



BRIEFING TO THE PORTFOLIO COMMITTEE ON AGRICULTURE, FORESTRY AND FISHERIES

Financial and Fiscal Commission

24 March 2015

For an Equitable Sharing of National Revenue

PRESENTATION OUTLINE

1. Introduction to the Financial and Fiscal Commission
2. Evolution of agriculture and contribution to economy
3. Departmental MTEF analysis
4. Assessment of departmental Strategic Plan and Annual Performance Plan
5. FFC Recommendations
6. Household Vulnerability to Climate Change Disasters: The Case of Two South African Provinces
7. Emerging Issues and Concluding Remarks

ROLE AND FUNCTION OF THE FFC

- The Financial and Fiscal Commission (FFC)
 - Is an independent, permanent, statutory institution established in terms of Section 220 of Constitution
 - Must function in terms of the FFC Act
- Mandate of Commission
 - To make recommendations, envisaged in Chapter 13 of the Constitution or in national legislation to Parliament, Provincial Legislatures, and any other organ of state determined by national legislation
- The Commission's focus is primarily on the equitable division of nationally collected revenue among the three spheres of government and any other financial and fiscal matters
 - Legislative provisions or executive decisions that affect either provincial or local government from a financial and/or fiscal perspective
 - Includes regulations associated with legislation that may amend or extend such legislation
 - Commission must be consulted in terms of the FFC Act
- Current research strategy focuses on developmental impacts of IGFR and 2 land projects in 2015/16 research cycle



2. EVOLUTION OF AGRICULTURE AND CONTRIBUTION TO THE ECONOMY

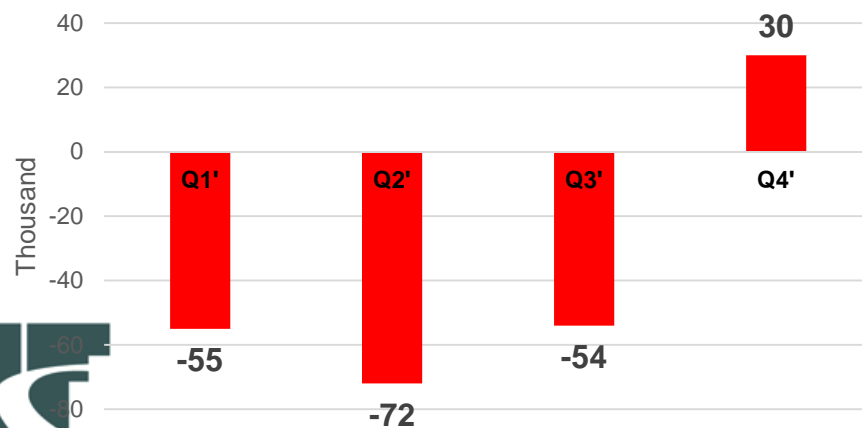
BACKGROUND

- Agriculture is an important sector of the economy (Greyling, 2012)
 - Since 2005, sector contributed less than 3% to GDP but accounts for nearly 10% of formal sector employment
 - Sector has large linkages with rest of the economy which makes its contribution to economy much larger than its overall size (estimated at 7% of GDP in 2010)
 - Contributes 8% of total exports in 2010, making it an important earner of nett foreign exchange
- Historical downward trend in size of agriculture relative to the total economy

