



BRIEFING TO THE PORTFOLIO COMMITTEE ON AGRICULTURE, FORESTRY AND FISHERIES

09 May 2017

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 and APP Analysis
4. Concluding Remarks
5. FFC Recommendations

ROLE AND FUNCTION OF THE FFC

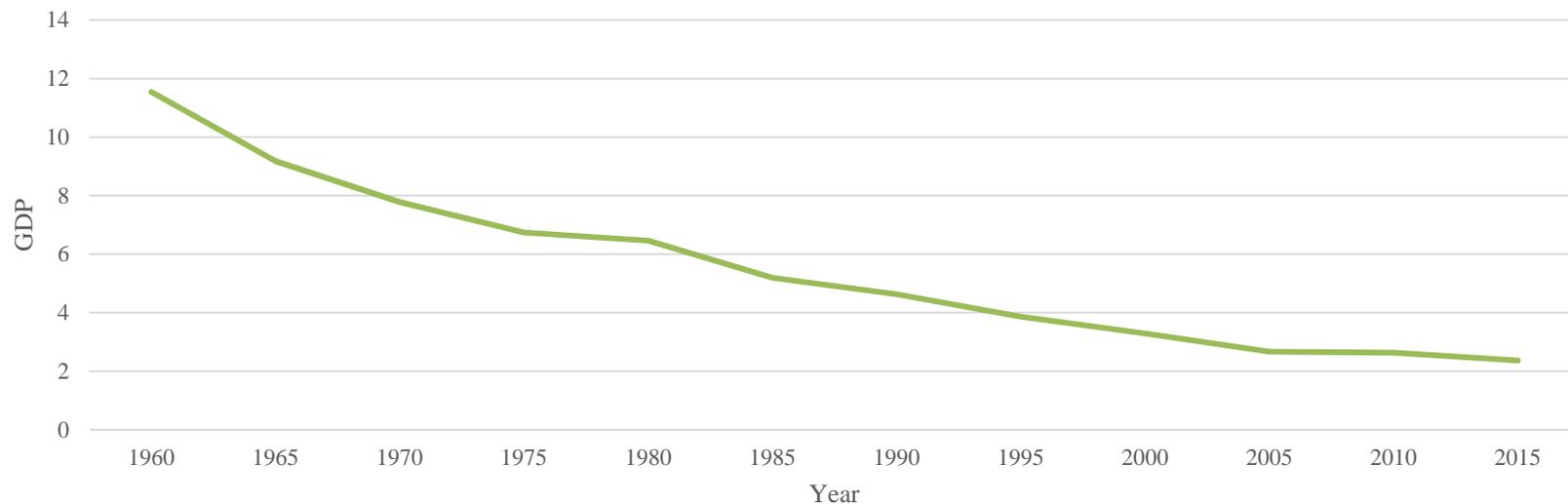
- The Financial and Fiscal Commission (FFC)
 - Is an independent, permanent, statutory institution established in terms of Section 220 of Constitution
 - Must function in terms of the FFC Act
- Mandate of Commission
 - To make recommendations, envisaged in Chapter 13 of the Constitution or in national 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



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

AGRICULTURE CONTRIBUTION TO GDP

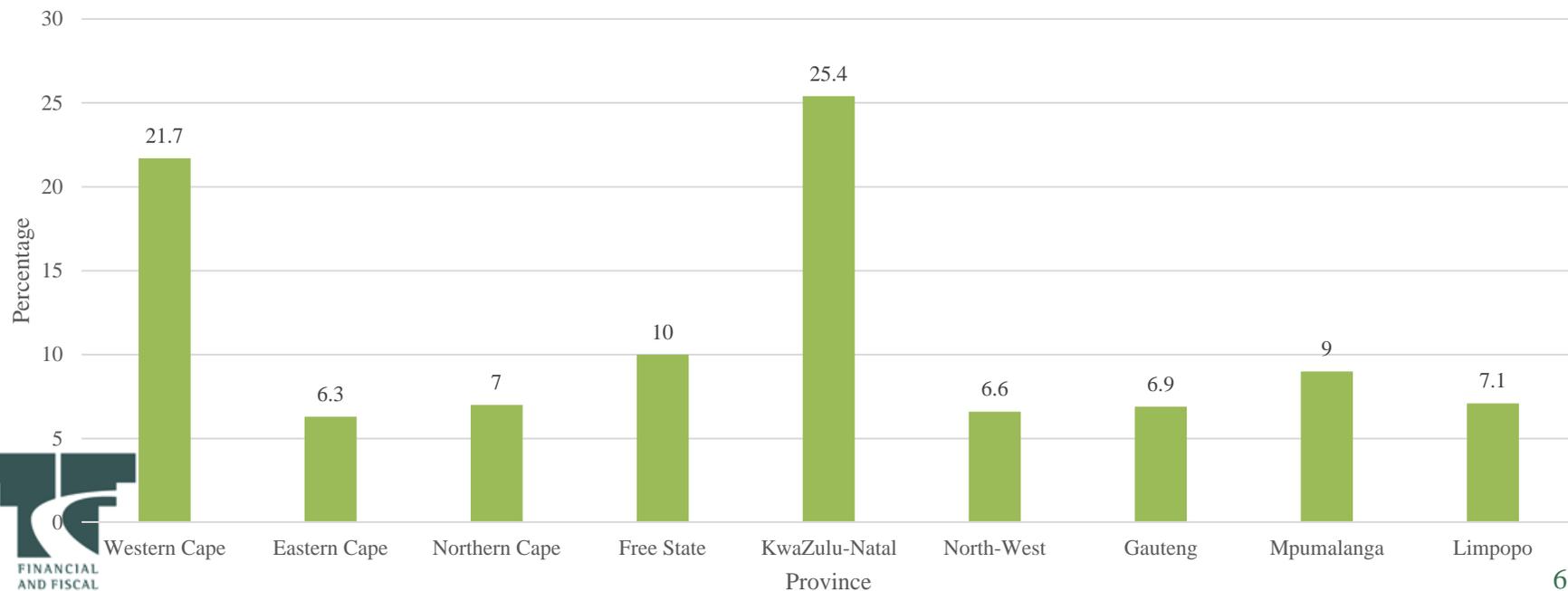
- Contribution of the sector to GDP has been on a decline since 1960's



