



BRIEFING TO THE PORTFOLIO COMMITTEE ON AGRICULTURE, FORESTRY AND FISHERIES

Financial and Fiscal Commission

13 October 2016

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
4. Annual Report Analysis
5. FFC Recommendations

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



The Commission's current submission on the 2017/18 Division of Revenue focused on the impact of the IGFR instruments on rural development

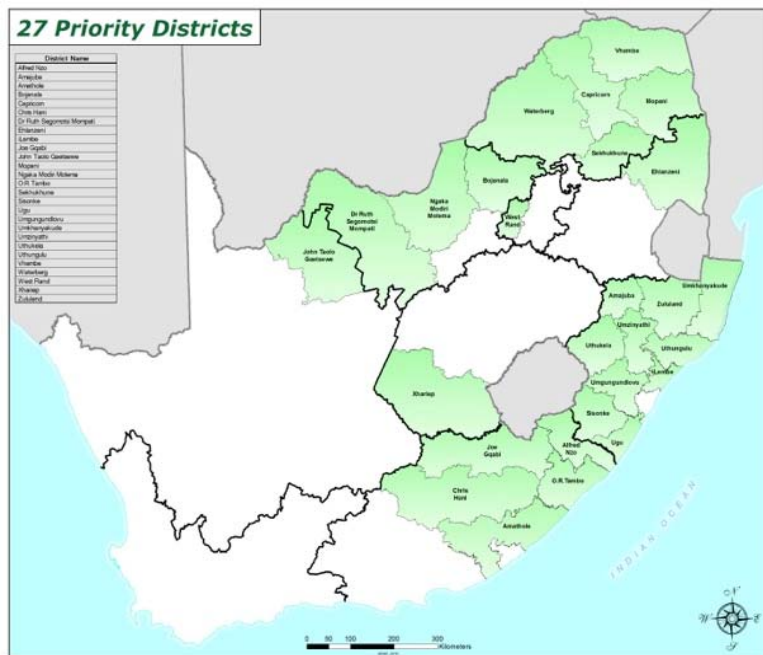


2. Agriculture, Forestry and Fisheries in the Context of the Broader Economy

BACKGROUND

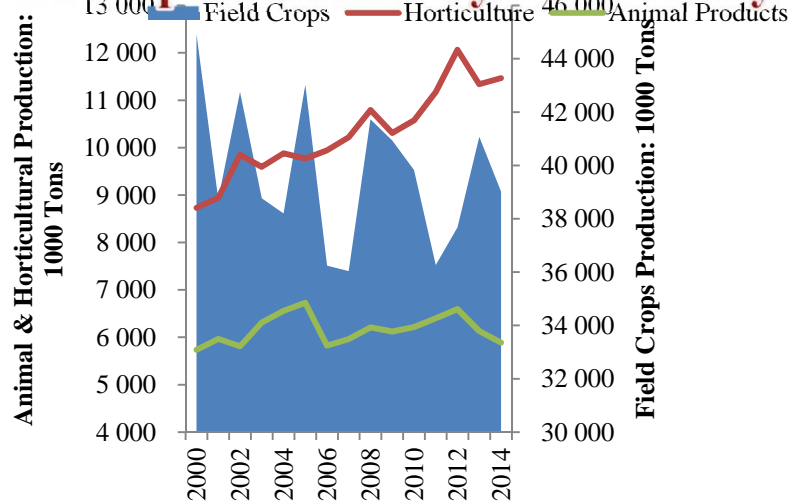
- Despite its small direct contribution to the economy (less than 3% since early 1990s), agriculture is still an important sector of the economy
 - The sector has large linkages with rest of the economy making its contribution to economy much larger than its overall size
 - In 2015, agriculture contributed approximately 5% of total exports, making it an important earner of nett foreign exchange
- However, employment in agriculture lower than other comparable countries with same agriculture size
- Fisheries contributes roughly 0.1% to GDP but play a significant role in local economies with a strong fisheries sector
- Forestry sector maintained a trade balance of R25.6 billion in 2015. Most of the investment in Forestry are in rural provinces and therefore the sector can play a significant role in contributing to rural development