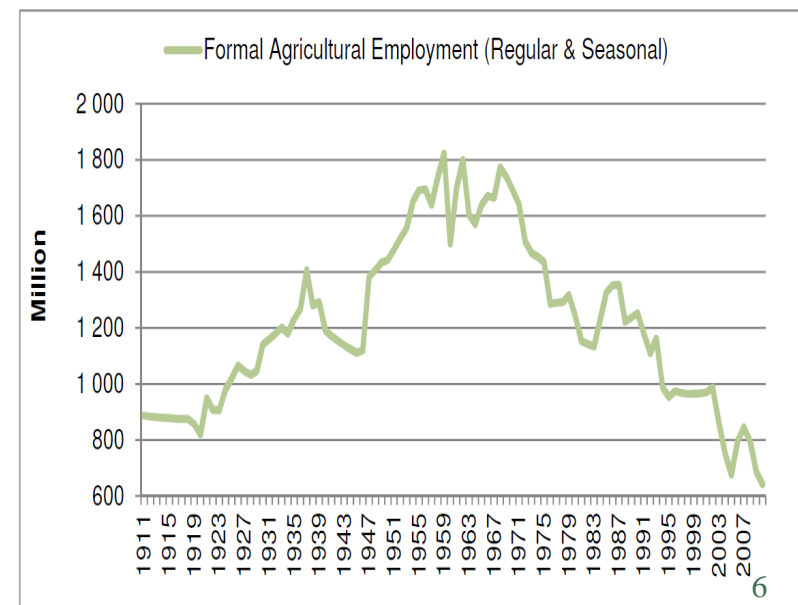
BACKGROUND [CONT.]

- Consistent decline in agricultural employment over time from 1.8 million in 1962 to 764 000 in 2013.
 - This trend has continued with the labour force survey showing nett job losses in the first three quarters of 2014 compared to 2013
 - The long-term trajectory of the sector raises questions about the effectiveness of existing interventions to turnaround job creation prospects, especially in light of the potential to leverage labour-intensive nature of sector

**Quarter on Quarter Change in Job Creation
in Agricultural Sector (2013-2014)**



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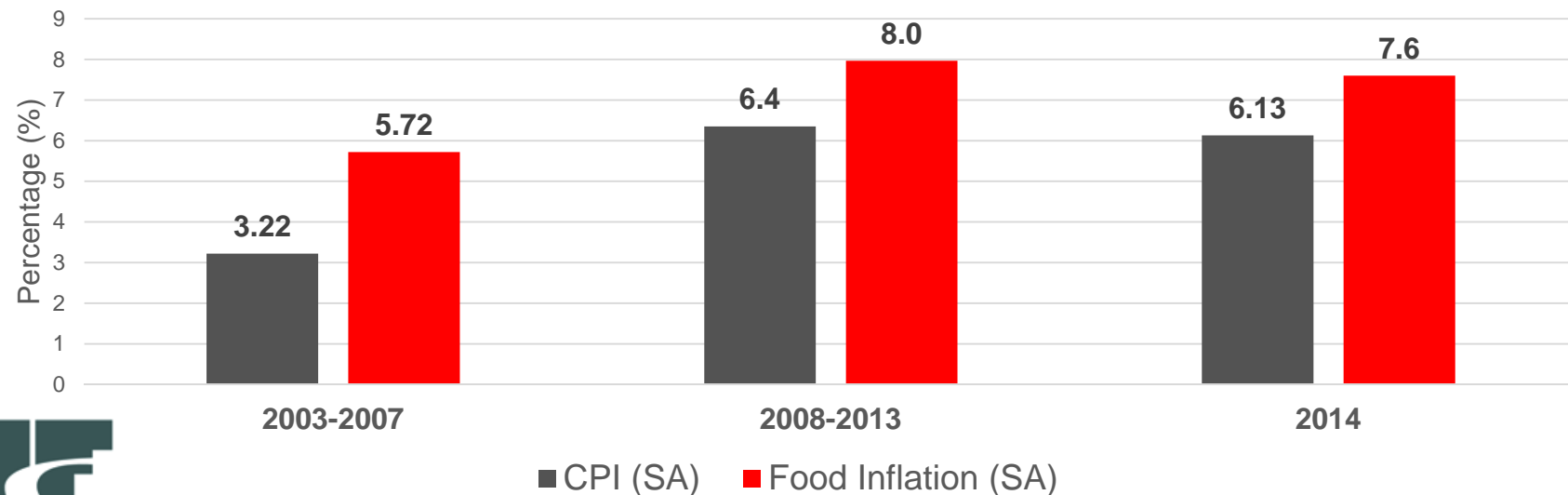


SOURCE: LIEBENBERG, 2011

BACKGROUND [CONT.]