- Slight improvement from 2.37% to 2.40% between 2015 and 2016 and sector is projected to remain at 2.5% for next three years
- Despite its small and declining contribution to the economy, the sector is still important in the economy due to large linkages with rest of the economy and its contribution to exports and employment

PROVINCIAL CONTRIBUTION TO NATIONAL AGRICULTURE OUTPUT

- Contribution to national agriculture output differs from province to province
 - Western Cape and KwaZulu-Natal contribute significantly to national agriculture output
 - Variation in contribution is partly attributable to concentration of processing plants

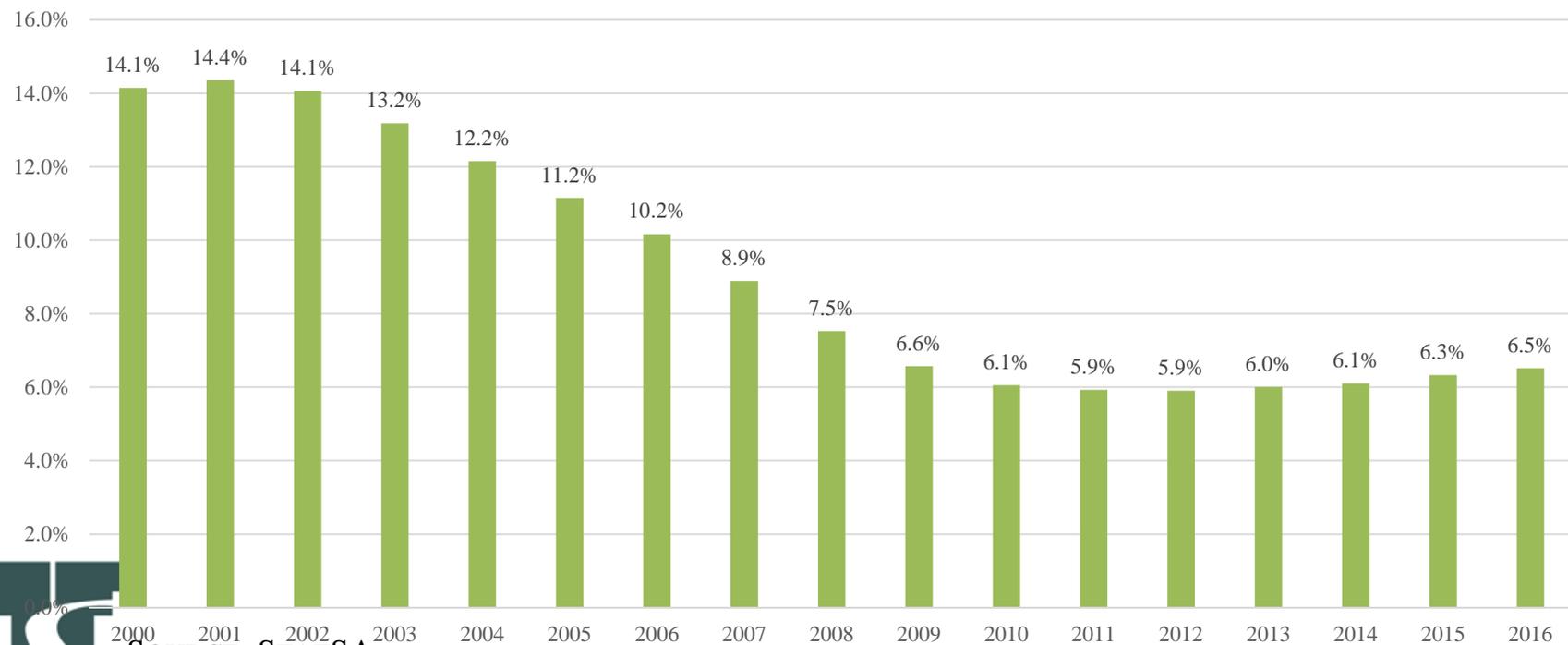


SUB SECTORS CONTRIBUTION TO GDP

- Fisheries contributes roughly 0.1% to GDP but plays a significant role particularly in the Western Cape where 11 of the 13 proclaimed fishing harbours are situated
 - Fisheries contribute more than 5% to Provincial Gross Domestic Product in the Western Cape
 - Fisheries remain one of the strategic sectors for government as part of the ocean economy
- Forestry contributes about 0.7% to the GDP
 - Production on forestry has been declining over the years and the number of planted hectares has been decreasing
 - South Africa is currently experiencing a shortage of timber and is constrained to meet the national demand for saw log timber

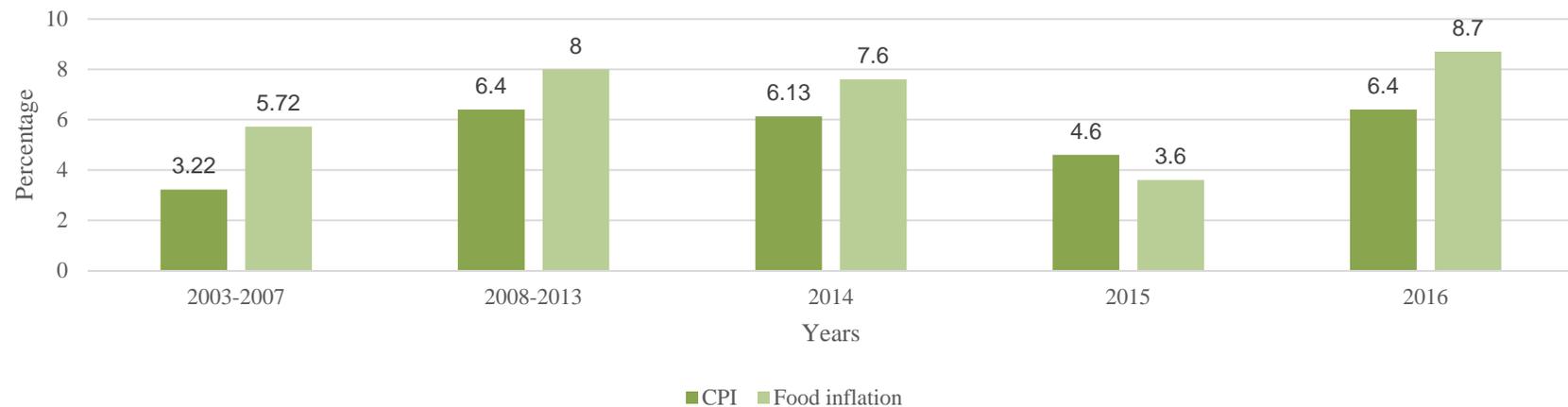
AGRICULTURE EMPLOYMENT

- There has been consistent decline in agricultural employment over the years from just over 14% in 2000 to 6.5% 2016
 - There has been a slight improvement since 2012



FOOD PRICES

CPI AND FOOD INFLATION INCREASE, 2003-2016



SOURCE: STATSSA

- Declining agricultural production and increasing input costs among other things contribute to agricultural food inflation
