



# BRIEFING TO THE PORTFOLIO COMMITTEE ON RURAL DEVELOPMENT AND LAND REFORM

---

Financial and Fiscal Commission

3 October 2017

*For an Equitable Sharing of National Revenue*

# PRESENTATION OUTLINE

---

1. Role and Function of the Financial and Fiscal Commission
2. A Functional Approach to Rural Development
3. Background
4. Departmental Analysis
5. Departmental and Entity Performance
6. Concluding Remarks
7. FFC Recommendations on Rural Development from Submission for the Division of Revenue 2017/18

# 1. ROLE AND FUNCTION OF THE FFC

---

- The Financial and Fiscal Commission (FFC)
    - Is an independent, permanent, statutory institution established in terms of Section 220 of Constitution
    - Must function in terms of the FFC Act
  - Mandate of Commission
    - To make recommendations, envisaged in Chapter 13 of the Constitution or in national legislation to Parliament, Provincial Legislatures, and any other organ of state determined by national legislation
  - The Commission's focus is primarily on the equitable division of nationally collected revenue among the three spheres of government and any other financial and fiscal matters
    - Legislative provisions or executive decisions that affect either provincial or local government from a financial and/or fiscal perspective
    - Includes regulations associated with legislation that may amend or extend such legislation
    - Commission must be consulted in terms of the FFC Act
- Current research strategy focuses on developmental impacts of IGFR

Year	Recommendation	Government Response	Progress
2017/18	<p>Government “deals with disparities between and within regions by harnessing the growth potential of rural areas. 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. 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</p>	<p>Government agrees that transfers need to be equitable. Allocations through the intergovernmental fiscal system provide higher per capita allocations to rural provinces and municipalities. Government is also exploring the possibility of adding rural-focused indicators to the provincial equitable share formula to further strengthen the equity of intergovernmental transfers. Infrastructure projects, including those in rural areas, are designed to maximise their employment-creating impact.</p>	<p>Government indicated in its submission on the 2017 DORB that the PES will be reviewed. However, no further details have been forthcoming. National Treasury should be requested to provide clarity on timeframes for this review.</p>
2017/18	<p>The Department of Agriculture, Forestry and Fisheries and the National Treasury review the framework for allocating agriculture conditional grants to reduce the weighting of agriculture land size and poverty relief and to incorporate factors that are closely aligned to the objectives of the grant, in particular the promotion of emerging farmers or agriculture production in the rural areas, as stipulated in the Agriculture Policy Action Plan.”</p>	<p>Government agreed with this recommendation. Changes have been made in a incremental way to agriculture grant framework. For example, 55 per cent of grant allocations under the <i>Comprehensive Agriculture Support Programme</i> is earmarked for projects that give effect to the Agriculture Policy Action Plan, of which 35 per cent is specifically for projects that work to achieve the commercialisation of smallholder farmers.</p>	<p>Recommendation implemented incrementally</p>

# PREVIOUS YEARS FFC RECOMMENDATIONS ON RURAL

Year	Recommendation	Government Response	Progress
2017/18	Government enhances agricultural productivity by establishing a framework for the implementation, evaluation and monitoring of key agricultural grants targeted at subsistence and small scale farmers	Government agreed with this recommendation. A range of agricultural stakeholders, a task team consisting of the Department of Rural Development and Land Reform, the Department of Agriculture, Forestry and Fisheries and the National Treasury is looking at ways to enhance existing processes for agricultural productivity, particularly for subsistence and small scale farmers.	There was no immediate implementation of this recommendation in the 2017/18 DORB. National Treasury and sector departments, including DRDLR should be requested to provide an update on progress on implementing this recommendation
2017/18	CASP and Recap should be consolidated under one funding programme for post-settlement support to emerging and land reform farmers under DAFF as it has more expertise in the area of agriculture. Currently both funding instruments are servicing the same target audience and funding the same activities. The consolidated fund should provide timeous support to land reform beneficiaries as delays was one of the main reasons for the creation of Recap. The consolidated fund should also be complemented by investigating models of affordable loan funding by DFIs so that the funding framework for land reform farmers achieves a greater outreach	Government agreed that post-settlement support is important. Given the overlapping roles between the Department of Agriculture, Forestry and Fisheries and the Department of Rural Development and Land Reform, the first task is to clarify the roles of these two departments, which both include aspects of post-settlement support. The next step is to assess the current funding model.	There was no immediate implementation of this recommendation in the 2017/18 DORB. The DRDLR should be requested to provide an update on whether the funding model for agriculture and rural development functions have been finalised

