



BRIEFING ON THE SUBMISSION FOR THE 2017/18 DIVISION OF REVENUE

11 October 2016

For an Equitable Sharing of National Revenue

BACKGROUND TO THE SUBMISSION

- Submission made in terms of:
 - Section 214(1) of the Constitution (1996)
 - Section 9 of the Intergovernmental Fiscal Relations Act (1998)
 - Section 4(4c) of the Money Bills Amendment Procedure and Related Matters Act (Act 9 of 2009)
- Theme of 2017/18 Submission is: Intergovernmental Fiscal Relations System and Rural Development in South Africa
 - Aim of submission: to provide a comprehensive review of the intergovernmental fiscal relations (IGFR) instruments and their reform for more effective rural development
 - Context: low economic growth a threat to future prioritisation of rural development so overarching questions concerns the coordination and adequacy of resources

OUTLINE OF SUBMISSION CHAPTERS

Macro-Micro and Fiscal Context of Rural Development

- 1. Introduction to Rural Development and Intergovernmental Fiscal Relations
- 2. Model of Rural Development Underpinning FFC's Recommendations

National Government and Rural Development

- 3. Role of Targeted Intergovernmental Transfers in Rural Poverty Reduction
- 4. National Land Reform Programme and Rural Development
- 5. Enhancing the Role of Public Entities in Rural Development

Provincial Government and Rural Development

- 6. Fiscal Transfers and Own Revenue in Funding Provincial Rural Development Mandates
- 7. Assessing Government's Fiscal Instruments to Fund Public Employment Programmes in Rural Areas

Rural Municipalities and Rural Development

- 8. Financing Rural Local Municipalities for Rural Development
- 9. Effectiveness of Transfers to Local and District Municipalities for Rural Development
- 10. Farm Evictions and Increasing Rural Local Municipalities' Responsibilities
- 11. Reviewing Effectiveness of Sanitation Fiscal Instruments and Governance in Enhancing Rural Development

1 AND 2. RURAL DEVELOPMENT AND INTERGOVERNMENTAL FISCAL RELATIONS

- 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 43.4% in 2001
 - South Africa does not have an officially agreed and accepted definition of ‘rural’
 - It is recognised that rural development is a necessary condition for reducing poverty but meaning of the concept is sometimes not clearly understood
 - Urban and rural development are concurrent areas of responsibility
 - No explicit delineation of how subsumed activities should be shared
 - » Creates an implementation vacuum on how the different spheres perceive their respective roles in and contribution to rural development
 - A key challenge for rural policy: achieving strong growth and improving the wellbeing of rural residents
 - 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
-  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

DEFINING RURAL

- Rural economic development is about improving the general wellbeing of rural people and spaces
- Strategies to promote rural economic development include:
 - Provision/facilitation of income earning opportunities
 - Provision of quality education and health care
 - Investment in social and economic infrastructure
 - Provision of basic services and protection of the rural environment
- Use term rural to refer to entire municipal areas, specifically:
 - Small towns (B3): Municipalities without a large town as a core urban settlement, have relatively small populations of which significant proportion is urban and based in small towns. Rural areas in this category characterised by presence of commercial farms because the local economies are largely agriculture-based. There are 113 municipalities in this category
 - Mostly rural (B4): Municipalities that contain no more than one or two small towns, characterised by communal land tenure and villages or scattered groups of swellings, typically based in former homelands. There are 68 municipalities in this category
 - Districts (rural): District municipalities that are rural. There are 35 municipalities in this category

ESTABLISHING A WORKING DEFINITION: PROVINCIAL LEVEL

Province	% Share of B3 and B4 municipalities in each province (A)	% Share of B4 municipalities in each province (B)	Composite Average	Rural Ranking
Eastern Cape	87%	38%	63%	3
Free State	75%	0%	38%	7
Gauteng	8%	0%	4%	9
KwaZulu-Natal	79%	54%	66%	2
Limpopo	92%	64%	78%	1
Mpumalanga	67%	28%	47%	6
Northern Cape	92%	4%	48%	5
North West	74%	26%	50%	4
Western Cape	60%	0%	30%	8

RURAL DEVELOPMENT IS MORE THAN AGRICULTURE

- 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 tool for reducing poverty headcount
- A multi sectoral policy approach is needed to attain rural development objectives

RECOMMENDATIONS (2)

- Government should develop 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 (DRDLR) and the Department of Planning, Monitoring and Evaluation (DPME) 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
- Government must deal with disparities within and between regions by harnessing the growth potential of rural areas
- Government must strengthen intergovernmental relations

RURAL MUNICIPALITIES AND RURAL DEVELOPMENT

Chapters

8. Financing Rural Local Municipalities for Rural Development

9. Effectiveness of Transfers to Local and District Municipalities for Rural Development

10. Farm Evictions and Increasing Rural Local Municipalities' Responsibilities

11. Reviewing Effectiveness of Sanitation Fiscal Instruments and Governance in Enhancing Rural Development

8. FINANCING RURAL LOCAL MUNICIPALITIES FOR RURAL DEVELOPMENT

- Rural municipalities depend significantly on grants to fulfil their mandate.
- This is something that the government is focussed on minimising as evidenced by the recent Cooperative Governance and Traditional Affairs (CoGTA) Ministry proposal on amalgamating many municipalities to make them self-reliant.
 - Is the current funding model that seeks to eliminate grant dependency appropriate for rural municipalities, considering that many face weak and fragile revenue bases? Will amalgamated municipalities be financial viable and functional?
 - If the current financing model is not appropriate, it means many rural municipalities have to permanently rely on transfers. Considering that own revenues constitute a small proportion of budgets of rural municipalities a related pertinent question can be asked: Are transfers to the rural local government adequate?
 - If not: Are there any own-revenue alternatives for rural municipalities that they can exploit and lessen dependency on transfers?

