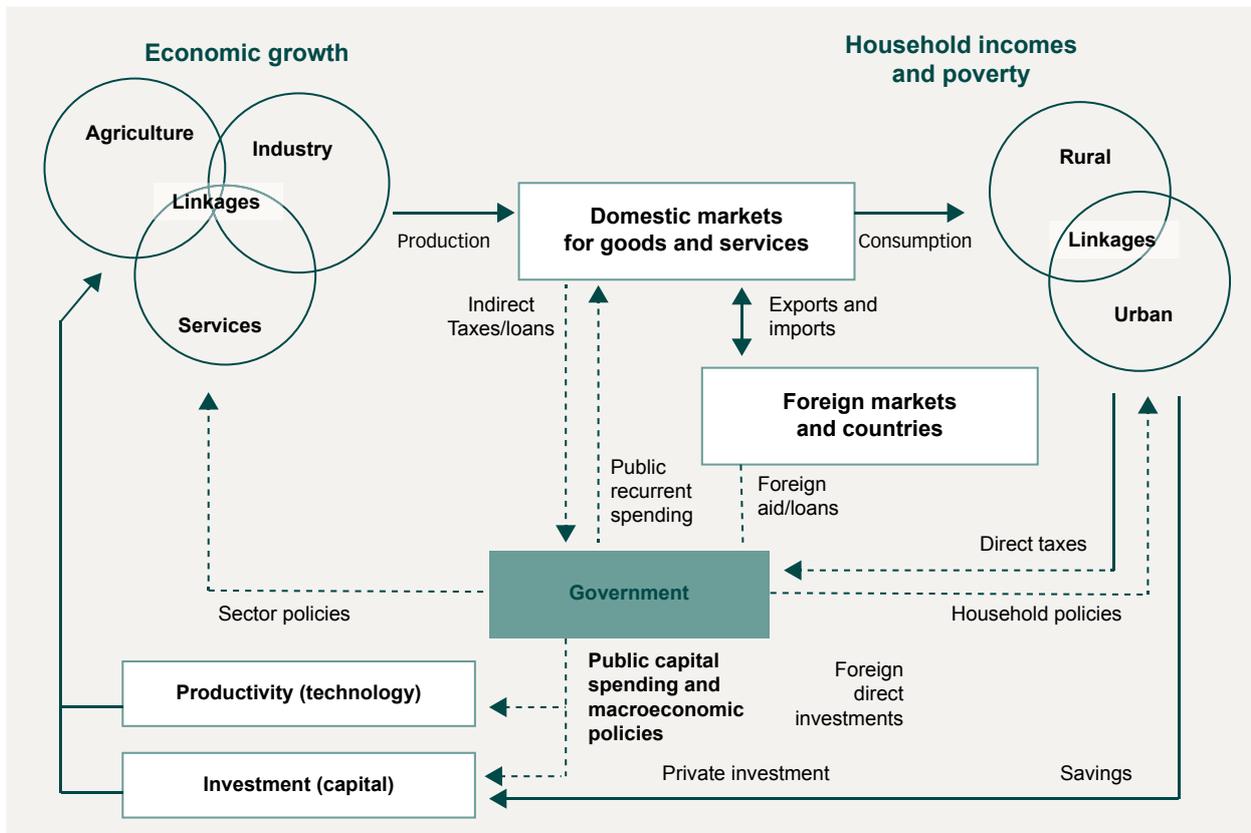
Private sector LED initiatives range from projects by individual firms, farmers and churches, to interventions by research institutions and non-profit organisations that focus on particular aspects of development, such as micro-finance, subsistence gardening, skills development etc. Examples of micro-finance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

To ensure robust analysis and findings, a mix of econometric and simulation/modelling methods and tools are used to assess the impacts of IGFR instruments in agriculture and rural areas (Byerlee et al., 2009). Figure 3 demonstrates how the effects of IGFR instruments (e.g. public investments) filter through the entire economy in the proposed framework.

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<sup>5</sup> According to Sections 152(1) (c) and 153 of the Constitution, one of local government's objectives is to promote social and economic development. These objectives are further articulated in the Municipal Systems Act (No. 32 of 2000).

**Figure 3. Economy-wide linkages of rural policy in a general equilibrium model**



Source: Benin et al. (2008)

Quantification and modelling is required in order to attach numbers to these relationships. Identifying the types of socio-economic models that can be used to analyse rural policy issues is fraught with difficulty. The model types used in this Technical Report take into account different policy measures corresponding to each generic policy issue and hence, the “compatibility” of each measure with types of socio-economic models that are able to carry out the analysis. The various methodological approaches used are described below:

**Econometric analysis**

- A systems approach and, more specifically, a simultaneous-equations method that takes into account different rural poverty and investment decisions. Failure to take these decisions into account leads to biased estimates of the effects or net benefits of public investments (Greene, 1993).
- A reduced-form, single equation of rural poverty in which instruments are used for the potentially endogenous explanatory variables or estimating a reduced-form model. The major shortcoming of this approach is that the different intermediate effects of public investments cannot be quantified.

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

- Micro-level analyses focus on the impacts of public investments on farms and/or households. Possible data sources include nationally representative household surveys, such as General Household Surveys (GHS). Since the level of public investments does not vary by household or farm, the effect of public investments will be captured by including variables that capture the household’s access to particular public goods and services.
- Meso-level analyses at municipal and/or provincial level make it possible to assess the effects of inter- and intra-sectoral public expenditure allocation. Further, this approach allows the spatial distribution of public investments and poverty-reduction to be analysed.
- Macro-level analyses are common in literature, as different types of public investments and related data are often available at this level. However, estimation at this level requires a relatively long-time series data.

### Qualitative and case study approaches

- In some instances there is also reliance on case studies and desktop research to address the issues.

### Simulation modelling approaches: CGE models

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

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

## 1.5 Defining Rural

South Africa does not have an officially agreed and accepted definition of “rural”. Efforts to classify territories according to their degree of rurality – for policy purposes – have not been entirely successful.<sup>6</sup> Further complicating the situation is the large-scale re-demarcation of provincial and municipal boundaries that accompanied the transformation of provincial and local government after apartheid. This process removed the administrative distinction between urban and rural areas, in recognition of the strong linkages between towns and the countryside. Although a largely positive development, it has made determining what constitutes a rural area (and by extension a rural province or municipality) more complicated.

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

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

The definition takes into account spaces and population densities, as well as relevant history (the “homelands”). The DRDLR defines as “rural”, areas outside urban settlements where population densities are less than one dwelling unit per hectare, and describes rural development as generally including primary economic activities: agriculture, agro-processing, mining, tourism, resource extraction, water, energy. The Department of Cooperative Governance and Traditional Affairs (COGTA) has developed an analytical tool to help classify municipalities based on their spatial characteristics. Category B municipalities are classified into categories B1, B2, B3 and B4.<sup>7</sup> Both B3 and B4 municipalities (and C2 district municipalities) are classified as rural. The advantage of this rural/urban classification is its general acceptance and use, at least within the local government sphere. However, the disadvantage is the classification may be somewhat outdated, having remained largely static over the years, with the only real changes being the “upgrading” of two secondary cities to metropolitan status.

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

- Spatial (urban/rural divide) and sectoral (agriculture and traditional activities) factors plus population size and density: sparsely populated areas in which people depend largely on agriculture or natural resources, including villages and small towns that serve as rural centres.
- History and/or rural idyll: large or “closer” settlements created by the dumping of populations in the former homelands during apartheid.
- Administrative: categorisation methodology developed by the COGTA and DRDLR.

Municipalities are grouped into seven different categories using variables that include the number of poor households, the proportion of households with access to services (water, sanitation and electricity), and capital and operating budgets. Accordingly, rural municipalities are those classified as B3 (small towns) and B4 (mostly rural) municipalities in the typology outlined in Table 3.

