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COMMISSION

For an Equitable Sharing of National Revenue

Submission for the Division of Revenue 2017/2018

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FOREWORD

This submission is made in terms of Section 214(1) of the Constitution of the Republic of South Africa (1996), Section 9 of the Intergovernmental Fiscal Relations Act (No. 97 1997) and Section 4(4c) of the Money Bills Amendment Procedure and Related Matters Act (No. 9 of 2009).

In South Africa, rural areas account for 80% of the land and are home to 38% of the population. Rural areas lag behind the country as a whole on economic performance indicators, such as economic growth, labour force participation rates, unemployment, education attainment and life expectancy at birth. Challenges include insufficient skills and educational performance, socio-spatial inequalities, infrastructure deficits, housing backlogs, environmental issues and health disparities. The agriculture sector contributes less than 3% to South Africa's economy, and so rural development is clearly not just about agricultural development. Addressing the challenges facing the rural poor requires more than agricultural and agrarian reforms, and must include education and health care outcomes, social and economic infrastructure, the creation of employment opportunities as well as changing the economic geography of rural areas.

Government policies and programmes are increasingly focusing on rural areas in order to alleviate poverty, create jobs and fast-track service delivery. Current rural strategies are often sector-based and do not take into account the different developmental needs of rural regions, many of which are based on exploiting special local resources. For example, policies to encourage rain-fed activities, such as livestock and cropping, are clearly not suitable for all areas. The need for integrated rural development is recognised, but this new approach has not yet been accompanied by a substantial reallocation of resources. Within this context, the theme for the Submission for the 2017/18 Division of Revenue is *the Intergovernmental Fiscal Relations System and Rural Development in South Africa.* The Submission provides evidence on how improving the efficiency of intergovernmental fiscal relations can assist national government, provinces and municipalities to stimulate rural development through prioritising public investments and interventions.The government's fiscal framework has failed to have a significant impact on rural development for various reasons, including (a) insufficient transfers from national government; (b) uncollected and/or property rates and service charges that are not cost-reflective; (c) leakages, including bad management, inefficient procurement, under-spending and institutional challenges. Institutional and fiscal reforms are required in order to overcome the many bottlenecks and enable all spheres of government to deliver on the rural development mandate.

The Commission would like to express its gratitude to all its stakeholders for the invaluable inputs provided during the preparation of the various technical reports that informed this Submission, the Minister of Finance and National Treasury for their support, the South African Local Government Association, the Chairpersons of the Finance and Appropriations Committees in the Provincial and National Legislatures, various technical advisers and the Staff of the Commission.

We, the undersigned, hereby submit the Financial and Fiscal Commission's recommendations for the 2017/18 Division of Revenue in accordance with the obligations placed upon us by the Constitution of the Republic of South Africa.

For and on behalf of the Commission

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Date: 27 May 2016

ACRONYMS

ADS	Agency Development and Support
AGOA	African Growth and Opportunity Act
AGSA	Auditor-General of South Africa
ALHA	Agricultural Land Holding Account
APAP	Agricultural Policy Action Plan
AsgiSA	Accelerated and Shared Growth Initiative for South Africa
ASIDI	Accelerated Schools Infrastructure Delivery Initiative
BFAP	Bureau for Food and Agricultural Policy
BLA	Black Local Authority
CAADP	Comprehensive African Agriculture Development Programme
CASP	Comprehensive Agricultural Support Programme
CFO	Chief Financial Officer
CGE	Computable General Equilibrium
CLC	Community Law Centre
COGTA	Cooperative Government and Traditional Affairs
CRDP	Comprehensive Rural Development Programme
CWP	Community Works Programme
DAFF	Department of Agriculture, Forestry and Fisheries
DBE	Department of Basic Education
DBSA	Development Bank of Southern Africa
DEA	Data Envelope Analysis
DFI	Development Finance Institutions
DHS	Department of Human Settlements
DM	District Municipality
DME	Department of Minerals and Energy
DOE	Department of Energy
DoL	Department of Labour
DORA	Division of Revenue Act
DPE	Department of Public Enterprises
DPME	Department of Planning, Monitoring and Evaluation
DPW	Department of Public Works
DRDLR	Department of Rural Development and Land Reform
DSBD	Department of Small Business Development
DSD	Department of Social Development
dti	Department of Trade and Industry
DWS	Department of Water and Sanitation
ECD	Early Childhood Development
EDD	Economic Development Department
EPWP	Expanded Public Works Programme
ESTA	Extension of Security of Tenure Act
EU	European Union
FBE	Free Basic Electricity
FBS	Free Basic Services
FFC	Financial and Fiscal Commission
FTE	Full-Time Equivalent
GDP	Gross Domestic Product
GEAR	Growth Employment and Redistribution
GHS	General Household Survey
GPP	Gross Provincial Product
GVA	Gross Value Added
HDA	Housing Development Agency
HST	Health Systems Trust
ICASA	Independent Communications Authority of South Africa
ICT	Information and Communication Technology
IDC	Industrial Development Corporation
IDP	Integrated Development Plan

