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Delivering municipal services in rural areas

■ Introduction

According to Global Insight's 2009 estimates, 15.9 million South Africans live in poverty; and of these, 11 million people, representing 69 per cent of all South Africans that live in poverty, live in rural areas. Poor households in rural areas depend on a combination of subsistence agriculture, social grants and remittances from family members working in the cities or mines. Household assets are often tied to traditional forms of land tenure, making it difficult for households to leverage their assets to generate wealth. The challenges of poverty and unemployment are compounded by limited access to basic municipal services such as water, sanitation and electricity, as well as a lack of good quality social services (education, health and ambulances) and transport services (roads and buses).

By providing basic services effectively, leveraging municipal spending to create local jobs, and facilitating local economic development (LED), rural municipalities can play a very important role in alleviating the worst forms of poverty and facilitating development in rural areas. However it needs to be emphasised that municipalities are not solely responsible for addressing the enormous challenges of rural poverty and rural development. Indeed, the sustainability of rural municipalities themselves is dependent on overall government policy on rural areas, and the development of rural economies.

Government policy, initially through the rural development strategy (1995) and the rural development framework (1997), began the process of prioritising the transformation of rural areas from 'surplus labour reserves' into dynamic local economies that are able to provide sustainable self-employment opportunities and remunerative jobs. A

The sustainability of rural municipalities themselves is dependent on overall government policy on rural areas, and the development of rural economies

number of rural development programmes are currently pursuing this objective, including land reform and restitution programmes and various LED initiatives. The critical challenge in the short term is to ensure that municipal spending is aligned with local developmental needs and priorities. In the medium term, rural municipalities need to ensure that they raise own revenues in accordance with their fiscal capacity so as to reduce their dependence on national transfers, and optimise their ability to deliver services and facilitate development.

This chapter reviews:

- the definition of a rural municipality in South Africa
- the demographic, social and economic profile of rural municipalities, and the state of service delivery
- debates on rural development and the role of rural municipalities in LED
- emerging lessons from municipal LED programmes.

■ Defining rural areas and municipalities

The transformation of local government after apartheid led to a large scale re-demarcation of municipal boundaries. This process removed the administrative distinction between urban and rural areas, recognising the strong inter-linkages between towns and the countryside. While this has been a largely positive development, it has complicated the administrative determination of what constitutes a rural area and, by extension, a rural municipality.

The rural development framework (1997) defined rural areas as having the following two characteristics:

- 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.

The constitutional classification of municipalities does not distinguish between municipalities in urban and rural areas. Outside of metropolitan municipalities, the only distinction made is between local (category B) and district (category C) municipalities. It is also important to note that many large urban municipalities, such as eThekweni and Tshwane metros, contain areas that are functionally rural.

The primary mechanism used in this *Review* and elsewhere to define rural municipalities is the methodology adopted by the Department of Cooperative Governance. This method is based on the context within which municipalities operate and uses variables such as the number of poor households, the proportion of households with access to services (water, sanitation and electricity), and information on capital and

The re-demarcation of municipal boundaries has complicated the administrative determination of what constitutes a rural area and, by extension, a rural municipality

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operating budgets to group municipalities in seven different categories.

Table 12.1 Classification of municipalities into categories for analysis

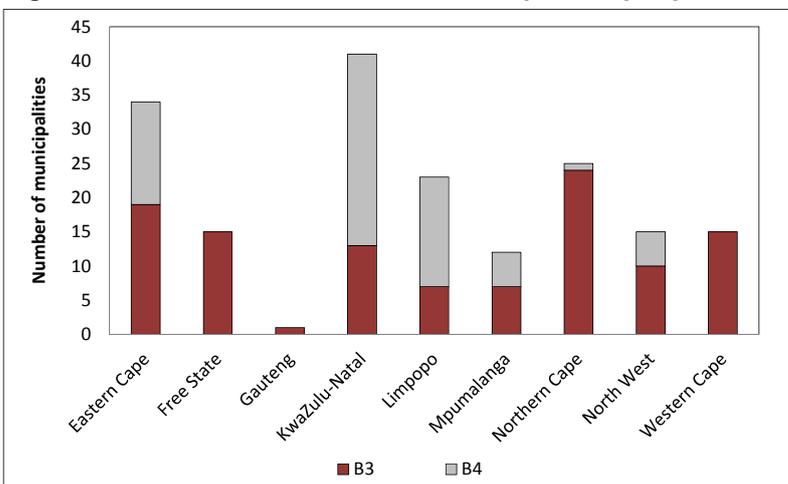
Class	Characteristics	Number
Metros	Category A municipalities	6
Secondary cities (B1)	All local municipalities referred to as secondary cities	21
Large towns (B2)	All local municipalities with an urban core. There is huge variation in population sizes amongst these municipalities and they do have large urban dwelling population.	29
Small towns (B3)	They are characterised by no large town as a core urban settlement. Typically, these municipalities have a relatively small population, a significant proportion of which is urban and based in one or more small towns. Rural areas in this category are characterised by the presence of commercial farms, as these local economies are largely agriculturally based. The existence of such important rural areas and agriculture sector explains its inclusion in the analysis of rural municipalities.	111
Mostly rural (B4)	These are characterised by the presence of at most one or two small towns in their areas, communal land tenure and villages or scattered groups of dwellings and typically located in former homelands	70
Districts (C1)	District municipalities that are not water services providers.	25
Districts (C2)	District municipalities that are water service providers	21

Source: Palmer Development Group (PDG)

Rural municipalities are those classified as B3 (small towns) and B4 (mostly rural) municipalities in the typology outlined in Table 12.1. The geographic location of B3 and B4 municipalities largely corresponds with the definition of rural areas provided in the rural development framework. They are concentrated in KwaZulu-Natal, Eastern Cape, Northern Cape and Limpopo, as illustrated in figure 12.1. Free State, North West, Mpumalanga, and Western Cape also host some rural (mostly B3) municipalities.