KEY FINDINGS

- The analysis in this chapter suggests that amalgamations will not necessarily result in financially viable municipalities and may worsen the situation of some demarcated municipalities
- The results also indicate that many rural municipalities will continue to be transfer dependent as their revenues bases are fragile and weak. Thus the funding model of rural local municipalities should not be oblivious of the fact that transfers will remain the main stay of rural local government
- Findings also suggest that transfers adequately compensate municipalities for lack of own revenues in some services and not in others. Thus, it is crucial to regularly review every transfer stream so that needs and resources are always aligned
- Furthermore, the research found that 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
- Finally, the chapter evaluated possible new revenue sources and obstacles to exploiting them. Municipalities require diverse and ‘non-traditional’ revenue sources outside of property taxes and electricity service charges. These include ‘user fees’ for social amenities such as parks and community halls, and ‘restaurant/hotel fees’ in areas with viable and vibrant tourism industries

RECOMMENDATIONS

- With assistance from the National and Provincial Departments of CoGTA, rural municipalities should ensure that property registers and valuation-rolls in rural areas are in place and up-to-date and that rural municipalities are adequately capacitated to collect and administer such a tax
- The National Treasury and CoGTA should 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. They should also seek to achieve “financial viability” in municipalities by increasing or developing tax bases through economic development rather than amalgamating municipalities

RECOMMENDATIONS [CONT.]

- 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 costs of the mergers
- The National Treasury continues to consolidate grants (as previously recommended by the Commission) as reviewing grants in isolation gives the impression that some services are underfunded, whereas services may be fully or overfunded when viewing the grants holistically
- The National Treasury ensures that the LGES and conditional grants are informed by objectively derived cost estimates, without which the viability of rural municipalities will always be under threat

9. EFFECTIVENESS OF TRANSFERS TO LOCAL AND DISTRICT MUNICIPALITIES FOR RURAL DEVELOPMENT

- Rural municipalities are less efficient than district municipalities at providing basic services
- Performance of local municipalities can increase by 60% without additional resources
- Districts are not performing their legislative functions to the full due to asymmetry in powers and functions
- Districts are more relevant and useful in rural areas than urban areas
- Rural municipalities are less efficient than district municipalities at providing basic services

RECOMMENDATIONS

- 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
- The Department of CoGTA:
 - 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

10. FARM EVICTIONS AND INCREASING RURAL LOCAL MUNICIPALITIES' RESPONSIBILITIES

- The study looks at the extent of the burden caused by farm evictions and explores how fiscal instruments can respond to this widespread situation
 - Local municipalities increasingly have to deal with the ramification of this influx into rural towns in terms of shelter, services and consequences of unemployment
 - In a recent ruling, the Constitutional Court placed the challenge of these migrations firmly at the door of local municipalities. When workers are evicted from farms, rural municipalities are responsible for providing services and caring for the destitute, despite being ill-equipped and having no budget, resulting in an unfunded mandate
- In 2015, over half (52%) of all tenure security cases in South Africa concerned evictions, and of these, 48% were evictions and 4% illegal evictions. A third (32%) of all cases were threatened evictions, which might lead to either legal or illegal evictions
- The cost implications of farm evictions range from 0.1% (Dihlabeng) to 1% (Breede Valley and Emakhazeni) of a municipality's local government equitable share allocation

RECOMMENDATIONS

- 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
- 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
- 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

11. REVIEWING EFFECTIVENESS OF SANITATION FISCAL INSTRUMENTS AND GOVERNANCE IN ENHANCING RURAL AREAS

- Sanitation backlog remains high particularly in rural areas despite various programs implemented by government since 1994, the main aim of this chapter therefore is to understand constraints undermining government's efforts of addressing sanitation backlog
- Findings show that sanitation is funded on an ad-hoc basis with RHIG remaining the key funding source due to limited own revenue, funding from LGES utilised for operational expenditure and MIG prioritising other infrastructure
- With respect to the implementation of RHIP on selected municipalities: there was a marginal reduction of 1% on backlog in some municipalities, while the level of backlog has remained the same and even increased in some municipalities between 2012/13 and 2013/14
- Findings revealed that some municipalities received funding only for one year, while some continue to be funded for more than a year
- In SA, sanitation improvement is implemented through the provision of VIPs while other countries have moved towards Ecological Sanitation Waterless toilets technologies

RECOMMENDATIONS

- Rural municipalities that are Water Services Authorities (WSA) should prioritize delivery of sanitation infrastructure and must be reflected in municipal's Integrated Development Plans (IDPs)
 - SALGA should play an oversight role in ensuring compliance with this recommendation
- With respect to planning and implementing sanitation projects, rural municipalities that are WSAs should explore and prioritise Ecological Sanitation waterless technologies where possible and develop a complete municipal sanitation infrastructure project delivery plan which includes the following (among other things):
 - Technologies to be used for emptying toilet latrine pits, in case of VIPs taking into account community dynamics

RECOMMENDATIONS [CONT.]

- Scheduled periodical maintenance of sanitation infrastructure
- Full costs of maintenance and sources of funding
- SALGA and DWS at national and provincial levels should play a monitoring role in the implementation of this recommendation
- The National Treasury and DWS should undertake a comprehensive evaluation on the impact of the sanitation grants on rural municipalities before the grant is discontinued to a municipality
- District and rural municipalities that are WSAs must submit compliant business plans timeously to DWA
 - If they fail, executives should be hold accountable. In cases where WSAs lack capacity, DWS both at the national and provincial levels should intervene and provide capacity

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