AGRICULTURAL PERFORMANCE

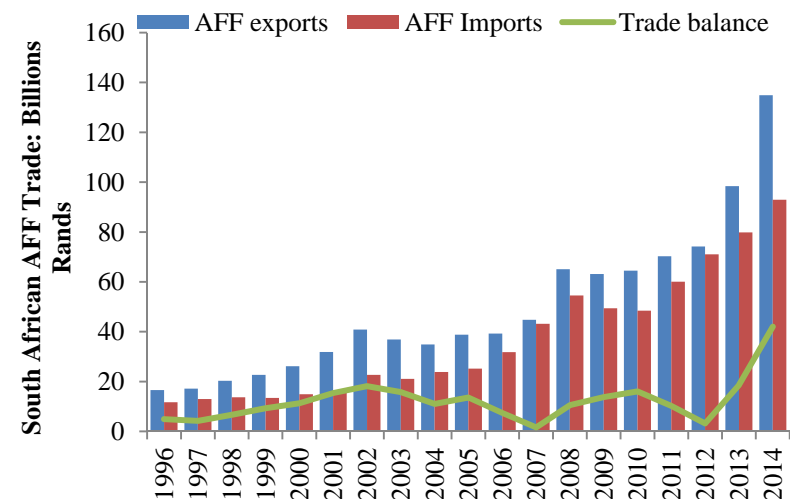


- ❖ SA agriculture is dualistic: Include commercial and emerging farmers
- ❖ Commercial produce about 95% of agricultural output & rest by emerging farmers
- ❖ Commercial farmers been declining standing around 37 000 in 2014 due to consolidation of farm units (*i.e. farm unit size increasing and number of farmers decreasing*)
- ❖ Bulk of emerging farmers located in 27 priority districts and lack infrastructure
- ❖ Market destination for agricultural products are EU accounting 32% share in exports; Africa with 31%; Asia 20% and USA 3% in 2014

Total production by commodity



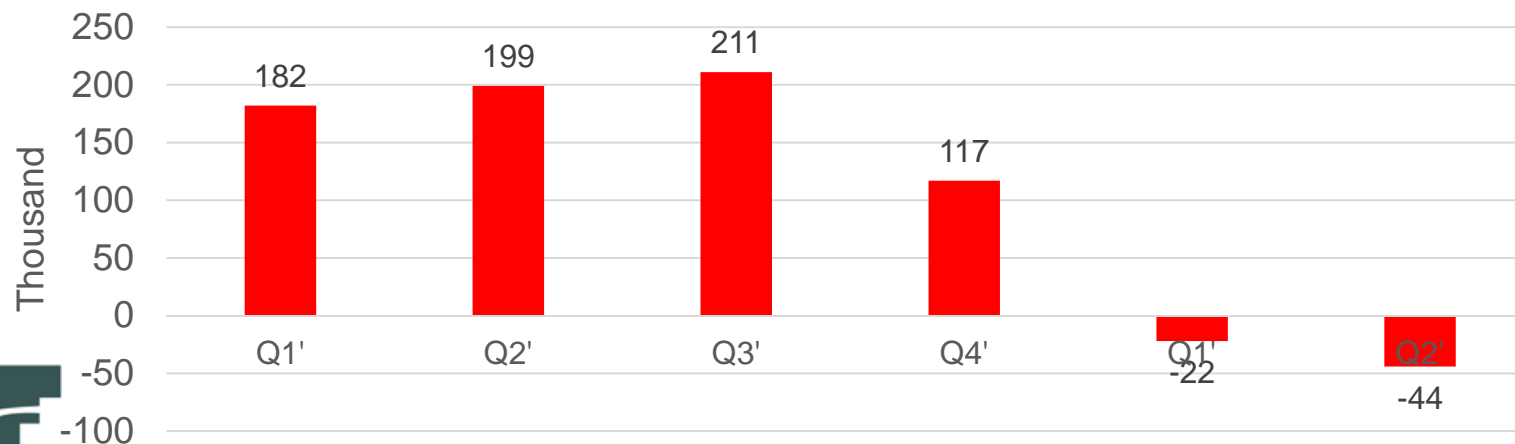
Agriculture, Forestry and Fisheries trade