Rural municipalities are concentrated in KwaZulu-Natal, Eastern Cape, Northern Cape and Limpopo

Figure 12.1 Number of rural local municipalities per province



Source: PDG's classification of municipalities

■ The demographic, social and economic context of rural municipalities

Human settlement characteristics in rural municipalities

There are significant differences in settlement types between B3 and B4 municipalities

There are significant differences in settlement types between B3 and B4 municipalities. Statistics South Africa reported in Census 2001 that 52 per cent of households in B3 municipalities live in small urban settlements, 29 per cent on farms and 10 per cent in settlements located on tribal land. In B4 municipalities, 83 per cent of households live in tribal settlements, while only 7 per cent live on farms and in small towns respectively.

Demographic and education profile

The economically active population (measured as the population aged 20 to 64 years) in rural municipalities is considerably smaller than in urban areas

Rural municipalities are home to larger numbers of women than men, and to generally younger populations than urban municipalities. Women account for 54 per cent of the population in B4 municipalities and 52 per cent in B3 municipalities. The economically active population (measured as the population aged 20 to 64 years) in rural municipalities is considerably smaller than in urban areas. This population accounts for 41 per cent of people in B4 municipalities and 51 per cent in B3 municipalities, while it accounts for 60 per cent of the population in urban areas. Young people under the age of 20 account for 52 per cent of the population in B4 municipalities and 43 per cent in B3 municipalities, against only 36 per cent in urban municipalities, as indicated in table 12.2 below.

Table 12.2 Demographic profile of urban and rural municipalities

	B4	B3	Urban (Top 27)	South Africa
Population / population SA	27.0%	13.0%	52.0%	
Male Population / population SA	46.0%	48.0%	49.0%	48.0%
Female population / population SA	54.0%	52.0%	51.0%	52.0%
Population 0 - 19 yrs / population SA	52.0%	43.0%	36.0%	42.0%
Population 20 - 64 yrs / population SA	41.0%	51.0%	60.0%	53.0%
Population 65 yrs and older / population SA	6.0%	6.0%	5.0%	5.0%
Population aged 20 yrs and older with no school qualification	10.0%	8.0%	3.0%	6.0%
Population aged 20 yrs and older with at least matric	7.0%	23.0%	22.0%	16.0%

Source: Stats SA, Community Survey 2007

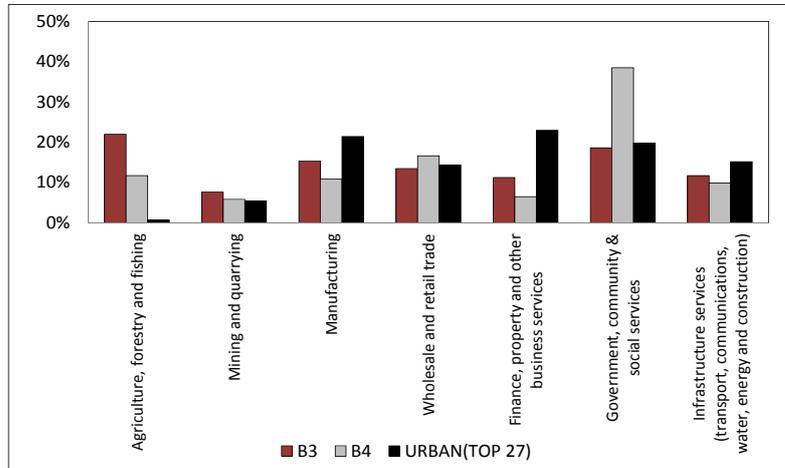
People in rural municipalities are also less likely than their urban counterparts to have school qualifications

Table 12.2 shows that people in rural municipalities are also less likely than their urban counterparts to have school qualifications. 10 per cent of the population over 20 years old in B4 municipalities, and 8 per cent in B3 municipalities, have no school qualifications, compared to only 3 per cent in urban areas.

The economic profile of rural municipalities

Figure 12.2 shows that the economies of rural areas are less diversified than their urban counterparts.

Figure 12.2 Share of GVA by sector in rural and urban areas



Source: SA Geospatial Analysis Platform, 2004

In B4 municipalities, government, community and social services contribute more than 35 per cent to total gross value added (GVA). Agriculture contributes 20 per cent to GVA in B3 municipalities, reflecting the presence of commercial farming in these areas, while it only contributes 10 per cent to GVA in B4 municipalities. Wholesale and trade, infrastructure and manufacturing are also significant contributors to GVA in all rural (B3 and B4) municipalities.

The economies of rural areas are less diversified than their urban counterparts

Total GVA in rural municipalities grew in real terms from 2005 until 2008, after which a slight decline was recorded as the economic downturn impacted on rural areas. The increase was driven by growth in the manufacturing sector, while core rural sectors such as agriculture remained constant. Projections of GVA to 2012 suggest that rural growth will resume, though at lower rates than in urban areas. While the growth in GVA will be accompanied by a similar growth in rural household incomes, it is likely to be concentrated in B3 municipalities.

Formal employment opportunities in rural areas are limited, often to seasonal employment. It is therefore not surprising that the average levels of unemployment in the B3 municipal areas is 23 per cent and 36 per cent in the B4 municipal areas using the official (or narrow) definition of unemployment.

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Development strategies need to account for wide variations in demographic, social and economic contexts and needs as well as available institutional capacities.

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Rural municipalities are not homogenous, and development strategies need to account for wide variations in demographic, social and economic contexts and needs as well as available institutional capacities. For example, many B3 municipalities have active agricultural sectors that carry significant development potential but would require concomitant improvement in extensions of farmer support services for emerging farmers. Other areas may need to focus

on human capital development, specifically in areas of women's health and education.

Rural development and local government

Successful rural development is critical for the long term sustainability of rural municipalities. Vibrant local economies generate both demand for basic municipal services and the resources to pay for them. Government has identified rural development as a key priority area and the Department of Rural Development and Land Affairs has been created to focus specifically on this issue.

