FINANCIAL AND FISCAL COMMISSION

For an Equitable Sharing of National Revenue

Enhancing the Role of Public Entities in Rural Development

EXECUTIVE SUMMARY

Public entities – state-owned companies (SOCs) and development finance institutes (DFIs) – play an instrumental role in implementing developmental policies and helping to drive South Africa's infrastructure-led growth. They have the resources to change the development path of rural areas. A study by the Financial and Fiscal Commission (the Commission) assessed the extent to which public entities contribute to rural development. The public entities selected were Eskom, Telkom, the South African Post Office (SAPO), Transnet, as well as the Land Bank, Development Bank of Southern Africa (DBSA), the Industrial Development Corporation (IDC) and the National Empowerment Fund (NEF). The study found that SOCs do not have a specific rural focus, unless such a focus is driven by their parent/sector department, and that investments by DFIs in rural areas is minimal and declining. To enhance the rural development role of public entities, in order to align with government's infrastructure-led growth strategy, the Commission recommends that a single champion for rural finance and development be designated, to guide and coordinate investments by DFIs in rural areas. In addition, Transnet should contribute to regional growth by connecting goods produced in rural areas to markets, SAPO should broaden its focus and become a one-stop shop in rural areas, and Telkom should improve its network infrastructure in rural areas.

Policy Brief 4

Enhancing the Role of Public Entities in Rural Development

BACKGROUND

Public entities – state-owned companies (SOCs) and development finance institutes (DFIs) – play an instrumental role in implementing developmental policies and helping to drive South Africa's infrastructure-led growth. Together they have many resources that can change the developmental path of rural areas, but the extent to which they contribute to rural development is unclear. SOCs maintain electricity, water, transport and telecommunications infrastructure, while DFIs fund infrastructure that underpins the delivery of basic services. They are responsible for, on average, 45% of South Africa's infrastructure development over the 2015 Medium Term Expenditure Framework (MTEF) period.

SOCs and DFIs both have a dual mandate to fulfil, which causes tensions. SOCs need to meet their developmental (or non-commercial) mandates, while remaining financially viable and sustainable through commercial activities. DFIs depend on profits from their investments to provide resources for funding development, but profit and development often contradict each other. A related concern is the declining profitability currently experienced by some public entities and the growing size of government guarantees received by these entities. If the financial position of public entities worsens, they may be unable to deliver on their developmental mandate and may require further cash injections, which would take funding away from core service delivery areas and place undue stress on the fiscal framework.

RESEARCH FINDINGS

Given the importance of public entities to South Africa's development, the Financial and Fiscal Commission (the Commission) examined the rural development role of selected public entities. The public entities selected dominate strategic sectors of the economy, i.e. energy (Eskom), telecommunications (Telkom, the South African Post Office (SAPO)) and transportation (Transnet), or are important funders of infrastructure development, i.e. Land Bank, Development Bank of Southern Africa (DBSA), Industrial Development Corporation (IDC) and the National Empowerment Fund (NEF).

Energy

Nationally, the percentage of households with access to electricity has improved, from 81.9% to 86% between 2008 and 2014. The three provinces with the highest access are Limpopo (92.1%), Free State (92.1%) and Northern Cape (90.3%), while the three provinces with the lowest access are KwaZulu-Natal (82.3%), Eastern Cape (83.5%) and Gauteng (83.8%). In the Western Cape and Gauteng, access declined over the period, indicating an increased influx of migrants and creation of informal settlements. Eskom's presence is significant in rural areas, distributing (for example) electricity to 97.27% of electrified households in the Eastern Cape. Of concern is the very low access to free basic electricity for indigent households in rural municipalities, especially compared to metropolitan municipalities.

Telecommunications

Nearly half of all households in South Africa have their post delivered to their dwelling as opposed to a post box or "other" (such as the workplace, the house of a relative or a shop). However, at provincial level, the picture is different. A large proportion of rural households with no access to postal services are found in the Eastern Cape (58.53%) and Limpopo (48.12%), followed by Mpumalanga (39.88%) and KwaZulu-Natal (38.18%). In contrast, only 6.79% of households in the Western Cape have no access to postal services. In most provinces, less than 10% of households have postal services delivered to their dwellings – the exceptions are the Free State, Gauteng and North West

Between 2010 and 2014, access to landline telephones increased in the Western Cape and the Free State, declined in the Northern Cape and Gauteng and remained fairly constant in the other provinces. In contrast, over the same period, the percentage of rural households with access to a functional cell phone grew significantly. With the exception of the Western Cape, access to the internet in rural households remains very low, but since 2010 rural households are increasingly accessing the internet via their cellular telephones. In 2014, the majority (93.6%) of rural households that accessed the internet at home used mobile broadband, compared to 88.17% in 2013.

Transportation

Freight commodities are largely transported from metros, secondary towns, large towns and medium or small towns and are less likely to be transported from rural areas. This suggests that rural areas are excluded from the benefits of transport and economic activities. The very nature of the commodities being transported also revealed the lack of rural focus.

Funders of infrastructure development

DFIs tend to invest more heavily in metros than in secondary and under-resourced municipalities. Metros benefitted from over two-thirds (67%) of DBSA disbursements, while Gauteng received over half (51.1%) of NEF financing (between 2010 and 2015) and a quarter (26%) of IDC investments (between 2010 and 2014). Furthermore, even when a DFI's investments are more focused on rural development, these investments tend to be minimal and declining. The Land Bank investments are biased towards funding agricultural cooperatives and businesses, rather than emerging farmers in rural areas.

The key finding of this study is that SOCs do not have a specific rural focus, unless such a focus is driven by their parent/sector department, and investments by DFIs are small and declining.

CONCLUSION

The public entities selected dominate the key strategic sectors of the economy and have the potential to boost or undermine overall industrial policy and economic progress. They have the resources and a responsibility to align to the country's national goals, especially in relation to rural areas that are particularly vulnerable in terms of access to services, infrastructure and economic opportunities. The four SOCs (Eskom, Telkom, Transnet and SAPO) do not have a specific rural focus, unless such a focus is being driven by their parent/sector department (e.g. Eskom), while investments by DFIs are small. Public entities would benefit from clear guidelines on what their roles should be in terms of furthering South Africa's developmental agenda. To this end, the Commission recommends that:

- The Economic Development Department, in collaboration with departments of agriculture, forestry and fisheries, rural development and land reform and public enterprises, designate a single champion for rural finance and development. This champion should guide and coordinate investment by DFIs in rural areas, and encourage crowding-in by the private sector.

- The Department of Telecommunications and Postal Services ensure that SAPO modernises and broadens its focus towards becoming a one-stop shop in rural areas, where communities/customers can renew (car, driver's) licences and access financial products such as banking (ATMs, etc.).

- The Department of Public Enterprises ensure that Transnet contributes to regional economic growth and development by connecting businesses to customers and goods to markets. Transnet should include rural communities by transporting agricultural goods from rural areas where they are produced to urban areas where they are consumed, processed, or sent out of the country.

- The Department of Telecommunications and Postal Services put measures in place to improve Telkom's network infrastructure in rural areas, so as to improve cellular network coverage. Telkom and SAPO, under the guidance of the Departments of Telecommunications and Postal Services, should forge a partnership to develop the mobile market.

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