- The rapid increase in food inflation subsequent to the global recession marginally declined in 2014
 - The outlook for 2015 expected to put further upward pressure on food prices with the recent increase in the fuel levy and policy on cost-reflective electricity tariffs

CPI AND FOOD INFLATION INCREASE, 2003-2014



SOURCE: ADAPTED FROM FFC SUBMISSION FOR THE DIVISION OF REVENUE 2015/16

BACKGROUND [CONT.]

- The National Development Plan (NDP) envisages the agriculture sector as one of the key levers for job creation and ensuring food security in South Africa. The NDP identified the following objectives for the sector:
 - Create one million jobs in agriculture, agro processing, and related sectors by 2030
 - Increase investments in new agricultural technologies and research and development
 - Realise a food surplus with 1/3 produced by small-scale farmers or households
 - Create security of tenure for communal farmers, especially women
- A reduction in the growth of government expenditure due to lower than anticipated economic outlook likely to have an impact on the medium term spending plans of DAFF as well as its strategy to achieve NDP goals
 - By reducing costs in non-core expenditure areas and improving spending efficiency, the impact of spending pressures on programme delivery will be lessened until economy recovers



3. DEPARTMENTAL MTEF ANALYSIS

DEPARTMENTAL OVERVIEW

- The department consists of 6 programmes
 - Administration, Agricultural Production Health and Food Safety, Food Security and Agrarian Reform, Trade Promotion and Market Access, Forestry and Natural Resources Management and Fisheries
 - Six entities report to and fall under the budget of the DAFF
- Mandate: Address production and consumption in agriculture, forestry and fisheries sectors
- Focus of the department over the medium term informed by NDP and relates to:



Increasing food security, creating decent jobs in its sectors and increasing the contribution of these sectors to national GDP