- Food inflation remained higher than CPI over the period with an exception of 2015
- The high rate of food inflation in 2016 was partly attributable to drought experienced in late 2015 and early 2016

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
- 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 AND APP 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 Fisheries
 - Six entities report to and fall under the budget of the DAFF
- Mandate: value chains, inputs, production and consumption in the agriculture, forestry and fishery sectors.
- Department contributes to *outcome 4* (decent employment through inclusive economic growth), *outcome 7* (comprehensive rural development and land reform) and *outcome 10* (enhance environmental assets and natural resources)
- Focus of the department over the medium term informed by NDP and relates to: Increasing food security, creating decent jobs, and improving the contribution of agriculture to national GDP

CONSOLIDATED SPENDING ON AGRICULTURE, RURAL DEVELOPMENT AND LAND REFORM

- Consolidated spending for agriculture, rural developments and land reform for 2017/18 is R27b growing to R30b over MTEF
 - Constitute 1.9 percent of total government spending
- DAFF's allocation constitute 20% of total agriculture and rural development budget and 0,01% of national budget

SPENDING AND MTEF BUDGET BY PROGRAMMES

In 2017/18, the DAFF is allocated a budget of R6.8 billion which increases to R7.1 billion in 2018/19

- Over the 2017 MTEF there has been an average annual growth of 5.2 per cent
- Trade promotion and market access and forestry programs have average annual negative growth of 0.9 and 2.6 per cent respectively over the 2017 MTEF
- Priority programmes such as Agricultural Production and Food Security are increasing at averages of 8 per cent and 6.9 per cent over the MTEF