# PREVIOUS YEARS FFC RECOMMENDATIONS ON RURAL

Year	Recommendation	Government Response	Progress
2017/18	To improve land reform outcomes, coordination between DRDLR and DAFF should be strengthened at both a policy and implementation level	Government did not respond to this recommendation as it was not directly related to the DoR	Waiting response from DRDLR
2017/18	Implementation gaps in the land reform programme should be addressed through reprioritised funding from existing baselines	Government did not respond to this recommendation as it was not directly related to the DoR	Waiting response from DRDLR
2017/18	The role of municipalities in supporting land reform beneficiaries should be clarified. This is necessary as the centralising of decision making and responsibility at a national level results in many loop-holes and omissions at lower levels	Government did not respond to this recommendation as it was not directly related to the DoR	Waiting response from DRDLR



## 2. FUNCTIONAL APPROACH TO RURAL DEVELOPMENT

# FUNCTIONAL APPROACH TO RURAL DEVELOPMENT

---

- The rural economy is no longer just a farm economy
  - The role of agriculture as engine of growth within rural provinces is declining
- Rural development has evolved over time to focus on space based interventions and diversified economic activities
  - While growth in agriculture output has poverty reducing effects, non-farm sectors are more powerful tools for reducing poverty
- A multi functional policy approach is needed to attain rural development objectives

# FUNCTIONAL APPROACH TO RURAL DEVELOPMENT [CONT.]

- A multi-functional approach will also be required from a budgetary perspective. At present, the consolidated government budget still lumps agriculture and rural development functions together, reinforcing the prevailing narrow interpretation of rural development

**Table 1.3 Consolidated government expenditure by function**

R billion	2016/17	2017/18	Average growth
	Revised estimate	Budget estimate	2016/17–2019/20
Basic education	226.6	243.0	7.3%
Economic affairs	201.7	215.0	6.6%
Defence, public order and safety	190.0	198.7	5.8%
Human settlements and municipal infrastructure	179.8	195.8	8.0%
Health	170.9	187.5	8.3%
Social protection	164.9	180.0	8.2%
General public services	70.0	70.7	2.6%
Post-school education and training	69.0	77.5	9.2%
Agriculture, rural development and land reform	26.0	26.5	4.7%
<b>Allocated expenditure</b>	<b>1 298.9</b>	<b>1 394.8</b>	<b>7.1%</b>
Debt-service costs	146.3	162.4	10.5%
Contingency reserve	–	6.0	
<b>Consolidated expenditure<sup>1</sup></b>	<b>1 445.2</b>	<b>1 563.1</b>	<b>7.9%</b>

1. Consisting of national, provincial, social security funds and selected public entities.

See Annexure W2 on the National Treasury website for a full list of entities included.

Source: National Treasury

# FUNCTIONAL APPROACH TO RURAL DEVELOPMENT [CONT.]

---

- There are other key functions in government that constitute aspects of rural development. Among these include the following:
  - Education – increase abilities for employment and mobility
  - Health – reduce disease burden & improves productivity
  - Roads – increase mobility & access to markets
  - Housing – facilitate access to economic assets
  - Agriculture – improves food security & income earning opportunities
  - Regional planning and development
  - Environmental protection – reduce households vulnerability to environmental degradation
- A full functional approach to rural development implies that these functions need to be properly monitored and well-coordinated in the rural space otherwise strong synergies and quality of spending may not be achieved



