

DEPARTMENT OF WATER AFFAIRS AND FORESTRY

POLICY ON

FINANCIAL ASSISTANCE TO RESOURCE POOR IRRIGATION FARMERS

— IN TERMS OF SECTIONS 61 AND 62 OF THE
NATIONAL WATER ACT, 1998

29 September 2004

CONTENTS

1. STRUCTURED SUPPORT	1
1.1 Introduction	2
1.2 Broader Context.....	2
1.3 Purpose.....	2
1.4 Development Mechanisms.....	3
2. FINANCIAL ASSISTANCE FOR IRRIGATED AGRICULTURAL DEVELOPMENT BY RESOURCE POOR FARMERS.....	5
2.1 Summary of Proposed Products.....	5
2.2 The Framework.....	6
2.3 Key Definitions.....	7
2.4 Description of Grant or Subsidy Products.....	9
2.4.1 Capital Cost of Water Distribution Infrastructure.....	9
2.4.2 O & M, WRM and Depreciation Charges.....	12
2.4.3 Acquisition of Water Allocations.....	14
2.4.4 Socio-economic Viability Studies on Schemes.....	17
2.4.5 Training of Management Committees.....	19
2.4.6 Rain-water Tanks for Household Productive Uses by the Poor.....	20

1. STRUCTURED SUPPORT

1.1 INTRODUCTION

The National Water Act, 1998 has equity and sustainability as central guiding principles to protect, use, develop, conserve, manage and control water resources. It is thus necessary to address the need to promote social and economic development through the use of water in an equitable way, and to provide different forms of assistance, which will promote these objectives through self-sufficiency and sustainability of the different water management institutions (WMIs).

1.2 BROADER CONTEXT

Looking at the broader context of water management as one of the Department's main tasks, and within that task, focusing on the institutional aspects, we should identify the key intervention areas.

The key interventions needed in order to achieve the objective of sustainable WMIs, are:

- Decentralisation of Water Resources Management;
- Developmental institutions contributing to social and economic development;
- Redressing past imbalances;
- Stakeholder empowerment with regard to historically disadvantaged individuals, and others.
- ensuring necessary powers and functions are devolved to appropriate levels that will enable the WMI to perform effectively
- implementing support structures to assist WMIs in executing their functions
- implementing monitoring and reporting strategy to monitor progress and identify interventions as needed

1.3 PURPOSE

In order to ensure effective, efficient and sustainable WMIs, the following aspects need to be facilitated, while remembering that this process is of prime importance:

- ensuring community participation as a departure point rather than an afterthought
- facilitating stakeholder empowerment through stakeholder involvement in every step of the process
- developing socio-economically viable, practical, manageable and sustainable institutions, schemes and/or projects
- promoting through co-ordinating with the other role-players, the availability of support services, such as
 - capacity building and training in management and institutional skills
 - accessible credit facilities
 - real-time market and product information
 - technical and agricultural support
 - administrative and legal support
 - effective monitoring systems in place

As experience has proven, supplying financial assistance in the form of grants on the strict condition that the above-mentioned process is carefully followed, always serves as a very strong motivation to stakeholders and all other role-players to take this process seriously. Especially at this stage when the focus is on the development of new schemes and/or projects, one of the keys to success is the use of funding as a lever to ensure that the process that support sustainable development best, is followed. Therefore this policy should serve both objectives, namely to provide the necessary financial assistance to those who need it most for development and empowerment, as well as to ensure that a process of real stakeholder consultation, capacity building and training is followed, in order to ensure sustainable development towards prosperity.

1.4 DEVELOPMENT MECHANISMS:

Rural development should be promoted through the following mechanisms:

Empowerment, family food security and poverty alleviation

Empowerment through capacity building and training

- to restore the dignity of the poor
- decision taking on solving long term problems
- development and management of institutional structures

Water utilised for family food production

- dietary requirements for family food supply
- optimal utilisation of water for production of vegetables, grain and fruit
- access to rain water harvesting infrastructure and management

Infrastructure revitalisation

- planning of infrastructure
- considering manageability, maintainability and affordability
- construction, operation and maintenance of schemes

National government irrigation scheme infrastructure transfer

- HR management
- infrastructure operation and maintenance
- business Plan development and scheme viability
- agricultural and agribusiness development
- public participation and support services

Institutional, social and economic sustainability

Cooperative governance

- activating structures within provincial and local government to support/enable successful development projects
- ensuring involvement of traditional leadership
- addressing land tenure/ownership

CMA

- establishment process of CMA
- develop institutional legitimacy

- develop Catchment Management Strategy
- seed-funding
- support and aftercare

WUA

- agri-economic and socio-economic viability analyses
- development of business plans
- establishment process of WUA
- seed-funding
- development of Water Management Plan
- support and aftercare

CMF

- operational support

Civil society partnerships

Partnerships within civil society (with investors, successful commercial farmers, experts, etc.) within WMI context

- Promotion of access to successful commercial enterprises
- Capacity building i.t.o. financing, marketing and management
- Conclusion of empowerment objective.

2. FINANCIAL ASSISTANCE FOR IRRIGATED AGRICULTURAL DEVELOPMENT BY RESOURCE POOR FARMERS

The majority of poor people in South Africa live in rural areas. A way to help them is through the development of sustainable irrigation schemes, or the revitalisation of existing ones, if the resources are available. That will enable them to take charge of their own situations by firstly allowing them to provide in the basic food requirements of their families, and then moving on to become economically independent and eventually full-scale commercial farmers.

Financial assistance will therefore be supplied in terms of Sections 61 and 62 of the NWA, 1998, which states the following:

" Financial assistance by Minister

61. (1) *The Minister may, subject to a regulation made under section 62, give financial assistance to any person for the purposes of this Act, including assistance for making licence applications, in the form of grants, loans or subsidies, which may be made subject to such conditions as the Minister may determine.*

(2) *The financial assistance must be from funds -*

(a) appropriated by Parliament; or

(b) which may under this Act or otherwise lawfully be used for the purposes in question.

(3) *Before giving any financial assistance, the Minister must take into account all relevant considerations, including -*

(a) the need for equity;

(b) the need for transparency;

(c) the need for redressing the results of past racial and gender discrimination;

(d) the purpose of the financial assistance;

(e) the financial position of the recipient; and

(f) the need for water resource protection.