Municipalities are responsible for the effective provision of basic services, and associated support to local economic development

Rural development is a broad concept (see text box) that engages agencies across the public and private sectors. Municipalities have two core responsibilities with respect to rural development: the effective provision of basic services, and associated support to local economic development (LED). Other agencies in national and provincial government, state-owned enterprises and the private sector also need to contribute in their areas of responsibility.

Defining rural development

Rural development is typically defined according to the mechanisms and goals of development. In the 1970s it was defined as a structural transformation of the rural economy as it diversified from agriculture. Another important school of thought defined rural development by focusing on the provision of social services to the rural poor. This definition was based on the fact that even under rapid growth of income in rural areas, the equitable access to social services was not necessarily guaranteed. The definition of rural development has expanded to include the development of human capital, through social services such as education and health, improvement of standards of living.

The South Africa Rural Development Quarterly¹⁰ defines rural development as 'positive advancement of communities in rural areas through improvement of rural institutions and systems, expansion of rural infrastructure, and growth in rural economic activities'. This definition recognises that rural development is not just about agricultural activities but includes poverty alleviation, infrastructure provision and other actions to uplift the economic status of people in rural areas.

Current government policy on rural development is informed by the comprehensive rural development strategy. This strategy establishes agrarian transformation and land reform as pillars of rural development, alongside infrastructure provision (such as schools, clinics, boreholes and water reticulation systems) that can support both agricultural development and basic service delivery to rural households. This implies an important role for local government, working in conjunction with other actors.

Access to basic services in rural areas

The provision of basic services can be an important agent in the reduction of poverty and unemployment and strengthening of social capital

The provision of basic services can be an important agent in the reduction of poverty and unemployment and strengthening of social capital. It can also be a factor in reviving agriculture, tourism and other rural non-farm enterprises. For instance:

Road infrastructure connects rural areas to urban centres and facilitates the mobility of goods and people within the area. Roads provide the connections necessary for local markets to develop and facilitate the provision of public services, such as ambulances and policing. Good feeder roads (access roads) can allow the supply of perishable foods to high-value urban markets. Opportunities for job creation through labour based maintenance approaches can also

¹⁰ South Africa Rural Development Quarterly, volume 2, first quarter, 2004.

support household income and retain resources in local areas. The lack of road infrastructure hinders development.

The supply of water infrastructure, depending on the nature and scale of technology, has great potential for stimulating small and large scale agricultural activities.

The importance of electricity infrastructure in rural areas cannot be over emphasised. Besides improving the lives of people, it can facilitate small business development.

Government has emphasised the critical role that rural municipalities must play in reducing backlogs in access to basic services. Careful choices need to be made to match service levels to what households can afford. The use of appropriate technologies is important in ensuring available resources are used optimally to meet households' needs.

Table 12.3 summarises the acceptable minimum levels of access to basic services as defined in various policy frameworks:

Table 12.3 Basic service levels

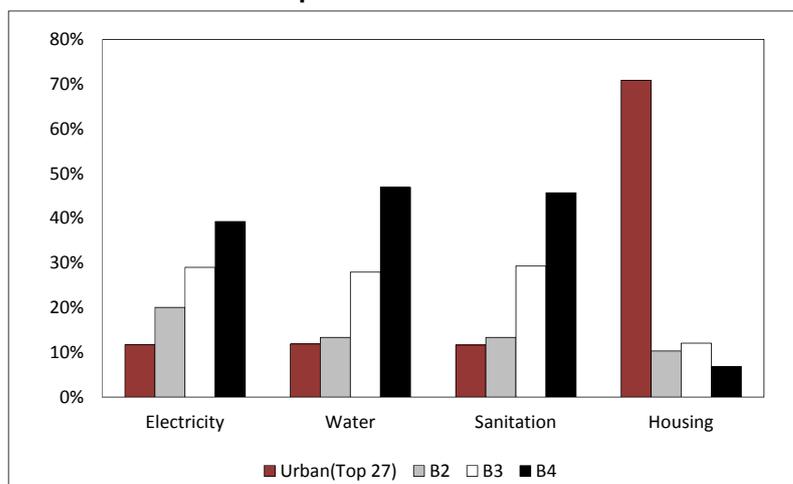
Service Type	Level 1 Basic	Level 2 Intermediate	Level 3 Full
Water	Standpipes within 200 metres	Yard taps or tanks	In house water
Sanitation	Sewage collection/disposal	VIP Latrine Septic tanks	Full water borne
Electricity	5-8 Amp or non-grid	20 Amps	60 Amps
Roads	Graded	Gravel	Paved/tarred & kerbs
Stormwater	Earth lined open channel	Open channel lined	Pipe and canal systems
Solid Waste disposal	Communal (Residents)	Communal (Contractors)	Kerbside collection

Backlogs in service and infrastructure delivery

Rural municipalities (both B3 and B4) have the highest number of backlogs in sanitation, electricity and water. This contrasts with large urban municipalities, where the lack of access to housing is a significant challenge, as figure 12.3 shows.

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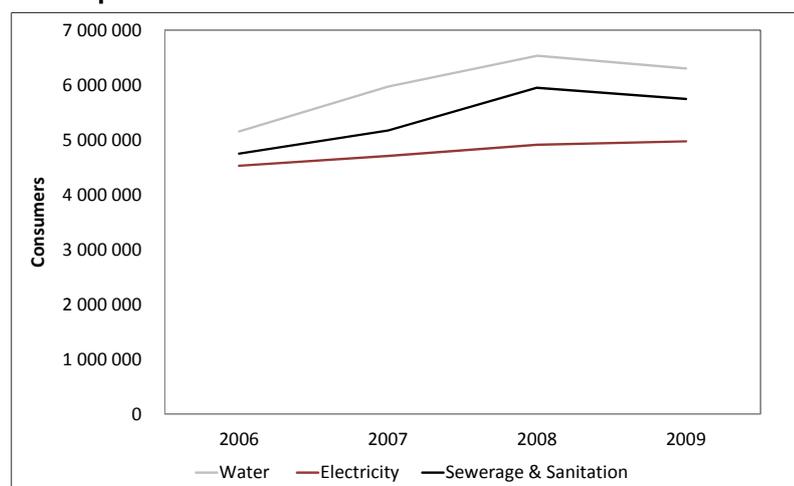
Figure 12.3 Distribution of national service backlogs between urban and rural municipalities in 2007



Source: Stats SA, Community Survey 2007

Recent trends in access to basic services in rural municipalities demonstrate a slowdown in delivery occurring in 2009 across all services. In small town (B3) municipalities, little growth in access was reported in 2009, other than in electricity provision. In mostly rural (B4) municipalities, a decline in access to water services was reported, as figure 12.4 shows. From 2008, service delivery in sanitation has not been growing. It is important to note that these municipalities (B4) depend mostly on government transfers to fund their capital programmes. Among these transfers, the most important is the municipal infrastructure grant (MIG).