## 3. BACKGROUND

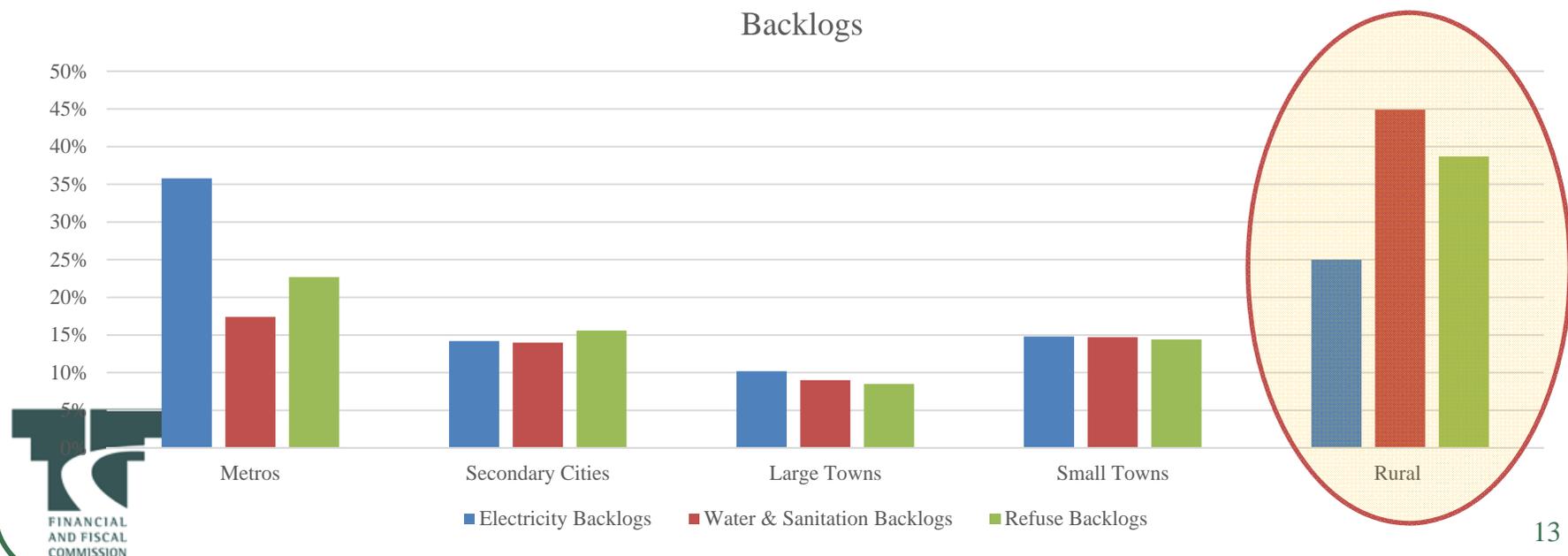
# BACKGROUND

- Rural areas account for about 80% of the land and are important demographically, economically and politically in South Africa
  - Rural areas are home to 38% of the population compared to 43.1% in 2001
- A significant proportion of the poor live in rural areas
  - Majority of the poor live in rural areas – in 2011, more than 2/3 of rural dwellers lived in poverty compared to less than a 1/3 in urban areas
  - Whilst poverty in rural areas have declined since 2006, the rate of decline has been slower than expected
  - Poor people in rural areas are not only further away from the poverty line on average, but the poorest of the poor are significantly worse off than the urban poor

	Headcount ( $P_0$ )				Poverty gap ( $P_1$ )				Severity ( $P_2$ )			
	2006	2009	2011	2015	2006	2009	2011	2015	2006	2009	2011	2015
Total	66,6	62,1	53,2	55,5	35,6	33,5	25,5	27,7	22,5	21,3	15,0	17,0
Urban	52,0	46,8	38,8	40,6	23,8	22,2	16,5	17,5	13,6	13,0	9,1	9,7
Rural	87,6	88,0	77,0	81,3	52,6	52,6	40,3	45,5	35,3	35,4	24,9	29,7

# BACKGROUND

- Other challenges in rural areas include *infrastructure deficits, housing backlogs, health disparities, insufficient skills and educational performance, and an ageing population*
- Access to basic services have increased, but at a slower pace than in urban areas



