

# Appendix 1

## IMPLEMENTATION OF THE RURAL DEVELOPMENT PROGRAMME AND ITS IMPLICATIONS FOR THE INTERGOVERNMENTAL FISCAL RELATIONS SYSTEM IN SOUTH AFRICA

### A1.1 Introduction

In this Appendix, the challenges pertaining to the implementation of rural development programmes in South Africa are analysed. The South African government acknowledges that rural areas face significant poverty and development challenges. The pervasive poor delivery of basic services in rural areas continues to constrain development efforts in South Africa. As such, rural development is one of the five policy priorities for the current government's elective term and included in the Medium-Term Strategic Framework 2009-2014; it is also Outcome 7 in the government's delivery agreement between the President and Ministry of Rural Development and Land Reform. This priority is part of the government's redistributive agenda and involves some form of social justice and rebalancing, since the heart of economic fragmentation is felt most in rural areas.

A number of social and economic surveys and research studies confirm the extent to which South African poverty is concentrated in the rural areas. Most of the underclass of workerless households is located in the former "Bantustans" where average income per head and service delivery are marginally lower than in towns and cities (Makgetla, 2010). Illiteracy and low education levels are more prevalent in rural areas than in urban areas. The concentration and persistence of the most extreme forms of poverty, and rising inequality in the distribution of the national resources and incomes remain vexing outcomes of efforts at combating rural development challenges often through uncoordinated and ineffective initiatives.

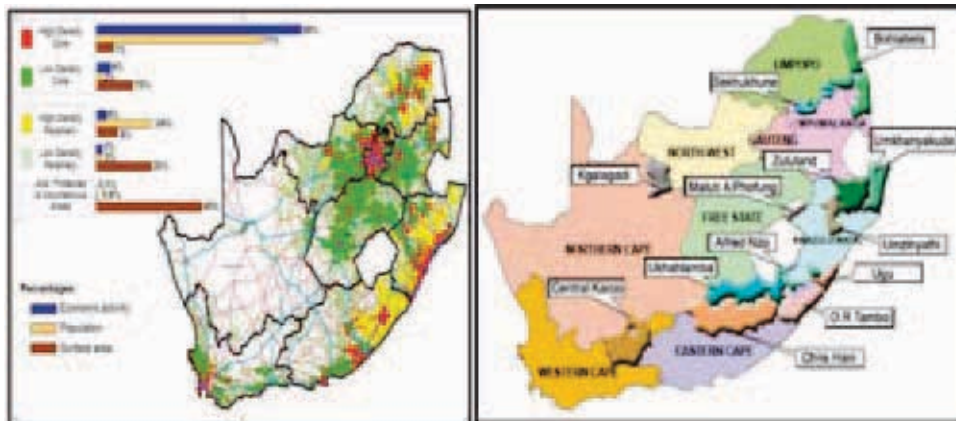
The other challenge is that rural development, both as a concept and a government programme, continues to be characterised by ambiguity, conflicting policy prescriptions and lack of coherence across the activities and incentives in all spheres of government and departments (Parnell, 2008). There is no government-wide definition of what are rural and remote rural areas. The dividing lines between city, large town, small town, urban, peri-urban, farm and deep rural areas are very blurred. From an intergovernmental-relations perspective, there is still a lack of consensus about what constitutes a successful rural development programme in relation to policy objectives, planning, programming and budgeting and institutional arrangements. These widespread challenges call upon alternative approaches, which may have greater chances of reducing rural poverty and inequalities, to be explored.

From a fiscal policy and budgeting perspective, the multi-dimensional nature and complementarity of the rural development programme and outcomes are not well understood. For instance, the interrelations between the quality of services in rural areas – roads, electricity, water sanitation and telecommunications – and the willingness and encouragement of doctors, nurses and teachers to live and provide services in rural areas. Further, improved water and sanitation services will play an important role in reducing child mortality, which will also socially benefit the rural populace at large (Woolard, 2002). Clarity is needed on the role of all spheres of government in rural development. Once this is agreed upon, it will be less difficult to design fiscal frameworks for this important policy objective. An accelerated rural development programme is the key to promoting shared and broad-based economic growth. Improving conditions in rural areas is not only a goal in itself for a better quality of life, but also its positive impact on the economic development is far-reaching.

