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OVERVIEW AND ANALYSIS OF THE 2005-06 ANNUAL REPORT OF THE DEPARTMENT OF AGRICULTURE

1. INTRODUCTION

One of the most important challenges facing the agricultural sector is to produce sufficient and affordable food, especially at household level. The prices of agricultural products increased by 2,3% from 2003 to 2004. During 2004, the estimated total volume of agricultural production was 0,1% higher than during 2003. However, producer prices of agricultural products decreased, on average, by 6,8% from 2003 to 2004, compared with an increase of 6,9% during 2005.[1] Another challenge facing the agricultural sector is in the lack of adequate support structures for emerging black farmers. While newly introduced programmes and institutions continue to impact positively on the agricultural sector, the most vulnerable group is emerging farmers, who continue to have limited access to information, less experience and fewer resources, due to their historical exclusion from the mainstream economy in the past. Some of the key concerns that are raised by the emerging farmers includes among others, frustrations on the slow paced process of land reform, inaccessible loan systems from various financial institutions and lack of co-ordinated support for the sector. This paper provides analysis of the 2005-06 Annual Report of the Department of Agriculture and the progress that has been made throughout the financial year.

2. FARMER SUPPORT PROGRAMME PERFORMANCE

2.1. Farmer Support and Development

The Department's Farmer Support Programme is critical to the development and support emerging farmers including land reform beneficiaries. One of the key targets for the farmer support programme was to ensure that 70% of beneficiaries of land reform, such as restitution and LRAD programmes, have viable businesses by 31 March 2006. However, the Department was unable to achieve this target, mostly due to lack of information on the projects. The

[1] South Africa Yearbook 2006

Department is in the process of consolidating information on land reform farms, especially LRAD farms. Apart from the fact that the Department cannot conclusively ascertain the number of land reform farms, the viability of the farms could not be assessed, in the short-term.

Intervention	Desirable output	Target (by 31 march 2006)	Performance
Farmer Settlement	Viable farm businesses	70% of beneficiaries of land reform have viable farm businesses.	**Target not achieved**
Agricultural Finance and Co-operative Development	Agricultural cooperatives developed	80 new agricultural co-operatives developed	**Target achieved:** 84 new agricultural co-operatives established
Food Security and rural Development	Food security vulnerability information mapping system	12 ISRDP nodes reached	**Target not achieved**: 1 node reached.
Agricultural risk and Disaster management	Agricultural risk and Disaster management measures	20% increase in farmers reached	**Target not quantifiable**.
Registrar of Co-operatives	Transfer of Registrar of Co-operatives	Transfer finalised by mid 2005-06	**Target achieved**

Table 1. Targets and performance of the farmer support and development programme. (*Source*: 2005-06 Annual Report, p32 and 2005 Strategic Plan, p48)

Of the 12 ISRDP nodal areas to be reached by the end of the financial year, the Food Security Vulnerability Information Mapping System was completed on only one ISRDP node.

2.2. THE COMPREHENSIVE AGRICULTURAL SUPPORT PROGRAMME (CASP)

The aim of the CASP programme is to provide post settlement support to the targeted beneficiaries of land reform and other emerging farmers who have acquired farming land through private means and are engaged in farming enterprises. The CASP focuses on developing farm infrastructure, information and knowledge management, financial assistance, technical and advisory services, training and capacity-building, and marketing and business development. The Department of Agriculture committed R210 million in 2004/05 for the initial rollout of the CASP. During 2005/06, government planned to spend R250 million on CASP to reach over 50 000 beneficiaries in the rural areas, particularly in the rural development nodes serviced by the department.

For the CASP programme the following progress has been noted:

- As part of CASP support services, a total of 542 projects were managed and 89 000 beneficiaries were assisted.
- Tools have been secured to improve data capturing for fixed point monitoring and surveillance systems, potential areas of livestock

production, changes in land use and possible management of LandCare and CASP projects.

- All LandCare and CASP co-ordinators in the provinces were visited and the various reporting templates workshopped with staff members involved in compiling reports in order to improve the standard of reporting by the provinces.
- The CASP monitoring templates and analytical tools were completed.

