

Policy INSIGHT



Shedding Light on Policy Developments

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HIGHLIGHTS & IMPLICATIONS

- **Government taking strides in outcome based governance by announcing 12 outcomes.** The rural development outcomes are within Land Bank mandate.
- **Expansionary monetary policy of lower interest rates dwarfed by environmental taxation proposal.** Land Bank could use opportunity to increase business (loans).
- **South Africa actively pursuing trade opportunities.** Opportunity to explore trade finance options for Land Bank.
- **Agricultural policy moving towards supportive and participatory.** Land Bank has potential to provide farmer support programmes as one of the key role players.
- **Ramification of rural development and land reform policies still under way.** Land Bank to determine strategic and operational involvement and identify lending opportunities.
- **Environment and water resources creating challenges for agricultural production.** Food safety issues to be prioritised.
- **Initiatives underway to ensure farm security and safety.** Moves expected to positively influence performance of the agricultural sector.

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OVERALL GOVERNMENT POLICY

Following the focus on delivery of the successful world cup in the last quarter, the government shifted focus back to the reprioritization of delivery objectives. A Cabinet *lekgotla* organised the priorities into 12 outcomes aimed at giving effect to the Medium Term Strategic Priorities of education; security and corruption; health; human settlement as well as rural development and land reform. The outcomes are as follows;

Rural development and land reform

- **Expanding commercial farming and agri-processing to create jobs**
- **Increasing the number of small-holding farmers and their market share**

Education

- Achieving universal access and improving results
- Getting 200 000 children aged 7-15 into school before 2014
- Improving teaching quality
- Increasing the number of no-fee schools and school-feeding schemes

Security and corruption

- Drawing on World Cup efficiencies in fighting crime
- New anti-corruption task team, encompassing other agencies such as SIU
- Each government department to have its own anti-corruption unit

Health

- Reducing disease burden, such as TB and malaria

- Early treatment for HIV-positive people

Human settlement

- Upgrading informal settlements to improve 400 000 households' quality of life by 2014

While these outcomes were still to be finalised, contracting with ministers in what would be termed "delivery agreements" has taken shape. Further, towards the end of the quarter, the ruling party held its National General Council (NGC) with emphasis on the need for delivery on priority areas. Prioritisation of agriculture and rural development is in line with the need to speed up delivery implies imminent changes in rural areas and the agricultural sector.

Other items in the national agenda that may affect future activities include the nationalisation debate, national health insurance, and information security.

ECONOMIC POLICY

Taxation Laws Amendment Bill of 2010: Minister presented to the National Assembly and noted that taxation was crucial to fiscal sovereignty and the state's ability to fund its expenditure. The recession resulted in a massive drop in budgeted revenue last year and it was going to take three to five years before revenue levels returned to normal. Tax to GDP dropped from 27% to 24,4%.

Monetary policy: The monetary policy was still expansionary and saw the interest rates dropping to 6%. This is meant to stimulate the economic activity.

TRADE POLICY

The current period could be dubbed a period of “opening up trade”, which is guided by relatively aggressive and deliberate negotiations to improve conditions of trade.

China: President Zuma urged China to invest in SA in an effort to tame (or balance) trade with Beijing. China makes 89% of all clothing and textiles imported by SA. For some time SA has been challenged to compete with China’s economies of scale, particularly in clothing and textile. The effort therefore has been to negotiate a voluntary import restraint agreement with China.

Brazil is also considering lowering tariffs for SA exporters. SA’s top five product sectors for export to Brazil were base metals (19%), mineral products (16%), machinery (9%), chemical product (5%) and plastic products (4%), all which represent 64% of SA’s export to Brazil.

In Agriculture, SA farmers want EU trade door wide open. There is still a chance to improve access to the EU for SA’s agricultural products, before an economic partnership agreement for Southern Africa is concluded this year. Basically, the agric sector is pushing for opening for SADC.

With regards to China, trade seems more amenable with the export of fruit and game and game products. Discussions will still have to continue around sanitary and phytosanitary regulations for South Africa.

AGRICULTURE

Capacity in agriculture: The Agriculture, Forestry and Fisheries Minister announced the appointment of new Director-General, Langa Zita. The Minister and the DG both share an ‘ideological heritage’ of serving in the SACP and a *SUPPORTIVE POLICY APPROACH* to agriculture. According to the Minister, the policy direction does not need to go to Control Boards ‘structures’ per se, but there is a need to investigate principles that sustained commercial agriculture in SA in the past.

Zita expressed his concern about the 500 000 small-scale farmers, many of whom have been struggling. The policy trajectory is to ensure support of the emerging or small-scale agriculture, while maintaining the success of commercial agriculture in making SA food sufficient.

The dichotomous agriculture system has been a stark feature of the past – and it means there is no major change in the structure of agriculture. The Minister is also quoted as having said that pricing controls and supply management are elements of the previous government’s policies that needed to be reconsidered. The question is would this be making agriculture ‘One’ or being ‘united’.

