Reducing Rural Poverty through Targeted Intergovernmental Transfers

FINANCIAL AND FISCAL COMMISSION

For an Equitable Sharing of National Revenue

EXECUTIVE SUMMARY

Despite programmes aimed at fast-tracking land reform and radically restructuring the country's agrarian economy, South Africa's rural areas are still characterised by poverty and inequality. Research by the Financial and Fiscal Commission (the Commission) found that, in rural municipalities, agriculture's share of economic output is relatively small, but agriculture has significant influence on average incomes. Positive changes in per capital income or agricultural value-added has a positive impact on agricultural value-added and per capita income respectively in rural municipalities, but no impact in urban municipalities. The study also found that non-agricultural growth has a greater impact on poverty alleviation than does agricultural growth. The Commission thus recommends that a framework for implementing, evaluating and monitoring key agricultural grants be established; that agriculture-related intergovernmental transfers be distributed in a manner that promotes equity and ensures access for targeted groups, especially emerging and subsistence farmers; and that a framework be established to facilitate improved coordination among the departments and public entities tasked with driving rural development and poverty alleviation.

Policy Brief 2

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BACKGROUND

Despite almost two decades of efforts aimed at restructuring the county's agrarian economy, most of South Africa's rural areas remain characterised by high levels of poverty and inequality. Since 2009, South Africa's rural development strategy has focused on the need to fast-track land reform and to radically restructure the country's agrarian economy, as a catalyst for poverty reduction and wider societal transformation. The Department of Agriculture, Forestry and Fisheries (DAFF), the Department of Land Affairs and provincial departments of agriculture are tasked with implementing a range of funding initiatives aimed at addressing the imbalances created by the apartheid-era agricultural economic system. This is done by providing grants to previously disadvantaged South African citizens that enable them to access land specifically for agricultural purposes. Other initiatives include expanding the provision of agricultural development support services to land reform beneficiaries.

Despite a number of noteworthy programmes, such as the Land Redistribution for Agricultural Development (LRAD) and the Comprehensive Agricultural Support Programme (CASP), the contribution of agriculture to rural development and the participation of the (mainly rural) poor in the sector has been called into question. Government's emphasis is on agriculture as an engine for economic growth and job creation, but results are limited because of coordination and implementation problems around access to, and administration of, support programmes. The funds allocated to support land reform beneficiaries and small-scale farmers may have grown significantly but remain inadequate. As a result, only an estimated 13% of eligible black farmers benefit from support services offered by agricultural grant programmes administered by the Department of Rural Development and Land Reform (DRDLR) and DAFF. Furthermore, the services are thinly spread across a large number of beneficiaries. The aim of achieving wider coverage has been at the expense of quality and comprehensive support, thereby lessening the impact of these programmes.

This limited impact has raised concerns about the effectiveness of public investments in achieving growth, reducing rural poverty and, ultimately, creating a vibrant and inclusive rural economy. At issue is whether agricultural growth drives economic growth or economic growth drives agricultural growth. If the former is true, then it validates current efforts to bolster rural economies through policies that enhance agricultural investments and productivity. If the latter is the case, then a more appropriate policy could be one that targets growth in key non-agricultural sectors and encourages more linkages between such sectors and agriculture. Therefore, the Financial and Fiscal Commission (the Commission) examined the links between agriculture and regional economic growth across municipalities, through the value added per agricultural worker and the per capita income. The study also assessed the effects of sectoral growth on poverty reduction.

RESEARCH FINDINGS

While agriculture remains an important source of sustenance in rural areas with weak economic bases, its contribution to overall economic activity in rural areas is less significant than is generally perceived: agriculture accounts for 30% or more of total gross value added (GVA) in only 48 municipalities (or some 21%) of all municipalities, of which 43 are classified as rural (i.e. category B3 and B4 municipalities).

The study looked at how changes in per capita income and agricultural value-added affect one another. For the sample of 234 municipalities, a positive exogenous change to agricultural value-added leads to an increase in per capita income. Similarly, a shock to per capita income has a positive effect on agriculture value-added. However, the results are different when the municipalities are separated into urban and rural. Positive shocks in per capital income and agricultural value-added has a positive impact on agricultural value-added and per capita income respectively in rural municipalities, but no impact in urban municipalities. The study also found that the agricultural sector has a significant influence on average incomes within rural municipalities but not in urban municipalities.

The study then looked at whether the source of growth (i.e. the agricultural or non-agricultural sector) matters for poverty alleviation. Growth in agricultural outputs has a strong effect on poverty reduction, although this effect is reduced when the depth of poverty and the presence of a large public sector are taken into account. Both agricultural and non-agricultural growth have statistically significant poverty-reducing effects; the effect of non-agricultural growth is on average 2.24 times greater than agricultural growth for all municipal types (i.e. urban and rural) and 2.3 times greater for rural municipalities.

CONCLUSION

Agriculture's relatively small share of economic output/ activities in rural municipalities calls into question government's emphasis on agriculture-led rural development as the most viable policy to generate the growth required for development and poverty reduction. For rural municipalities, agricultural activities represent an important driver of incomes, which have a positive effect on non-agricultural sectors. On the other hand, growth within the non-agricultural sector has the potential to drive a rapid release of resources out of the agricultural sector, causing a slow-down in productivity growth or a decline in overall value-added output of the agriculture sector. Addressing rural development and rural poverty thus requires policies that enhance linkages between agriculture and non-agricultural activities within rural spaces. For this to occur, the Commission recommends that:

- The Department of Agriculture, Forestry and Fisheries enhance agricultural productivity by establishing a framework for implementing, evaluating and monitoring key agricultural grants targeted at subsistence and small-scale farmers.

- Agriculture-related intergovernmental transfers be distributed across recipient provinces in a manner that promotes equity and ensures access for targeted groups, especially emerging and subsistence farmers located within rural provinces and municipalities. This can be achieved through expanding the current disbursement criteria to incorporate weights for a province's share of national rural population, the proportion of a province's rural population with incomes below official poverty levels/measures, and the extent to which the rural population in a province participates in subsistence and smallholder farming.

- A framework be established to supplement rural development initiatives. The framework would facilitate greater coordination and communication among departments and public entities tasked with driving rural development through entrepreneurial programmes, which create linkages between agriculture and non-agricultural sectors.

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