# POLICY CONSIDERATIONS

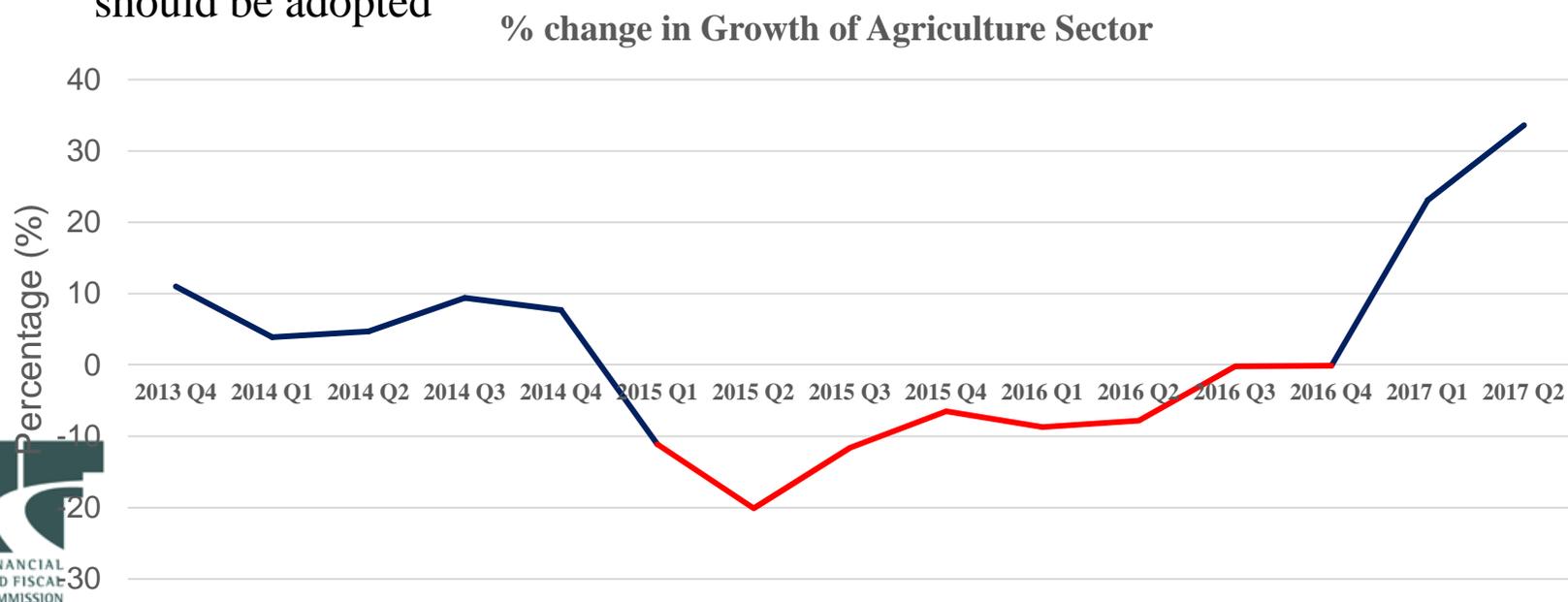
- Rural areas pay more for a basket of food than urban households
- Notwithstanding all these developmental challenges, government allocates a big chunk of its resources to rural areas
  - Rural provinces are the main beneficiaries of infrastructure conditional grants
  - StatsSA estimates that approximately 60% of total government's expenditure is allocated towards funding the 'social wage' which includes a package of free basic services to poor households which are mostly located in rural areas
- The National Development Plan (NDP) identifies key strategies to develop rural economic opportunities and ensuring food security such as:
  - Job creation through land reform and agricultural development by promoting small scale irrigated farming
  - Create security of tenure for communal farmers, especially women
  - Invest in infrastructure and support services

# POLICY CONSIDERATIONS [CONT.]

- The Agricultural Policy Action Plan (APAP) developed to implement NDP and New Growth Path (NGP) goals
  - It gives expression to outcomes 4 (decent employment through inclusive growth) and 7 (comprehensive rural development and food security)
- In order to meet NDP targets for poverty reduction, the DPME estimates that approximately 400 000 people must graduate out of poverty each year in rural areas
  - If the current rate of poverty reduction in rural areas continue, Government unlikely to meet NDP target
- There are also significant differentiation in rural towns and settlement types, which means any rural policy adopting a one-size fits all approach is unlikely to be effective

# SECTOR CHALLENGES

- South Africa's worst drought in 30 years resulted in seven quarters of negative growth in the agricultural sector
- Severe drought has eased in several farming regions, leading to a strong recovery over the past three quarters
  - Despite the improvement, the Commission is of the view that strategies that transition the economy and households to the challenges of a water-stressed country should be adopted



# SECTOR CHALLENGES

- Land Reform
  - Since the 1990s, government has spent a significant amount of resources on land reform, but land reform has had little impact on rural development. It is widely felt that much of the potential of land reform as a mechanism for rural development have gone unrealised
  - Gaps in the funding model include a lack of affordable loan funding to support land reform beneficiaries. At present, many beneficiaries are considered too risky to qualify for such funding
- What the Commission has found? Commission Research identified the following outcomes related to land reform
  - For the sampled sites (KwaZulu-Natal, Mpumalanga, Eastern Cape), food security decreased due to failed projects, while only in a small proportion of operational projects, food security improved
  - Large production losses in redistributed farms across all three sample sites
  - Job losses as a result of decreased cultivated land also significant, with Kwazulu-Natal the hardest hit with a 94% decline as a result of labour-intensive crops that went out of production

# SECTOR CHALLENGES [CONT.]

---

- Coordination
  - A lack of a strong monitoring and coordination function for rural areas has undermined sector outcomes (E.g. Indirect grants targeting rural areas such as the *school infrastructure backlogs grant* and *rural households infrastructure grant* are under-performing, undermining efforts to improve infrastructure in rural areas.
  - The Commission is of the view that monitoring the performance of these grants and other rural programmes implemented by sector departments should be an important function of the DRDLR)