Figure 12.4 Number of consumers receiving services in B4 municipalities



Source: Stats SA, Non-Financial Census of municipalities

Concerns have been raised that the manner in which the MIG is designed and managed does not allow a sustainable eradication of backlogs in rural villages

Significant progress has been made in delivering basic infrastructure in rural municipalities. However, there is still much to be done. The supply of these services has often been attempted using urban based technologies, which have proved expensive due to the dispersed nature of rural settlements. Concerns have been raised that the manner in which the MIG is designed and managed does not allow a sustainable eradication of backlogs in rural villages. Municipalities tend to use it for upgrading and rehabilitating network infrastructure in towns, because town-based households are more likely to be able to pay for services. There is also a general lack of familiarity with alternative, appropriate technology options that can be used to provide services to villages, given water shortages, low population density, and typology that render conventional technologies costly to install and operate.

Extending and sustaining access to basic services

Extending and sustaining access to basic services in rural areas requires clear direction on:

First, a new consensus needs to be forged with rural communities on the necessity to use appropriate and affordable technologies. In many rural areas, networked services such as water-borne sewerage and piped water are simply too expensive to install, and unaffordable to operate. This needs to be recognised, and alternative technologies need to be used to optimise access given existing affordability levels, and the availability of resources.

Second, greater innovation is required in the development and deployment of technologies that are appropriate to rural areas. These include water harvesting, ground water supply through boreholes for water; on-site sanitation options, and non-grid energy options. If properly managed, these are not only environmentally friendly service options, but could provide a more efficient and affordable way of supplying rural services.

Finally, technical skills supporting infrastructure delivery are a scarce resource in the country, and even more so in rural areas where attracting these skills remains a challenge. New institutional models of service delivery are required that allow municipalities to leverage local knowledge and capacities.

The rural households' infrastructure grant

In 2010/11, government introduced the rural households infrastructure grant (RHIG) to fund rural infrastructure, in addition to the MIG. Government allocated R1.2 billion to cater for 56 selected municipalities over the 2010/11 MTEF. This grant focuses on the eradication of sanitation and water backlogs in rural municipalities using the on-site approach, such as the ventilated improved pit (VIP) latrines and rainwater tanks. The technologies envisaged will rely on rural communities to support the implementation of the programme, and they should be trained to manage the operation and maintenance of the installations. This could help municipalities find innovative ways of providing services while reducing the burden on their operating budgets.

The rural households' infrastructure grant focuses on the eradication of sanitation and water backlogs in rural municipalities using the on-site approach

Local economic development activities by municipalities

Sections 152(1)(c) and 153 of the Constitution state that one of the objectives of local government is to promote social and economic development. These objectives are further articulated in the Municipal Systems Act (2000).

Since 1995, considerable energy and resources have gone into enabling municipalities to play a meaningful role in LED. 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 by which public, business and social sector partners work collectively to create better conditions for economic growth and employment generation. While municipalities have a key role to play in LED, they generally do not have the resources necessary to implement large scale projects outside of strong partnerships with other public and private agencies. LED projects must complement a strategic regional economic strategy, and be individually evaluated in terms of their costs and benefits.

The purpose of LED is to build up the economic capacity of a local area to improve residents' quality of life

Government's new growth strategy highlights the potential of rural development as a driver of job creation. It emphasises the importance of developing a clear spatial development perspective to enhance rural development opportunities in relation to the real comparative advantages of local areas. In addition, the spatial perspective will set out opportunities available and the basis for government spending

Government's new growth strategy highlights the potential of rural development as a driver of job creation

choices with respect to infrastructure, housing and local economic development initiatives. The strategy also emphasises the importance of investment in infrastructure for creating jobs.

Municipal spending on LED

Expenditure directed to LED initiatives is very limited compared to other service delivery priorities of local government

Although LED has been identified as a key role for local government, expenditure directed towards LED initiatives is very limited compared to other service delivery priorities of local government. On average, approximately less than 1 per cent of the operating budgets of municipalities is directed towards LED initiatives, either directly or through municipal entities (development agencies). Initiatives vary from tourism to agriculture, depending on the geographical location and comparative advantages of the municipality. For instance, most coastal municipalities' LED initiatives are focused on tourism development and urban regeneration initiatives that will further attract investment and tourism.

A portion of the MIG may be used to support LED-related investments in economic infrastructure in line with the municipality's integrated development plan (IDP).

Neighbourhood development partnership grant

The neighbourhood development partnership grant seeks to improve the quality of life of households through the creation of economically viable and sustainable community and business infrastructure

The neighbourhood development partnership grant (NDPG) is another conditional grant to municipalities, established in 2006. The grant seeks to improve the quality of life of households through the creation of economically viable and sustainable community and business infrastructure. It has an LED bias as it supports investments intended to promote participation in LED initiatives. The grant is targeted at mostly those municipalities with the largest concentrations of people living in poverty, so as to capitalise on economies of scale, or a critical mass of people needed for sustaining particular kinds of developments.