(4) *A person who wilfully fails to comply with any obligations imposed by this Act is not eligible for financial assistance under this Act.*

Regulations on financial assistance

62. *The Minister may make regulations concerning -*

(a) the eligibility for financial assistance;

(b) the manner in which financial assistance must be applied for; and

(c) terms and conditions applicable to any financial assistance granted. "

2.1 SUMMARY OF PROPOSED PRODUCTS:

1. Grant on the **capital cost** for the construction and/or upgrading of irrigation schemes, to resource poor farmers who are members of WUAs or other approved legal entities, for:

- consultant services for facilitation, needs assessments, technical planning and design, including the socio-economic feasibility studies;
- the assessment of long term water availability, existing infrastructure, different options available and development prospects for irrigation schemes,
- the cost of materials, equipment and construction of new bulk-supply water works or the rehabilitation or upgrading of existing schemes;
- water conservation and water management measures on irrigation schemes;
- dealing with the legal and administrative requirements for the development or rehabilitation of irrigation schemes.

2. Grant or subsidy on **operation and maintenance** of waterworks and **WRM and depreciation charges**, phased out over a six year period, to resource poor farmers who access:
 - GWS that are managed by DWAF;
 - GWS that are operated and maintained by WUAs or other approved legal entities;
 - Other WUAs or approved legal entities
3. Grant for the **acquisition of water entitlements** for irrigation;
4. Grant for preliminary or remedial **socio-economic viability studies** and investigations on irrigation schemes;
5. Grant on **training of Management Committees** of WUAs or other approved legal entities on:
 - Efficient water distribution management on irrigation schemes;
 - Water use and conservation programmes, techniques and practices;
 - Financial management, business plan development, budgeting and legal aspects; and
 - Measures on how to ensure scheme sustainability.
6. Grant for **rain-water tanks** for family food production and other productive uses.

2.2 THE FRAMEWORK

This new policy framework endeavours to promote initial access to irrigated agriculture and to enhance sustainable irrigation development for resource poor farmers by making available to them various types of grants or subsidies, in terms of Sections 61 and 62 of the National Water Act, 1998, like:

- Government Water Schemes (GWS); or
- ex-homeland GWS; or
- water user association (WUA) schemes; or
- schemes of other approved legal entities.

Applications for these grants or subsidies should be channeled through the provincial Coordinating Committees on Agricultural Water (CCAWs) and when recommended by that body, the relevant Regional Offices will provide all the necessary information and documentation to Head Office, needed to prepare the grant or subsidy application for submission to the Minister. This role played by the Regional Offices, will eventually be taken over by the relevant CMAs, once they have been established. The Directorate: WR Finance and Pricing will provide Regional Offices with a list of requirements that are needed in order to deal with applications. Comprehensive guidelines in a clear step-by-step format will be supplied to all CCAWs, in order to ensure that every proposed applicant can be advised correctly on the procedures and best practices, and to ensure standardisation of the process that will be followed.

Beneficiaries will qualify for each of these six products once only per specific use. That means that neither would the same user qualify for a second grant or subsidy for the same use, nor would another user qualify for a grant or subsidy for the same use, if somebody else has already been subsidised for the specific use.

Since it is very difficult to prioritise resource poor farmer irrigation schemes that are spread over the country, and because serious efforts are being made to speed up development, the applications will, unless special circumstances require otherwise, be dealt with on a *'first come, first serve'* basis.

If the legal entity, in its present or in a modified/reconstituted form, has in the past been:

- i. found guilty of financial misconduct or fraud;
- ii. declared bankrupt; or
- iii. failed to pay any amounts previously required from it by DWAF,

except for the subsidisation of WRM charge or depreciation charge, DWAF may decide not to consider the approval of a grant or subsidy if there is a good reason according to DWAF's judgement.

Funding for all six products, except the grant or subsidy for O&M, which should be budgeted for by the Regional Offices, will be supplied by the Directorate: WR Finance and Pricing from Program 2 of the Exchequer Account. See **Table 1** on page 12 for more detail. The grant or subsidy on the WRM charge and depreciation tariff will be calculated and reported monthly, but will only be paid over from Program 2 of the Exchequer Account every six months.

The total annual financial implication for DWAF for the six different grants or subsidies proposed here, is expected to be about **R27 million** during the first year or two, which could be serviced from the above-mentioned budget. The possible growth in the need for this financial assistance will be closely monitored, in order to budget adequately in future.

2.3 KEY DEFINITIONS

Resource poor farmers:

Farmers who are citizens of South Africa and who are members of the historically disadvantaged population groups. In a case where the individual resource poor farmers, who are members or shareholders of an approved legal entity (like an approved trust or an approved company), and where this legal entity is a member of a WUA or other approved legal entity that applies for a grant or subsidy, the individual resource poor farmers will be counted separately when the grant or subsidy is calculated.

Gender equity: A condition for qualifying for the full extent of the three grant products, namely the i) capital cost for water distribution infrastructure, ii) socio-economic viability studies and iii) training of management committees, is that the proportion of historically disadvantaged female decision makers/farmers within the legal entity, must be officially represented on the Management Committee (MC) of the relevant WUA or other approved legal entity, otherwise the grant will be reduced.

The full extent of the relevant grants are therefore only applicable when at least the proportion of the scheduled area on a scheme which is under control of historically disadvantaged female decision makers/farmers, is represented on the MC of the WUA or other approved legal entity, as reflected in the legal entity's official list of scheduled areas.

If less than this proportion is represented by historically disadvantaged female decision makers or farmers, the total amount of the grant will be percentage-wise reduced according to the following rule:

$$R = \frac{1}{2} (F - C)$$

where: **R (%)** is the percentage reduction in the total grant to the legal entity, with **R** always bigger than or equal to zero ($R \geq 0$);

F (%) is the percentage of the irrigated area on a scheme which is under the control of historically disadvantaged female decision makers/farmers, as reflected in the legal entity's official list of scheduled areas;

C (%) is the proportion of historically disadvantaged women on the MC of the relevant WUA or other approved legal entity.

