



# Briefing to the Portfolio Committee on Rural Development and Land Reform

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Financial and Fiscal Commission

19 August 2015

For an Equitable Sharing of National Revenue

# PRESENTATION OUTLINE

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1. Introduction to the Financial and Fiscal Commission
  2. Background
  3. Departmental Analysis
  4. Public Entities
  5. Concluding Remarks
- Appendix: Past FFC Recommendations on Rural Development

# 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



## 2. BACKGROUND

# BACKGROUND

- Rural share of poverty fell from 70% in 1993 to 57% in 2008
  - Improvement in household welfare ascribed to social grant expenditure and migration to urban areas
- Access to basic services has increased, but at slower pace than in urban areas
- Rural areas still characterized by significant poverty and inequality
- Many infants, and 1 in 5 children experience stunted growth
  - Micronutrient malnutrition can affect growth, learning abilities of young and productivity of adult population
- Rural households pay more for basket of food than urban households
- Extreme differentiation in rural towns in terms of settlement types and economic activity

# BACKGROUND [CONT.]

- 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
- The Agricultural Policy Action Plan (APAP) developed to implement NDP and New Growth Path (NGP) goals. It gives expression to outcomes 4 and 7
- Efforts by the Department of Rural Development and Land Reform (DRDLR) and Department of Agriculture, Forestry and Fisheries (DAFF) to collaborate in implementing APAP is a step forward for the sector

# SECTOR CHALLENGES

- Land reform beneficiaries face a number of challenges (e.g. access to credit, equipment, technical assistance, etc.) that make it difficult to convert land acquired into productive use
- While there's been good progress made in developing infrastructure in rural areas, there is still significant backlogs which could slow down rural development
- Recent policy proposals (e.g. re-opening land claims process) likely to require a substantial amount of funding to implement. A lower than anticipated economic outlook could have a negative impact on the medium term spending plans of DRDLR as well as its strategy to achieve APAP goals
- A lack of proper coordination has undermined sector outcomes (E.g. An evaluation of the Comprehensive Rural Development Programme (CRDP) found the linkage with the land reform programme is weak)



### 3. 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
- Strategic goals of the department
  - Foster effective land reform and land restitution programmes
  - Implement sustainable agrarian reform through increased access to land
  - Ensure spatial equity through effective land planning and administration
  - Improve food production and access to affordable and diverse food
  - Improve access to sustainable employment and skills development

## Departmental Budget and Programmes

- Between 2013/14 and 2015/16, budget allocated to the department declined (by 3.4% in between 2013 and 2014 and by 3.9% between 2014 and 2015) – reductions driven by Cabinet approved reductions/cost containment measures
- Over the 2015 MTEF period growth recovers, reaching 7.6% in 2015/16 before dropping to 2% in 2016/17
  - Three key activities drive the department's plans over 2015 MTEF period namely: establishment of the Office of the Valuer-General, the implementation of the Spatial Planning Land Use Management Act and the reopening of the lodgement of land claims

R'million	Audited outcome			Adj. Appropri.	Medium Term Expenditure Estimates		
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
1. Administration	934	1 103	1 267	1 349	1 264	1 318	1 389
2. National Geomatics Management Services	583	548	786	746	800	830	875
3. Rural Development	786	1 076	1 701	2 012	1 976	2 187	2 264
4. Restitution	2 376	2 866	2 837	2 681	2 603	3 181	3 341
5. Land Reform	3 318	3 326	2 863	2 668	2 737	2 874	3 020
<b>TOTAL</b>	<b>7 998</b>	<b>8 920</b>	<b>9 454</b>	<b>9 455</b>	<b>9 380</b>	<b>10 392</b>	<b>10 889</b>
Real Year on Year Growth		2011/12-2012/13	2012/13-2013/14	2013/14-2014/15	2014/15-2015/16	2015/16-2016/17	2016/17-2017/18
1. Administration		11.4%	11.1%	2.8%	-9.2%	1.3%	2.5%
2. National Geomatics Management Services		-11.3%	38.6%	-8.3%	3.9%	0.8%	2.6%
3. Rural Development		29.0%	53.0%	14.2%	-4.8%	7.5%	0.7%
4. Restitution		13.7%	-4.2%	-8.7%	-5.9%	18.7%	2.2%
5. Land Reform		-5.4%	-16.7%	-10.0%	-0.6%	2.0%	2.2%
<b>TOTAL</b>		<b>5.2%</b>	<b>2.5%</b>	<b>-3.4%</b>	<b>-3.9%</b>	<b>7.6%</b>	<b>2.0%</b>