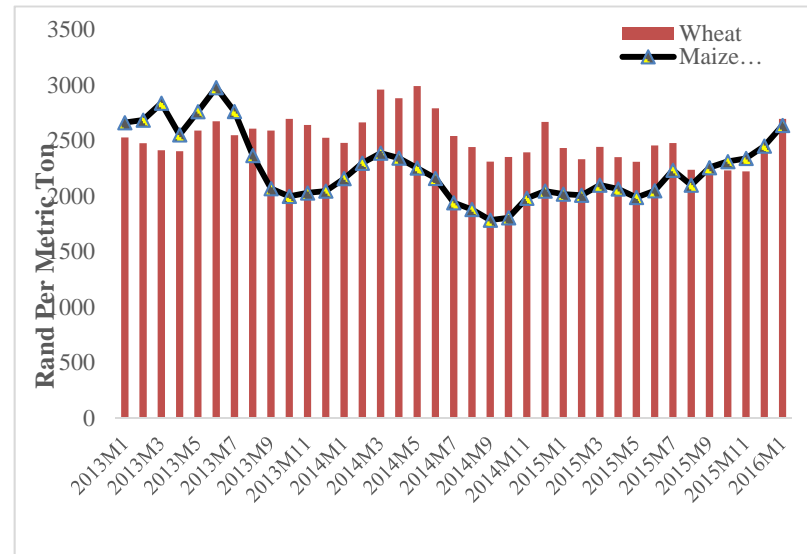
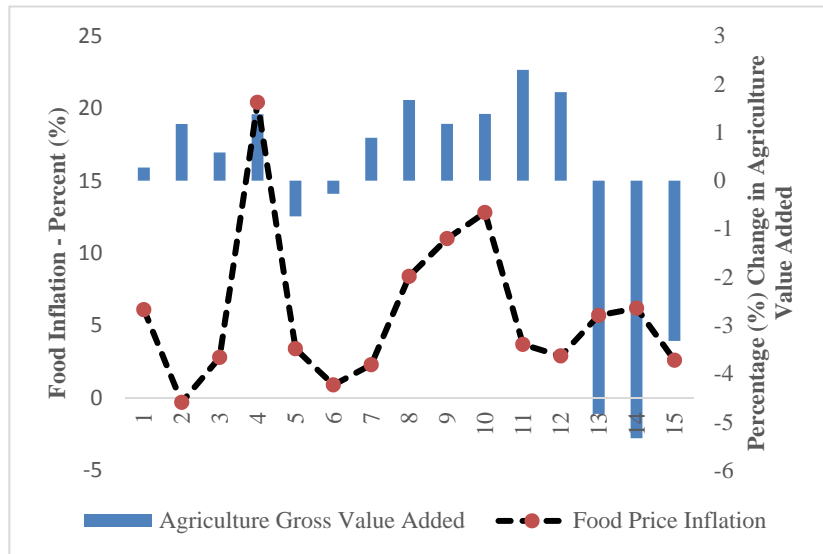
AGRICULTURAL EMPLOYMENT

- The labour force survey shows reversal in agricultural employment in the first two quarters of 2016 after initial strong growth in 2015
 - The biggest factor causing decline in 2016 employment figures is the ongoing draught. Continued downward trend in employment figures anticipated unless active policy intervention can buffer further employment declines in the sector

Quarter on Quarter Change in Job Creation in Agricultural Sector
(2015 - 2016)



IMPACT OF THE DROUGHT



- Six provinces were declared disaster areas. Staple foods such as maize and beans were hardest hit
 - South Africa set to become significant net importer of grains in 7 years: Estimated 5 million tons of maize and 2 million tons of wheat will be imported between May 2016 – April 2017
 - Against backdrop of currency depreciation and rising global grain prices, results in significant costs: R11.5 billion for imported grains PLUS increased pressure on timeous and efficient delivery of imports due to constrained infrastructure capacity for agricultural bulk operations at Transnet

NDP AND AGRICULTURE

- 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
 - The amount pumped into system for draught relief need to be assessed for adequacy and impact, otherwise gains made in the sector towards attaining NDP goals could be lost



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:
 - Improving food security, creating jobs, and increasing the contribution of the agriculture sector to GDP, subsistence and smallholder farmers are a focus within all of these priorities

SPENDING AND MTEF BUDGET BY PROGRAMME

- Over the 2016 MTEF period, DAFF is allocated a total of R20.038 billion, which translates into a real annual average decline of 0.87% per annum
 - The largest programme on the DAFF budget is programme 2 (consumes 32% of total budget) - it is the only programme that is set to increase over the 2016 MTEF period (real annual average of 2.15% per annum)
 - Marginal annual average decline projected for the Food Security and Agrarian Reform Programme over the 2016 MTEF period