This has the implication that no reduction in the total grant is applied when the proportion of historically disadvantaged women on the MC is equal to or more than the percentage of the scheduled area on a scheme which is under the control of historically disadvantaged female decision makers/farmers.

Example:

If on a certain irrigation scheme, 40% of the irrigated area on the scheme is controlled/farmed by historically disadvantaged women, but the MC consisting of six members, only contains one historically disadvantaged women, the total grant will be reduced by $\frac{1}{2}$ ($40\% - 16,7\%$) = 11,7%. If there is not even one historically disadvantaged women on the MC, the grant will be reduced by $\frac{1}{2}$ ($40\% - 0\%$) = 20,0%.

This should provide the clear message that women's rights and privileges within their communities are promoted and protected by DWAF.

Approved legal entity: A registered legal entity that complies with the following criteria:

- Acceptable financial management, as specified by the Public Finance Management Act (Act 1, 1999 as amended by Act 29 of 1999).
- Provide full information of its individual members and the share every individual person has in terms of liabilities and benefits in the legal entity,
- The constitution of the entity should adequately (to DWAF) specify and/or prescribe
 - the sustainable management, operation and maintenance of its irrigation related systems and assets, and
 - its objectives with regard to efficient water use, water conservation and demand management within its area of operation.
- The actions of the legal entity should adequately (to DWAF) comply with its constitution.

Before any legal entity other than a WUA applies for a grant, that legal entity should apply for approval with DWAF, which application for approval will be considered against the criteria given above. If a legal entity does not comply with these criteria, it will be informed accordingly and an application for a grant will not be considered. DWAF will supply some advice to the legal entity, in order for the legal entity to amend its constitution and actions (if it wishes to) before it applies for approval once more. The approval of a legal entity can be withdrawn if it, to DWAF's discretion, stops complying with any of the above criteria, in which case the legal entity will be notified as such in writing by DWAF.

Scheduled area, or irrigated area: In cases where water entitlements in a specific WUA or approved legal entity is made only on the basis of a volume of water per annum, DWAF can with the assistance of the SAPWAT model, determine the area on which that amount of water could be applied for the specific crop composition, irrigation system and other relevant factors that typically prevail in the area. That area, expressed in hectares, will then be regarded the scheduled area.

2.4 DESCRIPTION OF GRANT OR SUBSIDY PRODUCTS

2.4.1. CAPITAL COST OF WATER DISTRIBUTION INFRASTRUCTURE

The establishment of the infrastructure for an irrigation scheme normally constitutes the biggest single investment needed for the development of such a scheme. Expensive lessons have been learnt from irrigation schemes previously developed in South Africa, which were for several reasons not sustainable.

We have to ensure that the social, institutional and technical aspects are dealt with in a way that we today believe is the more judicious approach. It is thus expected from the developers of an irrigation scheme that a fully participatory and consultative approach is followed.

This grant is available to WUAs and other approved legal entities, for the capital costs related to

- the direct costs in terms of
 - community consultations, the assessment of social, technical and training needs of communities, and/or the facilitation of these services,
 - the assessment of long term water availability, existing infrastructure, different options available and development prospects for irrigation schemes,
 - socio-economic, agri-economic and benefit-cost studies and to determine the financial, social and environmental sustainability (including the environmental impact assessment, if necessary) of the development of irrigation schemes,
 - the technical planning, design and supervision for the construction and/or upgrading and rehabilitation of water distribution infrastructure and other waterworks for irrigation,
 - dealing with the legal and administrative requirements for the development or rehabilitation of irrigation schemes.
- the acquisition of materials and equipment, the construction, installation and commissioning of new water distribution infrastructure for irrigation, as well as the physical upgrading and rehabilitation of such waterworks, and
- efficient water management, water conservation and demand management measures planned and implemented by the WUA or approved legal entity.

2.4.1.1 EXTENT OF GRANT

The maximum extent of the grant payable will be based on the lowest value of:

- i. The proportional share (percentage of total annual water allocations) of the beneficiaries in the total grantable capital cost investment in the scheme, or
- ii. R15 000 per scheduled hectare belonging to a resource poor farmer, or
- iii. R75 000 per scheduled member belonging to a resource poor farmer.

The Minister may under extraordinary circumstances waive this limitation in meritorious cases.

2.4.1.2 FINANCIAL IMPACT

The short term financial impact that the introduction of this grant may have, in order to give access to irrigated farming to an expected 200 farmers at R75 000 per farmer, is **R15,0 million per annum**.

2.4.1.3 CONDITIONS

The payment of a grant is subject to the prior approval of the Minister or her/his delegated nominee. It is further subject to the availability of funds on the DWAF budget, as well as the following conditions:

- (a) The grant only applies to WUAs or approved legal entities;
- (b) The grant will only be considered for bulk water distribution infrastructure on irrigation schemes that directly supply water to resource poor farmers, or of which the water supply to resource poor farmers form an integral part of any bigger scheme. Bulk water distribution infrastructure means communal infrastructure that distributes irrigation water to the different members of the relevant WUA or approved legal entity. On-farm and in-field infrastructure and equipment, serving only the owner or occupier of the land, does therefore not qualify for this grant. However, water management measures like sluice gates, water meters, etc. installed at off-take points to individual farmers may be regarded as communal infrastructure;
- (c) A water allocation or license must be obtained from DWAF before any payments of grants will be considered. The application for a water allocation will be considered taking into account the factors contained in section 27 of the NWA, 1998, with the emphasis on the efficient and beneficial use of water in respect of water-scarce areas;
- (d) The application should also include a description of an applicable needs assessment that has been done or will be done as well as the steps that will be taken at the inception of the project to achieve full stakeholder participation and community involvement, and how capacity building and empowerment of the broader community will be promoted through the implementation of the project.
- (e) Any socio-economic, agri-economic investigation or benefit-cost study should be performed in accordance with guidelines laid down by the relevant provincial Co-ordinating Committee on Agricultural Water (CCAW) in order to investigate the financial, social and environmental sustainability of the irrigation scheme;
- (f) A recommendation by the relevant CCAW, confirming the consent of the involved departments, is needed before a grant in this regard will be considered by DWAF. It should be noted further that a grant would not be considered for costs that are granted by any other government department;
- (g) Every application for a grant should be accompanied by a comprehensive training plan for the RPFs who will use the infrastructure. This training plan should be developed in consultation with the role-players on the scheme and the relevant CCAW, and should eventually be recommended by the CCAW before DWAF will consider it for approval. DWAF may require among others the utilisation of applicable SETA accredited training courses, if available. The training should be directed towards the efficient use of the infrastructure by the RPFs. Between a half and one percent (0,5 – 1,0%) per annum every year for the first five years after completion of the project, should be budgeted for this training. The full approved training cost (as represented by certified claims of the actual costs) will be paid by DWAF as a grant to the WUA or approved legal entity, every year after the training has been done satisfactorily. If the upper limit according to 2.4.1.1 (previous page) has been reached, this amount will be paid over and above that upper limit;
- (h) The grant must be approved before construction may commence. Any increase in the cost above the approved amount, could be considered a separate grant application;
- (i) Payment of the grant to the WUA or approved legal entity will only be made after the new irrigators have been established and constituted as members of the WUA or approved legal entity, or when the process of establishment has reach an irreversible stage;
- (j) Signed contracts between the WUA or approved legal entity and resource poor farmers must be in place to protect the rights of the new farmers;
- (k) The beneficiaries of the grant should either have the land registered in their names or in the case of communal land, they should have permission to occupy that land;