Relations with parliament: Members of Parliament portfolio committee for agriculture have been concerned about DAFF’s performance against its strategic plan. The committee is concerned that there seem to be little progress in addressing challenges of agriculture in SA. Accordingly, there is a need for the department to be more concerned about the agricultural sector, particularly ensuring food security. Farmers are emphasising that they should not be expected to take the blame for policy failure, such as land reform. According to them, their contributions and proposals don’t receive full hearing by implementers. Parliament is accordingly encouraging farmers to contribute to the shaping of land and agricultural policy. A process that is inclusive of farmers who are exposed to farm management issues and challenges is expected to yield better results compared to restricting policy development within government. Farmers are encouraged to start doing more lobbying and to demand to be part of policy forming process in agriculture.

Support for new farmers: There is a need to support new farmers, if they are to eventually become technically and financially sustainable commercial farmers. Some support given is not good quality and reliable. New farmers will generally need appropriate skills to keep their farming activities going. The need to support smallholder and subsistence farmers has also been emphasised by the new DG, who argues that government has not really succeeded in helping them to graduate to viable commercial farmers.

At least there are emerging developments where big agribusiness companies like Nestle and SABMiller have entered into partnership with KZN government to develop small-scale farmers with a view to displacing imports with local produce.

Property rates: The concern around costs of property rates is still on. Farmers in KZN have challenged government to court to place a cap on municipal rates paid by agriculture properties within 0.5 cents in the Rand. The cap could be another measure of protecting farmers against exploitation in negotiation. In certain municipalities of other provinces such as Limpopo, they managed to negotiate for favourable rates – implying that acceptable arrangements are possible if the channels of communication are kept open.

Tollgates: In this arena, municipal policies to establish tollgates coupled with encroaching urban development tend to pose a threat to agriculture. Plan to establish more tollgates around major routes has financial implications for agribusinesses when they have to transport their goods. Such plans for tollgates are currently implemented in Gauteng, which would affect those taking products to fresh produce and supermarkets, and also on the Cape Town N1/N2 routes, which would affect agricultural exporters.

RURAL DEVELOPMENT AND LAND REFORM

Rural development, as one of the priority areas of government, has re-energised provinces to develop policies to implement the priority. Gauteng Department of Agriculture is working on the policy on agri-estates, a concept comprising housing across a mix of income ranges, all linked to commercial farming ventures. Gauteng also plans to legislate the protection or preservation of the remaining 4% of rural or agricultural land.

Land Reform: A major development in this space is the new land reform bill whose tabling has been postponed a few times. As indicated in the preceding green paper, the proposals are capping both agricultural and urban land holding. The bill proposes a three-tier approach to land reform. The first tier relates to land ceilings – that will limit the amount of land that particular categories of farmers may own. The second tier was to use state land for leasehold only. This is in line with the intention to audit both rural and urban state land – nor did it distinguish between commercial and subsistence farmers. The aim of the exercise was to establish a more accurate state land database and property register indicating the extent and location of both urban and rural state land. The third tier aims to manage foreign land ownership, which is to link with tenure, productivity and partnership for empowerment.

The paper also proposes other three structures in addition to the Land Claims Commission, which will be charged with creating a database on land ownership in SA. A council of interested parties, and a rural development council would also be created.

Other concerns raised around the mooted land reform policy are the potential exodus of foreign investors from SA's agricultural sector due to policy on limiting foreign owned land. There are also suggestions that the proposals should be tested against the constitution.

Outstanding claims list: The Commission on Restitution of Land Rights is still to finalise the list of all outstanding land claims. This is meant to enlighten the many farmers who are not sure whether there is a claim on their land. Such uncertainties affect investments in agriculture.

LABOUR IN AGRICULTURE

There are concerns about slow and low compliance with labour laws on farms. In the Western Cape, the latest inspections revealed instances of non-compliance on 46% of farms. Contraventions relate to non-adherence to minimum wage, non-payment of night-work allowance, non-adherence to contracted working hours, as well as no provision of safe working conditions where chemicals were used.

ENVIRONMENTAL & WATER USE POLICY

Carbon Emissions Tax: The government is considering a new carbon emission tax for all vehicles. The tax is expected to increase the tax base, change the travelling behaviour of South Africans to use public transport and reduce the emission of greenhouse gases.

According to the automobile industry, government could have looked at this differently; 1) carbon tax should coincide with the availability of better quality fuel, and 2) focus on incentives to rejuvenate the vehicle industry.

The carbon tax is part of the Taxation Law Amendment Bill, tabled in parliament. It is also under the comprehensive approach to environmental tax, which started in 2003, published in 2006, and the discussion paper on carbon taxes to be published soon.

Water Pollution: Water pollution is a serious problem in SA's mining regions, as the water is highly acidic and contaminated with heavy minerals. The Department of Water affairs is planning to erect a new pump station to stop acid mine water decanting in central Johannesburg, at a cost of about R180m – with government requested to contribute about R150m. If nothing is done water will start decanting and contaminating ground water.