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<sup>6</sup> Stats SA has discontinued the publication of spatially disaggregated (urban and rural) official statistics. Note the new Stats SA definition now has small areas as opposed to enumeration areas and the following three classifications: urban, tribal areas and farms.

<sup>7</sup> The B1 to B4 classification system was developed by the Palmer Development Group. The definition can be found in Chapter 12 of National Treasury (2011). Although not an official definition, it is used very widely for analytical purposes and helps to make a case for the differentiated approach to municipalities

**Table 3. Classification of municipalities in 2015**

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

Source: Author's computations based on Global Insight data and National Treasury (2011) definitions

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

Distinguishing rural and urban provinces is equally as complicated. The Constitution does not classify provinces as urban or rural, and there is no common understanding of what constitutes a rural province. As a consequence, policy-makers and the general public tend to describe the provinces that historically formed part of the homelands and Bantustans as rural (in particular Eastern Cape,

KwaZulu-Natal and Limpopo). These provinces are perceived to be highly under-developed and contain vast spaces of sparse settlements and land under traditional authority. In addition, traditional assumptions of "rural" persist, but these assumptions are often ungrounded and at best ignore the diversity inherent in areas typically grouped together as "rural" or "non-urban" provinces. For instance, a commonly held belief is that farming is a mainstay of rural provinces, which also have an ageing population and high poverty levels. In fact, provinces traditionally regarded as rural have relatively good access to amenities and connectivity.

Table 4 provides a breakdown of provinces ranked according to the level of "ruralness", as derived from a composite index that takes into account the share of B3 and B4 municipalities in each province. Provinces with higher composite indexes are more rural in nature than provinces with lower indexes. Using this definition, the three most rural provinces are Limpopo, KwaZulu-Natal, and Eastern Cape, while the Western Cape and Gauteng are the least rural provinces.

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<sup>8</sup> District municipalities which are water services providers (C2s) are typically located in "deep rural" or "traditional" areas, consisting of traditional villages and communal land ownership (these were the erstwhile "homelands"). In the past, these areas did not have conventional municipalities, and their current local municipalities are still extremely weak. Therefore the district municipalities took on the role of water services providers. Conversely, the district municipalities which are not water services providers are typically located in more western-type areas, consisting of large towns, small towns and commercial farmland (the erstwhile "white South Africa"). In these areas, the towns have had many decades (often over a century) of municipal governance, so the current local municipalities are fairly competent to manage water services provision. Therefore, the district municipalities do not have to execute this function.

<sup>9</sup> Homeland territories strictly set aside for black people under apartheid South Africa.

**Table 4: Provincial ranking according to composite rural index (2015)**

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

Source: Author's computations based on Global Insight data

The robustness of this approach was checked by using the variable of whether the province (as currently configured) historically formed part of the Bantustans. This choice is driven by pragmatic policy considerations, as homelands remain an important policy issue and sentiment towards "rural". Based on these criteria, the most rural provinces are the Eastern Cape, KwaZulu-Natal, North West and Limpopo

followed by Mpumalanga, Free State and Northern Cape. Table 5 locates the rural municipalities across the nine provinces based on the pre-2016 demarcations. Their ranking is similar to that in Table 4. Most of the rural municipalities (84%) are in the provinces that are predominantly former homeland areas i.e. the Eastern Cape, Limpopo and KwaZulu-Natal.

**Table 5. Categories of municipalities per province**

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

Source: Author's computations based on Global Insight data

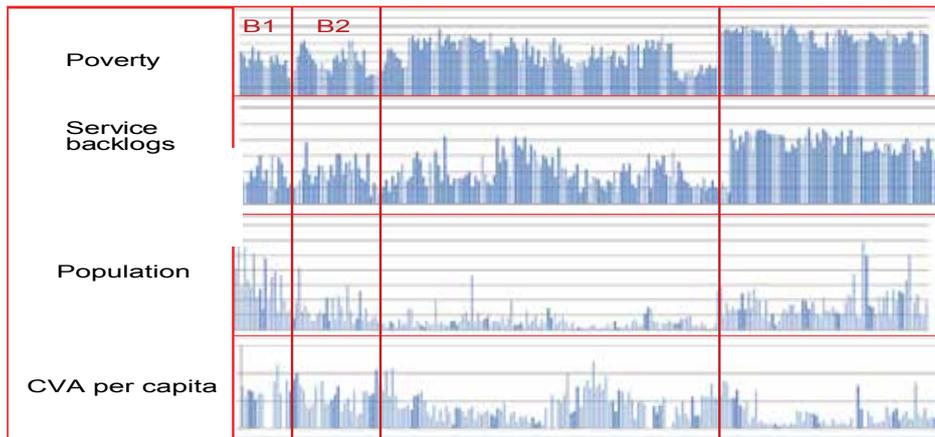
### 1.6 Socio-Economic Characteristics of Rural Areas

Figure 4 illustrates that many municipalities have relatively high levels of poverty and service delivery backlogs, especially in rural municipalities (B3s and B4s) where gross value added (GVA) per capita is only R9 (compared to R76 in metros). This low economic activity translates into lower employment levels (13% on average in rural municipalities

compared to 34% in metros and 29% in secondary cities) and points to rural municipalities having a limited own-revenue base.

Table 6 compares the population, economy and service backlogs in urban and rural municipalities.

**Figure 4. Characteristics of municipalities**



Source: Author’s computations based on Global Insight data

**Table 6. Comparison of urban and rural municipalities**

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

Source: Author’s computations based on Global Insight data

The economically active population (measured as the population aged 20–64 years) is considerably smaller in rural municipalities than in urban areas, accounting for 19% of people in B4 municipalities and 14% in B3 municipalities, compared to 67% of the population in urban areas.<sup>10</sup> Young people under the age of 20 make up 28% of the population in B4 municipalities and 16% in B3 municipalities, in contrast to 55% in urban municipalities. People in rural municipalities are less likely to have school qualifications than their urban counterparts: only 13% of the population over the age of 20 years in B4 municipalities, and 11% in B3

municipalities, have matric qualifications, compared to 77% in urban areas.

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

Table 7 shows the economic profile of urban and rural municipalities.

**Table 7. Share of GVA by sector in rural and urban areas**

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

>>

<sup>10</sup> Note that “urban areas” includes metros, large towns and small towns using the conventions in Table 1.

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

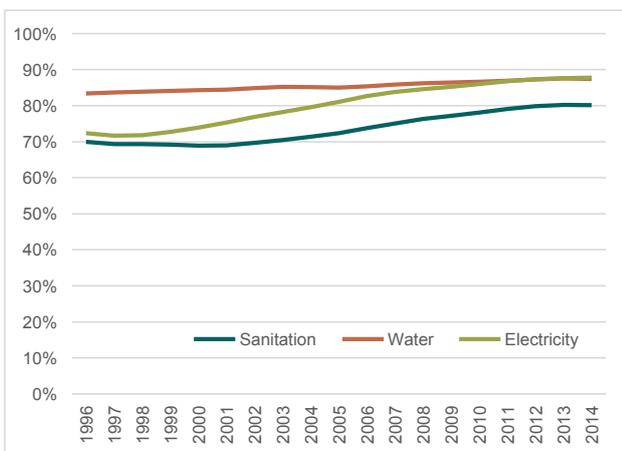
Source: Author's computations based on Global Insight data

As Table 7 shows, economic activities are less diversified and lower in rural areas than in urban areas, which partly explains the high unemployment rate in rural areas. Interestingly, agriculture plays a less significant role in rural municipalities than is generally perceived: it contributes 10.7% to GVA in B3 municipalities (reflecting the presence of commercial farming in these areas) but only 5.1% in B4 municipalities. Wholesale and trade, infrastructure and

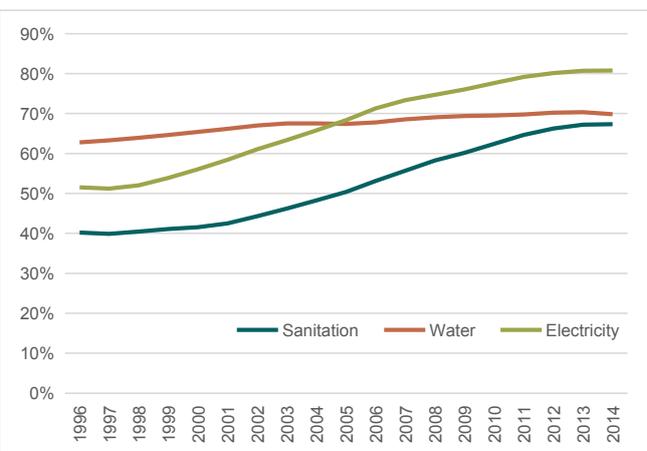
manufacturing are also significant contributors to GVA in all rural (B3 and B4) municipalities.