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## Economic Classification

R'million	Audited outcome			Revised estimate	Medium Term Expenditure Estimates			Real Annual Average Growth: 2015 MTEF
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	
Compensation to Employees	1 373	1 728	1 541	2 000	2 116	2 241	2 392	3.4%
Goods and Services	1 335	1 417	2 175	1 676	1 502	1 556	1 655	2.1%
Transfers and Subsidies	5 104	5 605	5 471	5 622	5 737	6 571	6 816	6.0%
Payments for Capital Assets	175	124	254	58	25	24	25	-2.2%

- Over the entire period reviewed, transfers and subsidies are significant and projected to grow by real annual average of 6% over the 2015 MTEF period
  - Transfers are predominantly to households in respect of restitution claims
- As a result of cost containment measures, growth in goods and services, slow down to 2.1% per annum and payments for capital assets are projected to decline by 2.2% over the 2015 MTEF period
- Spending on compensation to employees is projected to show steady growth over the medium term

## Rural Development Programme

<b>Real Year on Year Growth</b>	<b>2011/12- 2012/13</b>	<b>2012/13- 2013/14</b>	<b>2013/14- 2014/15</b>	<b>2014/15- 2015/16</b>	<b>2015/16- 2016/17</b>	<b>2016/17- 2017/18</b>
Rural Infrastructure Development	-11.8%	41.6%	104.6%	13.6%	2.1%	0.0%
Rural Enterprise and Industrial Development	19.0%	74.1%	2.8%	27.8%	2.3%	0.6%
National Rural Youth Services Corps	75.1%	47.0%	-19.5%	-52.6%	34.1%	2.4%
<b>Total</b>	<b>29.0%</b>	<b>53.0%</b>	<b>14.2%</b>	<b>-4.8%</b>	<b>7.5%</b>	<b>0.7%</b>

- The largest subprogramme in the Rural Development Programme is the Rural Infrastructure Development subprogramme, which receives an allocation of R917.9 million in 2015/16
  - Significant growth in Rural Infrastructure Development subprogramme in 2014/15 due to a reprioritisation of funds (amounting to R2.6 billion) to facilitate improved access basic infrastructure to households
- National Rural Youth Services Corps subprogramme illustrates erratic growth path over the period reviewed
  - Significant reductions in growth in 2014/2015 due to Cabinet approved reductions with respect to the economic competitiveness support package for the implementation of the national youth services corps
  - Significant growth in 2016/17 due to renewed emphasis on projects to promote sustainable rural livelihoods

## Restitution Programme

<b>Real Year on Year Growth</b>	<b>2011/12- 2012/13</b>	<b>2012/13- 2013/14</b>	<b>2013/14- 2014/15</b>	<b>2014/15- 2015/16</b>	<b>2015/16- 2016/17</b>	<b>2016/17- 2017/18</b>
Restitution National Office	3.2%	299.2%	6.0%	-67.3%	2.8%	7.4%
Restitution Regional Offices	-25.6%	5.3%	13.0%	-8.8%	3.6%	6.6%
Restitution Grants	23.3%	-10.4%	-13.4%	0.0%	22.2%	1.3%
<b>Total</b>	<b>13.7%</b>	<b>-4.2%</b>	<b>-8.7%</b>	<b>-5.9%</b>	<b>18.7%</b>	<b>2.2%</b>