## 4. DEPARTMENTAL ANALYSIS

# DEPARTMENTAL OVERVIEW

---

- The department consists of 5 programmes
  - Administration, National Geomatics Management Services, Rural Development, Restitution and Land Reform
    - Three entities report to and fall under the budget of the department (Agricultural Land Holding Account, KZN Ingonyama Trust Board and Registration of Deeds Trading Account)
- Mandate: Create and maintain an equitable and sustainable land dispensation and act as a catalyst in rural development to ensure sustainable rural livelihoods, decent work and continued social and economic advancement for all
- Focus of the department over the 2017 MTEF period:
  - Growing rural economies through agri-parks
  - Accelerating land reform
  - Recapitalising and redeveloping redistributed farms
  - Settling land claims
  - Creating opportunities for rural youth and Transforming land tenure

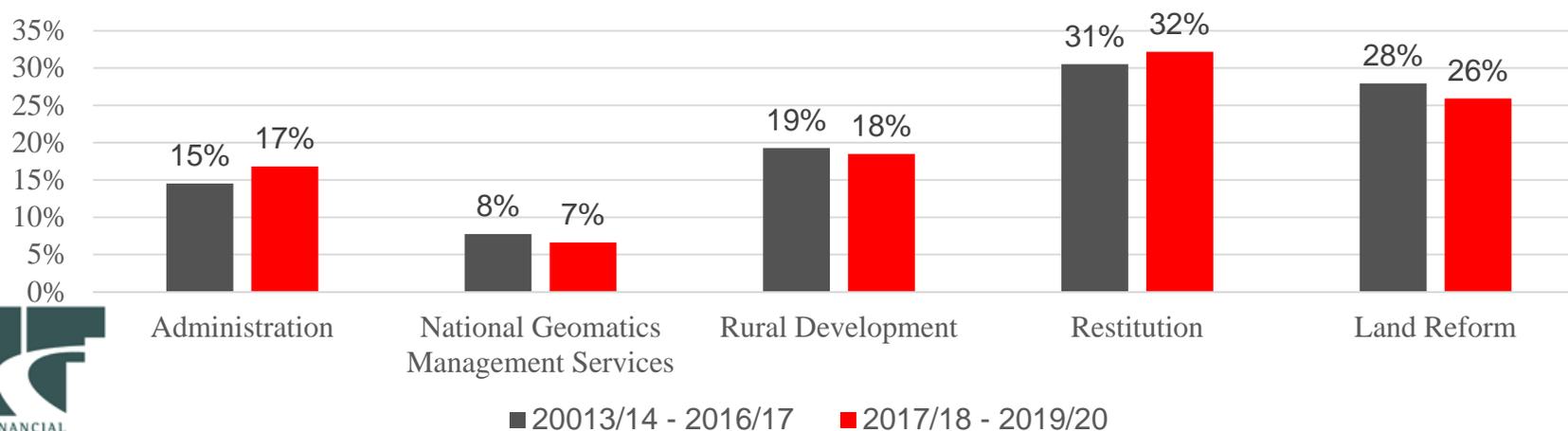
# DEPARTMENTAL BUDGET AND PROGRAMMES

- In 2017/18, the DRDLR is allocated a budget of R10.1 billion which increases to R11.29 billion in 2019/20
  - This represents a real annual average decline of 2.2% per annum over the MTEF
  - Priority programmes such as Rural Development, Restitution and Land Reform is also declining over the 2017 MTEF period
  - In comparison to the other programmes, the Administration programme only declines by 0.1% over the 2017 MTEF period even though activities in this programme is not related the core service delivery areas of the department
    - An amount of R961.1 million is being set aside over the MTEF to finance the construction of a single campus site for the department's head office. Given the tight fiscal environment the economy is currently experiencing, the Commission is not sure whether this expenditure should be an immediate priority

R'million	2013/'14	2014/'15	2015/16	2016/17	2017/18	2018/19	2019/20	20013/14 - 2016/17 Real Avge Growth P.A	2017/18 - 2019/20 Real Avge Growth PA
<b>Administration</b>	1 239	1 382	1 337	1 583	1 722	1 800	1 877	3.4%	-0.1%
<b>National Geomatics Management Services</b>	815	733	682	714	672	702	754	-9.6%	-3.9%
<b>Rural Development</b>	1 701	1 801	1 922	1 914	1 915	1 951	2 069	-1.4%	-3.3%
<b>Restitution</b>	2 837	2 998	2 630	3 168	3 247	3 441	3 651	-1.4%	-3.3%
<b>Land Reform</b>	2 863	2 482	2 547	2 745	2 628	2 760	2 940	-4.8%	-3.5%
<b>Total</b>	<b>9 454</b>	<b>9 396</b>	<b>9 118</b>	<b>10 124</b>	<b>10 184</b>	<b>10 653</b>	<b>11 291</b>	<b>-3.0%</b>	<b>-2.2%</b>