	2013/14		2014/15		2015/16		2016/17	2017/18	2018/19	2019/20	Average annual budget growth rate 2013/14-2016/17)	Average annual growth rate 2017/18-2019/20)
Rmil	Budget	Expenditure	Budget	Expenditure	Budget	Expenditure	Estimate	MTEF				
Administration	704.7	681.6	759.0	738.4	788.9	785.8	781.4	902.5	945.7	954.3	3.6%	7.1%
Agricultural Production, Health and Food Safety	2 010.3	2 000.9	2 193.0	2 183.7	2 143.3	2 143.0	1 944.6	2 197.2	2 305.9	2 446.4	-0.8%	8.0%
Food Security and Agrarian Reform	1 604.6	1 590.1	1 689.3	1 656.3	1 910.5	1 906.8	1 888.7	1 946.8	2 035.8	2 302.8	5.7%	6.9%
Trade Promotion and Market Access	256.5	256.3	307.3	307.0	237.3	236.8	304.0	261.7	274.2	291.7	8.4%	-0.9%
Forestry	1 168.6	1 144.7	1 304.0	1 303.6	862.8	862.3	1 137.7	1 016.7	1 073.4	1 044.2	3.2%	-2.6%
Fisheries	437.7	437.7	439.8	439.8	465.9	465.9	458.6	482.2	504.5	537.3	1.6%	5.4%
Total	6 182.3	6 111.3	6 692.4	6 628.8	6 408.8	6 400.5	6 515.0	6 807.0	7 139.4	7 576.8	1.9%	5.2%



ASSESSMENT OF TARGETS VS ACTUAL PERFORMANCE

- The department shows mixed result on selected performance indicators
- There is need for proper monitoring and rapid interventions especially where provincial departments are responsible for attaining performance targets

Program & Indicator	Target set for 2015/6	Actual delivery	Percentage achieved	Reasons for under/over-achievement
Food Security and Agrarian Reform				
Number of hectares of underutilised land in communal areas cultivated for production	120 000 ha	78077	0% (65%)	The consolidated report indicating 78 077 ha supported by quarterly provincial performance reports approved by HoDs. However, these reports were still not sufficient to satisfy evidence required according to the Technical Indicator Description Drought has been cited as having contributed to the underachievement of the set target
Number of households benefiting from food and nutrition security initiative	40 000	A total of 14 486 households have been supported during the year under review	36.2%	A total of 66 747 households have been confirmed to have been supported through the provincial quarterly reports approved by HoDs. However, these reports were still not sufficient to satisfy evidence required according to the Technical Indicator Description. Drought has been cited as having a contributing factor for the underachievement of the set target
Smallholder producers established and supported	16 000	16 193 smallholders have been supported during the year under review	101.2%	Improved coordination by the Branch: FSAR at Outcome 7 level has led to improved reporting by PDAs as they form part of the Outcome 7 Technical Implementation Forum. Challenges experienced with validation of the existence of some producers detected through identity documents led to further reduction in the originally reported numbers