- Significant reductions in overall growth of Restitution Programme in 2014 and 2015 are due to Cabinet approved reductions (as a result of slow spending on land restitution grants) and a reprioritisation of departmental funds from the Restitution Programme to the Rural Development Programme and the National Geomatics Management Services Programme
  - Strong growth in 2016/17 is projected to be driven by transfers to households for finalising claims and the expectation that with respect to the 353 restitution land claims that are currently under litigation, provision has to be made for the possibility of the land claims court ruling in favour of claimants in some of the cases
- Strong historical (2013/2014) growth in the National and Regional Offices subprogrammes, was due to increased spending aimed at speeding up the restitution process
  - In 2015 and 2016 growth in these subprogramme slow down but is projected to strengthen during the outer year of the 2015 MTEF period as it is anticipated that internal capacity<sup>14</sup> will need to be built to deal with the proposed reopening of the land claims

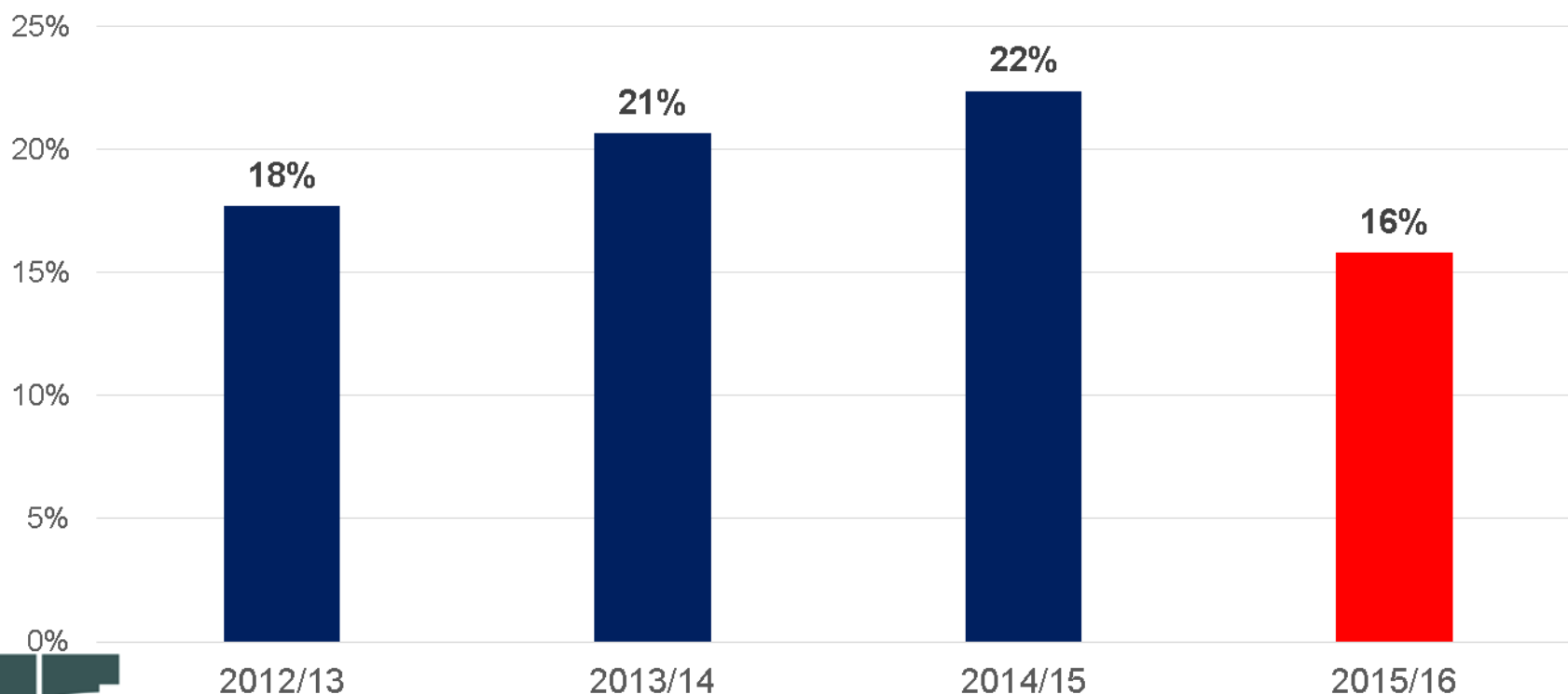
## Land Reform Programme

<b>Real Year on Year Growth</b>	<b>2011/12- 2012/13</b>	<b>2012/13- 2013/14</b>	<b>2013/14- 2014/15</b>	<b>2014/15- 2015/16</b>	<b>2015/16- 2016/17</b>	<b>2016/17- 2017/18</b>
Land Reform National Office	-7.6%	53.4%	-34.0%	10.2%	12.2%	12.3%
Land Reform Provincial Offices	-12.3%	12.2%	37.8%	6.1%	1.1%	2.5%
Land Reform Grants	26.6%	0.9%	-43.7%	41.0%	2.9%	14.4%
KwaZulu-Natal Ingonyama Trust Board	36.1%	-25.5%	15.2%	1.2%	1.0%	2.2%
Communal Land Rights Programme						
Agricultural Land Holding Account	-11.0%	-28.6%	-2.2%	-13.1%	0.9%	-3.5%
Office of Valuer-General					3.5%	3.2%
<b>Total</b>	<b>-5.4%</b>	<b>-16.7%</b>	<b>-10.0%</b>	<b>-0.6%</b>	<b>2.0%</b>	<b>2.2%</b>

- The largest subprogramme in the Land Reform Programme is the Agricultural Land Holding Account, which consumes over half the total Land Reform Programme allocation
  - Agricultural Land Holding Account subprogramme is responsible for buying/holding land until suitable beneficiaries are identified – subprogramme's budget is used for recapitalisation, development and land acquisition
- Office of the Valuer-General is a new subprogramme – will focus on providing land valuations of land earmarked for land reform and land restitution purposes

# ACTUAL EXPENDITURE IN QUARTER 1 (2012/13 – 2015/16)

Actual Expenditure as % of Total Budget in Quarter 1  
(2012/13 - 2015/16)