IDT	Independent Development Trust
IGFR	Intergovernmental Fiscal Relations
ILO	International Labour Organisation
INEP	Integrated National Electrification Program
ISRDS	Integrated Sustainable Rural Development Strategy
LASS	Land Acquisition for Sustainable Development
LED	Local Economic Development
LGES	Local Government Equitable Share
LGFF	Local Government Fiscal Framework
LM	Local Municipality
LRAD	Land Redistribution for Agricultural Development
MDB	Municipal Demarcation Board
MIG	Municipal Infrastructure Grant
MISA	Municipal Infrastructure Support Agency
MSA	Municipal Structures Act
MTEF	Medium Term Expenditure Framework
MTSF	Medium Term Strategic Framework
MWIG	Municipal Water Infrastructure Grant
NDP	National Development Plan
NEF	National Empowerment Fund
NGO	Non-Governmental Organisation
NGP	New Growth Path
NPC	National Planning Commission
NPO	Non-Profit Organisation
OECD	Organisation for Economic Cooperation and Development
PCC	Presidential Coordinating Commission
PEP	Public Employment Programme
PES	Provincial Equitable Share
PIE	Prevention of Illegal Eviction
PLAS	Proactive Land Acquisition Strategy
PRC	Presidential Review Commission
RADP	Recapitalisation and Development Programme
RBIG	Regional Bulk Infrastructure Grant
RCDF	Rural and Community Development Fund
RDP	Reconstruction and Development Programme
RHIG	Rural Household Infrastructure Grant
RHIP	Rural Household Infrastructure Programme
SALGA	South African Local Government Association
SAM	Social Accounting Matrix
SAPO	South African Post Office
SARB	South African Reserve Bank
SIBG	School Infrastructure Backlogs Grant
SIP	Strategic Integrated Project
SLA	Service Level Agreement
SLAG	Settlement Land Acquisition Grant
SOC	State-Owned Company
SOE	State-Owned Enterprise
Stats SA	Statistics South Africa
TDCA	Trade, Development and Cooperation Agreement
UNICEF	United Nations Children’s Fund
USA	United States of America
USDG	Urban Settlement Development Grant
VAT	Value Added Tax
VIP	Ventilated Pit Latrine
WLA	White Local Authority
WSA	Water Service Authority
WTA	World Trade Atlas

EXECUTIVE SUMMARY

The theme of this Submission is *"The Intergovernmental Fiscal Relations System and Rural Development in South Africa"*, reflecting the demographic, economic and political importance of rural areas. The aim is to provide a comprehensive review of the intergovernmental fiscal relations (IGFR) instruments, and their reform for more effective rural growth and development. Rural development is a complex process and, therefore, requires proper coordination among the institutions and departments involved.

Eight years after the 2008 global economic and financial crisis, which led to prolonged and unforeseen fiscal deterioration and left South Africa with serious challenges, the economy remains vulnerable to slow global recovery and, increasingly, to domestic factors. The most volatile contributions to real gross domestic product (GDP) growth have come from the mining and quarrying, and the manufacturing sectors, which are the sectors that historically have been most affected by strikes. These sectors are important contributors to exports but have been shrinking continuously. To compound an already dire economic situation, South Africa is in the midst of one of the worst droughts in 35 years. The drought has led to a steep decline in agricultural activity, driven mainly by falling production in field crops, such as maize, sunflowers and sugar cane. The country currently finds itself a net importer rather than exporter of maize, as has traditionally been the case. The problem is aggravated by the exchange rate's sharp depreciation that has driven up other food import prices, in particular wheat. The impact of the drought and rising food prices is greatest for poor households, especially within the poorer rural provinces and municipalities.The sluggish economy means that unemployment rates have remained high, with the most recent figures reflecting 24.3%. The lower-than-forecast economic growth for 2016 and beyond represents a major obstacle to achieving the targets of the National Development Plan (NDP). **Importantly, the fragile economic growth is a significant threat to the future prioritisation of rural development initiative and could lead to increasingly tense intergovernmental relations.**