Programme (R'mil)	Audited Outcome			Revised Estimate	Medium Term Expenditure Framework Estimates			Real Annual Average 2012/13-2015/16	Real Annual Average 2016/17-2018/19
	2012/13	2013/14	2014/15		2015/16	2016/17	2017/18		
1. Administration	645	682	738	729	788	803	840	-1.33%	-2.65%
2. Agricultural Production, Health and Food Safety	1 875	2 001	2 184	2 145	1 953	2 183	2 293	-0.95%	2.15%
3. Food Security and Agrarian Reform	1 405	1 590	1 656	1 919	1 890	2 018	2 091	5.08%	-0.82%
4. Trade Promotion and Market Access	212	256	307	234	298	265	275	-2.16%	-9.29%
5. Forestry and Natural Resources Management	1 192	1 145	1 304	906	946	961	1 003	-13.56%	-2.91%
6. Fisheries	484	438	440	465	459	476	498	-6.55%	-1.74%
Total	5 813	6 111	6 629	6 399	6 333	6 706	6 999	-2.21%	-0.87%

FOOD SECURITY AND AGRARIAN REFORM PROGRAMME

- Consumes on average, 30% of total DAFF budget over the 2016 MTEF period
 - Following strong real annual average growth of 5.1% per annum over the period 2012/13 to 2015/16, this programme is projected to decline by a real annual average of 0.8% per annum over the 2016 MTEF period
- Largest subprogramme is Food Security - allocated R4.1 billion over 2016 MTEF period
 - Food Security is only subprogramme that is set to grow, albeit marginally, over the 2016 MTEF period

R'000	Audited Outcome			Adj. Approp.	Medium Term Expenditure Framework Estimates			Real Annual Average 2012/13-2015/16	Real Annual Average 2016/17-2018/19
	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19		
Management	2 165	4 802	2 492	3 781	2 871	2 919	3 023	14.1%	-3.2%
Food Security	868 136	1 025 427	1 037 487	1 282 982	1 273 447	1 382 563	1 466 979	7.9%	1.2%
Sector Capacity Development	185 864	191 049	232 811	261 998	244 122	244 993	217 917	6.2%	-10.9%
National Extension Support Services	349 019	368 823	383 530	370 640	369 298	387 536	402 712	-3.4%	-1.5%
Total	1 405 184	1 590 101	1 656 320	1 919 401	1 889 738	2 018 011	2 090 631	5.1%	-0.8%

SPENDING BY ECONOMIC CLASSIFICATION

- Transfer and subsidies largest item due to transfers to conditional grants that DAFF administers, marginal real annual average growth projected for 2016 MTEF period
- Sustained decline in goods and services over entire period of review
- Compensation of employees set to decline by a real annual average of 2.4% per annum over the 2016 MTEF period – due to Cabinet approved budget reductions to lower the national aggregate expenditure ceiling

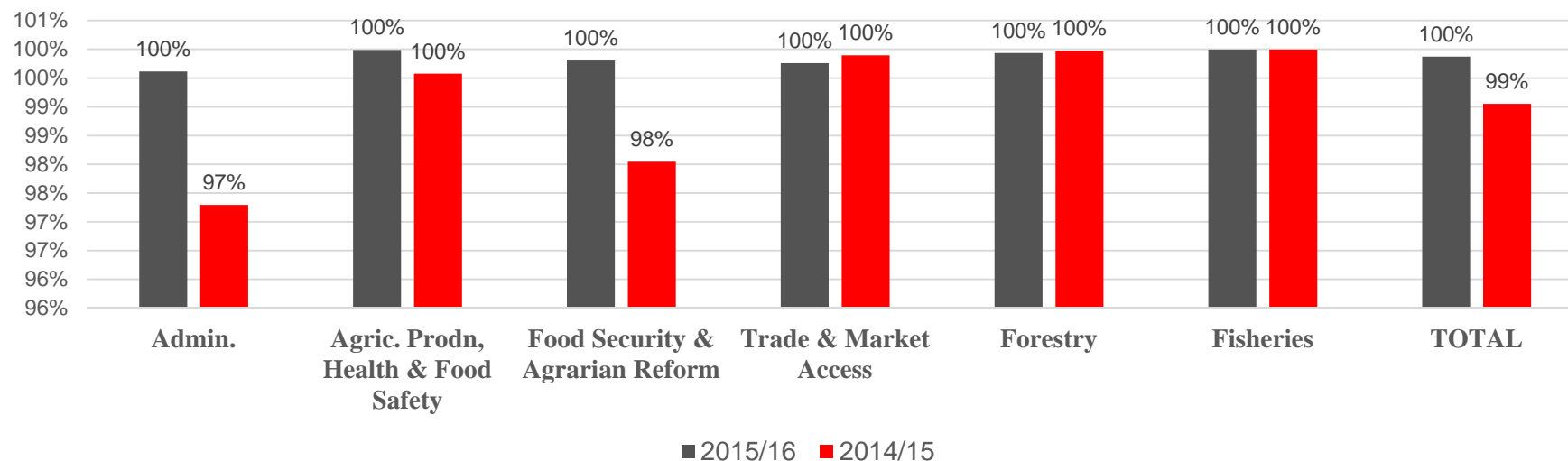
R'mil	Audited Outcome			Revised Estimate	Medium Term Expenditure Framework Estimates			Real Annual Average 2012/13-2015/16	Real Annual Average 2016/17-2018/19
	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19		
Compensation of employees	1 419	1 525	1 662	1 763	2 055	2 129	2 202	1.8%	-2.4%
Goods and services	730	746	732	772	660	687	688	-3.5%	-3.7%
Transfers and subsidies	3 493	3 638	4 029	3 695	3 496	3 766	3 975	-3.5%	0.6%
Payments for capital assets	169	200	206	167	121	122	132	-5.8%	-1.3%