While the increased budget allocation for CASP is welcome, the challenge is lack of capacity to spend the allocation at the provincial level. Provincial departments of agriculture, as implementing agents for the support programme, initially focused on providing infrastructure. However, it became clear that to achieve the intended results, a full roll-out of the programme was needed. In the first years, significant underspending and roll-overs indicating that provincial departments were facing capacity constraints. Recommendations to improve the provision of agricultural support to emerging farmers include reviewing grant conditions, business processes relating to the identification and approval of projects, business plans and timeframes for reporting.

3. FINANCIAL PERFORMANCE

PROGRAMME	2005-06				2004-05	
	Final Appropriation	Actual Expenditure	Variance	Expenditure %	Final Appropriation	Actual Expenditure
	R'000	R'000	R'000	R'000	R'000	R'000
Administration	165 161	159 758	5 403	96,7%	176 690	169 838
Farmer Support & Development	714 783	696 728	18 055	97,5%	336 898	330 044
Agricultural Trade & development	62 593	38 764	23 829	61,9%	35 805	26 759
Economic Research & Analysis	21 602	17 760	3 842	82,2%	21 755	16 108
Agricultural Production	416 655	414 250	2 405	99,4%	373 944	372 494
Sustainable Resources Management	169 899	168 206	1 693	99,0%	159 344	143 219
National Regulatory Services	288 910	267 331	21 579	92,5%	251	242 668
Communication and Information Management	120 358	108 716	11 642	90,3%	87 356	83 405
Planning, Monitoring and Evaluation	77 807	6 495	1 312	83,2%	5 819	2 306
Total	1 967 768	1 878 008	89 760	95,4%	1 449 391	1 386 841

Table 2. Total Budget allocations and expenditure per programme.

For the 2005-06 financial year, the Department received an allocation of R1 967 768 000 and managed to spend R1 878 008 000 by the end of the financial year. The Agricultural Trade and Development programme spent the least of its allocated budget of R62,5 million, which contributed R23,8 million to the total underspending of R89,7 Million (4,6% of the total budget). According to the Department, the underspending was attributed to vacancies not being filled timeously, which also had a carry through effect on spending on goods and services. Not all the funds appropriated for AgriBEE, being a new initiative, were spent. Furthermore, claims amounting to R20,0 million for Classical Swine fever were not received in time. Due to exchange rate fluctuations, membership fees to international organisations were less than budgeted for.

A total amount of R140,0 million was requested by the World Food programme from the South African Government for humanitarian food assistance in the SADC region. The countries for which assistance was required included Lesotho, Malawi, Mozambique, Namibia, Swaziland, Zambia and Zimbabwe. Funds were appropriated by Parliament in the Adjustments Estimate of 2005/06 and paid to the World Food Programme during February 2006.

PROVINCIAL DEPARTMENT	TRANSFERRED AMOUNT (000)
Eastern Cape Province	65 552
Free State Province	39 088
Gauteng Province	7 727
KwaZulu-Natal Province	59 270
Limpopo Province	66 786
Mpumalanga Province	44 129
Northern Cape Province	35 148
North West Province	54 594
Western Cape Province	37 706

Table 3. Transfers to provinces for 2005/06 (*Source*: 2005-06 Annual).

These transfers include payments in respect of LandCare (R40 million) and CASP (R250 million), which provide post-settlement support to targeted benefiiaries of land reform, and funds provided for drought relief (R120 million). However, most provincial Departments were unable to spend their allocated budgets, a trend that is likely to continue into the 2006-07 financial year. In August 2006, National Treasury briefed the Select Committee on Finance on capital expenditure and conditional grant spending on agriculture in the five provinces, and reported that spending figures for the first quarter of the financial year were very low. For example, the Free State was allocated R23 million and only spent R1.5 million, while and Limpopo received R306 million, of which only R20 million had been spent. There was an overall allocation of R300 million for the Comprehensive Agricultural Support Programme of which only R33.4 million (11%) was spent. The Select

Committee on Finance raised numerous concerns on recurrent rollovers, lack of adequate planning, spending capacity constraints, political will, internal audits in the provinces, fiscal dumping at the end of the financial year and poor service delivery.