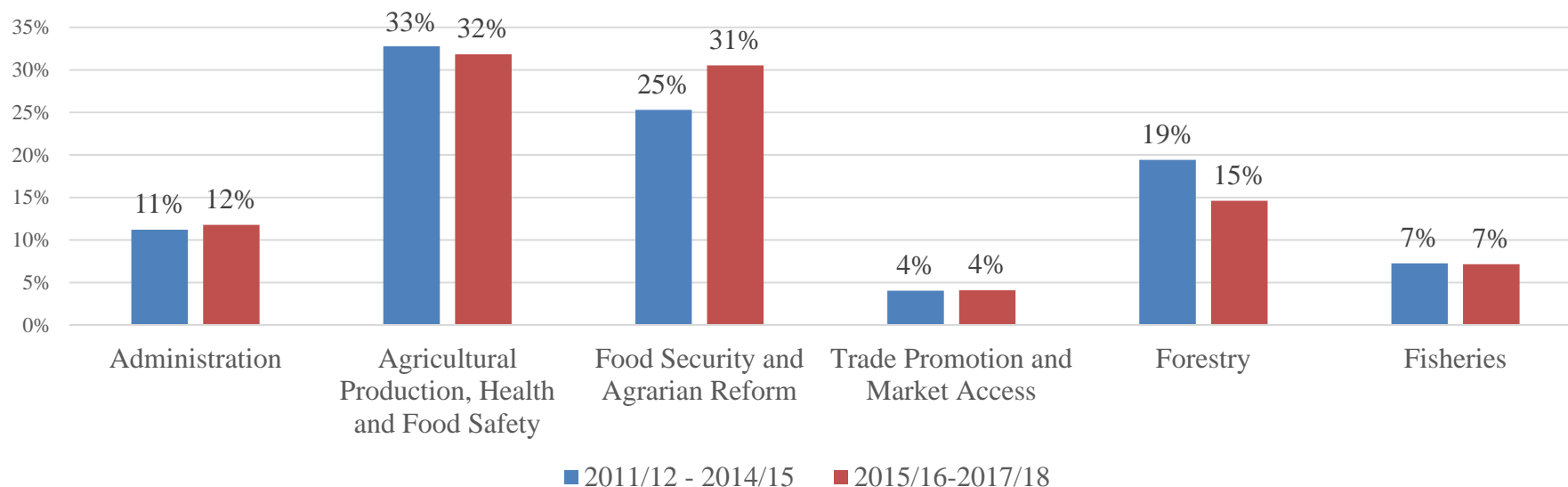
SPENDING AND MTEF BUDGET BY PROGRAMMES

- Over the 2015 MTEF period the DAFF is allocated a total of R19.5 billion
 - This represents a real annual average decline of 5.2% per annum
 - Decline is the result of Cabinet-approved reductions amounting to R158 million in 2015/16, R210 million in 2016/17 and R200 million in 2017/18
 - Reductions are in areas of compensation to employees, goods and services and conditional grants – mainly due to persistent underspending and the build up of cash reserves/surpluses

	2011/'12	2012/'13	2013/'14	2014/'15	2015/16	2016/17	2017/18	2011/12 - 14/15 Real Avge Growth P.A	2015/16 - 17/18 Real Avge Growth PA
(R'million)									
Admin.	582	645	682	719	730	765	802	1.7%	-2.0%
Agric. Prodn, Health & Food Safety	1 645	1 875	2 001	2 187	2 135	1 922	2 154	4.3%	-5.9%
Food Security & Agrarian Reform	1 252	1 405	1 590	1 712	1 930	1 943	2 082	5.4%	1.1%
Trade & Market Access	190	212	256	298	238	296	264	10.2%	-8.0%
Forestry	900	1 192	1 145	1 349	907	954	987	9.8%	-13.8%
Fisheries	352	484	438	428	443	463	489	2.9%	-1.2%
DAFF	4 920	5 813	6 111	6 692	6 383	6 343	6 777	5.3%	-5.2%

PROGRAMME SHARE OF TOTAL SPENDING AND BUDGET

- Agricultural Production, Health and Food Safety Programme consumes the largest share of DAFF's budget over both periods reviewed
- Over the 2015 MTEF period, proportion of budget allocated to Food Security and Agrarian Reform Programme highlights priority attached to food security
 - R834.8 million reprioritised to Fetsa Tlala (food security strategy) over 2015 MTEF
 - R1.5 billion over 2015 MTEF for Ilima Letsema to boost food production in previously disadvantaged farming communities