4. ANNUAL REPORT ANALYSIS

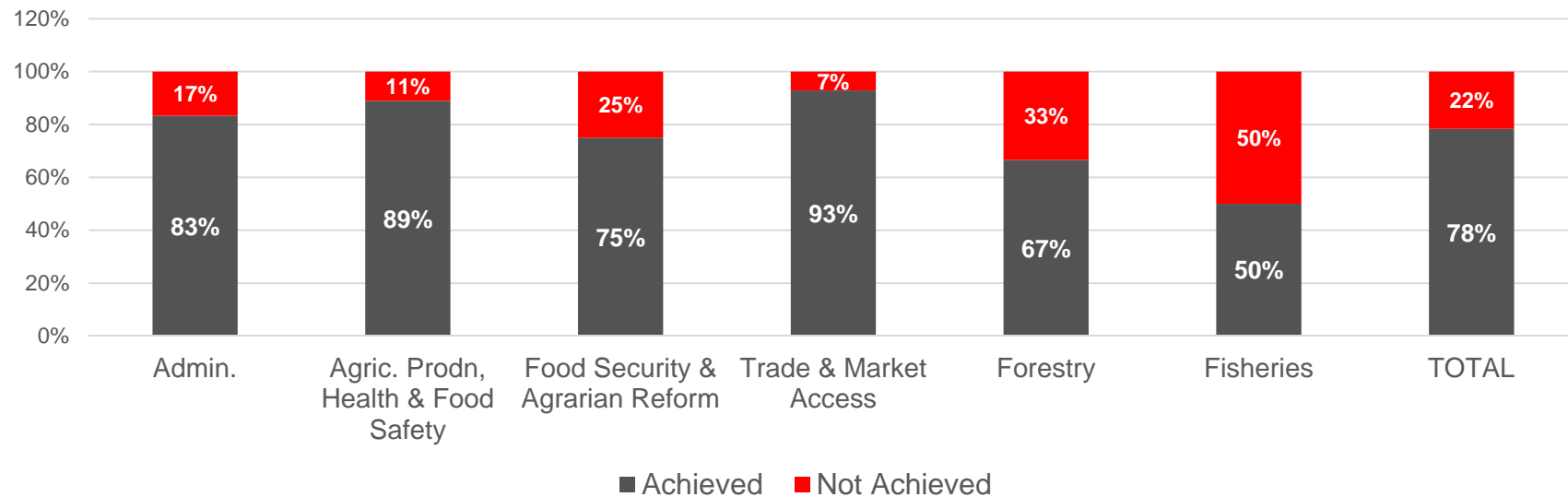
*FFC Presentation to the FARNPAN Board
19 March 2015*

DEPARTMENTAL SPENDING PERFORMANCE



- The departmental spending has improved from 99% in 2014/15 to 100% in 2015/16
 - Previous underspending by the department has been resolved but key concern should now be on whether department is getting value for money from its funded activities

ASSESSMENT OF PERFORMANCE TARGETS



- Despite spending 100% of its budget, the department only achieved 78% of its total performance indicators
 - This suggests budgeting and programme performance functions in the department may not be properly aligned

