

Agricultural Policy Reform in South Africa

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Introduction

With a surface area of 1.22 million km² and a population of 46.9 million, South Africa is one of the largest countries on the African continent. It is also the largest African economy, with a per capita gross domestic product (GDP) of USD 3 530, more than four times the African average.

South Africa has undergone immense social and economic change over the last 20 years, following the abolition of apartheid and fundamental reforms aimed at creating a more open and market-oriented economy. Partial reforms, mainly concerning domestic markets, were implemented during the 1980s and early 1990s. The democratic elections in 1994 and the lifting of international economic sanctions against South Africa opened the way for broad liberalising reforms. An underlying principle for virtually all government policy is to bring the previously excluded black community into the mainstream economy through job creation and entrepreneurship.

The overall results of reforms to date have been positive, with a stronger and stable macro economy, better integration into the global trading system, and some progress in redressing past injustices. South African society, however, faces many challenges, including widespread unemployment and poverty, a large unskilled work force excluded from the formal economy, weak social and educational systems, a significant level of crime and a high prevalence of HIV/AIDS.

Agriculture contributes less than 4% to GDP but accounts for 10% of total reported employment. Agriculture is well-diversified with field crops, livestock and horticulture the main sectors. Wine and fruit production has seen the most dynamic development in the past ten years with a large share of total output exported, mainly to Europe.

Agricultural policy reform continues with a package of measures to address past injustices including land redistribution, agricultural support programmes to disadvantaged farming communities, and a broad based programme of economic empowerment of the black population.

This Policy Brief provides an overview of agricultural policy reform in South Africa, its impact on the sector, the challenges facing policy makers and the suggested directions for further policy reforms. ■

What were the main reforms affecting agriculture?

South Africa's agriculture sector is dualistic, where a developed commercial farming sector co-exists with a large number of subsistence (communal) farms. South African agriculture is increasingly export-oriented with about one third of total production exported. The conditions for agricultural production are not favourable in most regions due to poor land quality, highly variable climatic conditions and scarce water. There can be large annual fluctuations in output.

Changes in South African agriculture in the past decade have been shaped by substantial macroeconomic and social reforms implemented from the mid 1900s, but reforms of agricultural policies were also initiated. These included deregulation of the marketing of agricultural products; abolishing certain tax concessions favouring the sector; reductions in budgetary expenditure on the sector; land reform; and trade policy reform.

The main developments in trade policies were the replacement of direct controls over imports by tariffs, which were set below the rates bound in the WTO, and the elimination of state controls over exports. The average import tariff level was lowered by one-third between 1994 and 1999. South Africa has established a number of preferential trade arrangements with countries inside and outside the Southern African Development Community (SADC) region. The new trade arrangements improved access to foreign markets for farmers but also introduced greater exposure to external competition.

Since the deregulation of markets in the mid 1990s, domestic market interventions are limited to the sugar cane/sugar market where a price pooling system is maintained by the South Africa Sugar Association, which is the only sugar exporter.

An important share of public financial resources has been devoted to land reform. The Land Reform Programme consists of three main components: restitution of land unjustly taken from people and communities; land redistribution; and land tenure reform. Under the programme, grants are given to the black disadvantaged population to acquire land or for other forms of on-farm participation. Beneficiaries can access a range of grants depending on the amount of their own contribution in labour and/or cash.

New programmes were introduced in 2005 to support the development of market-oriented family farms emerging from the land reform process, mainly through investment grants and provision of micro credit and retail financial services in rural areas. The Land Reform Programme is financially costly and budget limits have become a constraint to further progress. ■

How has agriculture changed?