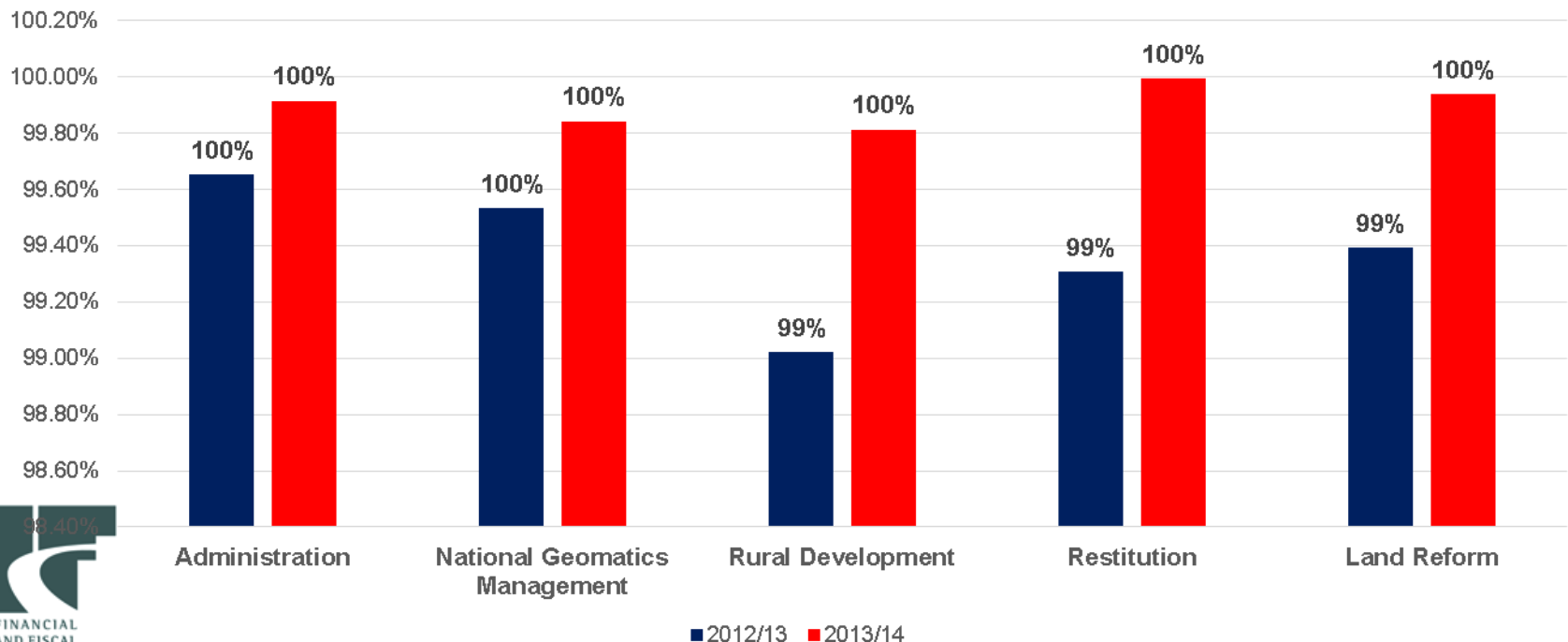




# EXPENDITURE OUTCOMES PER PROGRAMME: 2012/13-2013/14

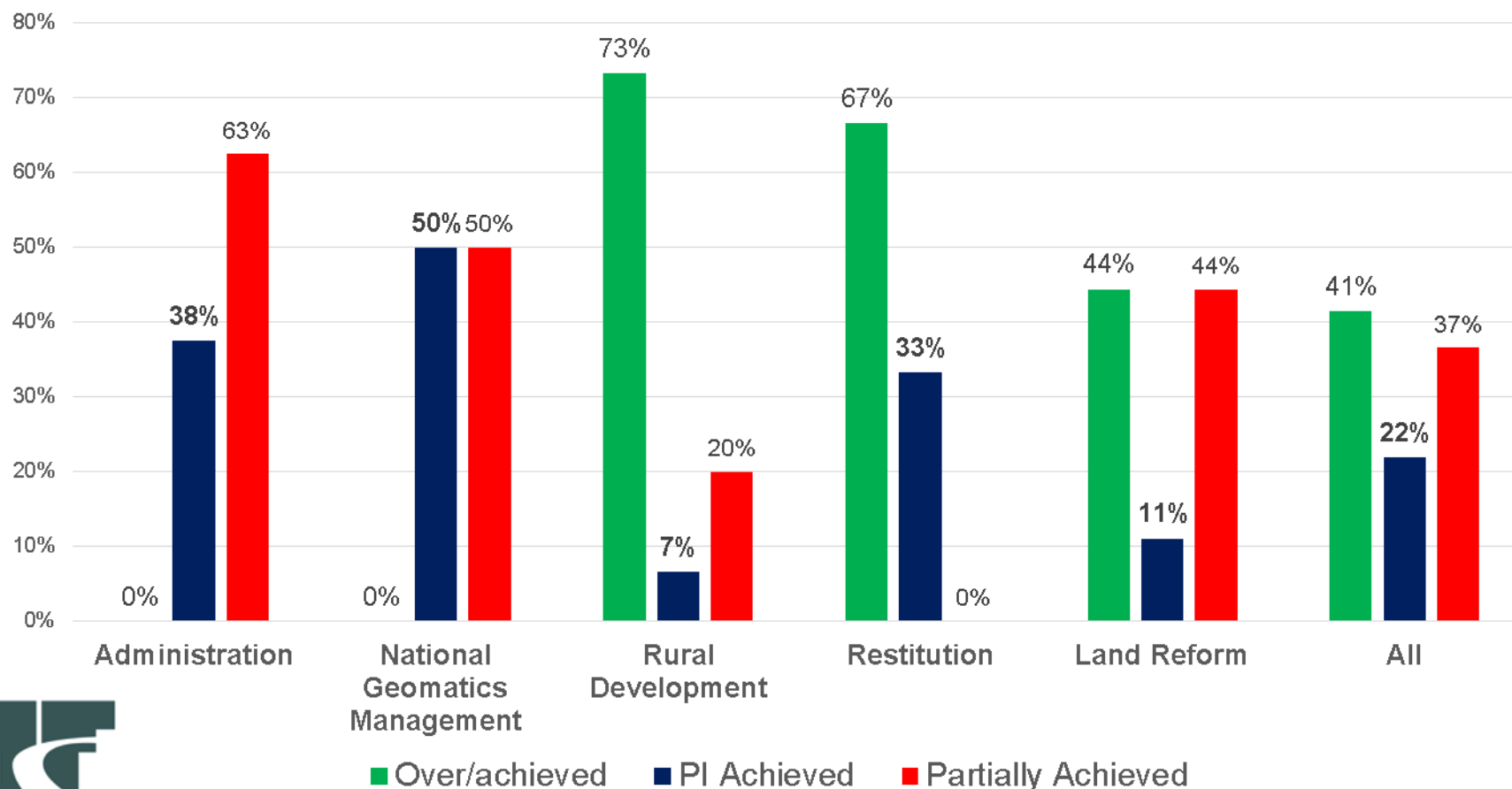
- The department has fully utilised funds appropriated , with spending approximately 100% of the total budget in 2013/14.
- Nevertheless, it is also critical, from an effectiveness point of view, to assess the quality of spending and whether the department is achieving maximum outcomes from the available resources