The overriding fiscal policy question concerns the coordination and adequacy of resources. Coordination is crucial given the multiple players involved in the rural space. Clear functional assignments should inform the vertical and horizontal split in the division of revenue in order to improve the focus, targeting and outputs of the grants. Coordination is also needed at both local level and between national and subnational governments, to integrate sectoral approaches, to involve private partners and to achieve the appropriate geographic scale. Adequacy refers to balancing the allocation of resources among the government spheres responsible for rural development. Adequate service delivery is both technical and political, and at the centre of the debate is the tension between the "politics of affection" (as enshrined in the Constitution) and issues of affordability or efficiency. Perhaps the most challenging aspect of rural development and IGFR is ensuring that provinces and municipalities are well funded, through own revenues and transfers from the centre. The principle of supporting the poorer regions or provinces through grants or special projects is generally well-supported, but there is no agreed method of determining poverty levels and related needs among regions. In fact, given the meagre sources of provincial own taxes, grants from the central government are often the only revenue available. Provinces and rural local municipalities with little access to own revenue are also the poorest in terms of access to modern services and therefore beholden to the centre. The size of the overall transfer pool for "a defined rural development strategy" is important in determining the ability of subnational governments to deliver on the rural development mandate. Under-funded transfers will clearly limit the ability of provincial and local governments to meet their responsibilities for rural development programmes.

This Submission proposes a unified framework to address these issues. It is structured into four sections and 11 chapters.

PART 1: Macro-Micro and Fiscal Context of Rural Development

This section sets the scene for the rest of the Submission and contains two chapters.

Chapter 1 outlines and addresses IGFR problems associated with rural development. After describing the main rural development issues (i.e. rural classification and spatial characteristics, economic activities and the impact on growth and jobs, the role of migration and declining agricultural jobs in rural areas), the macroeconomic issues influencing rural development are summarised. The rest of the chapter looks at the evolution of rural policy, the main rural development actors, and the flagship rural policies and interventions. The final section gives recommendations that set the context underlying the more detailed recommendations in the rest of the Submission.

Chapter 2 establishes the conceptual framework underlying the Commission's recommendations on IGFR and rural development, taking into account the strong interdependence of national, provincial and local government and differences across municipalities. A mixture of quantitative and qualitative analysis focuses on households, production sectors, factors of production and other institutions (national government, provinces and municipalities). The two pillars at the heart of the conceptual framework are IGFR instruments (for planning, implementing and operating and maintaining interventions necessary for rural development) and IGFR institutions. A comprehensive analytical framework for rural development policy is developed that includes appropriate qualitative and quantitative indicators, which allow different policies to be evaluated and compared across regions, provinces and municipalities.

PART 2: National Government and Rural Development.

There are three chapters in this section.

Chapter 3 examines the role of targeted intergovernmental transfers in reducing rural poverty. Rural development strategies focused on land and agrarian reform are a key component of ongoing efforts to promote an integrated and inclusive rural economy in South Africa. To support this goal, the intergovernmental fiscal framework emphasises allocating resources to initiatives aimed at improving rural economies through expanding industrial activities, enhancing agricultural productivity, and fostering greater production linkages within agro-processing industries. In view of the diversity of rural economic activities, this chapter seeks to provide insights on whether poverty reduction measures funded through intergovernmental transfers are best addressed through enhancing agricultural productivity or through funding targeted investments within non-agricultural sectors located in rural areas.

Chapter 4 evaluates the national land reform programme's impacts on rural development. A field-based approach across three selected provinces is used to investigate the impact of land reform on food and nutrition security, job creation, and agricultural output. Then ways of improving the intergovernmental implementation of land reform are explored. The study found that land reform beneficiaries are worse off than those who did not benefit, and that land reform has had a negative effect on job creation and farm productivity. Clear duplication and overlaps exist between the RADP and the CASP grants, while major gaps include the lack of affordable loans for land reform beneficiaries and planning for land reform. The findings reveal that weak administration and implementation have compounded poor outcomes of land reform. The chapter recommends consolidating the RADP and CASP grants into one funding programme and clarifying the role of municipalities in providing support to land reform. It also notes the need for a wider perspective to land reform that goes beyond agriculture and farm-based activities.

Chapter 5 analyses ways of enhancing the role of public entities in rural development. Public entities play an instrumental role in implementing developmental policies and act as catalysts for accelerated industrialisation, economic growth and human resource development. This chapter examines how public entities, i.e. four state-owned companies (SOCs) and three development finance institutions (DFIs), can align with the new ethos of rural development. The study found that the four SOCs do not have a specific rural focus in delivering their core mandate, while investments by DFIs in rural areas are minimal and declining. The chapter recommends designating a single champion and coordinating entity for rural finance and development to guide investment by DFIs in rural areas; reconfiguring and modernising the South African Post Office (SAPO) to broaden its focus, enhancing Transnet's contribution to regional economic growth and developing and improving Telkom's network infrastructure in rural areas.

