

# Efficient use of public funds essential to optimise SA's agricultural output

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An increase in policy uncertainty, disappointing economic growth and an increase in government debt may lead to a credit downgrade as early as the end of February 2018. This will jeopardise food security as a weakening exchange rate will most certainly lead to an increase in interest rates and higher import costs. Inflation will increase and the consumer will become poorer.



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This year's budget to be presented in Parliament this week (February 21) is therefore important and presents an opportunity to boost investor confidence in general and in agriculture in particular. As a start, there should be sufficient measures in place to ensure that there is always transparency in our national budget allocation process.

Not only for our national budget in general but also in terms of our agricultural budget allocation and spending. More attention needs to be paid to the agricultural sector, not only to guarantee food security but because it can be a major driver of the much-desired economic growth. Agriculture contributed significantly to the latest positive GDP figures and has been pivotal in rescuing the country from the throes of a recession.

**Table 1: Average agricultural expenditure compared to the average GDP contribution of Agriculture per province (2010/11 – 2014/15) at current prices (R million)**

Province	Current average government expenditure on agriculture (2010/11 – 2014/15)	Average Agricultural GDP (2010 – 2015)	Average total GDP(2010 – 2015) for South Africa	Current government expenditure as % of the average agricultural GDP	Average agricultural GDP as a % of total GDP for South Africa	Proposed government expenditure on agriculture based on the provincial contribution to total GDP for South Africa
Eastern-Cape	1,614 (19%)	4,136 (5%)	<b>262,116 (8%)</b>	<b>39%</b>	0.13%	<b>5.6%</b>
Free State	<u>533</u> (6%)	7,339 (10%)	<b>173,651 (5%)</b>	<b>7%</b>	0.22%	<b>9.9%</b>
Gauteng	370 (4%)	4,675 (6%)	<b>1,158,626 (34%)</b>	<b>8%</b>	0.14%	<b>6.3%</b>
Kwazulu-Natal	1,747 (20%)	19,467 (26%)	<b>542,825 (16%)</b>	<b>9%</b>	0.57%	<b>26.1%</b>
Limpopo	<u>1,550</u> (18%)	5,624 (8%)	<b>247,394 (7%)</b>	<b>28%</b>	0.17%	<b>7.6%</b>
Mpumalanga	958 (11%)	6,772 (9%)	<b>257,812 (8%)</b>	<b>14%</b>	0.20%	<b>9.1%</b>
Northern- <del>kaap</del>	563 (7%)	4,929 (7%)	<b>72,223 (2%)</b>	<b>11%</b>	0.14%	<b>6.6%</b>
Northwest	801 (9%)	5,006 (7%)	<b>223,971 (7%)</b>	<b>16%</b>	0.15%	<b>6.7%</b>
Western Cape	553 (6%)	16,512 (22%)	<b>465,174 (14%)</b>	<b>3%</b>	0.49%	<b>22.2%</b>
<b>Total provinces</b>	<b>8,689 (100%)</b>	<b>74,460 (100%)</b>	<b>3,403,792 (100%)</b>	<b>12%</b>	<b>2.19%</b>	<b>100%</b>
National	3,883	-	-	-	-	-
Total provinces and national	10,751	74,460	<b>3,403,791</b>	14.4%	-	-

Source: Troskie, D. (2015) & Intergovernmental Fiscal Review & Absa Agribusiness

It is vital therefore that we continue to find ways to optimise the output of the agricultural sector. It is worth highlighting some of the specific pressing needs of selected agricultural industries in South Africa.

## Poultry industry

Budget allocations to deal with increased environmental risks such as Avian influenza

- Poultry industry: Budget allocations need to include guidelines for compensation payable to affected commercial producers in order to eradicate the H5N8 virus. Without compensation, South Africa cannot eradicate the disease as the cases are not reported in fear of losses without compensation. If we do not eradicate the disease through collaboration brought about by compensation our national food security status will be impacted negatively and job losses may increase. Food security is about the accessibility, safety and affordability. Consumers can already expect that a dozen of eggs will increase by up to R3/dozen, which would make them less affordable due to the increased production costs and additional biosecurity measures needed.

- Going forward, we need to improve the Agricultural Department's capacity to deal with crises like Avian influenza. It is needed to effectively prevent future outbreaks through dedicated training and preventative biosecurity measures

## Wine industry

- Budget to increase the capacity of the Department of International Trade at the National Department of Agriculture to bilaterally negotiate favourable free trade and preferential trade agreements for the wine industry. Especially with regards to the BRICS countries and new trade opportunities that Brexit offers in the UK market.
- Secondly, the return on a bottle of wine that the producer receives is less than the VAT and excise duties on a bottle of wine. We need to adjust the excise duties on wine lower in order to increase the sustainability of the ailing wine industry and wine tourism industry. We need to take bold steps to prevent further losses in the production of wine grapes and jobs. A decrease in excise duties on a product such as wine will probably stimulate the economy more directly, resulting in an increase in the GDP for agriculture and its contribution to the overall economic performance of South Africa than to make a general contribution to the fiscus.

## **Horticultural industry**

- Assistance with the development of environmentally approved water infrastructure is critically important. It is necessary to expand on additional storage capacity, sufficient maintenance of existing water irrigation scheme infrastructure, the efficiency of utilisation and allocation of water.
- Disaster management and aid in times of drought need to be addressed sufficiently in the budget. Aid to lessen the socio-economic impact on jobless people due to the impact of drought. Investigate affordable insurance against disasters such as drought or hail.
- Assist transformation in the sector by establishing policy certainty by strengthening property rights with regards to land restitution and reform. Entry barriers are high and high managerial inputs are necessary for the success of new entrants into agricultural production. Sufficient budgets for proper agricultural training and education of new commercial producers is also needed to ensure success.
- Government assistance is needed to sustain current markets but also to develop new overseas markets and to gain additional market access. Production will increase given the new expansions in horticultural production, improvements and new production and storage technologies. The government need to enable the producer to serve new markets effectively, distribute products efficiently and to limit risks.
- The long-term permanent cropping nature of the horticultural industry requires a stable exchange rate. Producers cannot base the sustainability of long-term investment decisions by depending on a weak exchange rate.

## **Grain and oilseeds industry**

- Grain and oilseed producers need a crop insurance scheme to assist in dealing with climate change.
- Black grain producers need a government guarantee system to gain access to production loans as they do not have title deeds of the land they work.
- The budget for primary research and development needs to increase. Especially on the development of drought-tolerant varieties.
- The port facilities (deepening of grain ports) needs to improve in order to make South Africa more competitive in exporting and more efficient on imports.
- We need to budget sufficiently to improve our capacity to deal with biosecurity hazards such as the Fall armyworm in an effective manner.

## **Cultivate and develop a culture of accountability**

In a recent interview, the former Minister of Finance, Trevor Manuel, made the comment that South Africa needs to cultivate and develop a culture of accountability. It may be opportune to reflect on the agricultural needs of our agricultural industries and to reconsider the budget allocations to improve the productivity of agriculture in order to address the future food security needs of our country and the growing world population. Provincial budget allocations should reward those industries and provinces according to their agricultural output and the need to increase the productivity of food production through research and development in order to meet our future food security requirements.

*Sources:*

- *Troskie, DP (2017), Provincial Department of Agriculture: Western Cape Province, Elsenburg*
- *Abstract of Agricultural Statistics, 2017*
- *Intergovernmental Fiscal Review, 2015*
- *World Economic Forum, 2017*
- *Grain SA, Hortgro, Vinpro, Kuipers Group*

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