Access to infrastructure affects the ability of municipalities to carry out their functions and deliver services to their communities. Figures 5 and 6 shows access to water, sanitation and electricity services in urban and rural municipalities respectively.

**Figure 5: Access to services in urban municipalities (1996–2014)**



**Figure 6: Access to services in rural municipalities (1996–2014)**

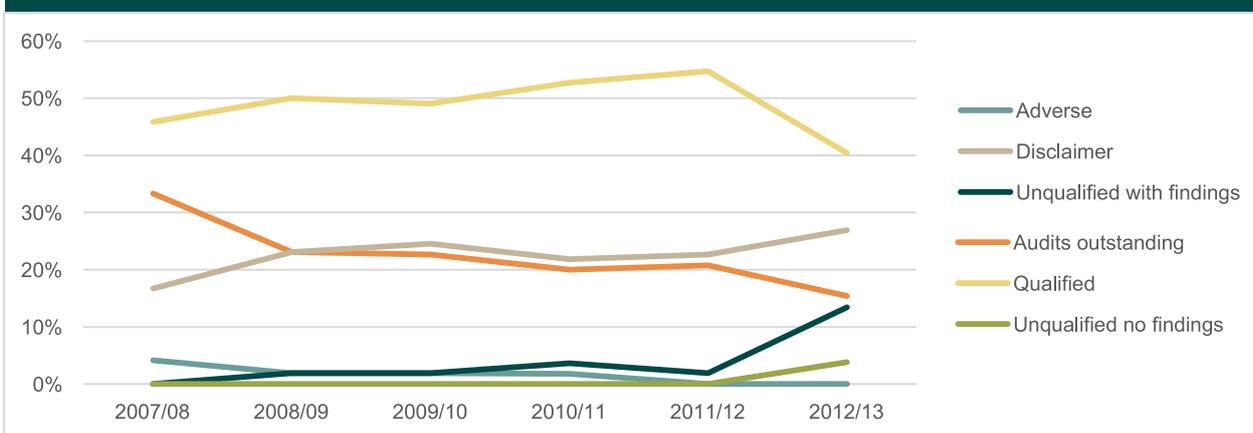


Source: Commission's computations based on Global Insight data

In urban areas, the average overall access has not changed significantly and remains below 90%, whereas access to electricity connections has steadily increased, from 73% in 1996 to 88% in 2013/14. Access to sanitation has improved but still has the highest backlog. In comparison, rural municipalities have seen a substantial improvement in access to sanitation, from 41% in 1996 to 69% in 2014 (Figure 6). Electricity connections to households have also improved hugely in rural municipalities, increasing from 52% in 1996 to 81% in 2014. Access to water, although at a higher level than sanitation, has not improved much over the years. This is because the spatial setting of households in some rural municipalities makes delivering services difficult.

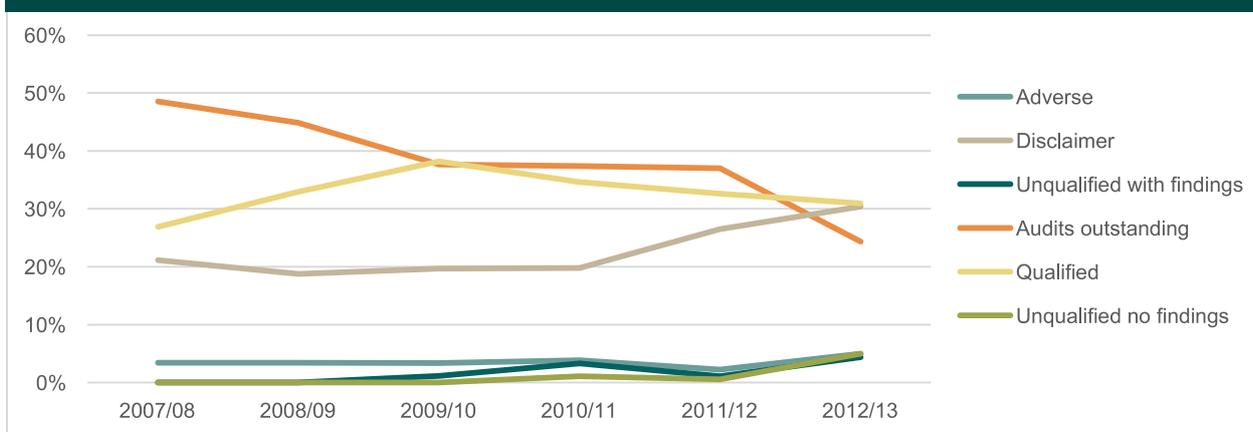
The majority of those being connected to municipal services are poor and unemployed, which poses a challenge for local economic development and the viability of municipalities. State (municipal) capacity may be compromised when residents are too poor to pay for the services necessary for development. However, in practice, this might not be true, as rural municipalities often have high repayment levels because pre-paid electricity and water is the norm. For example, in the case of municipal debt owed to Eskom, the culprits are from the Free State and Mpumalanga rather than from the more rural provinces of KwaZulu-Natal, Eastern Cape and Limpopo. This is corroborated by audit outcomes, which show that the number of municipalities with outstanding audits across both urban and rural areas have declined over the years (Figures 7 and 8).

**Figure 7. Audit outcomes for urban municipalities (2007/08–2012/13)**



Source: Commission's computations based on Global Insight data

**Figure 8. Audit outcomes for rural municipalities (2007/08–2012/13)**

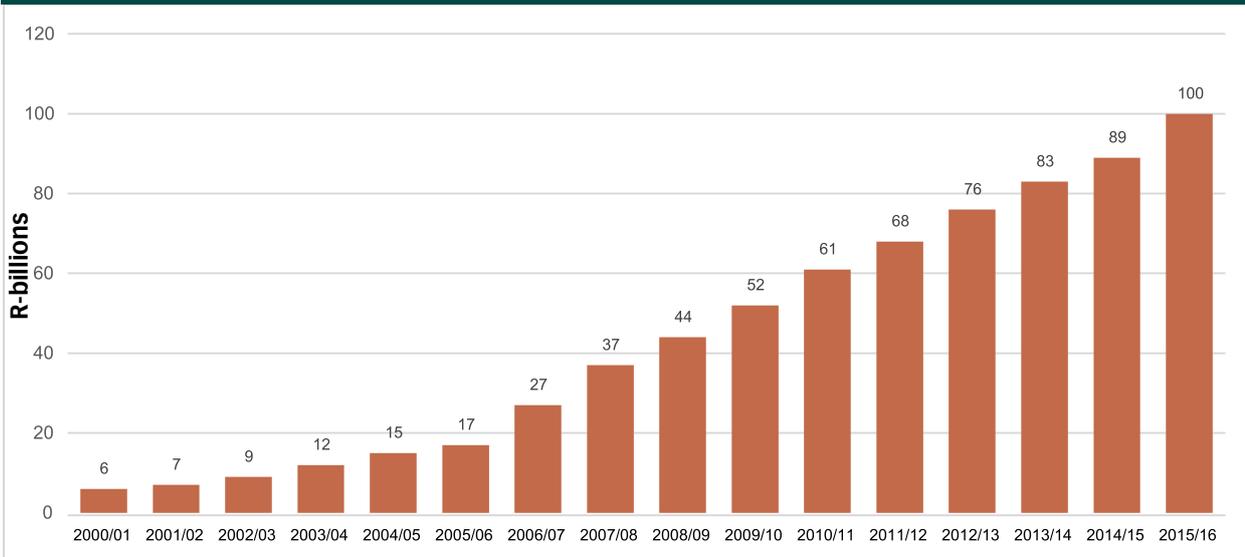


Source: Commission's computations based on Global Insight data

Over the past 15 years, transfers allocated to the local government have increased at a phenomenal rate, from R6-billion in 2000/to R100-billion in 2015/16 (Figure 9). Yet the increased resources have not led to an equivalent improvement in service delivery.