PART 3: Provincial Government and Rural Development.

There are two chapters in this section.

Chapter 6 evaluates the extent to which provincial fiscal transfers (provincial equitable share and conditional grants) and own revenue are responsive to rural development needs. Rural provinces in South Africa experience the heaviest burden of under-development, and are characterised by weak economic activity, poor socio-economic conditions and high infrastructure backlogs. In general, rural provinces are optimising revenue collection from their current (weak) tax base, whereas provincial fiscal transfers show mixed results. The equitable share makes no visible distinction in the allocations to various provinces (to address disparities), while infrastructure conditional grants allocations seem to favour the rural provinces. Grants supporting agrarian development and the eradication of other rural-specific infrastructure backlogs are characterised by design, targeting and spending deficiencies. The chapter recommends that the allocation framework for rural development grants be aligned to the national rural development policy imperatives.

Chapter 7 assesses government's fiscal instruments to fund job creation in rural areas and, in particular, considers the case of public employment programmes (PEPs). While studies have previously examined the rationale and overall effectiveness of PEPs as an active labour market policy in South Africa, minimal research has been done on the spatial and locational impact of PEPs. This chapter assesses the targeting and benefits of PEPs to households in rural areas. The outcomes of the Expanded Public Works Programme (EPWP) and the Community Works Programme (CWP) in rural areas are compared using a mixture of quantitative and qualitative methods. Specific focus areas include job opportunities created, the intergovernmental implementation model and cost effectiveness of implementation. CWP was found to be more effective than the EPWP at creating employment opportunities in rural areas. In addition, the CWP's design and implementation is better able to meet the needs of rural communities and to foster social cohesion. PEPs remain a critical livelihood support for poor households, but the pace at which job opportunities are being created is too slow to achieve the NDP target of two million full-time recipients by 2020. In order to achieve the target, the chapter recommends that the training component of PEPs be strengthened and that PEP spending be restructured, so more resources can be directed at the CWP and the non-profit and social sectors of the EPWP. These sectors are labour-intensive and more cost-effective, and have activities that are easily implementable in rural areas.

PART 4: Rural Municipalities and Rural Development.

There are three chapters in this section.

Chapter 8 is about financing rural local municipalities for rural development needs. The majority of municipalities in rural areas depend heavily on transfers to fulfil their mandate. This is something that the government is seeking to minimise, as shown by the recent proposal from the Department of Cooperative Governance and Traditional Affairs to amalgamate many municipalities in order to optimise their financial viability. This chapter examines whether the current funding model, which seeks to ensure that all municipalities are financially viable, is appropriate for rural municipalities, considering their weak and fragile revenue bases. It also looks at whether or not the transfers are adequate and explores alternative own-revenue sources for rural municipalities that would lessen their dependency on transfers. Case studies of amalgamated municipalities are used to evaluate the feasibility of creating self-sufficient rural municipalities. The chapter finds that the amalgamations will not make all rural municipalities self-sufficient. Mixed results emerge on the adequacy of transfers, while other possible additional revenue sources (outside of property taxes and electricity service charges) include "user fees" for social amenities and "restaurant/ hotel fees" in areas with a vibrant tourism industry. The chapter recommends that the transfer system should be sensitive to financially unviable municipalities; cost implications should be assessed prior to amalgamations; grants with similar mandates should be consolidated, transfers should be informed by objective cost estimates; revenue sharing should be encouraged; and rural municipalities should be capacitated to prepare property registers and valuation rolls.

Chapter 9 evaluates the effectiveness of transfers to local and district municipalities for rural development. Rural local municipalities continue to struggle to meet their constitutional obligations, despite the increased resources channelled to them through the intergovernmental transfer system. The chapter looks at whether rural municipalities are using these resources efficiently and provides a brief analysis of the allocation of powers and functions of district municipalities, with a view to recommending divisions of powers and functions that would catalyse rural development. The findings suggest that rural local municipalities have high levels of spending inefficiencies because of a lack of institutional capacity and provision of basic services. In rural areas, district municipalities appear to use their resources more efficiently than local municipalities. The results suggest that district municipalities should be tasked with more complex tasks, in particular water and electricity infrastructure, in addition to strategic regional planning and coordination. The chapter recommends building capacity in rural local municipalities and establishing firm expenditure supervision mechanisms.