# PROGRAMME SHARE OF TOTAL SPENDING AND BUDGET

- The Restitution programme receives the largest share of the department's budget (32% over 2017 MTEF) which is mostly used to settle land claims lodged. A recent Constitutional Court judgement found that the department has to settle all claims lodged prior 1998 before it can start processing new claims. For the purposes of oversight, the Commission is of the view that the Department should be given a cut-off date by which all these old claims should be settled
- Even though rural development and land reform programmes are central to the mandate of the department, the figure below shows that over the 2017 MTEF, these programmes have been deprioritised largely in favour of Administration



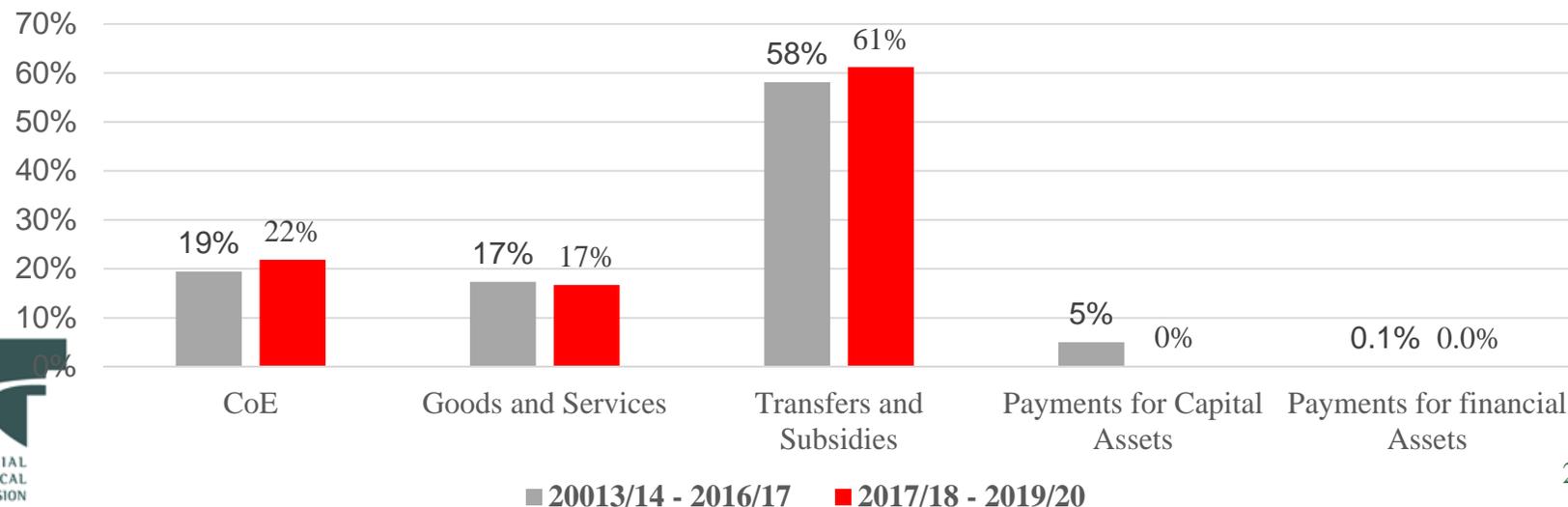
# SPENDING AND MTEF BUDGET BY ECONOMIC CLASSIFICATION

- Over the 2017 MTEF period, transfer and subsidies projected to show a real annual average decline of 2.5% per annum, largely as a result of a slowdown in allocations to the Agricultural Land Holdings Account
- In line with government efforts to curb the escalation of the public sector wage bill, departmental spending on compensation to employees also decline in real terms, although by a smaller margin (0.6%) compared to other major spending categories such as G&S and transfers and subsidies

R'million	2013/'14	2014/'15	2015/16	2016/17	2017/18	2018/19	2019/20	20013/14 - 2016/17	2017/18 - 2019/20
								Real Ave Growth P.A	Real Ave Growth PA
CoE	1 541	1 792	1 937	2 143	2 195	2 326	2 503	6.1%	-0.6%
Goods and Services	2 175	1 342	1 396	1 700	1 715	1 780	1 875	-10.1%	-2.6%
Transfers and Subsidies	5 471	5 458	5 018	6 225	6 249	6 524	6 890	-0.6%	-2.5%
Payments for Capital Assets	254	793	759	56	25	24	23	32.4%	-27.7%
Other	12.3	10.0	7.3	-	-	-	-	-54.5%	0.0%
<b>TOTAL DEPT EXP. &amp; ESTIMATES:</b>	<b>9 454</b>	<b>9 396</b>	<b>9 118</b>	<b>10 124</b>	<b>10 184</b>	<b>10 653</b>	<b>11 291</b>	<b>-3.0%</b>	<b>-2.2%</b>