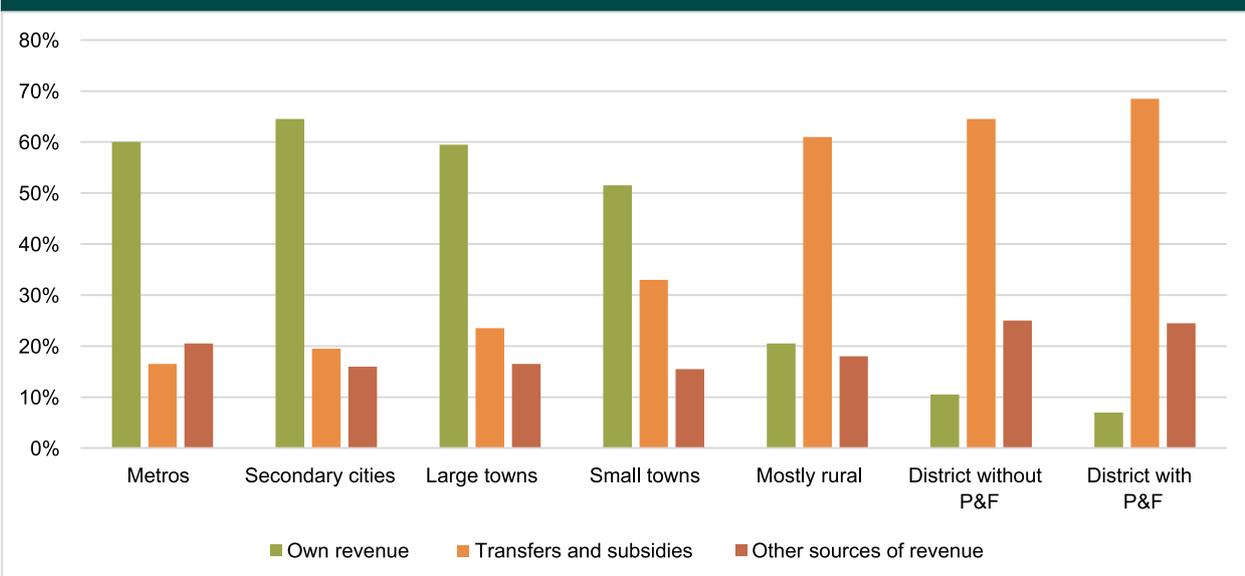
As Figure 10 shows, between 2003/04 and 2012/13, intergovernmental transfers were the dominant source of revenue in the smaller towns and mostly rural municipalities, whereas own revenue represented a greater share of revenue for metros, secondary cities, and large and small towns.

**Figure 9. Value of transfers to local government (2000/01–2015/16)**



Source: Commission's computations based on National Treasury data

**Figure 10. Average revenue split per source by municipal category (2003/04–2012/13)**



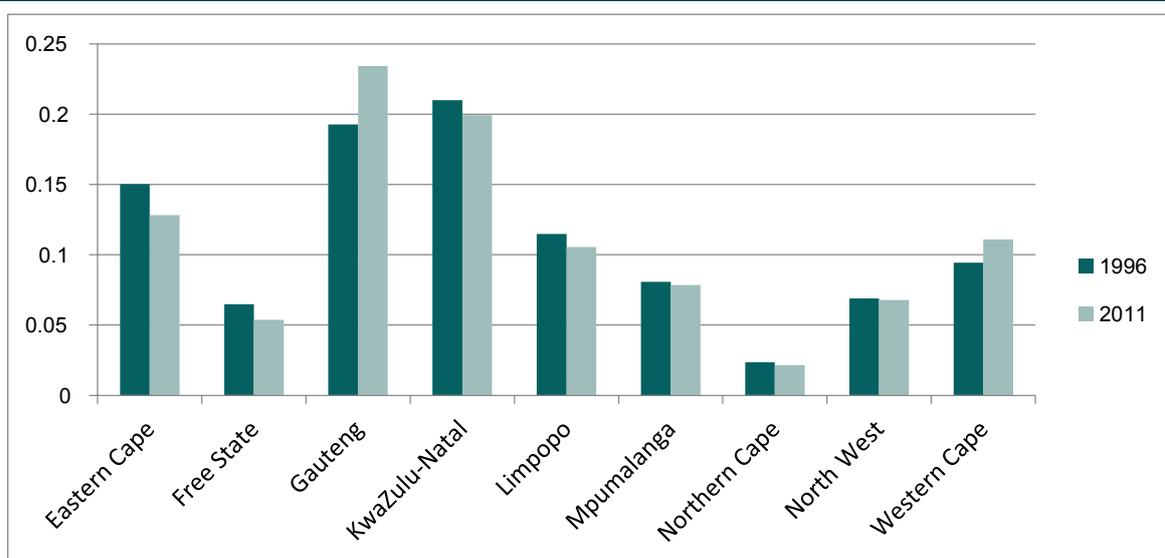
Source: Commission's computations based on National Treasury data

As illustrated in Figure 11, between 1996 and 2001, the two most urbanised provinces (Gauteng and Western Cape) showed the highest increase in population, as a result of in-migration. Census 2011 found that only 56% of the people counted in Gauteng were born in the province.

When selected development indicators are evaluated, the results are mixed (Table 8). For instance the per capita gross provincial product (GPP) for Gauteng is almost twice that of rural provinces. Similarly, compared to other provinces,

poverty levels are higher in the three most rural provinces (Eastern Cape, KwaZulu-Natal and Limpopo). However, the disparities across provinces dissipate when observed over a long period, implying some level of convergence in their development trajectory. This convergence is also evident in the provincial per capita expenditure. Overall Table 8 shows that, despite government's substantial transfers to provinces and expenditure on public services, disparities remain a major issue.

**Figure 11. Shifts in distribution of population among provinces**



Source: Commission's computations based on National Treasury data

**Table 8. Provincial development disparities**

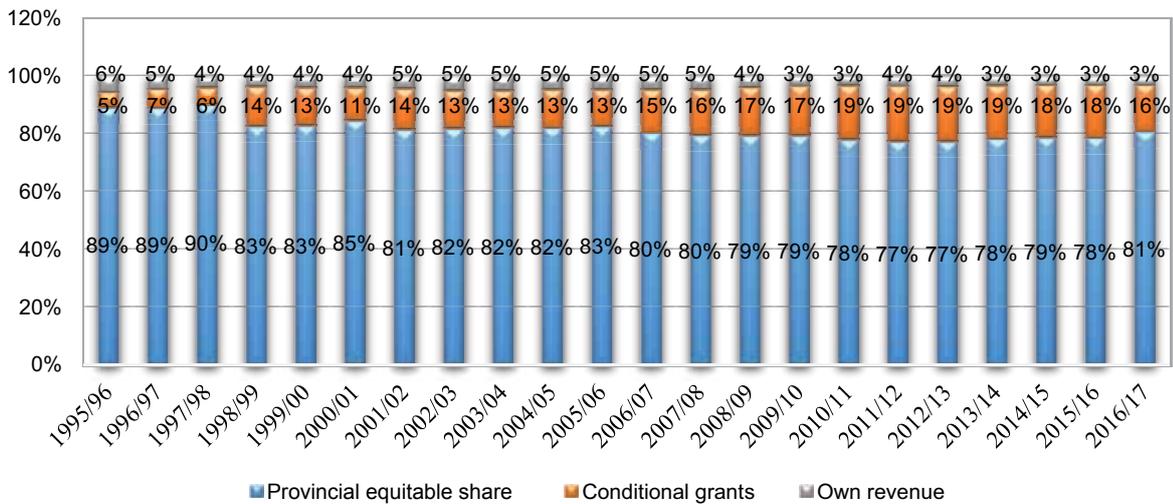
Province	GPP per capita (Rands)	Percentage of population below food poverty line	Population aged 15+ years and completed Grade 7	Expenditure per capita (Rands)
Eastern Cape	34 140	29.1%	76.9%	9 157
Free State	56 869	22.3%	82.1%	10 279
Gauteng	80 534	16.2%	91.1%	6 539
KwaZulu-Natal	45 513	28.9%	80.4%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