## Spending per Programme



# ACHIEVEMENT OF PERFORMANCE INDICATORS – 2013/14

## Achievement of Performance Indicators



# MEASURING DEPARTMENTAL PERFORMANCE

- DRDLR met or exceeded 63% of all its performance targets in 2013/14. In many instances, targets were exceeded, which may explain why the department spent close to 100% of its total budget
- The Auditor-General made no material findings on the performance information concerning the usefulness and reliability, which suggests indicators are well formulated and meet SMART principle
- For 2013/14, 270 land claims settled and 292 were finalised under the land restitution programme
  - While the department exceeded its annual target for these two indicators, what is missing is any mention of backlogs in land claims that still need to be addressed
- With the re-opening of the land claims process, critical for oversight purposes that backlog information is reflected in order to keep track of progress in settling all claims

# ASPECTS HIGHLIGHTED BY THE AUDITOR-GENERAL, 2013/14

- Audit opinion of department = financially unqualified, with emphasis of matter
- No provision for potential commitments in financial statements
  - Court case and potential liability, commitments with respect to finalised land claims cases and payment of municipal rates
- Internal audit has not established sufficient controls to comply with treasury regulations
  - Risks relating to preparation of financial statements and performance report not yet fully addressed
  - At 31 March 2014, twenty cases relating to allegations of irregularities and fraud under investigation by internal audit while 14 cases under investigation by Special Investigations Unit (SIU)



## 4. PUBLIC ENTITIES

# PUBLIC ENTITIES

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- Agricultural Land Holdings Trust
  - Established in 2009 to purchase strategically located land to further land redistribution process
  - Account receives an annual transfer from DRDLR and is administered wholly by the Department
- KwaZulu-Natal Ingonyama Trust Board
  - Manages communal land in KwaZulu-Natal on behalf of communities
  - Receives annual transfer to augment operational expenditure
- Registration Deeds Trading Account
  - Contribute to land planning, land and property administration
  - Receives annual transfer to augment operational expenditure

