We develop the South African Agriculture Industry.
Ons ontwikkel die Suid-Afrikaanse Landbou Industrie.

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COMMENTS ON THE 2018 MEDIUM TERM BUDGET POLICY STATEMENT (MTBPS)

1. INTRODUCTION

Agri SA is a federation of agricultural organisations, representing a diverse grouping of commercial and emerging farmers through 9 provincial unions and 26 commodity organisations. Through its affiliated membership, Agri SA represents a diverse grouping of individual farmers regardless of gender, colour or creed (approximately 28 000 farmers and 1000 local associations). In addition, Agri SA has 38 corporate members that participate in the business value chain.

At Agri SA we promote, on behalf of our members, the development, profitability, viability, competitiveness and sustainability of agriculture in South Africa by means of our involvement and input on national and international policy and the implementation thereof. Agri SA congratulates the Minister of Finance, Tito Mboweni, on his first Medium-Term Budget Policy Statement (MTBPS) as it contains several promising policy indicators.

2. RECOMMENDATIONS

Agri SA welcomes the opportunity to submit written comments on the 2018 Medium Term Budget Policy Statement (MTBPS):

- **Drought support:** Agri SA welcomes the R3.4 billion allocated to drought relief, the majority going towards upgrading water infrastructure. The severity of the drought conditions does however require direct assistance to farmers and rural communities to ensure that farms are able to remain active and to avoid job losses.

  Direct assistance to farmers, along with effective and speedy implementation is crucial to assist farmers operating in survival mode, because of the longer-term impact of drought conditions. Agri SA collaborated with the National Agricultural Marketing Council (NAMC) and other key industry stakeholders to produce the second report of the Section 7 Committee on Drought.

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The report has recently been shared with the Minister of Agriculture, Forestry and Fisheries. We trust that the recommendations from this report will be considered to help inform the implementation of much needed drought support.

- **Land Bank:** Singling out of agriculture as an important driver of economic recovery is heartening, so too the reprioritization of support to the Land Bank.

  Agri SA has been in discussion with various stakeholders including government, developmental finance institutions (DFI's) both local and international, commercial banks and private equity funds (PE) among others, to see how the different role players can work together.

  One of the central ideas that emerged in these discussions was a collaborative Agricultural Development Fund (ADF). The R4,4 billion announce in the MTBPS is a step towards realising this grand vision.

- **Restructuring of the electricity sector:** Electricity is a key production input for agriculture. According to the department of agriculture, forestry and fisheries, the agricultural sector spent approximately R146 billion on intermediate goods and services in 2017/18, of which electricity amounted to R7 billion.

  Farmers are price takers and rising electricity costs have a direct impact on our international competitiveness, where farmers must absorb rising input costs. The electricity cost pressure stems from the (1) rising cost per unit of electricity as well as (2) rising network fees, for example electricity line fees.

  Agri SA welcomes the commitment to restructure the electricity sector, along with a long-term plan to restructure Eskom and to deal with its debt obligations. The review of the current Electricity Pricing Policy will need to consider the impact of electricity pricing on South Africa's international competitiveness and economic growth.

- **Water crisis in the Vaal River System:** The implementation and promise of decisive and urgent attention to address the crisis is appreciated. As a water scarce country, it is crucial for South Africa to protect our water resources.

- **Water infrastructure**: Earlier this year, the Department of Water and Sanitation noted that it has a lack of funding for the construction of dams. The reallocation of funds for other projects, such as the War on Leaks Programme, raises concern on how this will impact on investment in crucial infrastructure, such as the construction of dams.

- **Land transport and road network:** A well maintained road network is a crucial conduit to economic activity and specifically for agriculture. The poor, or in many cases the complete absence of road maintenance increases the cost of doing business by creating losses in terms of both time and money. The problem is often experienced on a provincial level and in rural areas, non-toll roads are not adequately maintained. As with rising electricity costs, this has a negative impact on our international competitiveness and the sustainability of farming and agribusinesses.

Whilst the MTBPS mentioned the strengthening and rehabilitation of the national non-toll road network, the Department of Transport's budget allocation for non-toll roads has been cut by around 35%. The maintenance of non-toll roads that connect farmers to both their suppliers and markets cannot be left to deteriorate further. We urge the Minister to consider the negative impact of not maintaining this crucial road infrastructure.

- **Restoring good governance and fighting corruption:** The initiatives to strengthen financial management and fight corruption are welcomed. However, it is crucial that the commitments are urgently and effectively implemented to ensure that these problems are addressed.

- **Moderating taxes:** The R27.4 billion short-fall in tax revenue is of great concern and speaks to the urgency of addressing governance issues at SARS. The commitment to avoid increases in major tax instruments (unless the economy requires it) is also welcome. It would be fair if potential increases in excise taxes are set below inflation, given the already high rates charged and the recent history of above-inflation increases.

- **Government expenditure and guarantees:** The commitment to reconfigure spending on state owned enterprises (SOEs) is clearly necessary, however, similar statements have been made in the past with no clear sign of real progress. The key deliverable on this point is to reverse the tradition of debt commitments and cash-flow bail-outs worth billions of Rands.

- **Rising government debt:** The recognition of the role played by the ballooning wage bill in escalating government spending, and in turn debt levels, is appropriate, as well as the instruction to government departments to absorb salary increases rather than stretch the wage bill further. This item is admittedly the biggest fiscal challenge and will require several years to manage downward, if at all.

- **VAT zero-rated items**: Agri SA submitted comments to the Panel of Experts, bread and cake flour were among the items we recommended to be zero rated. We are grateful that these products have now been zero rated.

Agri SA looks forward to further engagement and collaboration with government to address these issues that have an impact on agriculture and its contribution to the South African economy.

Kind regards

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