- (l) The grant must be used to directly provide in the proportional capital cost share of the beneficiaries, resulting in differential tariffs to be imposed on them;
- (m) The work is done according to approved plans and specifications and to the satisfaction of DWAF;
- (n) Reporting procedures including inspection schedules are established to the satisfaction of DWAF
- (o) Payment of the grant will be subject to the submission of certified claims of actual expenditure;
- (p) To prevent speculation and the sale of granted farming units to established farmers, a grant repayment condition may be imposed in collaboration with other state departments;
- (q) The grant should only be paid after confirmation has been received from other role-players responsible for the financing of the scheme, e.g. the Land Bank or Departments of Land Affairs or Agriculture, that the conditions set by them for the financing of the project, have been met;
- (r) Before any funds are transferred, a written assurance must be issued by the WUA or approved legal entity, on an official letterhead, to the accounting officer of DWAF or the relevant official in DWAF, to the effect that that WUA or approved legal entity implements effective, efficient and transparent financial management and internal control systems in terms of section 38(1)(j) of the Public Finance Management Act, 1999 (Act No 1 of 1999 as amended by Act 29 of 1999) (PFMA) or if such written assurance is not or cannot be given, the transfer of funds must be subject to conditions and remedial measures requiring the WUA to establish and implement the said measures.

2.4.1.4 EXAMPLES

1. A new WUA in a former homeland, supplies water to 42 resource poor farmers irrigating 36 ha in 0,86 ha blocks of maize and vegetables each, through a 3,7 km long earth canal. The WUA applies for a grant for a concrete lining for the canal and sluice gates at all the off-take points. The total cost of the work will be R475 200. The following applies:

Maximum grant payable to the WUA amounts to the lowest value of:

i.	$\frac{36 \text{ ha}}{36 \text{ ha}} \times R475\,200$	= R475 200
ii	$36 \text{ ha} \times R15\,000/\text{ha}$	= R540 000
iii	$42 \text{ farmers} \times R75\,000/\text{farmer}$	= R3 150 000

which is R475 200.

The amount added to the project cost by the WUA for training of the resource poor farmers for the effective participation to and efficient utilisation of the canals, should be between R2 400 (0,5% of R475 200) and R4 800 (1,0% of R475 200) per annum for five years.

2. A WUA plans the construction of a weir and canal system that will serve 142 commercial and 100 resource poor farmers with irrigation water. The resource poor farmers will grow sugar cane under irrigation on 6,0 ha blocks each. The following information applies:

Contract cost of scheme = R92,0 million
 Proposed scheduling of emerging farmers = 600 ha
 Scheduling of commercial farmers = 5 678 ha

Maximum grant payable to the WUA amounts to the lowest value of:

i.	$\frac{600 \text{ ha}}{6\,278 \text{ ha}} \times R92,0 \text{ million}$	= R8,8 million,
ii.	$600 \text{ ha} \times R15\,000/\text{ha}$	= R9,0 million, and
iii.	$100 \text{ farmers} \times R75\,000/\text{farmer}$	= R7,5 million

which is R7,5 million.

The amount added to the project cost by the WUA for training of the resource poor farmers for the effective participation to and the efficient utilisation of the scheme, should be between R44 000 (0,5% of R8,8 m) and R88 000 (1,0% of R8,8 m) per annum for five years.

2.4.2 OPERATION & MAINTENANCE (O&M), WRM AND DEPRECIATION CHARGES

The management bodies of WUAs or other approved legal entities with irrigation schemes are expected to mobilise their own resources to meet the O&M cost of their schemes. The expected O&M costs of a scheme should be within the potential long term affordability of a WMI, in order to be viable. However, during the transitional period DWAF will provide assistance to resource poor farmers, to assist them in becoming able to farm independently and cover the O&M costs within six years, in which period the O&M grant or subsidy will be phased out linearly.

As in the past, Regional Offices should budget for the O&M grants or subsidies in their respective regions, deal with the applications, get approval and pay the grants or subsidies directly to the WUAs or other legal entities.

The grant or subsidy also covers the WRM charges for the resource poor farmers in the form of a charge grant or subsidy, phased out similarly over six years. It is important to note that the depreciation charges (where applicable), are waived for the first six years, and are invoiced in full in the seventh year, that is the year after the resource poor farmers started to pay the full WRM and O&M charges.