ASSESSMENT OF PERFORMANCE TARGETS (2)

- An assessment of the performance indicators reveal the following:
 - Many indicators reported on are vague, and therefore difficult to measure, especially under the *Administration* and *Trade and Market Access* programmes. E.g. “Implement trade agreements and participate in trade negotiations” – not specific or measurable
 - Two indicators are often combined into one (e.g. finalise small scale fisheries regulations & amended marine living resource act)
 - ‘Reasons for deviations’ often lack clarity and don’t pinpoint root cause of deviation
 - E.g. department did not meet target of allocating rights to 9 fishing sectors. In deviation column the department state “deadline extended twice” but does not explain the reason why the target was not achieved
 - The performance information collected from provinces difficult to validate, hence should be treated with caution
 - E.g. No. of HH that benefited from food and nutrition security initiatives

ASSESSMENT OF PERFORMANCE TARGETS (3)

- Department performing poorly on some key human resource and service delivery indicators
 - E.g. 1. The department finalised less than 10% of misconduct cases reported within 100 days. The number of misconduct cases appear significant, and largely due to theft/fraud and absence from work
 - E.g. 2. Department experienced challenges with food security initiatives, especially converting unutilised communal land to productive use – draught cited as reason for poor performance
- Even though many of the implementation challenges in agriculture reside at provincial level, did not come across any indicators in annual report that measure any technical support or oversight provided to provincial departments

FINANCIAL MANAGEMENT (1)

Contingent Liabilities	2015/16	2014/16
Housing loan gurantees	57	57
Claims against the department	147415	115170
IG Payables	0	17014
Other	26038	10356
TOTAL	173 510	142 597

Debt Written off - Rand ('000)	2015/16	2014/15
Trade Debt	276	118
Staff Debt	740	116
Student Debt	236	0
Other	124	2
TOTAL	1376	236

- Significant increase in contingent liabilities against the department in 2015/16. These are legal cases against DAFF
 - There is no information about the nature of these cases, reason for the increase and how the department is going to address this problem. Did not come across any performance indicator to address this problem
- The Commission notes with concern the significant rise in staff and student debts written off – raises questions around whether department is taking any steps to avoid potential abuse of departmental resources

FINANCIAL MANAGEMENT (2)

Irregular Expenditure - Rand ('000)	2015/16	2014/15
Opening Balance	2761	7795
Irregular Expenditure	829	2687
Amount Condoned	-2691	-7861
Amount not condoned		-28
Closing Balance	899	2761

- Irregular Expenditure declined in 2015/16, although still a concern
 - Most of the irregular expenditures relate to non-compliance of procurement processes
 - Cases in which irregular expenditures occurred, are currently under investigation

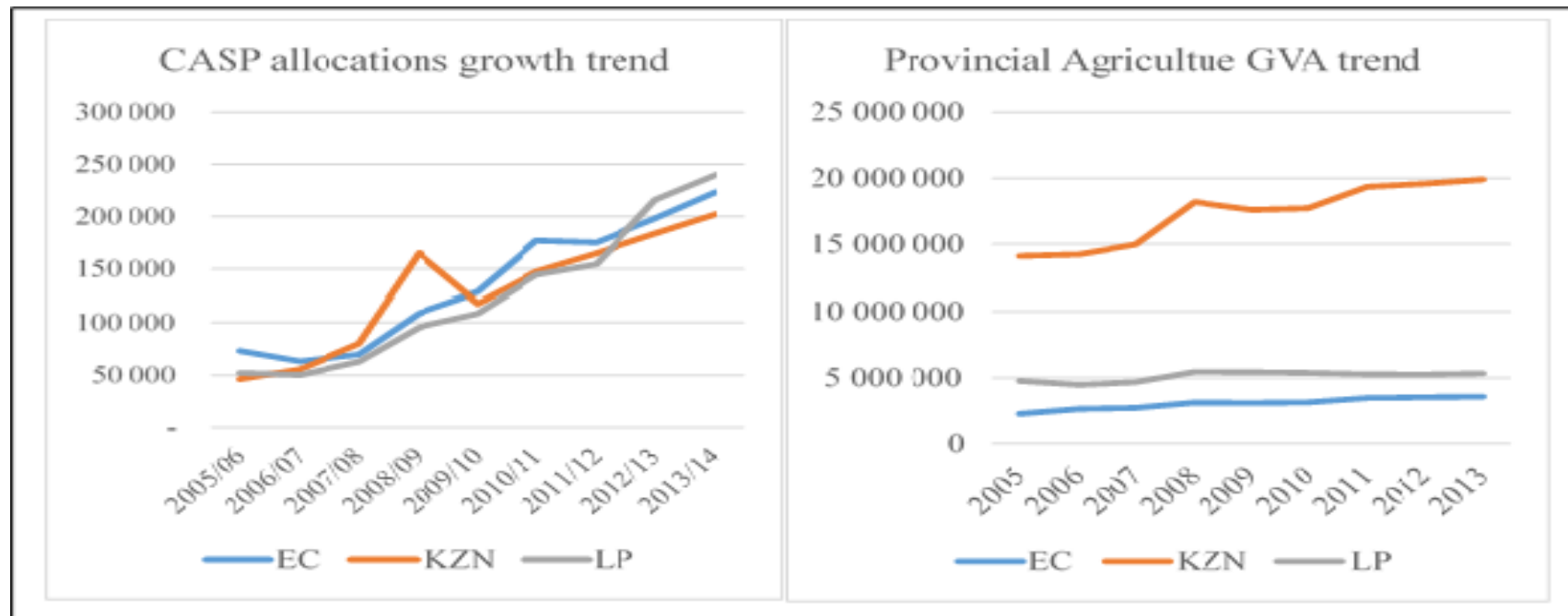
ASSESSMENT OF CONDITIONAL GRANTS (1)