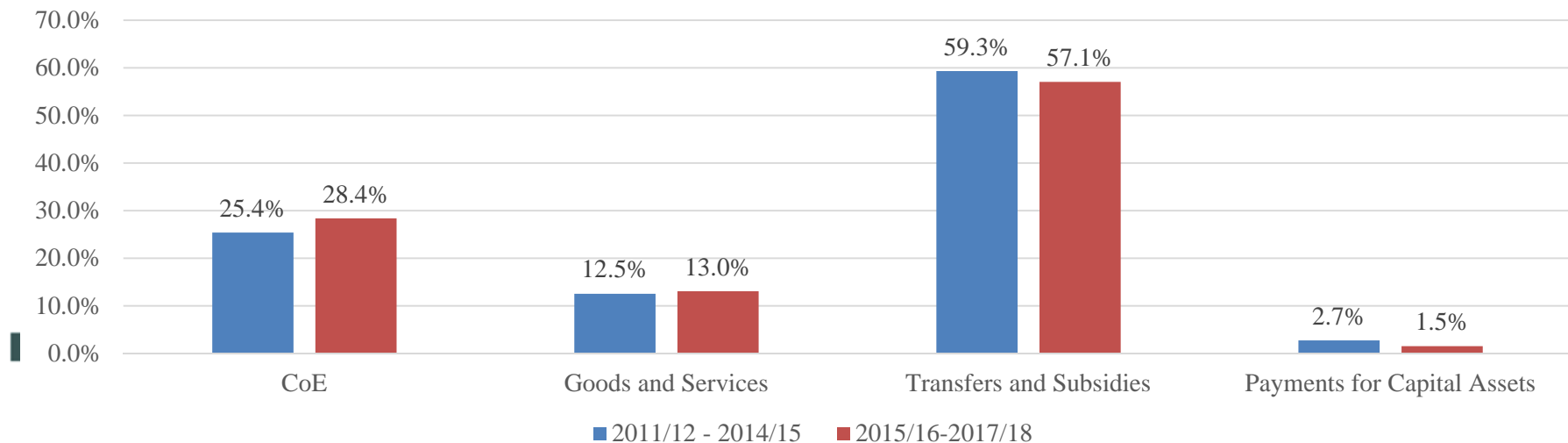
SPENDING AND MTEF BUDGET BY ECONOMIC CLASSIFICATION

(R'million)	2011/'12	2012/'13	2013/'14	2014/'15	2015/16	2016/17	2017/18	2011/12 - 14/15 Real Avge Growth P.A	2015/16 - 17/18 Real Avge Growth PA
Economic Disaggregation of Dept Budget (Rand)									
CoE	1 321	1 419	1 525	1 698	1 738	1 837	1 959	3.1%	-0.9%
Goods and Services	651	730	746	810	847	837	859	1.6%	-3.7%
Transfers and Subsidies	2 815	3 493	3 638	4 048	3 701	3 572	3 854	7.1%	-7.2%
Payments for Capital Assets	132	169	200	135	96	95	103	-1.3%	-13.2%
Payments for financial Assets	0	1	1	-	-	-	-	49.8%	0.0%
TOTAL DEPT EXP. & ESTIMATES:	4 920	5 812	6 111	6 691	6 381	6 341	6 776	5.3%	-5.2%

- Effect of Cabinet-approved reductions evident particularly with respect to real annual average reductions to growth for goods and services and transfers and subsidies (mainly as a result of reductions to conditional grant specifically CASP where in addition to cost containment, a number of projects are nearing completion)

LINE ITEM SHARE OF TOTAL SPENDING AND MTEF BUDGET

- Whereas CoE and Goods and Services are projected to show real annual average declines in growth over the 2015 MTEF period, the share of the DAFF budget allocated in respect of these items is set to increase, implying that the effect of any reductions to growth is not as severe as it would have been if the proportion of the budget had remained the same
 - Also implies that the rest of the DAFF budget items are being sacrificed to absorb reductions in growth
 - Transfers and subsidies will be particularly hard hit as not only is it not growing but the share of the budget will also decline –this relates mainly to grants and implementation of various DAFF strategic priority programmes through CASP, Ilima Letsema





4. STRATEGIC PERFORMANCE PLAN (SPP) AND ANNUAL PERFORMANCE PLAN (APP)

SPENDING PERFORMANCE AND SPP/APP

- DAFF spent 99.1% and 98.9% of its total budget in 2012/13 and 2013/14 respectively
- Reasons for 2013/14 underspending related to:
 - Delays in Department of Public Works' (DPW) processes
 - Incomplete procurement processes
 - Transfer payments withheld as a result of underspending by a province
- DAFF intends to implement stakeholder engagement strategy which may relate to addressing coordination blockages from other sector departments such as the DPW
- To strengthen support to provinces, DAFF intends implementing IGR forums in each province. It is unclear at this stage how this may lead to improved and effective spending of transfer payments

DEPARTMENTAL PERFORMANCE AND SPP/APP

- In relation to the level of spending (99% of budget), achievement of targets in 2013/14 was low (75%)
- Despite this low ratio, the number of indicators for 2015 have increased by 40% while budget has only risen by 4 % compared to 2013/14
 - An assessment of the two largest programmes (*i.e. Agricultural Production and Food Security*) of the department suggests targets have also not been scaled down to account for minimal rise in the budget
 - The disproportionate size between the increase in the budget and number of indicators suggest DAFF may need to reassess whether it is in a position to achieve all its planned targets given available resources

How does the SPP/APP address the 2013/14 AG Findings?