NDPG case study: Ngangelizwe township regeneration, King Sabata Dalindyebo local municipality (KSD) in Mthatha

KSD local municipality was awarded a neighbourhood development partnership grant to the value of R59 million (R10.8 million of technical assistance and R48.2 million of capital grant) to leverage further public and private sector investment in Ngangelizwe. Leveraging to the value of R1.3 billion is currently secured in letters of intent as part of the municipal drive to attract investment into the township. KSD developed a township regeneration strategy that focuses on developing a number of prioritised neighbourhood nodes. Some of the projects include the construction of a business site for light industry, developing sporting facilities and upgrading health facilities. This is part of an initiative facilitated by the Sustainable Communities initiative of the Development Bank of Southern Africa, and it hinges on a social compact signed with the local participating communities. It is therefore a people-driven approach focusing on participation, adding value and training support to existing SMMEs in the township. It also adds to existing services, for example, by upgrading and extending the local clinic in partnership with the Eastern Cape Department of Health, and renovating and upgrading the sports facilities through a partnership with the private sector.

Key to the KSD approach is to view the re-development as 'not business as usual' but to allow space for new and innovative approaches to support improved service delivery. In this instance, the Department of Human Settlements supports the use of alternative technologies to deliver a more sustainable neighbourhood by incorporating solar energy and labour intensive construction approaches that support local SMME development.

The neighbourhood development partnership grant targets about 54 per cent of South Africa's poorest people, with R5.2 billion allocated to metros and secondary cities and a further R3.6 billion allocated to other areas, including rural municipalities, as indicated on table 12.4. The grant is currently not open for new applications.

Table 12.4 Neighbourhood development partnership grant awards per type of municipality

Category	Type of municipality	Number of type	Number of NDPG municipalities	No of programmes	NDPG allocation (R bn)	As % of NDPG committed	No of people in poverty (millions)
A	Metros	6	6	35	3.44	39	3
B1	Secondary Cities	21	11	14	1.74	20	2
B2	Large towns	29	11	12	0.82	9	1
B3	Small towns	111	11	11	0.66	7	0
B4	Mostly rural	70	12	12	1.47	17	2
C	Districts	46	6	6	0.69	8	2
Total		283	57	90	8.82	100	11

Source: National Treasury local government database

Expanded public works programme

The expanded public works programme is a government wide programme that focuses on the creation of work opportunities through infrastructure delivery. The programme provides dedicated resources to provincial and local governments for labour-intensive programmes for the building of roads, environmental projects, water, sanitation and other social and economic services. It also supports the development of permanent capacity for the maintenance of infrastructure on a sustainable basis, the provision of community services in health, welfare and other areas and investments in early childhood development programmes. Municipalities have, to date, not taken significant advantage of the expanded public works programme, implementing less than 13 per cent of the total number of projects (in number). The bulk of municipal activities have been in the infrastructure sector, often aligned with MIG projects. In 2008/09, a total of 1 866 infrastructure projects were reported to be linked to the programme, out of a total of 2 266 municipal infrastructure projects in that year.

To date, municipalities have not taken significant advantage of the expanded public works programme

Rural municipalities, particularly in Eastern Cape and KwaZulu-Natal, have been the main beneficiaries of the expanded public works programme, although accurate data by municipality is not available. The programme's infrastructure sector created a cumulative total of over 1 million work opportunities between 2004/05 and 2008/09, surpassing a target of 750 000, as indicated on table 12.5.

Rural municipalities, particularly in Eastern Cape and KwaZulu-Natal, have been the main beneficiaries of the expanded public works programme

Table 12.5 EPWP work opportunities created, 2003/04 – 2009/10

	Target	2004/05	2005/06	2006/07 Q2	2007/08	2008/09
Infrastructure	750 000	158 277	103 343	136 035	236 951	377 356
Environment and culture	200 000	58 796	78 855	117 502	115 686	96 882
Social	150 000	1 650	17 858	34 332	61 018	59 508
Economic	12 000	4 687	1 833	3 231	3 697	6 930
Annual total		223 410	201 889	291 099	417 351	540 676
Cumulative total			425 299	716 399	1 133 749	1 674 425

Source: Expanded Public Works Programme, Five Year Report 2004/05-2008/09

Other rural local economic development programmes

Rural municipalities are by no means the sole agency seeking to support rural LED. National and provincial governments, state-owned enterprises and the private sector are all involved in rural development initiatives. National and provincial government programmes include:

- *Land reform programmes:* The land reform programme is primarily focused on redressing the racially skewed patterns of rural land ownership that resulted from the forced removal of black communities from areas and black people being denied opportunities to own land. Land reform has three components:
 1. *Land restitution* aims at restoring land rights to people who were victims of land dispossession or giving them monetary compensation for the loss
 2. *Land redistribution* involves the state purchasing land and making it available to emerging farmers from previously disadvantaged groups, with a view to changing the composition of land ownership, and ensuring equitable access to land
 3. *Tenure reform* seeks to protect the land tenure rights of farm workers and communities, especially those living in commercial farming areas. However, the greatest challenges with land tenure are to be found in traditional areas.
- *Agricultural support programmes:* A successful agricultural sector provides employment opportunities, enhances national food security and creates markets for non-agricultural products. These programmes focus on improving the productivity of the agricultural sector. This requires effective farmer support programmes targeted at emerging commercial farmers and beneficiaries of land reform who are predominately in the B3 municipalities, and improving land utilisation for subsistence, especially in the B4 municipalities.
- *Tourism support programmes:* There is great potential for tourism in rural areas that are home to specific cultural, historical, ethnic and geographical (wildlife) features. These features can stimulate a wide range of tourist products, including community-based tourism, ecotourism, cultural tourism, adventure tourism, guest farms, backpacking, riding and agri-tourism. Three factors are critical for the development and success of rural tourism: first, clear forms of community participation and ownership of tourist products; second, adequate skills to provide necessary products and services; and third, local infrastructure development, including water, electricity, sanitation and road infrastructure.
- *Human capital development:* Sustainable rural development depends on the development of human capital. Municipalities can play an important support role, by ensuring that schools and health facilities are connected to roads, and have access to water,

sanitation and electricity. Municipalities can also become directly involved, for instance by acting as agents for provincial health departments in managing clinics.