# LINE ITEM SHARE OF TOTAL SPENDING AND MTEF BUDGET

- The bulk of the department’s resources are allocated to transfers and subsidies in the form of transfers households in respect of restitution claims and to public entities, including the Agricultural Land Holdings (ALH) account
  - The Commission notes the one household, one hectare initiative which aims to create smallholder producers is being funded via the ALH account. It is however unclear whether the department is loaning the land to beneficiaries as happened previously or if the land is being disbursed to poor households with title deeds. Previously, the Commission cautioned that if farmland is transferred on a loan basis only, households may be reluctant to invest in the land because of insecure tenure





## 5. DEPARTMENTAL AND ENTITY PERFORMANCE

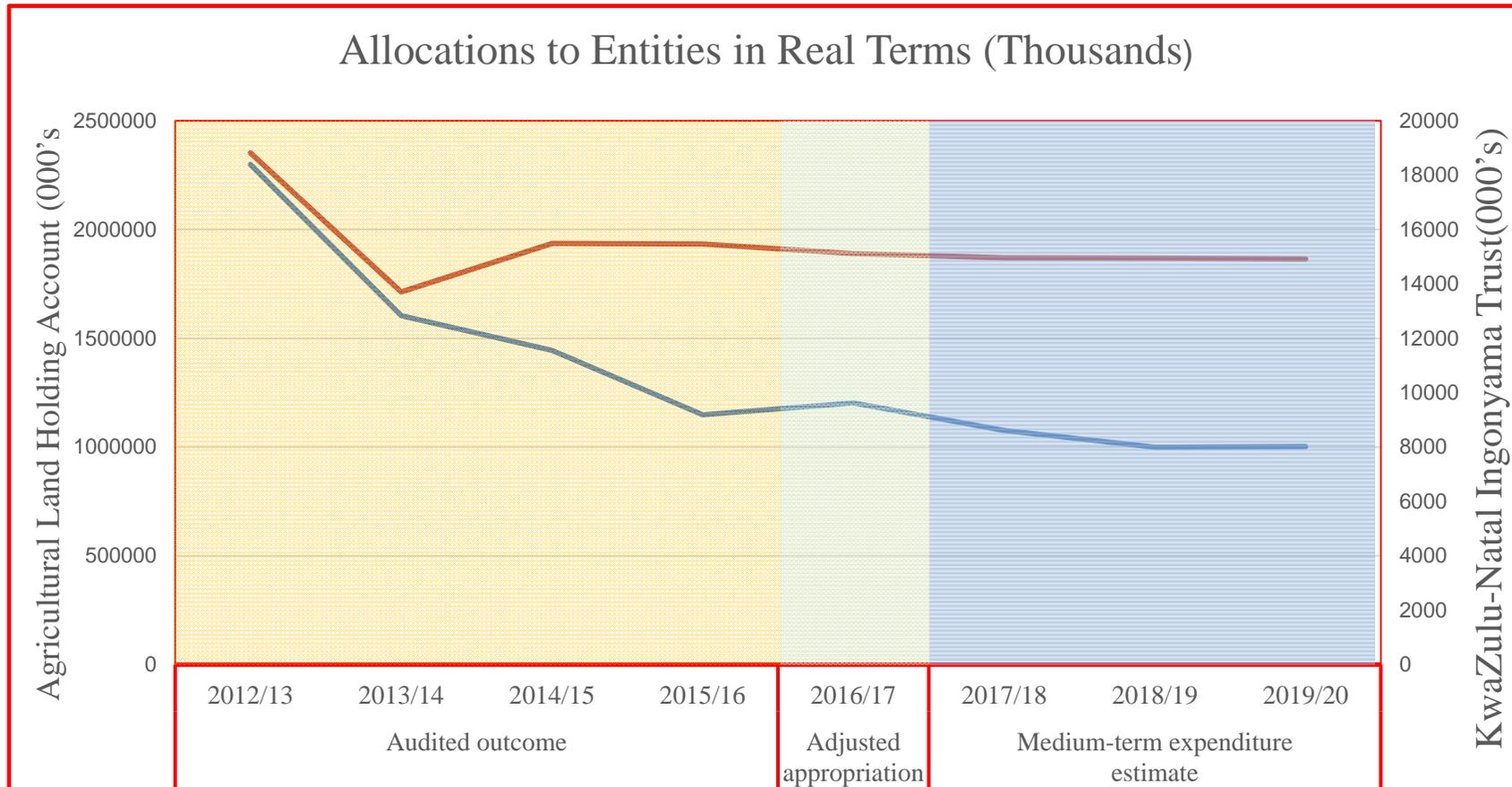
# DEPARTMENTAL TRANSFERS TO ENTITIES

- Agricultural Land Holding Account: the departments largest entity, is set to receive R4.2 billion over the 2017 MTEF period; a decline when compared to the R4.6 billion tabled in the 2016 MTEF.
- The two departmental entities shown below are set to experience real annual average declines in allocations over the 2017 MTEF period, and moreso for the Agricultural land holding account