Source: Commission's computations based on Global Insight data

Between 1995/96 and 2013/14, total provincial revenues increased over six-fold, from roughly R60-billion to just under R400-billion. In general, own revenue represents a small share of total provincial revenue and decreased from 6% in 1995/96 to 3% in 2013/14. Gauteng, KwaZulu-Natal and Western Cape have consistently generated more own revenues than the other six provinces. In 2010/11, Gauteng generated the highest amount of own revenues

(R2.8-billion or 28% of the total provincial own revenues), followed by Western Cape (R2-billion or 20% of total provincial own revenues) and KwaZulu-Natal (R1.9 billion or 19% of total provincial own revenues). Northern Cape, Mpumalanga and Limpopo generated the least own revenues compared to the other six provinces, i.e. 2%, 5.1% and 5.4% of total provincial own revenues. These trends remained largely unchanged between 2010/11 and 2013/14 (Figure 12).

**Figure 12. Provincial revenue by source**



Source: Commission's computations based on National Treasury data

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

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

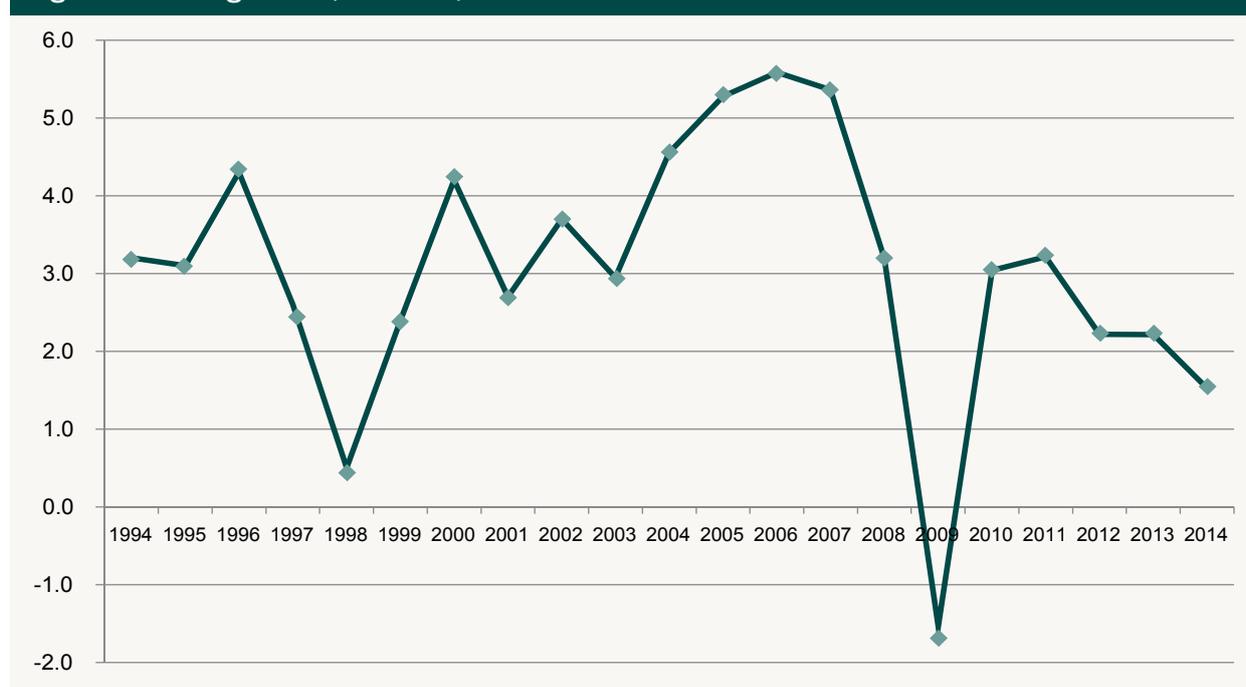
### 1.7 How are Rural Regions Coping with Major Economic Changes?

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

Figure 13 shows economic growth since the democratic election of 1994. The country had four years of 3–4% growth until 1998, when the economy grew by only 0.5% because of the international Asian financial crisis and high domestic interest rates that were instituted to combat exchange rate speculation. However, over the next decade, economic growth was robust: above 4.5% from 2004 to

2007 and reaching 5.6% in 2006 and 2007. Then, like almost all other countries, the financial crisis of 2008 led to significant declines in asset values, company closures, rising unemployment and a sharp slowing of economic growth – South Africa plunged into a recession in 2009 and substantially revised its macroeconomic forecasts downwards.

**Figure 13. GDP growth (annual %)**



Source: Commission's computations based on SARB data

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

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

**Figure 14. South African developmental indicators (1996–2014)**



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

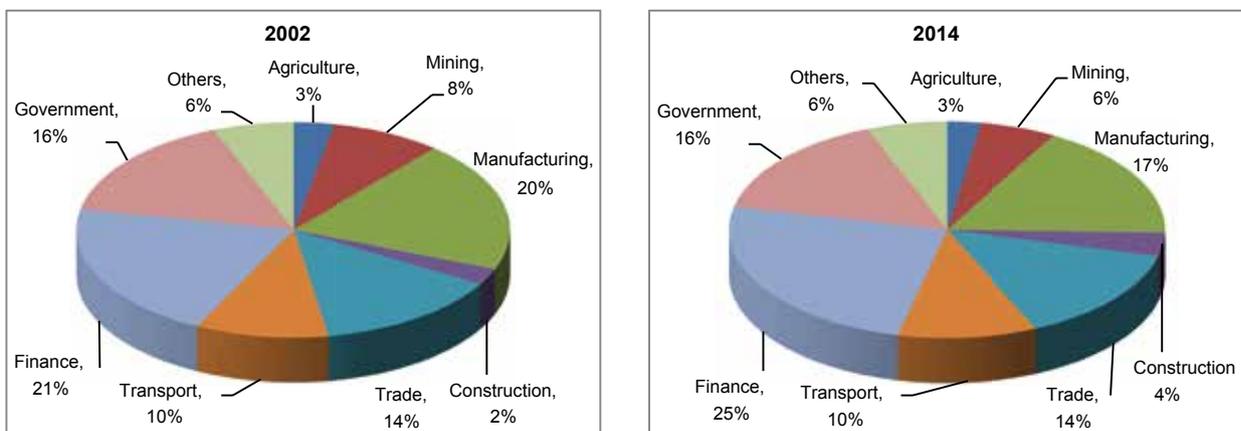
Figure 14 shows a few selected macroeconomic and developmental indicators between 1996 and 2014.

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

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

Over the past 22 years, the economy has seen a shift away from the primary sector towards the secondary sector, as Figure 15 illustrates.