ASSESSMENT OF TARGETS VS ACTUAL PERFORMANCE

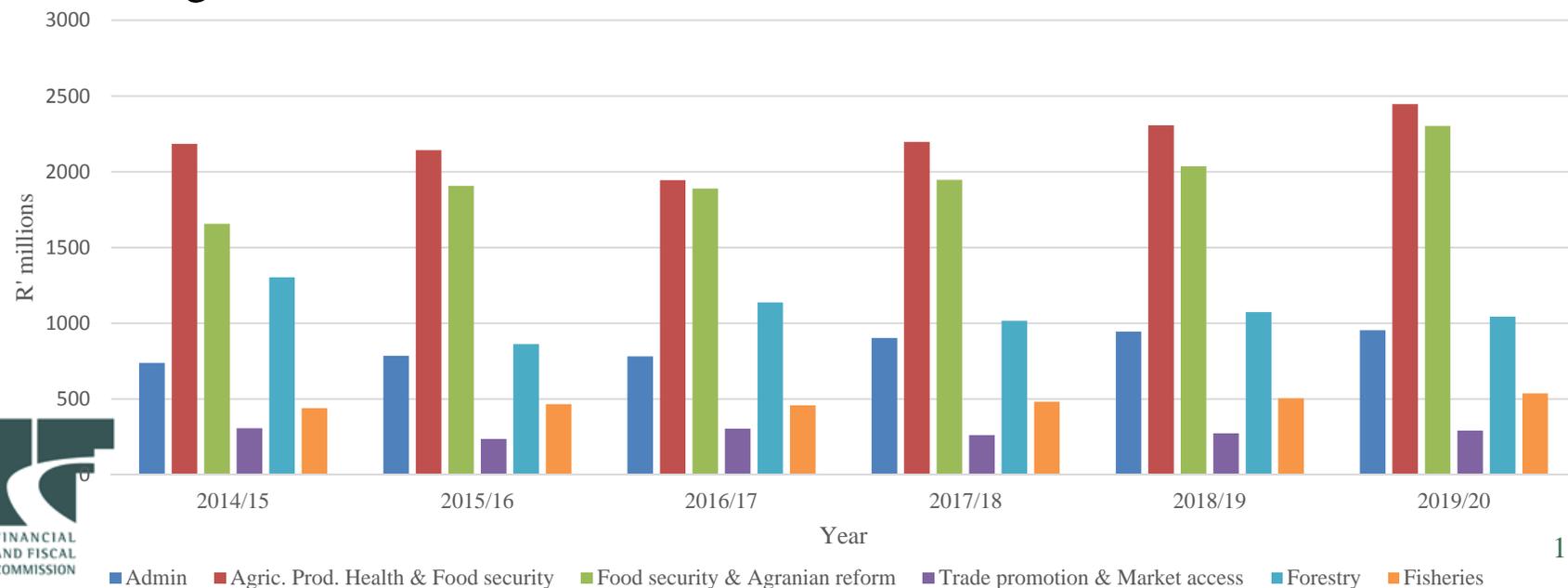
Program & Indicator	Target set for 2015/6	Actual delivery	Percentage achieved	Reasons for under/over-achievement
Forestry and Natural resources Number of ha planted in TUPs	1 725 ha	2 279,79 ha were planted	132.1%	Despite the drought experienced in the regions, the annual target was exceeded due to good rainfall experienced in the first two quarters of the financial year
Environmental Impact Assessments conducted	Environmental Impact Assessments (EIAs) conducted in KZN	EIAs was not concluded as planned	0%	The department had to split the application into two categories: One being those where all botanical studies are done and one for those affected by drought conditions where specialised studies still have to be done The drought and the exercise of splitting the documents in to two separate applications delayed the EIA process
Number of ha in irrigation schemes revitalised	250 ha	0	0%	Unavailability of approved conversion certificate to reflect the revitalisation of irrigation schemes work which is done in metres and convert it into hectares. Hence agreement had been reached with DPME to change the variable from hectares to number of projects going forward

ASSESSMENT OF TARGETS VS ACTUAL PERFORMANCE

Program & Indicator	Target set for 2015/6	Actual delivery	Percentage achieved	Reasons for under/over-achievement
Fisheries Aquaculture Act implemented as per Operation Phakisa	Bill submitted to Parliament for approval	The Bill was not submitted for approval	0%	The execution of the deliverable was delayed due to the requirement to complete a Socio-Economic Impact Assessment and the postponement of Task Team meetings at the request of the Aquaculture Industry Association members of the Task Team

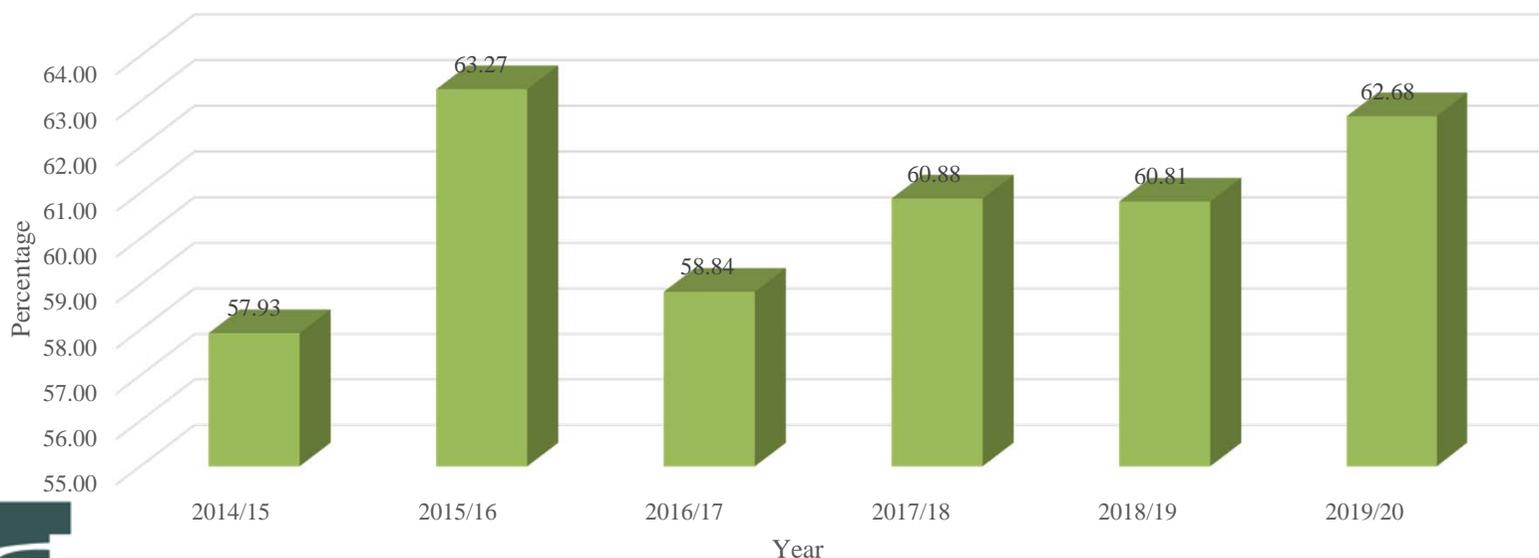
PROGRAMME SHARE OF TOTAL SPENDING AND BUDGET