Chapter 10 analyses the extent of farm evictions and the increasing responsibilities of rural local municipalities. Since the inception of democracy in 1994, government has introduced numerous laws, policies and initiatives to regulate and improve the situation and rights of farm dwellers and farm workers. However, unintended consequences have been a climate of uncertainty in the agriculture sector and the eviction of farm dwellers and workers from farms. The chapter examines the extent of the burden caused by farm evictions and explores how fiscal instruments can respond to this widespread situation. According to legislation and court rulings, the responsibility of caring for the vulnerable evictees increasingly falls on municipalities, thereby creating an unfunded mandate. Municipalities have to use their own funds because currently the intergovernmental fiscal instruments do not cater for evictions. The chapter recommends that the current disaster grant should be allowed to include (or cater for) eviction-related emergencies. Furthermore, government should strengthen the coordination and implementation of the existing programmes targeting the increasing number of displaced farm workers and dwellers.

Chapter 11 reviews the effectiveness of fiscal instruments and governance in enhancing sanitation in rural areas. Adequate sanitation infrastructure and services are important, as they affect the health status and dignity of individuals. Improving sanitation infrastructure reduces the risk of infection from excreta-related diseases, particularly for children under the age of five years. Since 1994, the government has introduced programmes to reduce sanitation backlogs. The chapter reviews funding and institutional constraints that are undermining government's efforts to address sanitation backlogs in rural areas, where backlogs remain high. The high backlogs are because of limited revenue sources, the poor performance of the Rural Household Infrastructure Grant (in part as a result of municipalities failing to submit business plans on time), the lack of prioritising sanitation infrastructure (not included in IDPs) and a failure to plan, budget and undertake maintenance. The chapter recommends that rural municipalities should include sanitation in their IDPs and develop a complete sanitation infrastructure plan that includes relevant technologies, and scheduled and costed periodical maintenance.

The Main Findings

From a broad perspective, the South African story since 1994 ("22 years of democracy") appears to be one of rural decline, urban growth, and a long-term decline in economic prospects. On the face of it, rural regions are not performing as well as urban areas, and the unemployment rate, particularly among the youth, in rural areas is much higher than the national unemployment rate. The weaker economic performance is driven by a number of factors, including people moving to urban areas, an ageing rural population, lower educational attainment, lower average labour productivity, and overall low levels of public service. But this is only part of the story. The fact is that South Africa's current economy is simply not strong enough to sustain the tax burden needed to fund infrastructural programmes that stimulate demand and create employment. This bleak scenario suggests that the system of rural-urban linkages, which has evolved for 22 years, will be fundamentally tested.

Another crucial finding is that, despite growing interest among policy-makers, very little research has documented the results of place-based rural development policies, and what determines success or failure. This is because it is difficult to isolate the impact of cross-sectoral policies, especially in quantitative terms. The biggest challenge is identifying indicators that fairly capture the impacts of policies, especially since many integrated rural development programmes are in their early stages.

Without pre-empting the detailed discussions in the chapters that follow, some of the specific findings from each of the chapters are presented below:

- In the case of national programmes, agriculture plays a key role in influencing average incomes within rural municipalities. This is particularly the case in municipalities where agriculture is a component of overall economic activity.

- Agricultural production has declined in most of the farms transferred as part of the land reform programme. The funding instruments for rural development (CASP and RADP) are servicing the same target audience and funding the same activities. Alignment between the land reform programme and the policies of DAFF can be improved.

- Although public entities have a responsibility to align to the country's national goals, the four state-owned companies (Eskom, Telkom, Transnet and SAPO) do not have a specific rural focus, while investments made by DFIs are very small and are declining. The investment and financial support currently offered to rural areas is very modest and does little to crowd in the private sector.

- As regards provinces, the equitable share formula makes no discernible distinction in provincial allocations to address the unique development challenges of rural provinces. A significant proportion of infrastructure conditional grants are allocated to the rural provinces, as part of the efforts to remedy historical infrastructure backlogs challenges. Provincial agriculture conditional grants allocations are skewed in favour of geographically large provinces and misaligned to the objective of increasing agriculture outputs. Other rural development-specific infrastructure grants are characterised by central control and poor implementation.

- Many participants in PEPs in rural areas are either on a social grant or employed elsewhere. The findings show that government's job creation initiatives are not designed and implemented in order to actively target unemployed individuals in rural areas. In addition, overlaps and duplication of job creation programmes proliferate.