**Figure 15. Main economic sectors and contribution to GDP**



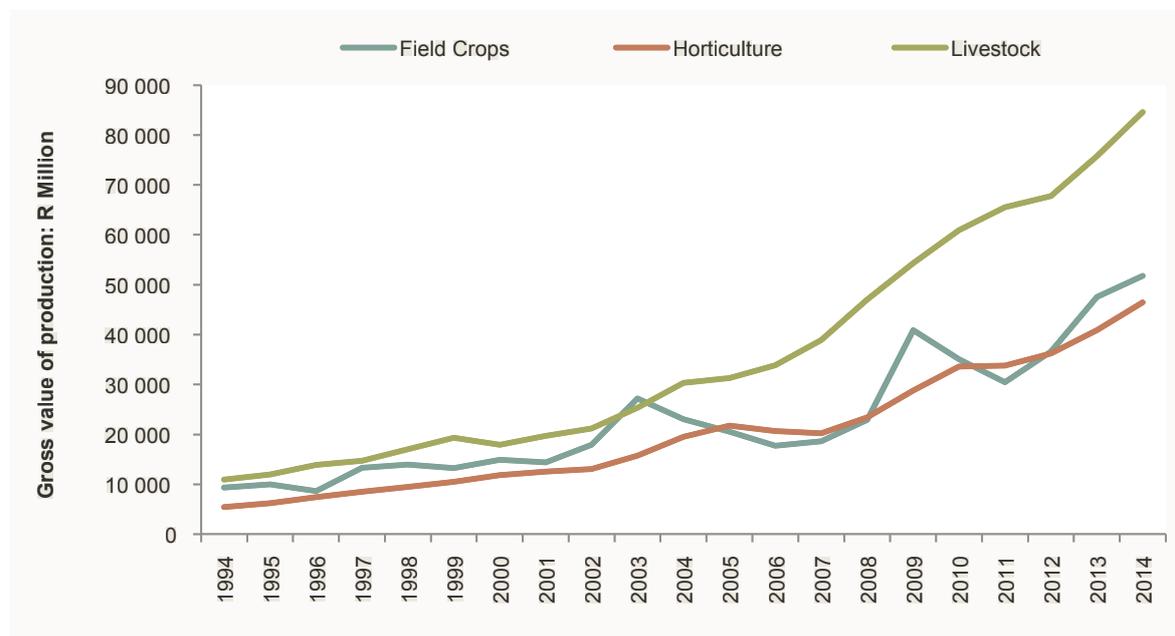
Source: Commission’s computations based on Stats SA data  
 Note: Both 2002 and 2014 charts are generated from data published in Stats SA (2014)

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

2009; Timmer, 1988). The mining and manufacturing sectors declined from 8% to 6% and 20% to 17% respectively.

The country's diverse weather conditions allow a variety of agricultural commodities to be grown, ranging from field crops (e.g. maize, sorghum, sugar, soybean, wheat) to livestock (e.g. beef, lamb, game and poultry) and horticulture (e.g. deciduous, subtropical and citrus). Figure 16 provides a breakdown of growth in value for these agricultural commodities produced in the country over 20 years.

**Figure 16. South Africa gross value of main agricultural commodities (1994–2014)**



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

As Figure 16 shows clearly, the value of animal products increased faster than that of field crops and horticultural products. This can be attributed to growing export markets, increasing animal feed costs and tightening consumer standards (NAMC, 2014). Horticultural production has also grown steadily, with spikes during periods of exchange rate volatility, such as 2002–2005 and 2008–2010. This is because the bulk of horticultural products are exported and thus generate foreign earnings.

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

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

**Figure 17. Location of the 27 priority districts**

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

## 1.8 Performance of Recent Rural Development Policies and Programmes

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

Like other economic sectors, agriculture has undergone many policy reforms over the past 22 years. Since 1994, rural and agricultural development have been shaped by reforms in four main areas: (a) land reform policy to address the land ownership imbalances caused by the Natives Land Act (No. 27 of 1913); (b) the deregulation of

agricultural markets to demolish control boards created by Marketing of Agricultural Products Act of 1936; (c) labour reform, which introduced minimum wages in the agricultural sector; and (d) infrastructure development policies and plans to promote investment in the rural economy and agro-processing space.

### 1.8.1 Land reform and rural development

Land reform is essential in many developing countries because of its significance for development. The importance of secure land rights for (rural) development has been highlighted in numerous studies (Place et al., 1994; Feder et al., 1998), and "secure and well-defined land rights are key for households' asset ownership, productive development, and factor market functioning" (Deininger, 2003: xix). Secure property rights and economic growth are positively

correlated, as such rights (a) promote economic growth by providing incentives for households to invest in land and enabling them to access credit, and (b) may facilitate the equal distribution of land and thus promote productivity.

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

Colonialism and the implementation of apartheid policies, especially the Natives Land Act in 1913, led to large-scale, racially based dispossessions of land ownership rights, which resulted in whites owning about 87% and blacks only 13% of the land (Jacobs et al., 2002). The democratic government adopted a land reform policy in its White Paper of 1997, which was derived from Section 25(5) of South Africa’s Constitution: “the state must take reasonable legislative and other measures, within its available resources, to foster conditions which enable citizens to gain access to land on an equitable basis”. The land reform policy has three pillars:

- (i) Land restitution, which aims to give people back (compensate for) the land they were unfairly dispossessed of after the Natives Land Act of 1913.
- (ii) Land redistribution, which aims to provide the poor with access to land for residential and productive uses in order to improve their income and quality of life.
- (iii) Land tenure, which targets mainly poor people, especially women and youth, so that they have a reasonable opportunity to gain access to land with secure rights, in order to fulfil their basic needs for housing and productive livelihoods.

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

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

- (i) In 2001, the Land Redistribution Programme, which is meant to enable emerging farmers and interested groups to obtain a grant for the purchase of land from willing sellers, to be used for both residential and agricultural purposes.
- (ii) In 2004, the Comprehensive Agricultural Support Programme (CASP), which is aimed at improving the productivity of emerging farmers by providing them with agricultural inputs, infrastructure and technical training.
- (iii) In 2009, the Proactive Land Acquisition Strategy (PLAS), which is intended to accelerate the pace of land reform.
- (iv) In 2010, the Recapitalisation and Development Programme (RADP), which is meant to help land reform beneficiaries to access infrastructure, inputs and technical support in order to use their acquired land productively.

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

### 1.8.2 Market deregulation and trade policy reforms

A key feature of post-1994 agricultural trade policy in South Africa has been tariffs replacing direct controls over imports and exports (as per the Marketing Act of 1936 amended in 1968), and the lowering of those tariffs below the bound rates agreed to in the Marrakech Agreement of 1994 (Ngqangweni, 2010; Vink and Van Rooyen, 2009). As a result of the Marrakech Agreement, South African agricultural tariffs cascaded from a relatively high rate on consumer goods to a moderate rate on intermediate goods and a low rate on capital goods. From the late 1990s, support programmes to farmers decreased significantly, leading to an open trading system in the country. For example the Producer Support Estimate declined from an average 11% in 1995–1997 to 3% in 2012–2014, well below the Organisation for Economic Cooperation and Development (OECD) average of 30% for that period (OECD, 2015).