- Agricultural Production, Health and Food Safety and Food Security and Agrarian Reform consume the bulk of the department's budget (60%).
- Budget share allocated to Food Security reaches 30% in 2019/20 reflecting the relative prioritisation
- Allocation and spending on Forestry as a percentage of total allocation is declining from 19.6 % in 2014/15 to 13.7% in 2019/20



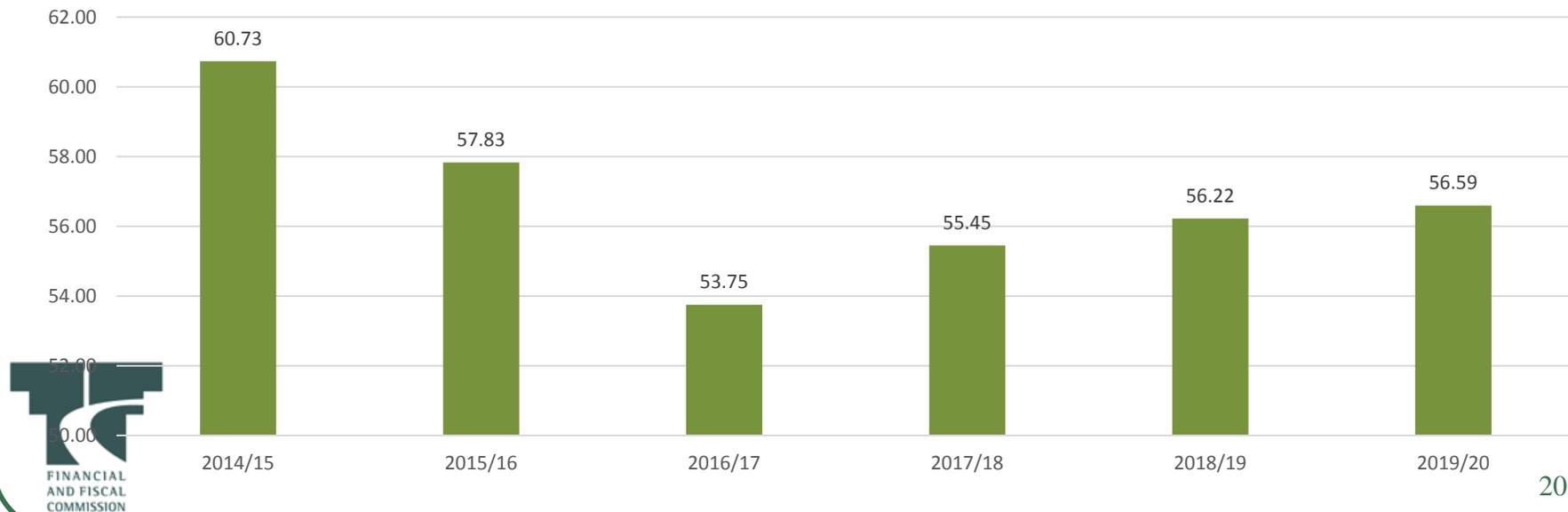
PRIORITY PROGRAM SPENDING AND BUDGET

- DAFF priority programs are implemented through the Agricultural Production, Health and Food Safety and Food Security and Agrarian Reform programs
- The two programs have maintained an average allocation share of 60%



TRANSFERS AND SUBSIDIES AS SHARE OF TOTAL BUDGET

- Transfers and subsidies consume the bulk of the vote's financial resources (with an average of over 56% - 2016 MTEF)
 - Provinces and municipalities are the biggest recipients of transfers and subsidies
 - Department APP performance targets must emphasize oversight given high proportion of transfers



OVERALL ASSESSMENT OF THE 2017/18 APP

- The Department APP comprises a total of 56 performance indicators
 - A focus on small number of indicators is commendable and enables ease of monitoring
- The 56 performance indicators can be directly aligned to long term strategic objectives
- The department make clear distinction between performance targets for provinces are responsible
- There is visible distinction on mandates which overlaps with the Department of Rural Development and Land Reform

ASSESSING APP AND SECTOR CHALLENGES

- DAFF highlighted some challenges within the sector including the vast areas suitable for forestry plantation which are temporarily unplanted and the department plans to revitalise the plantations
 - The Commission supports this revitalisation plan as it will increase production and address the shortage of timber and also create job opportunities
 - Furthermore, DAFF mentioned that some of the major reasons contributing to the decline on the plantation of forestry are the tighter regulatory frameworks governing water usage and privatisation
 - The Commission is of the view that DAFF should engage the Department of Water and Sanitation and find a solution on how forestry should be treated to ensure that productivity is not negatively affected