Table 1: How the grants or subsidies on the different charges should be applied:

Different situations where this policy will be applied to	WRM charge	Depreciation charge	O&M charge
Resource Poor Farmers (RPFs) on irrigation schemes where the resource and the distribution system belongs to DWAF, <u>and</u> the distribution system is still managed by DWAF	At time of invoicing, relevant RPF subsidy amount brought into consideration within SAP, which amount is then debited to an appropriate SAP ledger account, and is credited twice a year from Program 2, Exchequer Account (EA).		
RPFs on irrigation schemes where the resource and the distribution system belongs to DWAF, <u>but</u> the management of the distribution system has been transferred to a WUA.	At time of invoicing, relevant RPF grant brought into consideration within SAP, which amount is then debited to an appropriate SAP ledger account, and is credited twice a year from EA.		Region should budget, and pay grant directly to WUA. SAP is not involved.
RPFs on irrigation schemes where the resource belongs to DWAF, <u>but</u> the distribution system is owned by a WUA	Until individual water users have been registered onto WARMS, SAP invoices full charge to relevant WUA. In such cases, the WUA should apply for grant for RPFs, Minister approves it and the relevant grant is paid back to the WUA from EA.		Region should budget, and pay grant directly to WUA. SAP is not involved.
RPFs on irrigation schemes where neither the infrastructure of the resource (if any), nor the distribution system belong to DWAF	Until individual water users have been registered onto WARMS, SAP invoices full charge to relevant WUA. In such cases, the WUA should apply for grant for RPFs, Minister approves and relevant grant is paid back to the WUA from EA.	No depreciation charge imposed by DWAF.	Region should budget, and pay grant directly to WUA or approved legal entity. SAP is not involved.

The grant which will be paid to a WUA or approved legal entity (on the condition that only the resource poor farmers' accounts should be credited), is applicable to the real and proven operation and maintenance (O&M) charges, phased out linearly over a six year period, for resource poor farmers who access:

- GWS that are managed by DWAF
- GWS that are operated and maintained by WUAs or legal entities
- WUAs other than previous GWSs
- Other approved legal entities.

2.4.2.1 EXTENT OF GRANT OR SUBSIDY

The real and proven O&M and WRM charges to the resource poor farmers, will be subsidised as follows:

Table 2: Phased out grants or subsidies on O&M, WRM and depreciation charges:

	Grant or subsidy on O&M and WRM charges	Grant or subsidy on depreciation charge (if applicable)
1 st year (or part of year)	100%	100%
2 nd year	80%	100%
3 rd year	60%	100%
4 th year	40%	100%
5 th year	20%	100%
6 th year	0%	100%
7 th year onwards	0%	0%

Note: The depreciation charges (where applicable) are in the majority of cases a relatively small amount, and can be phased in in one go, namely in the seventh year, without being overly problematic to the resource poor farmers.

Please note further that the financial year within which the specific water use commences, is taken as the 1st year. This first year may therefore be a full year, it may be part of a year or it may even be only one month. From the second year onwards, the years should coincide with the DWAF financial years.

The Minister may under extraordinary circumstances waive this limitation in meritorious cases.

2.4.2.2 FINANCIAL IMPACT

The expected short term financial impact that the introduction of this grant or subsidy will have, is expected to be about **R1,5 million per annum**.

2.4.2.3 CONDITIONS

The payment of a grant or subsidy is subject to the prior approval of the Minister or her/his delegated nominee. It is further subject to the availability of funds on the DWAF budget, as well as the following conditions:

- (a) Proof is supplied of the real operation and maintenance (O&M) costs of the WUA or approved legal entity;
- (b) The grant or subsidy is to be used to cover the O&M cost attributable to the resource poor farmers only;
- (c) O&M grants or subsidies are paid from the Regional Offices' budgets, and only when funds are available on such budgets;
- (d) Before any funds are transferred, a written assurance must be issued by the WUA or approved legal entity, on an official letterhead, to the accounting officer of DWAF or the relevant official in DWAF, to the effect that that WUA or approved legal entity implements effective, efficient and transparent financial management and internal control systems in terms of section 38(1)(j) of the Public Finance Management Act, 1999 (Act No 1 of 1999 as amended by Act 29 of 1999) (PFMA) or if such written assurance is not or cannot be given, the transfer of funds must be subject to conditions and remedial measures requiring the WUA or approved legal entity to establish and implement the said measures.

2.4.3. ACQUISITION OF WATER ENTITLEMENTS FOR IRRIGATION

Section 25(2) of the National Water Act, 1998 makes provision for the transfer of a water entitlement or part thereof to use water from a water resource on any land to someone who is making an application for a license to use water from the same resource in respect of other land. The transfer only becomes effective if the new water use license is granted.

This grant should financially assist resource poor farmers to either buy a water entitlement in the case of new irrigation development, or to provide a grant the monetary value of the water entitlement, together with any bulk water supply infrastructure, which has not previously been subsidised by DWAF, when purchasing land with a water entitlement. This endeavours to allow resource poor farmers access to irrigated farming, not only through new development, but also in existing commercial farming enterprises.

The targeted beneficiaries are resource poor farmers or prospective resource poor farmers, who will access existing or new GWS or will be registered or licensed under ex-homeland GWS, or become members of WUAs or other approved legal entities and who either collectively or privately buy water entitlements or land with water entitlements in terms of the stipulations of the National Water Act, 1998.

A condition attached to this grant, is that if the relevant water entitlement or land with a water entitlement on which a grant has been paid by DWAF, is sold within a period of 10 years, the full amount (or a portion in specific cases) of the grant plus interest, should be repaid.

2.4.3.1 EXTENT OF GRANT

a) For a water entitlement alone:

The maximum extent of the grant for the acquisition of water entitlements alone, together with any accrued debt on this same water entitlements as a result of unpaid charges for water, will be based on the lowest value of:

- i. 75% of the purchase price of a water entitlement and the accrued debt on this same water entitlement as a result of unpaid charges for water,
- ii. R7 500 per scheduled hectare water entitlement purchased, and
- iii. R37 500 per individual member on the water entitlement purchased.

b) For the value of the water entitlement, together with the value of any bulk water supply infrastructure, when developed land is being purchased.

The maximum extent of the grant for the acquisition of land with a water entitlement, together with any accrued debt on this same water entitlement as a result of unpaid charges for water, will be based on the lowest value of:

- i. 75% of the monetary value of the water entitlement, as well as the value of any bulk water supply infrastructure (as stipulated under 2.4.3.3 (e)(ii)), when purchasing land with a water entitlement, as well as the accrued debt on this same water entitlement as a result of unpaid charges for water,
- ii. R7 500 per scheduled hectare water entitlement, which is attached to the land, and
- iii. R37 500 per individual member on the water entitlement purchased.