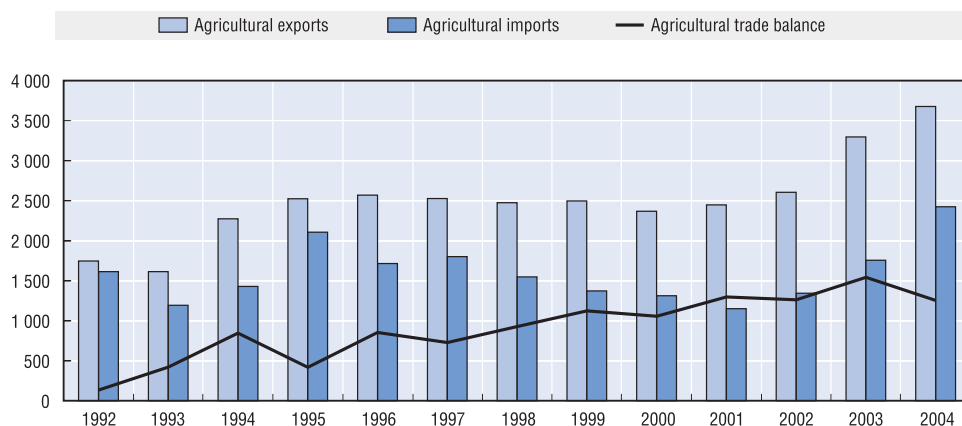
The opening of the agricultural sector placed South Africa among the world’s leading exporters of such agro-food products as wine, fresh fruit and sugar. The country is also an important trader in the African region. The beginning of the current decade witnessed particularly strong agricultural export growth (Figure 1). South Africa’s agricultural export revenues reached almost 9% of the total value of national exports. Europe is by far the largest destination, absorbing almost one-half of the country’s agricultural exports. Agricultural imports are also growing but less rapidly than exports, accounting for 5-6% of total annual imports since 2000.

The withdrawal of most forms of support to commercial farmers created adjustment pressures for the sector, while deregulation of the input and services markets provided benefits. Effects on the sector were far-reaching and included:

- shift of production out of grain to livestock in marginal production areas, and an increase in intensive farming in high potential areas, particularly horticultural production;
- more farmer involvement in risk management by means of storage, forward contracts and diversification;
- strengthening the role of organised markets and producer responsiveness to price signals;
- accelerating the establishment of new enterprises in agriculture and downstream food processing sectors and foreign trade.

Although the deregulation of markets created some uncertainty, at the same time it opened up opportunities for entrepreneurial farmers and led to a more efficient allocation of resources in agriculture.

Figure 1.
SOUTH AFRICAN AGRICULTURAL EXPORTS AND IMPORTS, IN 1992-2004 USD MILLION



The South African agricultural industry has become less dependent on state support and internationally more competitive, although many sectors within the industry experienced a difficult period of adjustment.

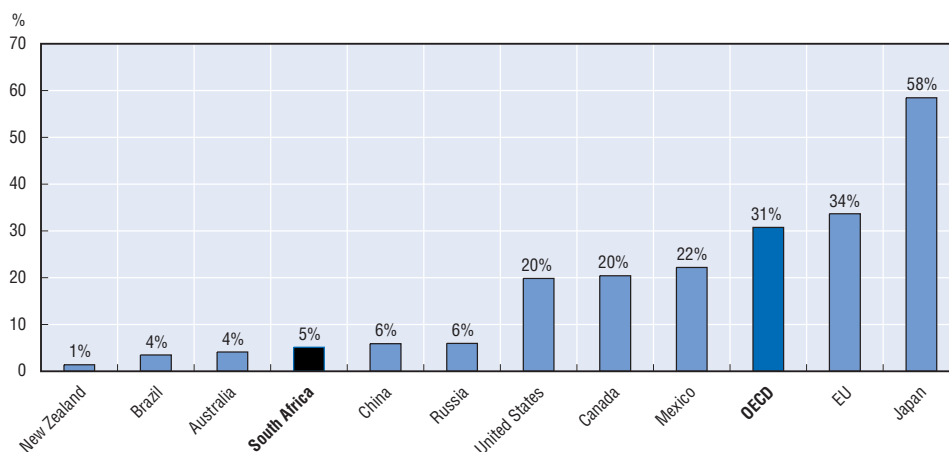
Land restitution is well advanced, with more than 60% of claims settled and more than 900 000 hectares of agricultural land restored to their former owners. Some 35% of beneficiaries opted for compensation in cash, which contributed to poverty alleviation. Restitution beneficiaries tended to invest in home improvements, education and other livelihood projects. During the past ten years, about ZAR 1.6 billion (USD 200 million) have been spent by the government for financial compensation.

Land redistribution is aimed at providing people with access to land for either settlement or agricultural purposes. The aim is, inter alia, to settle small and emerging farmers on viable farming operations in the commercial farming areas. The land redistribution programme aims to transfer 30% of agricultural land belonging to white owners, to previously disadvantaged individuals. In contrast with land restitution, the land redistribution programme has performed below targets due to inadequate institutional capacity, financial resources, and a lack of appropriate agricultural support services and co ordination. ■

How much government support goes to agriculture?