In addition to the initiatives of national and provincial government, a range of public entities and state-owned enterprises are also responsible for various LED 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 two main initiatives in this regard are:

A range of public entities and state-owned enterprises are also responsible for various LED initiatives

- *Agency development and support programme:* This is an initiative of the Industrial Development Corporation (IDC) that supports the establishment of local economic development agencies by municipalities. Currently, 32 such agencies are in the process of being established or are operational. There are, however, concerns that using the agency route creates another level of governance and bureaucracy which is costly to manage and dilutes the development impact.
- *Local economic development initiative:* This is a project of the DBSA that is currently being piloted in three municipalities. The aim of the project is to explore ways of implementing the following 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 project; promoting and facilitating partnerships; facilitating improved municipal performance; and developing strategic policies to promote sound economic development.

Private sector initiatives in support of LED take a wide range of forms, ranging from initiatives by individual firms, farmers and churches, to research institutions and non-profit organisations focussing on particular aspects of development such as micro-finance, subsistence gardening, skills development etc. Examples of initiatives offering micro-finance assistance include the Women's Development Bank (WDB) and Project Imbizo of the Old Mutual Group.

Private sector initiatives in support of LED take a wide range of forms

The natural fibre cluster in the Cacadu district municipality

This LED project seeks to catalyse the growth of new industries based on innovative uses of natural fibres produced in the Eastern Cape region. It is a partnership between the CSIR, local government, other research organisations and the agricultural sector. It has explored how plant and animal fibres – including fibre from agave Americana plants, pineapples, wool and mohair – can be processed in innovative ways to develop new products. The aim is to create more profitable value chains by linking agricultural production with scientific research into new products. Thus far, the project has succeeded in revitalising the struggling pineapple industry in Eastern Cape, with the promise of major new revenue streams from extracting a range of new products fibre related products from the pineapple fruit and plant in addition to juice pulp. These products include dietary fibre used in food processing, enzymes and other cellulose material useful in pharmaceuticals, as well as fibre material that can be used to produce insulation panelling. It is anticipated that the commercialisation of these innovations will result in significant new investments in the region, which will also support job creation.

International donors also play a valuable role in funding and facilitating LED. For example, the EU LED support programmes operate in Eastern Cape, KwaZulu-Natal and Limpopo, providing both financial and technical support to municipalities, as well as private sector initiatives.

Emerging lessons from municipal LED programmes

Municipal LED activities have often met with only limited success

Municipal LED activities have often met with only limited success. Very often this has been due to poor project selection, such as someone's pet project being chosen, which is later found to be unsustainable. In other instances, the programmes have been corrupted to serve the interests of particular individuals, rather than the community as a whole. And very often projects have failed due to poor implementation management.

The International Labour Organisation suggests that successful LED strategies have four dimensions:

- participation and social dialogue
- a clear location territory
- mobilisation of local resources and competitive advantages
- local ownership and management.

Careful analytical work is required to orient municipal activities towards real economic opportunities that are consistent with the development potential of the local economy. There is consensus that municipal LED strategies should aim to support rural people to participate more fully in the market economy, particularly by creating an enabling environment for both formal and informal business to operate. This suggests a threefold agenda for municipal LED strategies.

- The provision of municipal *infrastructure*, particularly access roads. The absence of essential infrastructure will tend to stifle economic development. This must also include the maintenance of infrastructure, which is often overlooked in LED initiatives.
- Putting in place a user-friendly *regulatory environment* that supports new investment. Key elements include having a clear spatial plan to guide development, and providing timely development approvals, trading permits, health certificates, and so on. Municipalities play a leading role in regulating land use and enabling the development and release of land for productive purposes. They also play an important supportive role in land reform and restitution programmes. Yet many rural municipalities do not have functional land use management systems in place.
- *Catalytic partnerships*: Municipal LED strategies cannot exist in isolation, but rather must be coordinated with complementary interventions by other public and private agencies. Poor coordination of efforts can lead to duplication and gaps in service delivery. Partnerships are necessary with: (i) other government agencies that hold complementary responsibilities; (ii) the private sector; (iii) intermediary institutions that provide funding,

research and development, advocacy and facilitation services; and (iv) communities in order to encourage participation in the local economy, strengthen entrepreneurship and build local business networks.

Failure to clearly demarcate the scope of municipal LED activities often results in the misallocation or capture of resources by vested interests at the local level without benefiting all residents.

Promising examples of effective LED approaches have begun to emerge. Initiatives that focus on community-based service provision seem to hold significant potential as they move financial resources into communities that create a basis for increased economic activity. The Zibambele programmes in KwaZulu-Natal, which involve local people in road maintenance, is a leading example of a programme that has used government procurement to stimulate the local economy (see text box in *Chapter 10 Roads*).

Initiatives that focus on community-based service provision seem to hold significant potential

Financing rural municipalities

As outlined in *Chapter 3 Intergovernmental relations and the local government fiscal framework*, the Constitution provides the key parameters for the local government fiscal framework. Section 229 assigns significant revenue powers to all municipalities that, in addition to user charges, include rates on property and surcharges on fees for services provided by or on behalf of the municipality. Section 224 and 227 guarantee that municipalities should receive an equitable share of nationally raised revenues, based on their assigned functions, fiscal capacity and developmental needs, among other matters. However, Section 227(2) relieves national government of any obligation to compensate municipalities that do not raise revenue commensurate with their fiscal capacity and tax base, and prevents it from penalising those municipalities who demonstrate fiscal effort.

The fiscal framework for rural municipalities

Given most rural municipalities' weak economic base and high levels of poverty, the fiscal framework is primarily focussed on addressing backlogs in basic infrastructure and subsidising basic service delivery. The local government equitable share subsidises the institutional capacity of rural municipalities, and the provision of basic services. Various conditional grants support the expansion of infrastructure and support capacity development. However, it is important that rural municipalities also show fiscal effort in raising own revenues according to their fiscal capacity.