4. REPORT OF THE AUDITOR-GENERAL

4.1. Qualification: Agricultural Debt Account (ADA)

The Auditor-General's report indicates that policies and procedures to efficiently and effectively manage revenue in the Department were not documented which resulted in several deficiencies identified during the audit of revenue. Furthermore, reconciliations for revenue deposited against certificates and licences issued were not done throughout the year. Of a greater concern is the Auditor-General's disclaimer on the Agricultural Debt Account which is meant to control funds owed to the Department. Agricultural debt is managed in accordance with the provisions of the Agricultural Debt Management Act, 2001 (Act No. 45 of 2001), and debt management frameworks. According to the Act, agricultural debt is defined as any amount contractually or statutorily owed to the state as a result of financial assistance, loans or subsidies in terms of the provisions of the Agricultural Credit Act, 1966 (Act No. 28 of 1966), and other related legislation or financial assistance schemes.

The reason for the disclaimer on the Account was that the Auditor-General was unable to perform all the necessary audit procedures in compliance with the standards on financial instruments due to lack of relevant information. Hence, the reliability and accuracy of the majority of the balances disclosed in the annual financial statements were not verifiable. This is due to a lack of necessary expertise, proper accounting and data management system that could allow the Department to comply with International Accounting Standards 32 and 39 (IAS 32 and IAS 39), respectively. The Auditor-General identified the following specific issues:

i). The Agricultural Debt Account's impairment and provisions on loans and receivables, the fair value disclosure of debtors and calculation of interest revenue do not comply with the requirements of International Accounting Standard (IAS 32) and (IAS 39) Financial Instruments.

ii). The requirement to apply the standards retrospectively affects the following current and previous year balances and amounts in the annual financial statements: Long-term loans to farmers, Short-term portion of long-term loans, Accounts receivable, Accumulated reserves, Revenue and Provision for doubtful debts.

5. HUMAN RESOURCE

5.1. Shortage of Skilled Personnel

A lack of sufficient human resources impacted negatively on the department's capacity to render services. This was mainly as a result of the high vacancy rate and severe skills development backlog in the agricultural sector. The human resources section of the agriculture department's annual report indicated a 25.6% overall vacancy rate, with some 869 posts still waiting to be filled at the end of the latest financial year. There was a 36% vacancy rate in permanent administrative posts; 37.2% of finance and economics professionals still needed to be hired; 25.9% of finance positions were not filled, while 15.8% of financial clerks and credit controllers had not yet been hired. The lack of skilled personnel and the delays in filling vital positions is negatively affecting the capacity of the Department to deliver its mandate.

5. CONCLUSION

Regardless of the reason, the Auditor-General's Disclaimer is a serious indictment of the finances of the Department, and it is the duty of Parliament to oversee and ensure that this issue is addressed. The Department must present to Parliament a coherent strategy and a plan of action that Parliament will be able to monitor and assess.

6. QUESTIONS

- The Department had failed to meet its target of supporting land beneficiaries to ensure that they have sustainable businesses. What were causes of this failure and what measure are in place to ensure that the Department does succeed on this target? What is the working relationship with the Department of Land Affairs on this issue?
- Some Provincial Departments are still facing the problem of underspending in critical areas such as CASP and Landcare. It is the responsibility of the National Department to ensure that there is capacity to implement its programmes at provincial level. What has the Department done or is going to do to ensure Provincial Departments are capacitated to deliver on CASP and Landcare? The Department should provide progress report on its initiatives in building capacity in provinces.
- The Department has reported on the amount of transfers to provinces and public entities but has not reported on how much of the transfers have been spent. Why is that the case?
- How many emerging farmers/land beneficiaries have benefited from CASP in different provinces during the year under review and what kind of assistance was provided for them?
- The Department was not able reach the 12 ISRDP nodes targeted for completion of Food Security Information Mapping System. What were the constraints?
- The Department had 25.6 % vacancy rate during the period under review and this had a negative impact on the delivery of service. What