## A1.2 The Contextualisation of Rural Poverty in South Africa

The aim of rural development is to improve access, to constitutionally mandated services and the development of economic opportunities, for the ten million rural poor who reside in 15 Presidential Poverty Nodes, described as the “spatial manifestation of the second economy” (The Presidency, 2008). Rural areas are sparsely populated and characterised by communal land tenure in which people depend on migratory labour system, remittances and subsistence farming for survival (Hemson *et al.*, 2004). Figure 33 also illustrates the concentrated nature of the South African space economy and indicates the distribution and location of people living in poverty (as calculated by using the number of people living under the minimum living level, MLL) and economic activity (using gross value added (GVA) as an indicator).

Figure 33. High concentration of people living below the MLL compared to economic accessibility



Source: The Presidency, 2008

Both the red and the green indicate areas that are highly accessible to large numbers of the population. The yellow indicates areas that are also relatively densely populated but much less accessible. The bulk of the poor live in the rural areas of the Eastern Cape (Alfred Nzo, Chris Hani, O.R. Tambo and Ukhahlamba), followed by KwaZulu Natal (Ugu, Umkhanyakude, Umzinyathi and Zululand) and Limpopo (Maruleng and Sekhukhune). Thabo Mofutsanyane in the Free State, Bushbuckridge in Mpumalanga, Kgalagadi in Northern Cape and North West, and Central Karoo in Western Cape are also rural nodes. Social security grants as a source of income are more prevalent than salaries in rural nodes. Remittances as a source of income played an important role in most provinces, especially in Limpopo, the Eastern Cape and Mpumalanga. Various studies show that the rapid urbanisation in South Africa is mainly as a result of urban migration by the rural populace for better economic opportunities and living conditions in towns and cities (Parnell, 2008). This suggests that are challenges related to access to constitutionally mandated basic services and economic opportunities in rural areas. Consequently, unemployed, poor and uneducated parents in rural areas are not in a good position to look after the education and health needs of their children. Similarly, the linkages of education and health to poverty eradication and long-term economic growth are weak. Further, food security is a major challenge for poor families in rural areas even though studies do show that this is also increasingly becoming a challenge in urban areas as well. The right to access sufficient food and water is stipulated in Section 27, subsection 1(b) of the Constitution. High food prices pose a threat to this right, which is acknowledged by the Department of Rural Development and Land Reform in its delivery agreement with the President on “Output 7: vibrant, equitable and sustainable rural communities and food security for all”.

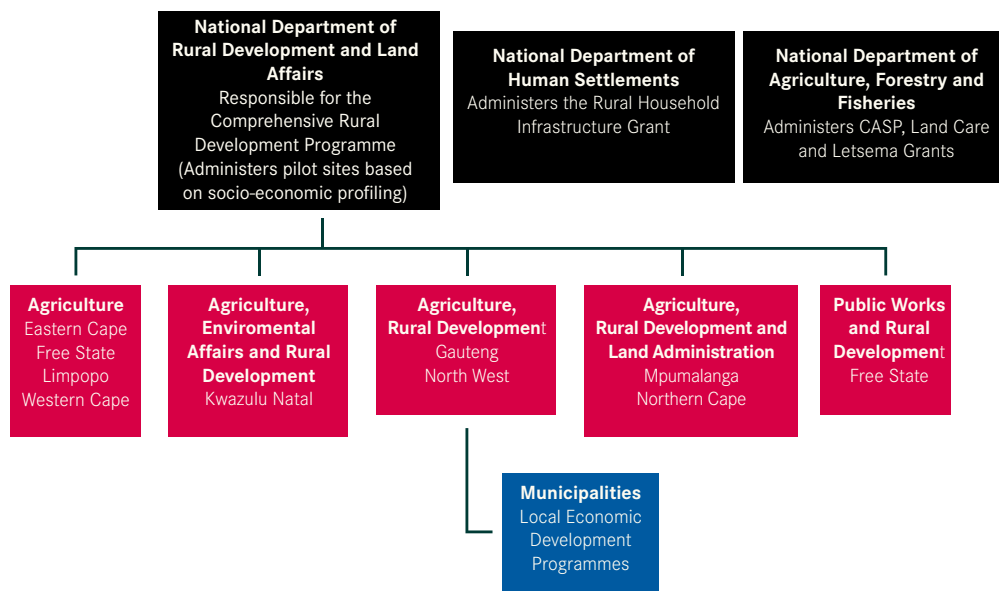
This output intends to accelerate the land reform programmes to “ensure sustained productivity by new landowners, contribute to their income, food security and local economic development”. This is conceived with the view that most people in rural communities are involved in agriculture and farming. However, agricultural employment growth in South Africa has fallen by almost 45% since 1995. In 2009 alone, 149,000 people lost their jobs in the agriculture sector and employment growth declined by 19.5% (National Treasury, 2010). As compared to other developed countries, agriculture peasantry in South Africa is not significant. “Income generated and food consumed from agriculture is a minor component of household resources (4% of the income)” (Hemson *et al.*, 2004). What is emerging is that people in rural areas are engaged in farming for their own consumption instead of commercial purposes. So food security should be at the centre of rural development in South Africa rather than commercial farming *per se*.