ASSESSING APP AND SECTOR CHALLENGES

- In order to address the challenges of poverty, unemployment and inadequate access to food, DAFF has prioritised food security and agrarian transformation and this is reflected by an average annual growth of 6.9 per cent over the 2017 MTEF
- DAFF has increased annual targets with respect to the number of households supported with agricultural food production, hectares cultivated and the number of smallholders supported over the MTEF
 - This is supported by the Commission and is in line with food security. The Commission, however, emphasises the importance of monitoring and evaluation to ensure sustainability
- One of the challenges in the sector is market access – particularly linking smallholder access to markets
 - Indicator on enabling environment for smallholder access to markets is not explicit enough and not SMART

PROVINCIAL ALLOCATIONS TO AGRICULTURE

- Provincial agriculture allocations are consistent with national consolidated spending on agriculture
- In some case agriculture allocations are being deprioritised
- Deprioritisation may be a result of over reliance on conditional grants

Rmillion	2013/14			2014/15			2015/16			2016/17		
	PES	Agric	%	PES	Agric	%	PES	Agric	%	PES	Agric	%
EC	50 165	1 743	3%	52 154	1 870	4%	54 312	1 983	4%	58 060	2 209	4%
FS	20 000	687	3%	20 883	696	3%	21 757	745	3%	22 995	746	3%
GP	61 375	554	1%	68 673	624	1%	73 413	812	1%	79 600	778	1%
KZN	73 510	2 027	3%	78 138	2 131	3%	82 254	2 292	3%	87 898	2 171	2%
LP	41 362	1 574	4%	43 274	1 605	4%	45 377	1 651	4%	48 709	1 783	4%
MP	27 211	1 013	4%	29 355	1 035	4%	31 030	1 003	3%	33 450	974	3%
NC	9 022	993	11%	9 652	777	8%	10 138	558	6%	10 863	552	5%
NW	22 754	871	4%	24 707	1 104	4%	26 151	1 092	4%	28 062	1 285	5%
WC	32 175	615	2%	35 631	863	2%	38 242	758	2%	41 062	788	2%

ASSESSMENT OF CONDITIONAL GRANTS (1)

- While spending of the agricultural conditional grants over the period 2012/13 – 2014/15 reflect inadequate spending performance, there has been a significant improvement in 2015/16
 - For the 2015/16 financial year, spending on all three conditional grants improved

Spending performance of Agricultural Grants

	2012/13-2014/15	Mar 2015/16
CASP	92%	99%
Illima/Letsema	96%	100%
Land Care	95%	99%

ASSESSMENT OF CONDITIONAL GRANTS (2)

- Average annual budget growth for both CASP and Illima/Letsema has been positive over 2017 MTEF (4.6% and 5.95 respectively) compared to MTEF allocations
- CASP is allocated over R5.5 billion rands to support over 435 000 subsistence and smallholder farmers
- The department needs to place greater emphasis on the quality of expenditure outcomes rather than the number of individuals supported

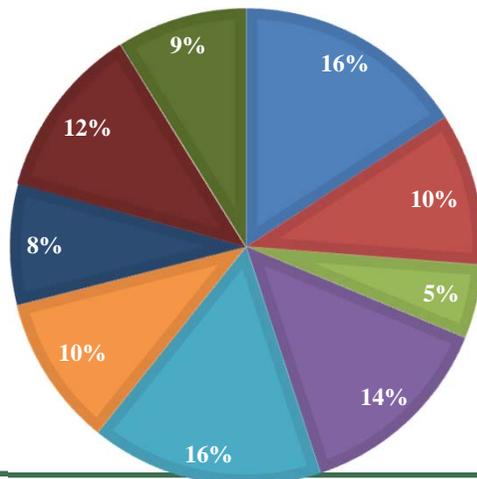
R billion	2013/14		2014/15		2015/16		2016/17	2017/18	2018/19	2019/20	Average annual budget growth rate 2013/14-2016/17	Average annual budget growth rate 2016/17-2019/20
	Budget	Expenditure	Budget	Expenditure	Budget	Expenditure	Estimate	MTEF				
Casp	1.6	1.6	1.86	1.81	1.65	1.63	1.64	1.65	1.75	1.88	1.5%	4.6%
Illima/Letsema	2.2	2.1	0.461	0.461	0.471	0.464	0.49	0.52	0.55	0.58	-24.2%	5.9%

ASSESSMENT OF CONDITIONAL GRANTS (3)

- Provinces with less contribution to national agriculture output receive greater share of CASP allocation
 - Greater grant emphasis on social objectives than productivity enhancement
- Illima/Letsema grant makes no discernible variation in allocations to provinces