Balancing water use: Water allocation may be curtailed in certain areas, and farmers may need to apply for water-use licenses. There is already concern that SA could be approaching water resource crisis. Agriculture uses about 60% of SA's available water resources. The water-use license will first be implemented in four catchment areas where water is already over-allocated. The areas include Inkomati water management area in Mpumalanga, Jan Dissels in Western Cape, Umhlathuze in KwaZulu-Natal, and Tosca groundwater in Northern Cape. Farmers are also expected to put water conservation measures in place. However, other views indicate that there could be enough water until 2025 – and challenges are due to financial constraints and institutional capacity, rather than limited quantity of water (usually referred to as economic scarcity of water).

Mining threat to agricultural economy: There is a growing concern about the effect of mines and the granting of new prospecting licenses in vital farming regions and water sources. Mining deposits are found in the country's best agricultural land and sources of all its major inland rivers. Areas threatened by prospecting licenses include the Olifants, Komati, Mpuluzi and Usutu river basins, the Vaal River Basin (strategic water source for Gauteng) and Tugela main drainage region in KwaZulu-Natal. At practical level, there is a case of four Delmas farmers against coal miner Keaton Energy over remuneration offered for land mining rights. The other case entails tension between Marico Land and Environmental Protection Association (Malepa) and African Nickel, where Malepa claims that land owners were not consulted before applying for prospecting rights in the area.

FARM SECURITY AND SAFETY

Farm murders still remain an area of high concern. Communities of Kamberg Valley and Mooi River in KZN are demanding are working together to demand swift and appropriate justice.

There is an expectation of New Rural Protection Plan based on the concept of sector policing and reservists. The aim of the RPP is to involve and coordinate all role players in rural security

Stock-theft: Farmers are beginning to work together to stop stock theft. The case of Zimbabwean and SA farmers joined forces to tackle stock theft along the border by forming Anti-Stock Theft Zimbabwe and Anti-Stock Theft Tshenzheleni. The effort has since helped several farmers recover their stolen livestock. Some of the stock theft cases are by insiders. Northern Cape's Petrusville farmers have been disturbed by revelations that a livestock marketing agent may have been stealing their missing livestock worth R500000. The agent and his wife were arrested for theft of 89 sheep reported by the stock owner who leased farm from accused.

In other countries such as Namibia, penalties against stock theft can be viewed as harsh. The country's Stock Theft Amendment Act of 2004 has been viewed as unconstitutional – following a 20 year sentence for theft of goats valued at R4000.

Safety: Fires safety is also an issue. The case of fire that broke out in Stutterheim area destroyed about 200 ha of community grazing. Such occurrences leave poor communities without any grazing.

ENERGY AND AGRICULTURE

The cost of power, exacerbated by recent Eskom electricity tariffs has put pressure on consumers, and farmers (particularly maize, wheat farmers). According to NAMC, electricity costs would constitute almost 20% of maize variable costs by 2015 – where power would be second and fourth highest input cost component for wheat and maize.

This is prompting the need to intensify efforts to explore alternative and renewable energy sources. Two source are emerging strongly; wind and solar. Some studies show that SA has enough wind for 35% of electricity supply. Similarly, according to the White Paper on renewable energy in the Western Cape about 15% of the province's consumed energy will come from renewable energy by 2014. The move to renewable energy will mitigate effects of climate change and ensure energy security.

RESEARCH

Low Research spending: Figures released by Ministry of Science and Technology show that the state failed to meet its target of spending 1% of Gross Domestic Product on Research and Development by 2008-09. The share serves as an indicator of economic competitiveness and is tracked globally to monitor progress. For South Africa, even the expenditure on research and development as a percentage of GDP has declined for two years.

SOURCES OF INFORMATION

BuaNews
Business Day
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Financial Mail
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Interaction with stakeholders

Issues identified in the **Policy INSIGHT** are also discussed at the AERIS Quarterly Policy Review Sessions on the 3rd or 4th Week of the 1st Months of the subsequent Quarter. To book contact RaS-T at 0126860973 or TRSenokwane@landbank.co.za

The AERIS outputs targets three planning horizons, namely Long-term perspective, Medium term perspective, and Short-term perspective. **Policy INSIGHT** seeks to monitor, review and interprets developments that may have implications in the next 5 years and beyond.

Other publications by AERIS address other planning horizons and include:

For 2 to 5 years medium-term horizon:

Macro-economic INSIGHT monitors and assesses trends in macro-economic indicators to determine funding and lending positions.

Commodity INSIGHT provides technical analysis and outlook of the trends and drivers of specific agricultural commodities in order to discern credit risk.

For 2 years and less short-term horizon:

Input INSIGHT provides technical analysis of agricultural inputs trends to determine the capital or financing requirements of farmers.

AgriMARKET INSIGHT monitors and assesses trends in agricultural output market to determine agric credit risk.

Weekly Economic Reviews review macro-economic developments that affect economic indicators.

Inflation INSIGHT monitors general price changes of consumer and producer of agricultural products in order to discern the demand and supply state of agricultural products.

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