## A1.3 Institutional and Fiscal Arrangements for Rural Development in South Africa

In an attempt to accelerate the programme as part of the 2009–14 Medium-Term Strategic Framework, national departments

with responsibilities for agriculture, land reform and rural development were reformed. The responsibility for these functions is now shared by: the Department of Rural Development and Land Reform, which is responsible for the overall coordination of rural development, land and agrarian reforms; the Department of Agriculture, Forestry and Fisheries, which is responsible for agricultural development and administers the Comprehensive Agriculture Support Programme Grant, Land Care and Ilima/Letsema Grants (see Figure 34); and the Department of Human Settlements, which administers the Rural Household Infrastructure Grant. The Rural Household Infrastructure grant is a new grant that was introduced in the 2011 Medium-Term Expenditure Framework and addresses the access issue of water supply and sanitation in rural areas.

Figure 34. Institutional arrangements for agriculture and rural development in South Africa



Source: FFC analysis, 2010

Immediately after the 2009 national elections, these departmental institutional arrangements were also replicated in some provinces. However, (as at December 2010), the Eastern Cape, Limpopo and the Western Cape did not have departments named rural development. Only Mpumalanga and Northern Cape have departments for land administration. Municipalities do not have stand-alone institutional arrangements or programmes for rural development, but incorporate these programmes within their integrated development programmes and local economic development programmes. The spread of rural development functions across provincial departments makes planning, budgeting and delivery of difficult to implement.

In South Africa there are no official standard definition(s) or indicators for 'rural areas', which makes fiscal analysis of rural development programmes difficult to measure and quantify. It also makes budget analysis in terms of allocative efficiency not easy because budget programmes and economic classification for rural development are not as yet standardised in the provincial budgets. A differentiated approach is needed in policy and fiscal frameworks to deal with urban and rural nodes. This does not necessarily presuppose additional money into the fiscus but there is a need to strengthen the weak link between spending and outcomes. There must be a government-wide agreement on quality and quantitative indicators that can be used as proxies for rural development programmes and targets.

Rural-to-urban migration has resulted in some relocation of poverty to town, which probably indicates that the underclass is now found in urban as well as rural areas (Bhorat and Kanbur, 2006). The rapid migration of people, both within a country (internal migration) and across borders (cross-border migration) must, of necessity, inform the government's future urban and rural development policies. Furthermore, agriculture and rural development programmes should not be top down and divorced from local communities' circumstances, but should incorporate traditional knowledge, indigenous knowledge systems expertise, skills and practices related to rural people and their areas, agricultural production, food security and diversity.

### A1.4 Observations

This Submission sought to assess the particular challenges facing rural areas in South Africa. The historical challenge to deliver government services to the rural populace has made rural development one of the top five priorities for the current

government. However, from the intergovernmental relations perspective, the concept of rural development is still nebulous and needs a proper conceptualisation.

The role of all spheres of government in rural development needs to be clarified. Once this is agreed upon, it will be easier to design fiscal frameworks for this function. Furthermore, rural development cannot just be limited to agrarian and land reforms, but requires a rethink on the nature of government programmes dealing with rural poverty. Challenges facing the rural poor are more than agriculture and agrarian reforms. They concern education, health care, social and economic infrastructure, the creation of employment opportunities, as well as changing the economic geography of rural areas. For this to happen, intergovernmental fiscal reforms are needed to enhance rural development.

The following advisories are made:

- The governance and institutional arrangements for rural development across the three spheres of government need to be clarified urgently. This is important for planning, budgeting and implementation of rural development programmes. The Commission recommends that a functional mapping of all rural development activities be undertaken, with specific responsibilities assigned to each sphere of government.
- The fiscal framework (both the equitable share and conditional grant allocations) for rural and agricultural development must be reviewed. In particular, government should merge current conditional grants into a comprehensive agriculture and rural development finance programme, preferably administered by one department. This will improve the focus, targeting and impact, and reduce transaction costs in the administration of conditional grants.