- The Auditor – General (AG) raised a number of key findings in its 2013/14 audit report

ISSUES RAISED BY AG	SPP/APP RESPONSE TO AG
Cases of irregular and fruitless/wasteful expenditure	The APP indicates that DAFF will review and implement fraud prevention and anti-corruption strategy and timeframe for resolving misconduct cases introduced
Audit committee not in place	Unclear from APP how DAFF intends to ensure Audit Committee is functional. Therefore difficult to monitor whether this issue raised by the AG will be achieved in 2015/16
Insufficient oversight of reporting and internal controls	The APP indicates the DAFF intends to implement a three-year rolling strategic plan to address the gap identified by the AG. However it is unclear how APP responds AG queries relating to implementing audit duties as prescribed by Treasury regulations
No risk assessment nor risk management strategy and	The APP indicates that DAFF intends to conduct risk assessment and review risk management strategy in 2015/16
40% of the Forestry programme were not specific, measurable and verifiable	Most of the indicators in the 2013/14 financial statements for the Forestry programme are also included in the APP. From the indicator description tables, it is not apparent how data will be verified. In some instances data collected are from a number of sources and will require a dedicated person to consolidate. DAFF should confirm whether this is being done.

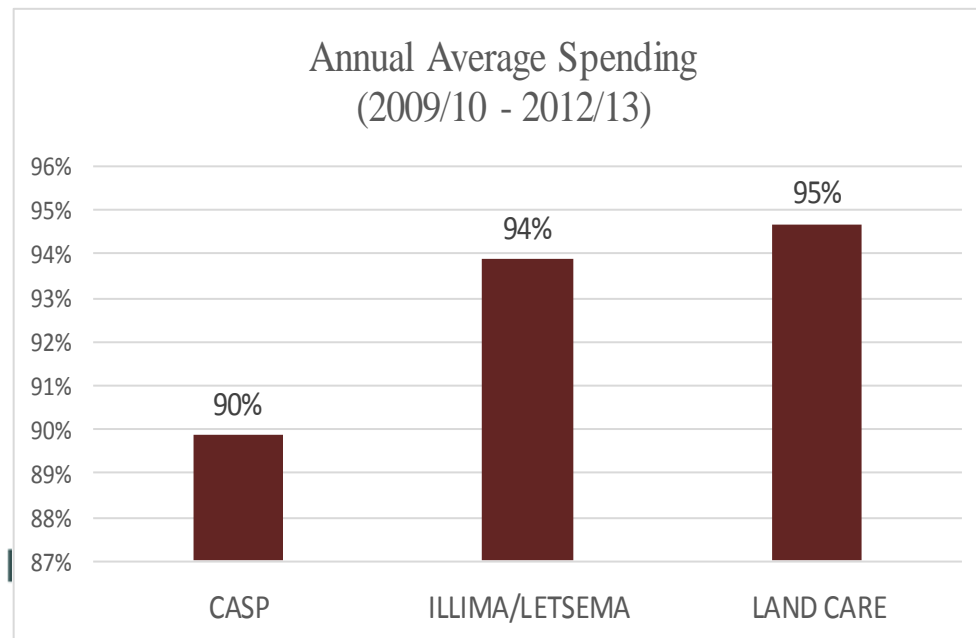
DAFF-RELATED CONDITIONAL GRANTS

- DAFF is transferring agent for three conditional grants to provinces

Conditional Grant	Purpose of the Grant
Comprehensive Agricultural Support Programme (CASP)	To provide effective agricultural support services, promote and facilitate agricultural development by targeting beneficiaries of land reform restitution and redistribution and other black producers who have acquired land through private means and are engaged in value-adding enterprises domestically or involved in exports
Ilima Letsema	To assist vulnerable SA farming communities to achieve an increase in agricultural production and invest in infrastructure that unlocks agricultural production
Land Care	To promote sustainable development and use of natural resources by engaging in initiatives that support the pillars of sustainability, leading to greater productivity, food security, job creation and better well-being for all