Given most rural municipalities' weak economic base and high levels of poverty, the fiscal framework is primarily focussed on addressing backlogs in basic infrastructure and subsidising basic service delivery

It is important to distinguish between the roles of district and local municipalities in rural areas. District municipalities encompass a number of local municipalities and are responsible for district wide-integrated planning, including land-use planning, economic planning and development, and transport planning. Many of them have played an historical role as infrastructure development agents and bulk service providers. District municipalities are supposed to support the capacity of local municipalities through providing assistance and capacity building. However, this often does not happen. They also

play a role where local municipalities have inadequate administrative capacity to manage particular services. In such instances, districts have been made responsible for the direct provision of services, such as water and sanitation provision in some provinces.

Local municipalities are intended to be the actual locus of service delivery

Local municipalities are intended to be the actual locus of service delivery. In instances where district municipalities provide such services it is supposed to be a transitional arrangement while the necessary capacity is established in the local municipalities. However, there are many instances where the district has been designated as the service delivery authority for a particular service, but actual service delivery is done by the local municipality.

District municipalities are expected to pass on funding to enable local municipalities to subsidise services appropriately

The current design of the local government fiscal framework provides that funding related to a particular function gets paid to the municipality that is legally responsible for the delivery of a function. So funds will be paid to the district municipality that is the service delivery authority, even though the function is provided by the local municipality. In such instances the district municipality is expected to pass on the funding to enable the local municipality to subsidise the service appropriately. In many instances, this does not happen.

Grant programmes for rural municipalities

Government has prioritised assistance to municipalities to extend access to basic services and subsidise their provision to poor households. Doing so requires support to the creation of infrastructure assets by rural municipalities as well as the development of critical financial and technical capabilities.

Capacity support

Significant grant allocations have been made to support capacity development but concerns remain over the depth and sustainability of the impact of these programmes. The total allocation of capacity building grants amongst small town municipalities amounted to R241 million in 2008/09 financial year, and R350 million in mostly rural municipalities. The key programmes supported by these funds are:

- The *municipal systems and improvement grant* aims to assist municipalities in building in-house capacity to perform their functions and stabilise institutional and governance systems. Key aims of this programme are to develop planning capacity and build governance systems.
- The *financial management grant* aims to support sustainable management of the fiscal and financial affairs of municipalities. The grant promotes multi-year budgeting, linking integrated development plans to budgets and producing quality reports.
- The *expanded public works programme incentive for municipalities grant* encourages municipalities to adopt labour intensive investment and service delivery methods.

Infrastructure support

Infrastructure grants (direct and indirect) to rural municipalities are an important source of capital finance. Small town municipalities received infrastructure grants amounting to R1.4 billion in 2008/09, while mostly rural municipalities received R2.2 billion.

In 2004, government consolidated all the previous capital grants into the Municipal Infrastructure Grant (MIG) to correct for deficiencies and lack of coordination observed with the fragmentation of grants. MIG is intended to supplement municipal capital budgets so as to assist municipalities address infrastructure backlogs related to basic services.

In addition to MIG, there are other national grants to fund infrastructure such as Integrated National Electrification Programme (INEP) that aims to ensure all clinics and schools have access to electricity, and to extend access to poor households. Part of this grant is implemented directly by Eskom, who is the service provider in many rural areas.

Grant dependence and fiscal effort in rural municipalities

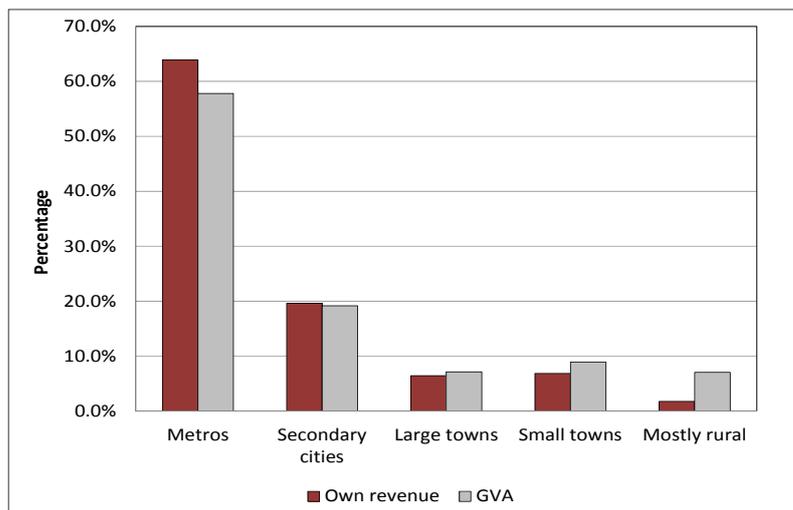
Government transfers alone cannot address all the service delivery pressures that local government face. They are intended to supplement the municipalities' own revenues, with a particular focus on facilitating the provision of services to poor households and addressing rural infrastructure backlogs.

The very high level of grant dependence among rural municipalities reflects the unequal distribution of development across the country and these municipalities' relatively limited fiscal capacity. Consequently, rural municipalities' dependence on transfers will be an on-going feature of the local government fiscal framework. However, it remains a cause for concern, given that grants are seen as 'easy money' which effectively reduces the incentive for municipalities to collect own revenues. This undermines the accountability and responsiveness of municipalities to their own communities, and given the extent of investment needs in these areas also reduces the ability of the municipality to address these needs.

Government transfers alone cannot address all the service delivery pressures that local government face.

The fact that grants are 'easy money' effectively reduces the incentive for municipalities to collect own revenues

Figure 12.5 GVA vs own revenue per municipal category, 2008/09



Source: National Treasury local government database

Figure 12.5 compares own revenues to GVA by municipal group. This provides a proxy measure of fiscal effort. The figure shows that 58.6 per cent of GVA is generated within the metros, and from this economic base they collected 64.4 per cent of municipal own revenues. The secondary cities and large town municipalities share of own revenues is almost equal to their share of GVA. However, the figures shows that 5.6 per cent of GVA is generated in mostly rural municipalities, but their share of own revenue is just 1.9 per cent. This means that the mostly rural municipalities are collecting less revenue than this proxy measure of their fiscal capacity suggests they should be, and are consequently overly dependent on government transfers and grants.