Entity	Amount Transferred (2013/14)	Amount Spent (2013/14)	Audit Outcomes
Agricultural Land Holdings Trust	14,500	14,500	<p>Audit Committee expressed concern related to identification of beneficiaries and control of assets.</p> <p><b><i>Unqualified Opinion.</i></b>  <b><i>Emphasis of matter</i></b> raised wrt impairment of receivables and found deficiencies in internal controls. Forensic audit were investigating eighteen cases of alleged irregularities at the time.</p>
KwaZulu-Natal Ingonyama Trust Board	241,741	241,741	<p><b><i>Qualified Opinion.</i></b>  The A-G found management did not implement controls over preparation, review and reconciliation of financial statements as material misstatements in AFS were not corrected by management</p>
Registration Deeds Trading Account	1697,119	1697,119	<p><b><i>Unqualified Opinion.</i></b>  <b><i>Emphasis of matter</i></b> wrt. a range of issues such as deficient internal controls; procurement processes not complied with and AO not taking effective steps to avoid irregular, fruitless and wasteful expenditure.</p>

# 5. CONCLUDING REMARKS

- Addressing sector challenges
  - While the DRDLR has taken concrete steps to address sector challenges such as coordination, area-based planning, infrastructure, access to credit, etc. it remains to be seen whether these initiatives will be sufficient to lead to a positive impact on rural outcomes
- Rural Development
  - There's an underlying assumption that kick-starting job creation in the agriculture sector is the silver bullet for rural development. This notion of a rural economy may not be consistent with the reality on the ground. A move towards a more multi-sectoral approach could be more effective
  - For improved coordination, the different roles of DRDLR and DAFF as well as other sector departments in the rural space should be clarified
- Area-based planning
  - The establishment of district land committees appear consistent with the idea of differentiation of rural spaces identified in the NDP. It is however, unclear how these land committees will operate and whether municipalities will form part of these structures



# CONCLUDING REMARKS

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- The FFC's submission on the 2017/18 DoR will be tabled in Parliament in May 2016
  - The theme for the submission is on rural development and the IGFR system. The submission will aim to provide a comprehensive review of IGFR instruments and how they can contribute to effective rural growth and development

FFC's Website: [www.ffc.co.za](http://www.ffc.co.za)



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# APPENDIX: PAST RURAL DEVELOPMENT AND LAND REFORM RECOMMENDATIONS

Submission	FFC Recommendation
<p>Submission for the 2015/16 DoR</p>	<p>The terms of reference for the committee to review the agricultural conditional grants should be finalised without delays. The review should be comprehensive in scope and should include assessing the value chain of conditional grants and unlocking operational constraints, especially in relation to planning, procurement, comprehensive smallholder support, cash-flow and monitoring and evaluation. Stakeholders such as the Department of Rural Development and Land Reform should be invited to be part of the committee and ways to streamline the funding overlap between the Ilima/Letsema grant and the recapitalisation and development programme should be examined</p> <p><i>Government Response: Government agrees this is a priority. Discussions have begun between the Department of Agriculture and Forestry, National Treasury and Department of Rural Development and Land Reform to streamline the overlaps that exist in grants to provinces</i></p>
<p>Submission for the 2012/13 DoR</p>	<p>The governance and institutional arrangements for rural development across the three spheres of government needs to be clarified urgently. This is important for planning, budgeting and implementation of rural development programmes. The Commission recommends that a functional mapping of all rural development activities be undertaken with specific responsibilities assigned to each sphere of government</p> <p><i>*Recommendation was part of an Annexure to the FFC's DoR Submission, hence no formal response from Government</i></p>

## Submission

## FFC Recommendation

Submission  
for the  
2012/13 DoR

The fiscal framework (both the equitable share and conditional grant allocations) for rural and agricultural development must be reviewed. In particular government should merge current conditional grants into a comprehensive agriculture and rural development finance programme, preferably administered by one department. This will improve the focus, targeting and impact and reduce transaction costs in the administration of conditional grants

*\*Recommendation was part of an Annexure to the FFC's DoR Submission, hence no formal response from Government*

The fiscal framework (both the equitable share and conditional grant allocations) for rural and agricultural development must be reviewed.

- In particular, government should merge current conditional grants into a comprehensive agriculture and rural development finance programme, preferably administered by one department. In order to improve the focus, targeting and impact, and reduce transaction costs in the administration of conditional grants