ASSESSMENT OF CONDITIONAL GRANTS

- Agricultural conditional grants experience a real decline over the MTEF period as a result of underspending, especially with respect to the CASP grant
- Main reasons for underspending include poor planning, contractor challenges, late changes to business plans and weak and ineffective procurement processes



Real Growth in Agricultural Grants

	2015/16	2016/17	2017/18	Avg Annual Growth
CASP	-16%	-3%	1%	-6%
Illima	-3%	-2%	1%	-1%
Land Care	-7%	-2%	1%	-3%

INTERGOVERNMENTAL IMPLICATIONS OF GRANT PERFORMANCE

- Effective intergovernmental (IG) coordination is crucial in order to achieve optimal grant performance. Examples of IG challenges are:
 - Business plans of provincial agriculture departments are often approved late, delaying the implementation of projects
 - Any delay in processing of land claims by Department of Rural Development and Land Reform's (DRDLR) slows down the number of beneficiaries that can qualify for support from the agriculture grants
 - Some funded projects cannot proceed because there is no adequate water supply
 - Municipal profiling of indigent and food insecure households is crucial if these households are to qualify for support under the agriculture support scheme
 - Municipalities play an important role in ensuring adequate land is zoned for agricultural activity in their spatial development plans and to protect existing zoning rights of emerging and micro farmers

• Besides establishing IGR forums in each province, it is unclear how DAFF intends to address some of the practical implementation challenges related to the conditional grants



5. FFC AGRICULTURE –RELATED RECOMMENDATIONS FOR 2015/16 DoR

Submission	FFC Recommendation
<p data-bbox="241 730 495 970">Submission for the 2015/16 DoR</p>	<p data-bbox="533 279 2018 544">DAFF should strengthen its ability to enforce the conditions in the grant framework to ensure better oversight of provinces, so that spending and performance of agricultural conditional grants can be improved. The Commission suggests that norms and standards be developed to assess the performance of provinces and five-year evaluations of conditional grants be institutionalised</p> <ul data-bbox="533 555 2018 762" style="list-style-type: none"> • <i>Government Response: Government supports recommendation on development of norms and standards. Government (via the DPME) has initiated evaluation of agricultural conditional grants, incl. CASP. The report of this review will be used as a basis to institutionalise evaluation processes</i> <p data-bbox="533 805 2018 1230">The Commission recommends that special focus is put on improving the operations of different food security programmes, especially Agriculture, EPWP and the School Nutrition Programme, which accelerate reduction in household food security without necessarily increasing programme expenditure. Areas that can yield improved results include better joint planning and streamlining procurement processes with the assistance of the Chief Procurement Officer. The ability to use available resources optimally for the food security programmes have declined overtime</p> <p data-bbox="533 1241 2018 1342"><i>Government Response: *Recommendation was part of an Annexure to the FFC's DoR Submission, hence no formal response from Government</i></p>

Submission	FFC Recommendation
<p>Submission for the 2015/16 DoR</p>	<p>Government should clarify the legislative mandate and responsibility of municipalities in relation to food security. In this regard, DAFF should develop a policy on urban food security with concrete proposals on how such a mandate will be funded. Currently food security is not seen as a competence of municipalities and therefore cannot be funded</p> <p><i>Government Response: *Recommendation was part of an Annexure to the FFC's DoR Submission, hence no formal response from Government</i></p> <hr/> <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>



6. HOUSEHOLD VULNERABILITY TO CLIMATE CHANGE DISASTERS: THE CASE OF TWO SOUTH AFRICAN PROVINCES

PROJECT OVERVIEW

- FFC carried out a project jointly with FANRPAN in association with the University of Venda, University of Fort Hare and University of Cape Town
- Main report tabled in Parliament on 4 February 2015

The study set out to:

- Assess the impact of future climate change on staple crop in rural South Africa
- Use the Household Vulnerability Index (HVI) tool to evaluate the vulnerability of rural households to natural disasters
- Evaluate cost and benefits of different adaptation options
- Make recommendations on the financial and fiscal policy measures and instruments that can be used to improve the resilience of households to disasters

*The gender dimensions of household vulnerability is considered

SUMMARY OF THE STUDY

- Gives micro analysis of impact of climate change.
- Study provides crucial localised evidence base and enhances our understanding of a complex array of stresses caused by climate change in rural areas.
- Study will improve policy targeting of vulnerable households

RECOMMENDATIONS

- Government should consider developing a vulnerability index to isolate households that are vulnerable to climate change and other shocks. An HVI such as the one adopted in this paper, would improve the targeting of limited resources.
- Any fiscal and financial interventions to alleviate the impact of climate change should take into account the differential vulnerabilities of rural communities and aim to support their autonomous adaptation responses. These comprise promotion of multi-purpose crop production, small grains (Sorghum and millet), and drought and water stress tolerant crop varieties, improved agronomic practices (in-field water harvesting, application of appropriate fertiliser amounts, proper timing of sowing dates, conservation agriculture, etc.) The department of agriculture should therefore support these strategies through improved access to inputs, markets and financial resources, improved agricultural extension services and access to climate and weather forecast information. Support for the development of a sustainable and resilient multi-purpose production system could also buffer livelihoods through providing support towards strengthening livestock production; training for pasture-land management, disease control and crop-livestock husbandry.



7. EMERGING ISSUES AND CONCLUDING REMARKS

EMERGING ISSUES (1)

- Providing sufficient support to emerging farmers
 - While the development of the National Policy on Extension Services is welcomed, currently extension officers are only reaching a small proportion of smallholders (14% in 2012/13). There is need to ensure new policy improve reach and effectiveness of extension officers.
 - Extent to which establishment of cooperatives as outlined in the SPP/APP addresses viability issues in the face of rising input costs and increased competition from subsidized produce from overseas needs to be established.
- Rural Development
 - The development of 600 000 hectares of fallow land in communal areas is welcomed. This strategy should be combined with initiatives in forestry and fisheries as called for in the NDP
 - A significant constraint in rural areas is access to water and complementary infrastructure. Besides expanding irrigation, it is unclear how DAFF is planning to address these structural constraints and whether it will coordinate efforts with other sector departments

EMERGING ISSUES (2)

- Rural Development [cont.]
 - While the initiative to develop agriculture in rural areas is welcomed, this objective may overlap with the work of DRDLR. As part of efforts to improve coordination, has DAFF discussed with DRDLR how they will complement their efforts to achieve this objective?
- Effective funding support for the sector
 - While funding may be inadequate in some areas, it may be prudent for the sector to look beyond the quantum of funding but also focus on the effectiveness with which funds are being spent and implementation shortcomings that have previously been reported. This message could be emphasized more in the department's SPP/APP.
- HVI Study
 - Commission willing to give an extended briefing to the Portfolio Committee on the report tabled in Parliament

CONCLUDING REMARKS

- NDP envisages a major role for DAFF in creating employment, growth and ensuring food security
 - Pockets of progress are evident for example in the fisheries sector
- Aspects requiring attention
 - MTEF budget allocated and the increase in performance indicators for 2015 may not be aligned
 - Department oversight role in relation to provinces needs to be strengthened
 - Underspending on grants generally as a result of weak procurement processes in provincial DAFF – what role can DAFF play to enhance performance of provincial departments beyond establishment of IGR forums in provinces
 - Lack of clarity in APP/SPP with respect to addressing AG comments:
 - What measures has the department implemented to ensure audit committee is functional and internal control operates according to treasury regulations? How is this being monitored?
 - Require clarity on how smallholder farmers will be effectively supported and ways in which structural blockages can be addressed to stimulate sustainable job creation in the sector

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