The Minister may under extraordinary circumstances waive this limitation in meritorious cases.

2.4.3.2 FINANCIAL IMPACT

The expected short term financial impact that the introduction of this grant will have, to provide a grant for the purchase of about 500 ha per annum, is about **R3,75 million per annum**.

2.4.3.3 CONDITIONS

The payment of a grant is subject to the prior approval of the Minister or her/his delegated nominee. It is further subject to the availability of funds on the DWAF budget, as well as the following conditions:

- (a) Section 34 of the NWA is applicable and the lawfulness and extent of the existing water use must be verified in terms of section 35 of the NWA;
- (b) The socio-economic impact resulting from the surrender of the existing entitlement in respect of workers and tenants must be addressed in terms of section 27 of the NWA;
- (c) The conditions stipulated in the Policy for Surrendering of Water Use Entitlements must be adhered to;
- (d) Every individual that applies for a grant of this type will be requested, before the grant is considered, to sign an agreement with DWAF to repay the Applicable Portion of the grant plus interest, calculated according to the interest rate as announced from time to time by National Treasury, if the relevant water entitlement or land with a water entitlement is sold within a period of 10 years from the date of approval of the grant. The Applicable Portion of the grant will be determined in the following way:
 - If the relevant water entitlement is sold to anybody other than a resource poor farmer, the full grant should be repaid together with the interest, or
 - if the relevant water entitlement is sold to another resource poor farmer, the percentage of the grant which is equal to the remaining portion of the original 10 years, should be repaid together with the pro rata portion of the interest. In this case the resource poor farmer that acquires the relevant water entitlement, may only qualify for the same percentage of the grant that is determined to be repaid by the previous owner.
- (e) The monetary value of the water entitlement, together with the value of any bulk water supply infrastructure on developed land could be determined in consultation between DWAF, the Department of Land Affairs (DLA), the Department of Agriculture (DoA) and any other relevant department. The service of an independent valuator could be used to break down the value of already developed land into
 - (i). the value that the land would have had, if it was undeveloped, unimproved and without any water entitlement (for which an application for financial assistance should be directed to DLA),
 - (ii). value that the water entitlement, together with any bulk water supply infrastructure (the sum of which could be considered for grant under 2.4.3.1 (b) above by DWAF) add to the value of the land,
 - (iii). the value of all improvements to the land itself, like the addition of infrastructure and other production measures on the farm, as well as soil and water conservation measures (for which an application for financial assistance should be directed to DoA or the relevant provincial Department of Agriculture).

A recommendation by the relevant CCAW regarding this subdivision of the value of developed land, is required before a grant for 2.4.3.3 (e)(ii) will be considered by DWAF;

Discussions between the Departments of Water Affairs and Forestry, Land Affairs, Agriculture, the provincial Departments of Agriculture and other relevant departments is envisaged that may lead to a set of guidelines based on the principles set out in 2.4.3.3 (e).

- (f) A definite commitment for adequate extension support for the prospective farmers, should be given by the relevant provincial Department of Agriculture;
- (g) An application for a grant should be submitted by the relevant resource poor farmer or prospective resource poor farmer (as set out in the definition above) who's intention it is to become a member of a WUA or approved legal entity. If the applicant will not become the sole proprietor of the water entitlement involved in this application, he/she can apply for his/her specific share in the water entitlement, which share will be taken into account by DWAF in considering the application;
- (h) A letter from the relevant WUA or approved legal entity confirming that the applicant will qualify for membership after the acquisition of the water entitlement or land with the water entitlement, should be submitted with the application;
- (i) The grant must be used as direct payment towards the acquisition of a water entitlement or farm with an existing water entitlement, depending on the case at hand, or the redemption of debt accrued upon the water entitlement by a previous entitlement holder as a result of unpaid charges for water;
- (j) Payment of the grant will be subject to the submission of certified claims of actual expenditure, and
- (k) Before any funds are transferred, a written assurance must be issued by the WUA or approved legal entity, on an official letterhead, to the accounting officer of DWAF or the relevant official in DWAF, to the effect that that WUA or approved legal entity implements effective, efficient and transparent financial management and internal control systems in terms of section 38(1)(j) of the Public Finance Management Act, 1999 (Act No 1 of 1999 as amended by Act 29 of 1999) (PFMA) or if such written assurance is not or cannot be given, the transfer of funds must be subject to conditions and remedial measures requiring the WUA or approved legal entity to establish and implement the said measures.

2.4.3.4 Example:

A resource poor farmer wants to buy an existing fruit farm of 15 ha with a 7,5 ha water entitlement. The price of the farm, which has 7,5 ha sub-tropical fruit under micro irrigation as well as the necessary on-farm infrastructure, is R471 000. The water is supplied through a canal system from a weir belonging to a WUA.

An independent valuator was approach and he/she determined the following values in accordance with the principles laid down above:

- i. The value the land would have had, if it was undeveloped:
R4 700/ha for the 15 ha farm.*
- ii. The value of the water entitlement and the bulk water supply infrastructure:
R7 800/ha for the 7,5 ha water entitlement.*
- iii. The value of all agriculture-related improvements on the farm:
R22 800/ha for the 15 ha farm.*

The grant from DWAF for which the proposed farmer may qualify, is the lowest value of

- 75% of R7 800/ha x 7,5 ha = R43 875,*
- R7 500/ha x 7,5 ha = R56 250, and*
- R37 500,*

which is R37 500.

Together with an application for a grant from DWAF on the value of the water entitlement and the bulk water supply infrastructure (of which the value of the water entitlement is R7 800/ha in this case), the farmer could also approach DLA for a grant to the value of the land (which is R4 700/ha in this case), as well as DoA for a grant to the value of the agriculture-related improvements on the farm (which is R22 800/ha in this case).

2.4.4. SOCIO-ECONOMIC VIABILITY STUDIES AND INVESTIGATIONS

In the proposed development of irrigation schemes, it is sometimes needed and often advantageous to execute a preliminary socio-economic viability investigation, before serious consideration is given to either the development of a new irrigation scheme, or the upgrading or revitalisation of an existing scheme. There is thus the need for such preliminary investigations, which could assist in the normal scheme development process if the scheme is found viable. It is also important to determine the possible viability of an irrigation scheme, before the establishment of a WUA or approved legal entity. In cases where existing resource poor farmer schemes do not perform satisfactorily, and such investigations were never done or are out-dated, this could be done as part of a remedial exercise to enhance the economic prospects of such schemes.