- The local government fiscal framework's impact on rural development fails because of a combination of reasons, including: (a) transfers from national government are insufficient; (b) property rates and service charges are not collected and/or not fully cost-reflective; and (c) leakages are common because of bad management, inefficient procurement, underspending and institutional challenges. The current system of transfers adequately compensates rural local municipalities for their lack of own revenue in some (but not all) services. Viewing a grant in isolation may give the impression that a service is underfunded, and yet when all grants are included, the service may be fully funded. Rural local municipalities are generally found to be inefficient in utilising transfers and to have limited possible new revenue sources, partly because of deficient property tax administration.

- Expenditure by local rural municipalities that is related to farm evictions continues to increase, but the IGFR instruments currently do not cater for evictions. Therefore, municipalities have to use their own funds, which results in an unfunded mandate. Municipalities use a reactive rather than proactive approach to farm evictions and resort to emergency housing, which does not meet the requirements of "suitable, alternative accommodation" as defined by the legislation.

- Sanitation backlogs have remained high in rural areas despite government interventions. Instruments for municipal sanitation infrastructure are limited to the Municipal Infrastructure Grant, the Bucket Eradication

Programme and the Rural Household Infrastructure Grant. The Rural Household Infrastructure Programme has not achieved its expected outcomes because of the grant's design (as an indirect grant); discontinued funding in some municipalities despite high backlogs remaining; under-spending because of the late transfer of funding, as a result of poor quality and late submission of business plans; lack of prioritisation (not included in the municipal IDP) and no operations and maintenance plans.

These findings have potentially important policy implications for the Submission. The objectives of fiscal reforms for rural development should be to bring about greater inter-regional equity. The sustainability of rural development initiatives will depend greatly upon the capacities of the institutions involved, accountability and the relationships among them.

The Recommendations

Below is the list of the recommendations of the Commission for the 2017/18 Division of Revenue.

With respect to creating conditions for the future prosperity of rural areas, the Commission recommends that Government:

1. Develops a comprehensive definition of "rural areas" and "rural development" to be applied across the three spheres of government. The Department of Rural Development and Land Reform and the Department of Planning, Monitoring and Evaluation must convene a task team with other relevant government departments to develop a definition of "rural, remote and rural development" that is clear and simple to categorise and measure. This definition should be:

    - multi-sectoral and place-based, aimed at identifying and exploiting the different development potential of rural areas, with a focus on places not just sectors.

    - measurable, to enable Stats SA to report on "rural" versus "urban" development and to provide credible and accessible data on rural development.

2. Deals with disparities between and within regions by harnessing the growth potential of rural areas.

    - Inter-regional and inter-provincial migration is already underway following freedom of movement brought about by democracy. 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.

    - Policy efforts should complement these reallocation-enhancing processes in order to sustain productivity growth within rural areas. 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.

3. Strengthens intergovernmental relations by:

    - Boosting incentives for performance (own-revenue raising, policy and administrative capacity for service delivery, etc.), especially in provinces and municipalities with large disparities within them.

    - Addressing the identified weaknesses (coordination failures, governance complexity, etc.). Coordination is needed between the national government and subnational governments and authorities. Developing a true partnership implies participating in decision-making and implementing rural development policies that the regional or local government helps to design. This requires a high level of commitment, effective knowledge sharing and competence on the part of national, provincial and local representatives. In this respect, Government should design a mechanism to ensure that proper incentives are provided to make rural communities act dynamically and in a way that rewards initiative and experimentation, but that also promotes consistency in public policy across sectors and regions.

With respect to monitoring and evaluating IGFR instruments impact on rural development, the Commission recommends that:

1. The Department of Rural Development and Land Reform together with the Department of Planning, Monitoring and Evaluation convene a task team with other relevant government departments to develop a new rural development research agenda with three key objectives:

    - Develop a comprehensive analytical framework for rural development policy that includes appropriate qualitative and quantitative indicators to allow different policies to be evaluated and compared across municipalities and across regions within provinces.

    - Undertake a systematic review of rural development strategies and make the results made available to policy-makers across municipalities and provinces.

- Encourage the various institutional and managerial systems charged with formulating and implementing rural policy to work together and to ensure that individual policies are consistent and converge in a coherent strategy. This can be achieved through special high-level joint interdepartmental coordination via working groups, formal contracts and policy proofing by, for example, benchmarking among peers.

With respect to creating conditions for rural development from agriculture-led growth, the Commission recommends that:

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

2. 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.