Spending performance of Agricultural Grants	2012/13-2014/15	2015/16
CASP	92%	99%
Illima/Letsema	96%	100%
Land Care	95%	99%

Source: National Treasury Database; DAFF Annual Report (2015/16)

- Spending on the agricultural conditional grants in 2015/16 reflect improved spending performance compared to average spending in the previous three years
 - The improvement was a result of more provinces now using entities as implementing agents
- Research by the Commission for its 2018/19 Division of Revenue submission reveal:
 - CASP and Recap overlap (implemented by Department of Rural Development and Land Affairs) and funding same activities thereby creating duplication and inefficiencies in the system
- The allocation framework for agriculture grants are misaligned to the policy objectives
 - Northern Cape receives the largest share of agriculture grants despite contributing the least to agriculture output - allocation criteria focus on area size

ASSESSMENT OF CONDITIONAL GRANTS (2)



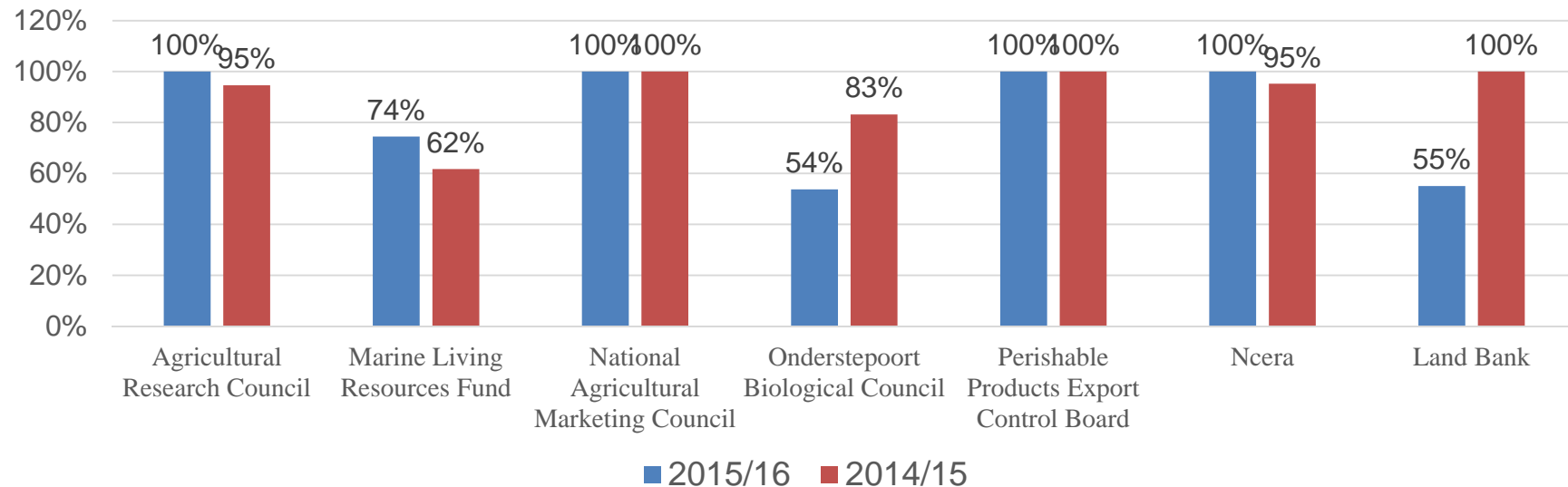
- Provincial CASP allocations and agriculture Gross Value added (GVA) for the three rural provinces shows an unrelated growth pattern – Provincial GVA grows at a flat rate while the CASP allocations is steeper
 - Agriculture transfers therefore have little visible contribution to agriculture output