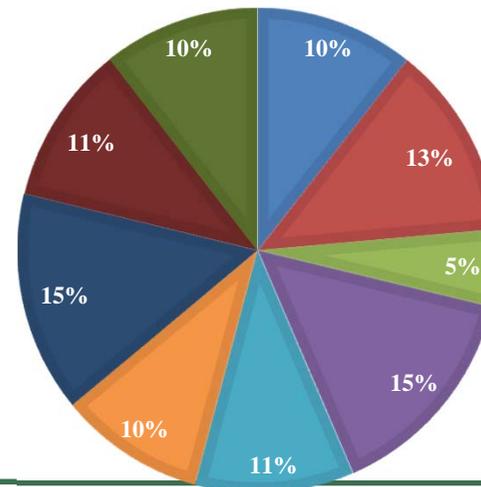
CASP

■ EC ■ FS ■ GP ■ KZN ■ LP ■ MP ■ NC ■ NW ■ WC



ILLIMA/LETSEMA

■ EC ■ FS ■ GP ■ KZN ■ LP ■ MP ■ NC ■ NW ■ WC



ENTITIES REPORTING TO DAFF

- Entities account for 26% of the total department of agriculture allocation
- The APP provides insufficient details regarding the performance of entities
 - The department needs to place greater emphasis on monitoring the performance of entities in the APP

Entity	Role	Budget
Agricultural Research Council	Conducts applied research to generate knowledge, develop human capital	974 583
Marine Living Resource Fund	Manages the development and sustainable use of SA's marine resources	261 966
National Agricultural Marketing Council	Provides strategic advice to the Minister on all agricultural marketing	419 717
Ncera Farms (Pty) (LTD)	Provides agricultural extension services,	2 246
Onderstepoort Biological Products	Prevents and controls animal diseases that impacts on food security	-
Perishable Products Export Control Board	Ensuring the orderly export of all perishable products and to	600
Total		1 659 112

CONCLUDING REMARKS AND SOME ISSUES FOR CONSIDERATION

- Programme 2 & 3 consume a large chunk of the DAFF funding resources and these programs are very key on achieving strategic food security goal
 - As seen previously, these two programs also have higher average budget growth rates compared to other programs over the 2017 MTEF (8 per cent and 6.9 per cent respectively)
- While DAFF has increased its targets for number of households supported with agricultural food production, hectares cultivated and the number of smallholders supported over the MTEF
 - The emphasis appears to be on numbers of individuals assisted rather than on viability of the projects to increase effectiveness and sustainability
 - Furthermore, there is no emphasis on creating a credible data base of beneficiaries for purposes of ensuring monitoring of farmer support and planning
 - Assisted beneficiaries should also be assisted with agro-processing and market access and the respective target measure should be made SMART
 - Assistance and support given to beneficiaries should be based on the principle of achieving sustainability rather than promoting continuous entitlement



5. FFC AGRICULTURE –RELATED RECOMMENDATIONS FOR 2018/19 DoR

Submission	FFC Recommendation
<p>Submission for the 2018/19 DoR</p>	<p>DAFF should enhance agricultural productivity by establishing a framework for implementing, evaluating and monitoring key agricultural grants targeted at subsistence and small-scale farmers.</p> <ul style="list-style-type: none"> • <i>Government Response: Government agrees with this recommendation. The DAFF is engaging with the recommendations from the Department of Planning, Monitoring and Evaluation’s expenditure reviews on its key grants.</i>
	<p>The Commission recommends that agriculture-related transfers are distributed across recipient provinces in a manner that promotes equity and ensures access for targeted groups, especially emerging and subsistence farmers located within rural provinces and municipalities. This can be achieved through expanding the current disbursement criteria to incorporate weights for a province’s share of national rural population, the proportion of a province’s rural population incomes below official poverty levels/measures, and the extent to which the rural population in a province participates in subsistence and smallholder farming.</p> <ul style="list-style-type: none"> • <i>Government Response: Government agrees with this recommendation. The current criteria are meant to achieve equity across provinces. These criteria need continuous monitoring to ensure they uphold the principle of equity.</i>

Submission	FFC Recommendation
<p data-bbox="235 766 492 925">Submission for the 2018/19 DoR</p>	<p data-bbox="526 231 1982 566">CASP and the Recapitalisation and Development Programme are consolidated into one funding programme for post-settlement support to emerging and land reformers under the DAFF which has more expertise in the area of agriculture. The consolidated fund should provide timeous support to land reform beneficiaries and be complemented by affordable loan funding.</p> <ul data-bbox="526 582 1993 861" style="list-style-type: none"> • <i>Government Response: Government agrees that post-settlement support that ensures arable land remains in production is important. However given the overlapping roles between the DAFF and the DRDLR, the first task is to clarify the roles of these two departments, which both include aspect of post-settlement support.</i> <p data-bbox="526 885 1825 981">The current municipal disaster grant be allowed to cater for eviction-related emergencies.</p> <ul data-bbox="526 997 1982 1244" style="list-style-type: none"> • <i>Government appreciates and agrees with the concerns raised regarding eviction. Government does not, however, agree that evictions meet the definition of disasters prescribed in the Disaster Management Act (2002), which means that the municipal disaster grant is not the appropriate instrument for alleviating the effect of evictions.</i>

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



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