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

With respect to measures to improve land reform impacts on rural development, the Commission recommends that:

1. CASP and RADP are consolidated into one funding programme for post-settlement support to emerging and land reform farmers under DAFF, which has more expertise in the area of agriculture. The consolidated fund should provide timeous support to land reform beneficiaries and be complemented by affordable loan funding. DFIs should explore possible funding models, so that the funding framework can reach more land reform beneficiaries.

    - For individual farm transfers, the LRAD model should be emulated, as it provides the necessary incentives to access credit, own an asset and enter into productive activity on the land.
    - For group-owned projects, models should be explored in partnership with commodity organisations and land reform specialists.

2. Coordination and alignment between DRDLR and DAFF is strengthened at both policy and implementation levels. To enhance coordination, the recently established district land reform committees should include officials from all relevant sector departments, including agriculture. This multi-stakeholder arrangement should be replicated in the provincial and national land reform committees.

3. Implementation gaps in the land reform programme are addressed through reprioritised funding. Gaps include providing resources for planning and aligning land reform with human settlements, agriculture and infrastructure; training land reform farmers in technical and business skills (with a mechanism to assess skills of mentors); establishing selection criteria for land reform beneficiaries that are applied uniformly across all the provinces. An important criterion for transfer should be maintaining agricultural production.

4. The role of municipalities in supporting land reform beneficiaries is clarified. Areas of support that municipalities could provide include offering land reform beneficiaries discounts or exemptions from municipal tariffs for the first three years and liaising with DRDLR to resettle farm evictees on land assigned for land reform. Ways in which municipalities can access national funding to support the land reform programme, should be worked out with the DRDLR.

With respect to creating conditions for rural development from infrastructure-led growth by public entities, the Commission recommends that:

1. Economic Development Department, in collaboration with the departments of agriculture, forestry and fisheries, rural development and land reform, and public enterprises, designates 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.

2. The Department of Telecommunications and Postal Services ensures that SAPO modernises and broadens 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 (ATM etc.).

3. The Department of Public Enterprises ensures that Transnet contributes to regional economic growth and development by connecting business to customers, goods to markets. Transnet should also transport agricultural goods, so as to include rural communities,

from rural areas where they are produced to urban areas where they are consumed, process, or sent out of the country.

4. The Department of Telecommunications and Postal Service puts 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 Department of Telecommunications and Postal Services, should forge a partnership to develop the mobile market.

With respect to enhancing the efficacy of provincial fiscal transfers and own revenues in funding rural development mandates, the Commission recommends that:

1. The Provincial Offices of the Premier, in consultation with the provincial departments of basic education, health, agriculture and rural development and roads, identify the rural development needs in the province and set annual delivery targets against which PES allocations will be assessed by oversight bodies. Departmental budgets and expenditure reports should be disaggregated in accordance with municipal boundaries to help ascertain the extent to which PES allocations are targeted to rural areas' needs.

2. The National Treasury, in collaboration with the departments of basic education, health and those responsible for provincial roads, ensures that the criteria for allocating infrastructure conditional grants take into account spending efficiency, delivery targets and performance, as well as the applicable national norms and standards. This should assist with monitoring of provinces in meeting their developmental goals and facilitate targeted intervention where a province consistently fails to meet delivery targets.

3. The Department of Agriculture Fisheries and Forestry and 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.

4. 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.

With respect to creating conditions for rural job creation from PEPs, the Commission recommends that:

1. Government, through the dti, National Treasury, the Department of Social Development and the Department of Public Works, considers narrowing the focus of PEPs and using the CWP, and the social and NPO sectors of the EPWP as an explicit strategy for addressing rural poverty. Job opportunities created in these sectors are the most cost effective and labour intensive, and easily implementable in rural areas.

   - Ways of reducing the costs of rural participation in PEPs should be explored, including easier accessibility to services such as banks and re-registration processes.

2. Priority is given to unemployed individuals without access to a grant, as PEP funding is insufficient to cover all unemployed. At present, many participants either receive a social grant or are employed elsewhere. Government should also carefully balance the need to improve the conditions of employment and the need to expand PEPs.

3. The Department of Public Works and National Treasury ensure that EPWP grant frameworks in the Division of Revenue Act include an explicit condition that appropriate training of recipients (especially in skills that promote self-employment) is mandatory, given that only a small portion of EPWP beneficiaries transition into formal sector jobs. An assessment of microenterprises in rural areas that are viable self-employment options should be conducted and inform the roll-out of training programmes to EPWP beneficiaries.

4. Funding of job creation initiatives is viewed in an integrated way, with priority given to programmes that absorb unemployed poor individuals, especially if they are targeting high unemployment nodes in B3 and B4 municipalities.