For this purpose it is normally necessary to either undertake a water availability analysis and/or a socio-economic viability investigation, or else an appropriate diagnostic analysis to pinpoint major constraints and problems. Such analyses should form the basis for the planning of a new irrigation scheme or of the refurbishment of an existing one, including the changes in the layout and design of the distribution infrastructure, and also in the management and participation of farmers in the scheme. The overall objective of these investigations is to give direction to, to support and to accompany decisions and actions undertaken by DWAF and/or other departments, NGOs, development operators or existing scheme management, whichever is applicable, some or all of which can be stipulated by DWAF as conditions for the approval of a grant for any further work.

Investigations to determine the socio-economic viability of existing or new irrigation schemes will require the services of consultants with applicable and relevant capacity, knowledge and experience of the potential and constraints for resource poor farmer irrigation schemes.

The direct cost of these investigations may be partly granted by DWAF. In cases where a WUA or approved legal entity does not yet exist, DWAF will consider the likelihood of a positive outcome of such investigations, in which case the appointment of consultants will be considered by DWAF, according to the normal procedure for this purpose.

2.4.4.1 EXTENT OF GRANT

The maximum extent of the grant payable to the WUAs and other approved legal entities, will be based on the lowest value of:

- The proportional share (percentage of total annual water allocations) of the beneficiaries in the total cost of the study, or
- R500 per scheduled hectare of the beneficiaries, or
- R2 500 per scheduled member of the beneficiaries. In the case of a new scheme where beneficiaries have not been identified yet, this condition can be ignored.

The Minister may under extraordinary circumstances waive this limitation in meritorious cases.

2.4.4.2 FINANCIAL IMPACT

The expected short term financial impact that the introduction of this grant will have, to provide a grant for the assessment of about 2 000 ha per annum, is about **R1,0 million per annum**.

2.4.4.3 CONDITIONS

The payment of a grant is subject to the prior approval of the Minister or her/his delegated nominee. It is further subject to the availability of funds on the DWAF budget, as well as the following conditions:

- (a) The grant only applies to WUAs or approved legal entities;
- (b) The socio-economic and/or agri-economic investigation should be performed in accordance with guidelines laid down by the relevant provincial Co-ordinating Committee on Agricultural Water (CCAW) in order to investigate the financial, social and environmental sustainability of an irrigation scheme;
- (c) A recommendation by the relevant CCAW for the appointment of the consultant or consultants is needed before a grant in this regard will be considered by DWAF. It should be noted further that a grant would not be considered for costs that are granted by any other government department.
- (d) The application should also include a description of an applicable needs assessment that has been done or will be done as well as the steps that will be taken at the inception of the project to achieve full stakeholder participation and community involvement, and how capacity building and empowerment of the broader community will be promoted through the implementation of the project.
- (e) The grant must directly pay the applicable proportional cost share of the beneficiaries, resulting in differential tariffs to be imposed on them;
- (f) Payment of the grant will be subject to the submission of certified claims of actual expenditure; and
- (g) Before any funds are transferred, a written assurance must be issued by the WUAs or legal entities, on an official letterhead, to the accounting officer of DWAF or the relevant official in DWAF, to the effect that that WUA or approved legal entity, implements effective, efficient and transparent financial management and internal control systems in terms of section 38(1)(j) of the Public Finance Management Act, 1999 (Act No 1 of 1999 as amended by Act 29 of 1999) (PFMA) or if such written assurance is not or cannot be given, the transfer of funds must be subject to conditions and remedial measures requiring the WUA or approved legal entity, to establish and implement the said measures.

2.4.4.4 EXAMPLE

A WUA has constructed a new dam 8 years ago and due to a number of factors, the WUA developed some difficulties in repaying its loan. The WUA plans to appoint consultants to analyse the situation and to recommend the most viable options available to them to ensure financial sustainability. The 128 resource poor farmers on the scheme occupy 576 ha water entitlements against the 354 ha of the commercial farmers.

The study by the consultants will cost the WUA R294 200 and they apply for a grant from DWAF.

If a grant is approved, it should be the lowest value of:

- $\frac{576 \text{ ha}}{930 \text{ ha}} \times R294\ 200 = R182\ 215$
- $R500/\text{ha} \times 576 \text{ ha} = R288\ 000$
- $R2\ 500/\text{farmer} \times 128 \text{ farmers} = R320\ 000$

which is R182 215.

In this particular case, this amount is the exact amount that the resource poor farmers needs to pay towards the viability study.

2.4.5. TRAINING OF MANAGEMENT COMMITTEES

This grant is provided for the training to resource poor farmers who are members of Management Committees (or key personnel appointed by them), of WUAs or approved legal entities, on:

- The obligations, responsibilities and value of water management;
- Effective scheme water distribution management;
- On-farm water use and conservation principles, techniques and practices;
- Financial management, business plan development and budgeting; and
- Sustainability of irrigation schemes.

Some of these training topics may overlap with the training done by other directorates, and in such cases proper alignment with those directorates should be ensured.

2.4.5.1 EXTENT OF GRANT

The maximum extent of the grant payable to the WUA or approved legal entity will be the lowest value of

- R1 800/Management Committee or Board Member per annum, or
- 90% of the course fees per annum

for a total of five years. The five years need not be consecutive and can be extended over a longer period.

The Minister may under extraordinary circumstances waive this limitation in meritorious cases.

2.4.5.2 FINANCIAL IMPACT

The expected short term financial impact that the introduction of this grant will have, to provide a grant for the training of an expected 200 members of Management Committees, is about **R0,4 million per annum**.