R thousand	Audited outcome			Adjusted appropriation	Medium-term expenditure estimate			Real Annual Average 2012/13-2016/17	Real Annual Average 2017/18-2019/20
	2013/14	2014/15	2015/16		2016/17	2017/18	2018/19		
Agricultural land holding account	1 697 119	1 613 529	1 342 027	1 495 117	1 419 601	1 396 271	1 480 734	-9%	-17%
KwaZulu-Natal Ingonyama Trust Board	14 500	17 294	18 069	18 788	19 727	20 871	22 040	4%	-1%

# PUBLIC ENTITIES

Allocations to Entities in Real Terms (Thousands)



— Agricultural land holding account      — KwaZulu-Natal Ingonyama Trust Board

## 6. CONCLUDING REMARKS

- The DRDLR needs to strengthen its monitoring and coordination function to improve synergies and quality of spend by sector departments within the rural space
- The Commission would like to underscore the potential significant that land reform could play in alleviating rural poverty and inequality. The programme could also spur growth in rural economies. In this regard the Commission notes the following:
  - Whilst the one household, one hectare initiative should be commended, the Commission would like to see the DRDLR take active steps to support these smallholders to ensure they become sustainable. A major failure of previous land reform initiatives was the lack of support and incentives provided for land reform farms to become viable enterprises
  - Furthermore, to improve land reform outcomes, coordination between DRDLR and DAFF should be strengthened at both a policy and implementation level
  - Reiterate the Commission's previous recommendation that CASP and Recap should be consolidated under one funding programme for post-settlement support to emerging and land reform farmers under DAFF as it has more expertise in the area of agriculture.



**RURAL DEVELOPMENT  
RECOMMENDATIONS FROM FFC'S  
SUBMISSION FOR THE DIVISION OF  
REVENUE 2017/18**

Year	Recommendation	Government Response	Progress
2017/18	Agriculture-related intergovernmental transfers are 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.	Government agreed with this recommendation but stated it is not possible to implement this recommendation because there is no consensus on the definition of 'rural' in government. It is not clear who should lead this process, but wide stakeholder engagement will be required.	DRDLR should be requested to lead process to come up with a consensus view on defining 'rural' in government.
2017/18	The Department of Planning, Monitoring and Evaluation conducts a comprehensive review of expenditure outcomes associated with infrastructure conditional grants targeted at the rural provinces, to ascertain the extent to which infrastructure backlogs have been reduced and the efficacy of the spend. The outcome of the review should be used to form the basis of any adjustments to infrastructure grants earmarked for rural development	DPME will implement the recommendation if co-funding can be secured with relevant sector department.	DPME should provide an update on whether they have approached the DRDLR to be a co-funder and to implement this recommendation
2017/18	The FFC recommends that, "The current <i>municipal disaster grant</i> be allowed to cater for eviction-related emergencies. The same approach of accessing the portion of the disaster grant should be applicable to farm eviction incidences. This approach is aligned with the findings from previous research by the Commission that provinces and municipalities, rather than national government, appear better at ensuring grant funding is spent."	Government does not agree that evictions meet the definition of disasters prescribed in the Disaster Management Act (2002), which means that the <i>municipal disaster grant</i> is not the appropriate instrument for alleviating the effect of evictions. The National Housing Programme for Housing Assistance in Emergency Circumstances specifically provides funding for housing assistance for evicted households.	

# FFC'S WEBSITE: WWW.FFC.CO.ZA



## FINANCIAL AND FISCAL COMMISSION

An Independent Constitutional Advisory Institution



- [Home](#)
- [About](#)
- [Discussions](#)
- [Media & Events](#)
- [Research](#)
- [FAQs](#)
- [P.A.I.A](#)
- [Jobs & Tenders](#)
- [Links](#)
- [Contact](#)

You are here: [Home](#)



### Submissions

- [Commission Submissions](#)
- [List of Recommendations](#)
- [Submission Chapters](#)
- [Budget Process](#)

Financial and Fiscal Commission  
Intergovernmental Fiscal Relations Conference  
10 - 13 August 2014

International Convention Centre,  
Cape Town, South Africa

Our Mandate

### More Publications

Vote of Thanks 20th  
anniversary conference

Keynote Address - FFC 20th  
Anniversary Conference  
Acting Chairperson