With respect to financing rural local municipalities for rural development, the Commission recommends that:

1. With assistance from the national and provincial Departments of Cooperative Governance and Traditional Affairs, rural municipalities ensure that:

   - Property registers and valuation rolls in rural areas are in place and up-to-date.

   - Rural municipalities are adequately capacitated to collect and administer such a tax.

2. The National Treasury and the Department of Cooperative Governance:

   - Note that, by their nature, some municipalities will never be self-funding, and so demarcation processes must go beyond financial viability, to consider issues of democratic representation and community participation, which are equally important and should be funded by the transfer system even in "financially unviable" municipalities.

   - Seek to achieve "financial viability" in municipalities by increasing or developing tax bases through economic development rather than amalgamating municipalities.

3. The Department of Cooperative Governance:

   - Amends the Municipal Demarcation Act to ensure that the full financial impact of demarcations on a new municipality are assessed before any amalgamations are done.

   - Seeks to correct for dysfunctionality through relevant legislative, policy and capacity-building measures rather than through amalgamations.

   - Monitors whether mergers have been successful, and the actual cost of the mergers.

4. National Treasury continues to consolidate grants (as previously recommended by the Commission) because viewing grants in isolation gives the impression that some services are underfunded, whereas services may be fully or overfunded when viewing the grants holistically.

5. National Treasury ensures that the Local Government Equitable Share and conditional grants are informed by objectively derived cost estimates, without which the viability of rural municipalities will always be under threat.

With respect to turning local municipalities and district municipalities into useful vehicles for rural development, the Commission recommends that:

1. National Treasury includes, as part of the principles underlying grants to rural municipalities, more stringent expenditure supervision, in order to minimise wastage and improve efficiency. The national and provincial governments should evaluate the effectiveness of existing supervision methods with a view to strengthening them.

2. The Department of Cooperative Governance and Traditional Affairs:

   - Pronounces on the role that urban district municipalities should play, with a view to introduce a single tier-local government system in urban areas and to strengthen a two-tier local government system in rural areas.

   - Reviews the accountability mechanisms of district municipalities in order to make them more accountable to citizens.

   - Provides clarity, as a matter of urgency, on the functions and powers of district municipalities. In line with the White Paper on Local Government, their powers and functions should encompass district-wide planning, coordination of strategic development and intergovernmental relations policy issues, provision of technical assistance to local municipalities, provision of district-wide services, and provision of bulk water, sanitation, refuse removal, and services to District Management Areas.

   - Ensures that the MISA prioritises the capacity-building of rural district municipalities in the areas of coordination and planning, so that they can in turn provide quality technical support to local municipalities.

With respect to addressing the negative impact of farm evictions on rural municipalities' finances, the Commission recommends that:

1. The current Municipal Disaster Grant is 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.

2. Government strengthens the coordination and implementation of existing programmes targeted at displaced farm workers and dwellers, through:

   - Including farm evictees among the beneficiaries for housing in rural towns, access to land for own production and agri-villages programme.

   - Centralising the reporting of evictions and improve data collection.

3. The following government departments should be involved in coordinating and implementing programmes: DRDLR, the departments of agriculture, fisheries and forestry, home affairs, human settlements, cooperative governance and traditional affairs, social development, SAPS and municipalities.

With respect to intergovernmental instruments and institutional issues pertaining to the provision and maintenance of sanitation infrastructure in rural municipalities, the Commission recommends that:

1. Rural municipalities that are Water Services Authorities prioritise the delivery of sanitation infrastructure, which must be reflected in municipal IDP. SALGA should play an oversight role in ensuring compliance with this recommendation.

2. Rural municipalities that are Water Services Authorities explore and prioritise EcoSan waterless technologies where feasible and develop a complete municipal sanitation infrastructure project delivery plan, which includes the following:

    - Technologies to be used for emptying toilet latrine pits (VIPs), taking into account community dynamics.

    - Scheduled periodical maintenance of sanitation infrastructure.

    - Full costs of maintenance and sources of funding.

3. SALGA and the national and provincial departments of water and sanitation develop and implement monitoring tools for this recommendation.

4. The Department of Planning, Monitoring and Evaluation, National Treasury and the Department of Water and Sanitation undertake a comprehensive evaluation of the impact of sanitation grants on rural municipalities before discontinuing the grants.

5. District and rural municipalities that are Water Services Authorities submit compliant business plans timeously to the national Department of Water and Sanitation. Should they fail, executives should be held accountable. In cases where Water Services Authorities lack capacity, the national and provincial departments of water and sanitation should intervene and provide requisite capacity.