ENTITIES REPORTING TO DAFF

- The following six entities fall under the budget of DAFF

Name of Entity	Nature of Operations	Financial Relationship
Agricultural Research Council	Conducts applied research to generate knowledge, develop human capital and foster innovation in agriculture	Transfer Payment
Marine Living Resources Fund	Manages the development and sustainable use of SA's marine resources and protects the integrity and quality of the marine ecosystem	Transfer Payment
National Agricultural Marketing Council	Provides strategic advice to the Minister on all agricultural marketing issues, improves market access by all participants	Transfer Payment
Ncera Farms (Pty) Ltd	The company was established to provide agricultural extension services, mechanisation of agricultural production, provide training and advice on crops and marketing of agricultural products to farmers and nearby communities	Transfer Payment
Onderstepoort Biological Products Ltd	Purpose is to prevent and control animal diseases that impacts on food security, human health and livelihoods.	None
Perishable Products Export Control Board	Contributes to ensuring the orderly export of all perishable products and to monitor the maintenance of a continuous cold chain for exports. It also monitors minimum quality standards and adherence to bilateral agreements with importing countries	Transfer Payment

SPENDING PERFORMANCE OF ENTITIES, 2013/14 AND 2014/15



- Some entities that receive transfers from DAFF have consistently underspent (i.e. Marine Living Resource Fund and Onderstepoort Biological Council)
- The DAFF annual report does not provide any reasons for the deviation in spending by the public entities

CONCLUDING REMARKS

- NDP envisages a major role for DAFF in creating employment, growth and ensuring food security
- However, recent draught could severely impact sector in achieving NDP goals
 - Assessment of draught-relief efforts required and whether intervention effective in avoiding ongoing job losses in sector
- Aspects requiring attention
 - Grant funding is being spent, but need to assess impact of spending
 - The quality of performance information in the APP does not allow for effective oversight over the department's performance
 - The financial management practises of the department have some weaknesses that should be urgently addressed (E.g. loans to staff, human resource practises and irregular expenditure)
 - The reasons for underspending by entities is not clear and should be clarified



5. RECENT FFC AGRICULTURE –RELATED RECOMMENDATIONS

Submission	FFC Recommendation
Submission for the 2018/19 DoR	Government enhances agricultural productivity by establishing a framework for the implementation, evaluation and monitoring of key agricultural grants targeted at subsistence and small scale farmers
	CASP and Recap should be consolidated under one funding programme for post-settlement support to emerging and land reform farmers under DAFF as it has more expertise in the area of agriculture. Currently both funding instruments are servicing the same target audience and funding the same activities.
	To improve land reform outcomes, coordination between DRDLR and DAFF should be strengthened at both a policy and implementation level
	The bulk of municipalities where agriculture accounts for a fifth (or more) of total GVA are category B3 and B4. Rather than the relatively blanket approach to allocation, agriculture based grant allocations would need to be weighted to ensure that reflect need and intensity associated with location of agricultural activities

Submission	FFC Recommendation
Submission for the 2017/18 DoR	<p>Government strengthens the coordination and implementation of existing programmes targeted at displaced farm workers and dwellers, through</p> <ul style="list-style-type: none"> - Including farm evictees among the beneficiaries for housing in rural towns, access to land for own production and agri-villages programme - Centralising the reporting of evictions and improve data collection
Submission for the 2015/16 DoR	<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> <ul style="list-style-type: none"> • <i>Government Response: *Recommendation was part of an Annexure to the FFC's DoR Submission, hence no formal response from Government</i>

FFC'S WEBSITE: WWW.FFC.CO.ZA



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