Own revenues

In many instances, rural municipalities do not levy property rates and service charges to non-poor households and businesses in their areas

Most rural local municipalities face a challenge in raising own revenue. Although the majority of the households are indigent, there are those households and local businesses that can afford to pay for services. In many instances, rural municipalities do not levy property rates and service charges to non-poor households and businesses in their areas. This both undermines the finances of the municipality, and also breaks the revenue-service link between the municipality and the ratepayer/customer that entitles them to demand better quality services because they are paying for them.

In rural areas property taxes present a challenge in many developing countries, given the levels of poverty, and the difficulties of valuing properties and administering the tax. The text box below shows different approaches which have been adopted by different countries.

Approaches to property rates in rural municipalities

What is the best approach to property taxes in rural areas? This depends on the state of property markets, the system of tenure and what the country most wants to accomplish with its property tax. If the test for 'best' is the most common practice in developing countries, then the preference would seem to be for a capital value system where both land and improvements are taxed, as is currently implemented in urban areas in South Africa. The following additional policy options exist

- *Flat rates taxes* These taxes can lay the foundation for future tax reforms by fostering a culture of payment in rural areas. This approach should only be used in areas of traditional land tenure. It may be necessary to set the levels for the tax to prevent abuse. The main disadvantage of a flat-rate tax is that it is not vertically equitable: rich and poor people will pay the same rate, which is regressive. This may be tolerable if implemented within communities where disparities in income are not pronounced, or as a transitional instrument to a more progressive tax.
- *An area based property tax* Residents of a particular area identify primary determinants of value and apply them to the land in their village. This type of approach can be understood by people in rural areas where they are not accustomed to thinking of monetary value of real estate and the conversion of buying and selling it. This approach could promote acceptance of property rates.
- *Self-property-valuation approach* In this system residents are encouraged to determine the value of their property if they were to sell it. Property rates can then be determined on the basis of the information given by residents. This approach is working in developing countries like India. The challenge in South Africa is that most rural properties have very low values and residents generally do not have any intention to sell or cannot sell (due to it being traditional land), so they might not see the benefit of discussing a hypothetical price for the purpose of paying the tax.

In making the choice of tax base, developing countries have tended to focus on ease of administration. This has often meant opting for an area-based approach to raising property taxes. This approach involves converting the property tax into a specific excise tax on land space (size of plot). This approach is easy to administer, and is easily understood. However, area does not necessarily equate to value, and it does not take into consideration improvements. These considerations give rise to concerns about the fairness of an area-based tax. There are also concerns that the tax will not generate sufficient revenue – if the rate is to be set at a level that is affordable to the majority of households. One might be prepared to live with these disadvantages if the area-based approach to property taxes is a transition measure to developing a complete value-based tax roll and developing capacity to administer a more complicated system of property rates. This approach has been followed in the Indian city of Bangalore.

Good practice suggests looking for the strongest correlation between the availability of transaction data and the property tax base. So if most property is held in leasehold, then the focus might be on annual rental value. If tenure is dominated by owner-occupancy, there is a stronger argument for an (improved) capital value base. If the country has some large cities but is still heavily agrarian, then a combination of an ad valorem system for urban places, and an area-based system for the more rural areas, may work best. In urban areas where land is subject to speculation, or is not being developed intensively, a social cost might be imposed. In this case, a land value tax might be considered preferable for its ability to encourage efficient land use. Where no real property market exists, the area-based system has much to offer.

In South Africa, the imposition of a property tax has faced two additional difficulties:

- Unclear powers between government and traditional leaders in the management of rural land. At present, government issues letters of occupation to rural households, but ownership is not transferred. It would appear that municipalities seldom use this record system as a basis for determining liability for property rates. In addition, it is not clear whether such households are legally liable for rates on the land they occupy, as they do not own the land.
- A weak social contract at the local level, which finds expression in widespread unwillingness to pay for services. Levels of trust in local government are very low, particularly with respect to procedural fairness and equity in taxation, and the use of tax revenues. This is compounded by a limited understanding of the role of value-based property taxes. In rural areas, households have been more accustomed to the payment of flat levies.

Experience has shown that the key to improving own revenues is to re-establish the link between user charges for services and the value of the service delivered. In many rural municipalities access to services is restricted by lack of funding, which is compounded by the municipality insisting on providing free basic services to all customers – through so-called geographic targeting. Internationally, there is strong evidence that poor households are willing to pay for a service that they regard as valuable, and that collectively the revenues from such payments can exceed government subsidies in amount.

Conclusion

Rural municipalities have an important role to play in supporting rural development through providing basic infrastructure, particularly access roads. In doing so, municipalities need to explore the use of appropriate technologies that can be sustainably implemented and managed within rural contexts. The rural household support grant is a significant initiative in this regard, aimed at supporting the rollout of enclosed, VIP toilets and rainwater tanks to rural households. Innovative service delivery approaches can also enhance the development impact of the municipalities' normal activities, such as contracting households to provide road maintenance services.

Municipalities should be playing a key role in LED, by progressively extending basic infrastructure and ensuring that existing infrastructure is maintained, by providing a user-friendly regulatory environment and by facilitating catalytic partnerships with other role players.

The ability of rural municipalities to collect own revenues are largely influenced by their socio-economic circumstances. However, rural municipalities themselves also show little fiscal effort in raising own revenues from non-poor households, businesses and from charging for services. The consequence is that these municipalities are becoming increasingly dependent on government grants and transfers.

Whether a particular municipality is an obstacle or a catalyst to local development depends largely on: the quality of leadership the mayor and council provide, improving the skills of the officials employed in the municipality, whether there are problems with corruption and maladministration, and whether the municipality mobilises and utilises the resources available to it effectively. In many rural areas, municipalities need to find ways of working co-operatively with traditional authorities to facilitate appropriate land use management, the rollout of basic services and the collection of rates from non-poor households and businesses located on traditional land.