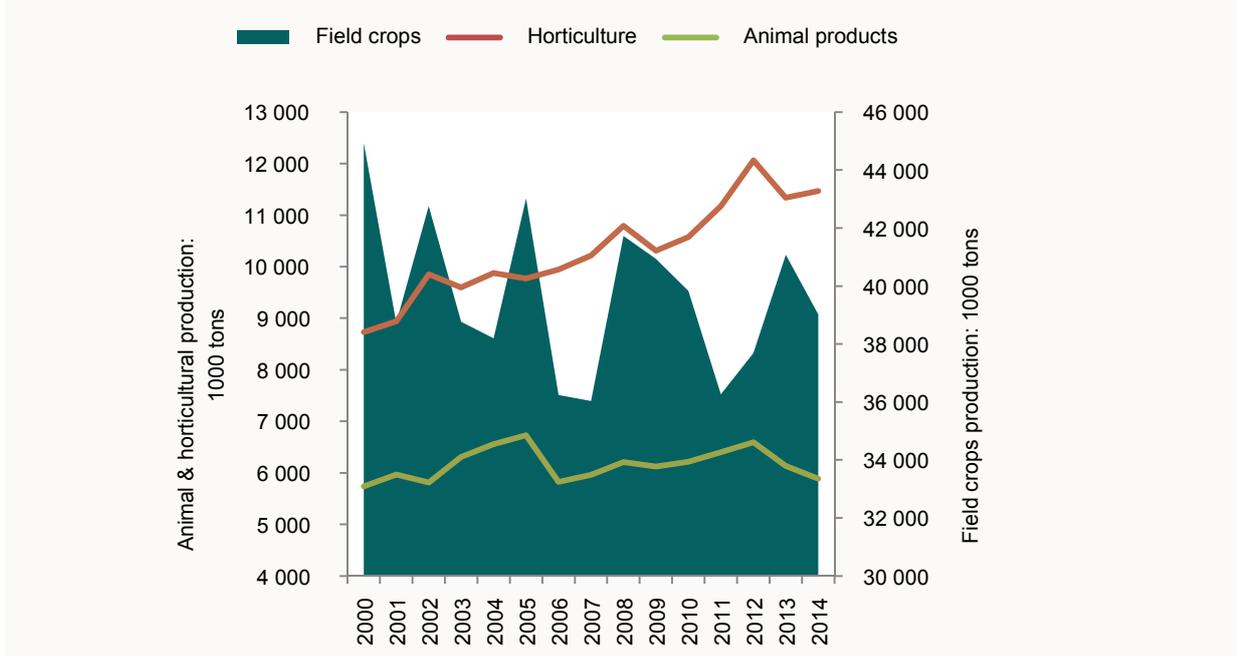
Pre-1994, the marketing of agricultural products was strongly regulated. All commodities were exported through a single channel system, i.e. control boards: 22 marketing boards regulated the domestic sale and export of

agricultural commodities (Vink and Van Rooyen, 2009). The democratic government introduced the new Marketing of Agricultural Products Act (No. 47 of 1996), which demolished the marketing boards (subsequently deregulating the agricultural marketing systems) and created access to new markets outside the traditional EU market (NAMC, 2014).

As Figure 18 shows, horticultural commodities, in particular deciduous and citrus fruits, have largely benefitted from

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

**Figure 18. South African agricultural production**



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

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

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

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

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

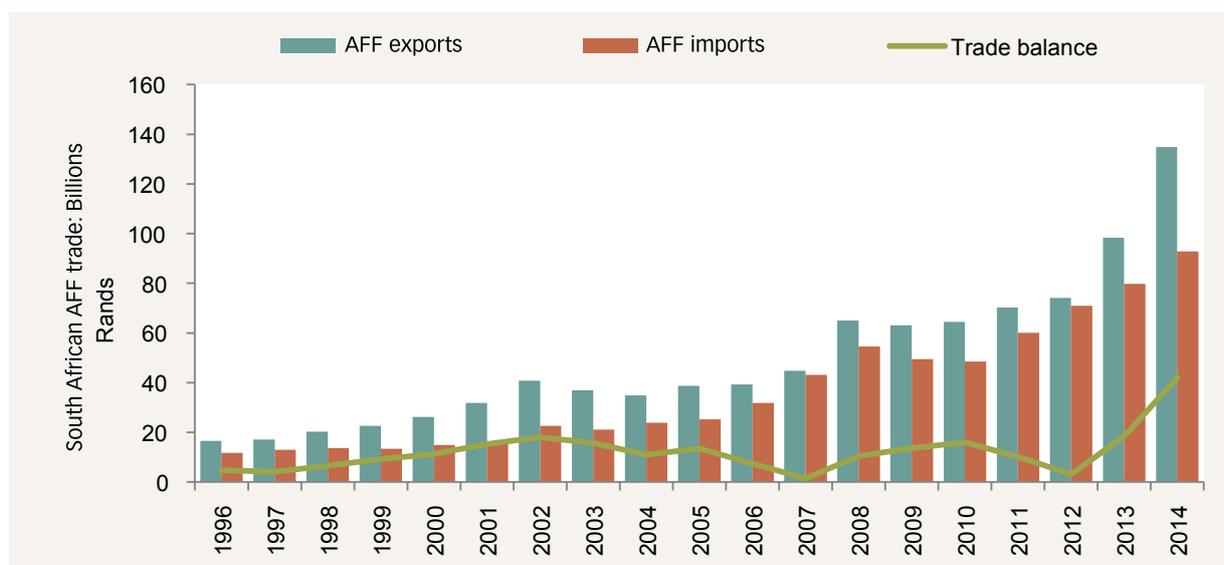
Promulgated in 2000, the **AGOA** gives sub-Saharan countries (including South Africa) preferential access to the USA market for a wide range of products. Three sectors benefit the most: agro-processing, textile and apparel, and automotive sectors (TIPS, 2015). South African agricultural products covered under AGOA include citrus, wine, essential oils and other fruits (ibid). Although South Africa and USA reached an agreement allowing the USA to export 65 000 tons of chicken into the South African market

(Erasmus, 2016), sanitary and phytosanitary issues (e.g. avian influenza) led to South Africa banning chicken imports from the USA. In 2014/15, the USA threatened to remove South Africa from AGOA if the ban on their chicken imports was not lifted. Following a series of bilateral negotiations, South Africa lifted the ban in March 2016 (AGOA.info, 2016). In the spirit of reciprocity,

USA will support the poultry sector through skills and technology dissemination targeting previously disadvantaged groups in South Africa (Erasmus, 2016).

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

**Figure 19. Agriculture, forestry and fisheries (AFF) trade**



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

**Table 9. South Africa's agricultural export destinations**

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

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

Notes: BRIC = Brazil, Russia, India and China; CAMANZ = Chile, Argentina, Mexico, Australia, New Zealand

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

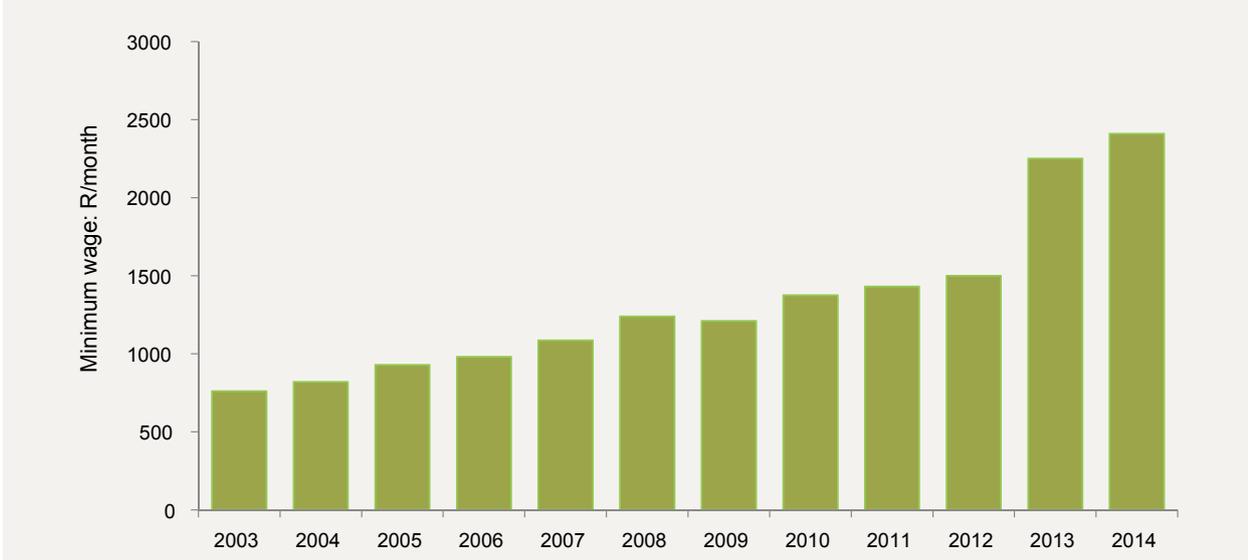
### 1.8.3 Labour policy reforms

Before 1994, South African farm workers were not protected by any labour legislation. With the advent of democracy, farm workers received basic employment rights under the Agricultural Labour Act (No. 147 of 1993) and were included in the provisions of the Unemployment Insurance Act (No. 63 of 2001). The Basic Conditions of Employment Act (No. 75 of 1997) stipulates minimum labour standards for farm workers, as well as maximum working hours and payment

for overtime. The Extension of Security of Tenure Act (No. 62 of 1997) ensures security of tenure for occupiers of rural and farm land who earn less than R5000 per month. In 2003, the Department of Labour introduced minimum wages for the agricultural sector (BFAP, 2015). Between 2003 and 2012, the farm minimum wage increased on average by 8% annually, and then increased by nearly 50% in 2013, as a result of the farm workers' strike in the Western Cape. However, by 2014 the increase was back to inflation growth of 7% (Figure 20)