2.4.5.3 CONDITIONS

The payment of a grant is subject to the prior approval of the Minister or her/his delegated nominee. It is further subject to the availability of funds on the DWAF budget, as well as the following conditions:

- (a) The contents of the course(s) that will be given, are subject to the recommendation of the CCAW and the approval of DWAF, and should be based on a proper training needs assessment in the WUA or approved legal entity.
- (b) The application should also include a description of an applicable needs assessment that has been done or will be done as well as the steps that will be taken at the inception of the project to achieve full stakeholder participation and community involvement, and how capacity building and empowerment of the broader community will be promoted through the implementation of the project.
- (c) The payment of the grant is subject to the availability of funds on the DWAF budget;
- (d) Payment of the grant will be subject to the submission of certified claims of actual expenditure, and
- (e)** Before any funds are transferred, a written assurance must be issued by the WUA or approved legal entity, on an official letterhead, to the accounting officer of DWAF or the relevant official in DWAF, to the effect that that WUA or approved legal entity, implements effective, efficient and transparent financial management and internal control systems in terms of section 38(1)(j) of the Public Finance Management Act, 1999 (Act No 1 of 1999 as amended by Act 29 of 1999) (PFMA) or if such written assurance is not or cannot be given, the transfer of funds must be subject to conditions and remedial measures requiring the

WUA or approved legal entity, to establish and implement the said measures.

2.4.6. RAIN-WATER TANKS FOR HOUSEHOLD PRODUCTIVE USES BY THE POOR

This grant will be paid to WUAs or other approved legal entities for the capital cost towards the construction of storage tanks for rain-water and related rain-water harvesting works for poor households in rural areas and villages, for family food production and other household economic activities. The purpose of the grant is to contribute to South Africa's achievement of the UN Millenium Development Goals (MDGs), and specifically to reduce by half the number of food insecure households. This consideration should guide the selection of beneficiary families. It has been found in work done so far in this regard, that where the underground rain-water tanks are dug by the family, ownership, dignity and pride are promoted within the family. Even in cases of HIV households, the holes could be dug by healthy friends and relatives, which contributes to restoring dignity and mutual care within the community. The water should be used primarily for productive uses by the family, such as food gardens and other household economic activities.

The tanks, which could be underground or above ground level, should be water-proof and well constructed of acceptably durable materials. If underground, the tanks should have sturdy roofs. The tanks should be built according to plans approved by DWAF. Standardised plans, specifications and construction methods would be supplied by DWAF, when available.

Since the rain-water tanks will normally be within the yard, a strict condition is that the accidental or deliberate entrance of children and unauthorised persons into the tank should not be possible at all. The entrance needed for purposes of cleaning and maintenance of the tank, should therefore be lockable and tamper-proof and kept locked at all relevant times. The seriousness of any form of neglect in this regard should be explained to the families, but DWAF can not take responsibility for the consequences of incidents, including damage to property, injury or loss of live.

2.4.6.1 EXTENT OF GRANT

A maximum of R5 000 to establish a tank and related rain-water harvesting works, as well as an appropriate manual pump. Only one tank and pump per household will be supported.

The Minister may under extraordinary circumstances waive this limitation in meritorious cases.

2.4.6.2 FINANCIAL IMPACT

An expected 1 000 rain-water tanks would be built per annum when this grant is implemented, with a short term financial impact of approximately **R5,0 million per annum**.

2.4.6.3 CONDITIONS

The payment of a grant is subject to the prior approval of the Minister or her/his delegated nominee. It is further subject to the availability of funds on the DWAF budget, as well as the following conditions:

- (a) The requirements of the 'National Guidelines on Integrated Management of Agricultural Water Use' are applicable;
- (b) The entity that will be responsible for the management of the project or a portion of the project should be an approved legal entity, and must further be specifically approved by DWAF for this purpose, for which some additional requirements may be set. Apart from these additional requirements, the approval of such a legal entity can be withdrawn by DWAF at any stage, if the legal entity does not comply with the conditions set out in this policy.

- (c) This grant is not available for any costs that are, or were granted by any other government department, institution or person.
- (d) There should be evidence of a process of targeting to ensure that this grant would contribute to the achievement of the MDGs.
- (e) The application should also include a description of an applicable needs assessment that has been done or will be done as well as the steps that will be taken at the inception of the project to achieve full stakeholder participation and community involvement, and how capacity building and empowerment of the broader community will be promoted through the implementation of the project.
- (f) There should be sufficient evidence that beneficiary households have developed clear plans on how to utilise the water for productive use. In most instances this would require a process of facilitation. The tank size should be adequate to achieve the intended activity.
- (g) Generally, the grant is not available for the digging of the holes of underground tanks, or for the preparation of the terrain for tanks above ground level, except where physical soil conditions require expert intervention.
- (h) The tanks should be built according to plans (with at least basic details and specifications), approved by DWAF. Standardised plans, specifications and construction methods would be supplied by DWAF, when available;
- (i) Responsibility for the safety of people and especially children should rest on the owner or occupier of the home at which the tank is erected. DWAF does therefore not take any responsibility whatsoever for loss, injury or death as a result of the design, construction and usage of the structures erected through this grant;
- (j) A recommendation by the relevant CCAW, confirming the consent of the involved departments, is needed before a grant in this regard will be considered by DWAF.
- (k) The legal entity approved by DWAF for managing the project, must oversee the construction and erection of the tanks and related rain-water harvesting works;
- (l) In order to claim payment, the legal entity responsible for the management of the project must supply reports to DWAF of every structure, containing the following, and which are verifiable during an inspection:
 - i. Name and ID number of the head of the household, and the address of the house;
 - ii. A basic 'As built' plan;
 - iii. Certified claims of actual expenditure on materials, labour, transport and other relevant expenses.
- (m) The work is done to the satisfaction of DWAF;
- (n) A written assurance must be issued by the legal entity, on an official letterhead, to the accounting officer of DWAF or the relevant official in DWAF, to the effect that that legal entity implements effective, efficient and transparent financial management and internal control systems in terms of section 38(1)(j) of the Public Finance Management Act, 1999 (Act No 1 of 1999 as amended by Act 29 of 1999) (PFMA) or if such written assurance is not or cannot be given, the transfer of funds must be subject to conditions and remedial measures requiring the legal entity to establish and implement the said measures.
- (o) Payment is only made by DWAF to the legal entity approved by DWAF, if:
 - i. DWAF is satisfied that all conditions are met;
 - ii. funds are available on DWAF's budget;