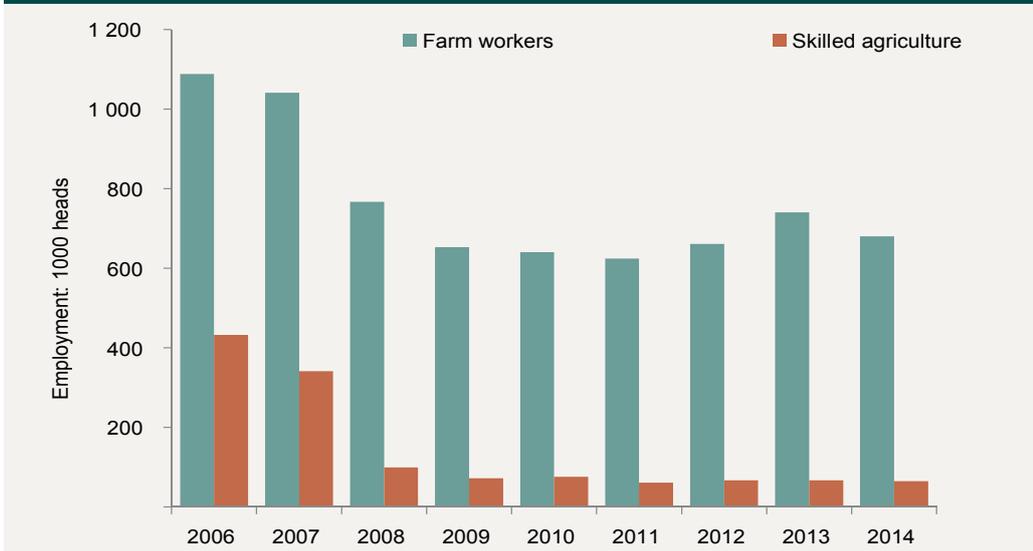
Over the past decade, agricultural employment has been gradually declining, from 1.5 million agricultural workers in 2006 to 800 000 workers in 2013 (Figure 21). Low-skilled farm workers have been the biggest losers. The labour policy reforms, especially the minimum wage policy, led to the casualisation of farm workers and the consequent decline in farm worker numbers (BFAP, 2015; PLAAS, 2012; Dinkelman and Ranchhod, 2012).

**Figure 20. Trends in farm minimum wages (2003–2015)**



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

**Figure 21. South African agricultural labour trends (2006–2014)**



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

### 1.8.4 Food security and rural development

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

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

- (i) inadequate safety nets, especially for poor households in rural areas;
- (ii) disaster management systems, which aim to create a structured system of dealing with food security disasters;
- (iii) unstable household food production, which deals with hunger and malnutrition;
- (iv) lack of purchasing power, promoting agricultural and other economic activities in order to enhance household purchasing power; and
- (v) poor nutrition status, with the aim of improving the nutritional status of households.

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

### 1.8.5 Infrastructure development policies and rural development

It is a well-known fact that poor physical infrastructure inhibits rural development in developing countries. In most low-income countries, agricultural growth and poverty reduction are severely limited by "poor physical infrastructure for transport, power, communications, irrigation, water, and sanitation" (World Bank, 2006). Poor physical infrastructure in rural areas means high transaction costs, which prevent rural households from reaching their productivity and growth potential, and result in markets not

functioning effectively. Poorly maintained rural roads makes distributing products difficult. Therefore, in most developing countries, one of the preconditions for rural development is to provide physical infrastructure and thus lower transaction costs. However, over the years, investment in agriculture has been declining, as other economic sectors (such as manufacturing) are emphasised. The low and variable investment in the agriculture sector is a concern because of the link between agricultural production, food security and poverty.

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

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

## 1.9 Concluding Remarks

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

The highest per capita expenditure levels are found, unsurprisingly, in provinces with the strongest revenue performance, which happen to be non-rural. 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. As shown in this chapter, large economic disparities exist across provinces, for instance in terms of GDP per capita, unemployment and average household income.<sup>11</sup> Given this situation, policies aimed at improving human capital in disadvantaged regions make sense from both an equity and efficiency perspective. The key drivers of growth vary according to a region's level of development, but education and training, above all, are critical for the growth of all regions (Petchey et al., 2007).

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

## 1.10 Recommendations

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

1. Develops a comprehensive definition of “rural areas” and “rural development” to be applied across the three spheres of government. The Department of Rural Development and Land Reform and the Department of Planning, Monitoring and Evaluation must convene a task team with other relevant government departments to develop a definition of “rural, remote and rural development” that is clear and simple to categorise and measure. This definition should be:
  - multi-sectoral and place-based, aimed at identifying and exploiting the different development potential of rural areas, with a focus on places not just sectors.
  - measurable, to enable Stats SA to report on “rural” versus “urban” development and to provide credible and accessible data on rural development.
2. Deals with disparities between and within regions by harnessing the growth potential of rural areas.
  - Inter-regional and inter-provincial migration is already underway following freedom of movement brought about by democracy. Government should further strengthen the equity focus of intergovernmental transfers, in particular in the health and education sectors targeted at rural areas, as this facilitates efficient reallocations.
  - Policy efforts should complement these reallocation-enhancing processes in order to sustain productivity growth within rural areas. Government should actively and specifically include conditions in rural grants aimed at increasing productivity and employment whenever significant capital investment in rural public infrastructure occurs.
3. Strengthens intergovernmental relations by:
  - Boosting incentives for performance (own-revenue raising, policy and administrative capacity for service delivery, etc.), especially in provinces and municipalities with large disparities within them.
- Addressing the identified weaknesses (coordination failures, governance complexity, etc.). Coordination is needed between the national government and subnational governments and authorities. Developing a true partnership implies participating in decision-making and implementing rural development policies that the regional or local government helps to design. This requires a high level of commitment, effective knowledge sharing and competence on the part of national, provincial and local representatives. In this respect, government should design a mechanism to ensure that proper incentives are provided to make rural communities act dynamically and in a way that rewards initiative and experimentation, but that also promotes consistency in public policy across sectors and regions.
4. The Department of Rural Development and Land Reform together with the Department of Planning, Monitoring and Evaluation convene a task team with other relevant government departments to develop a new rural development research agenda with three key objectives:
  - Develop a comprehensive analytical framework for rural development policy that includes appropriate qualitative and quantitative indicators to allow different policies to be evaluated and compared across municipalities and across regions within provinces.
  - Undertake a systematic review of rural development strategies and make the results available to policy-makers across municipalities and provinces.
  - Encourage the various institutional and managerial systems charged with formulating and implementing rural policy to work together to ensure that individual policies are consistent and converge in a coherent strategy. This can be achieved through special high-level joint inter-departmental coordination via working groups, formal contracts and policy proofing by, for example, benchmarking among peers.

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