Policy transfers to South African agricultural producers, as measured by the OECD Producer Support Estimate (PSE), equalled 5% of gross farm receipts on average in 2000–03. This is well below the average level of support for OECD countries (31%) and similar to farm support in other non-OECD economies such as Brazil, China and Russia (Figure 2). This low level of support indicates a relatively moderate degree of policy interventions at the agricultural producer level and the overall trend shows some reduction of support since 1994. However, the overwhelming

Figure 2.
PSE BY COUNTRY, EU1 AND OECD AVERAGES, 2000-03 AVERAGE



share of producer support in South Africa is delivered through Market Price Support (MPS), which is a highly trade-distorting form of support. Budgetary transfers, although showing a tendency to increase since 2000, have less importance as a source of producer support.

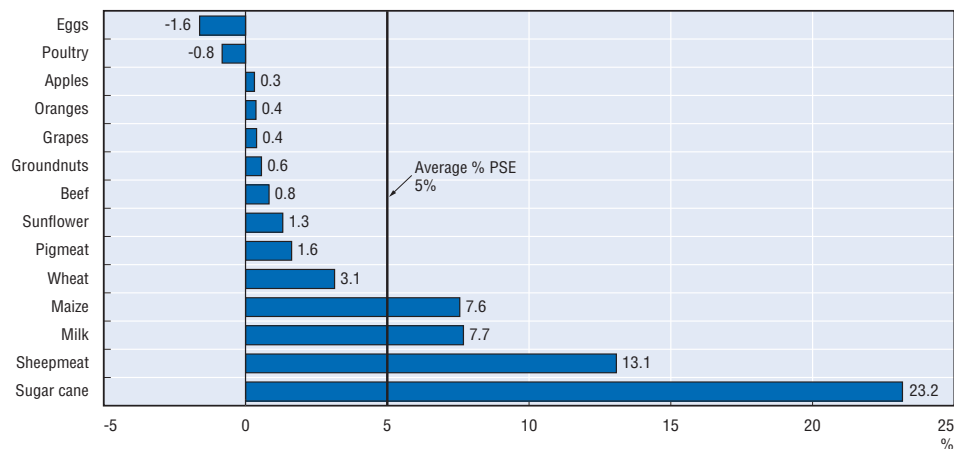
There are marked differences in the levels of support across individual commodities – with the percentage PSE ranging from 23% for sugar to nearly zero for a range of other commodities (Figure 3). The high level of support for sugar is notable given that it is one of South Africa’s key exports (about one-half of sugar production is exported). The support is maintained through high import tariffs and the pricing system under which South African sugar producers are effectively compensated for export losses by higher prices for domestic sales compared to that destined for exports. Sheep meat, milk and maize are the other commodities receiving above-average support, though far below that for sugar. Support for these commodities is based predominantly on border protection. The relatively high average PSE for maize in 2000-03 largely reflects an abnormal price spike for white maize in 2002. ■

Would more open world trade benefit South Africa?

South Africa’s key and rising agricultural exports – wine and fresh fruit – generally face relatively low levels of border protection, in part due to bilateral and general tariff concessions to South Africa. However, these preferences do not exclude South Africa from the seasonal elevation of tariff barriers and from the implicit constraints of the entry prices built into the EU regime for fresh fruits. This is an important issue for South Africa as the seasonal elevation of tariffs affects the possibility of exporting fruit production from provinces which have similar harvesting seasons to those in Europe.

More broadly, South Africa would benefit from global liberalisation, and the expected welfare gains are largely due to reform in the manufacturing

Figure 3.
SOUTH AFRICAN PSES BY COMMODITY, 2000-03 AVERAGE



industry. The benefit from reform in agriculture is also important, accounting for one-third of total South Africa's welfare gains, with the agricultural reform in OECD countries a major contributor. Within South Africa, black and coloured South Africans would become better off as a result of global reform, while white households would likely see small declines in welfare. From the regional perspective, the less developed inland provinces would gain, while the majority of coastal provinces (Western Cape, Eastern Cape, KwaZulu-Natal) lose marginally. ■

What are the main policy challenges for the future?

Although the recent performance of South Africa's economy has been generally positive, both investment and output growth are still below the levels necessary to reduce unemployment and to achieve a more equitable income distribution. Macroeconomic stability and economic growth above the rates prevailing currently and macroeconomic stability are essential preconditions for agricultural and rural development in South Africa. However, in a country like South Africa, higher economic growth is inconceivable without easing profound humanitarian problems, such as social divisions, illiteracy and low education levels, and HIV/AIDS. These problems are largely rooted in rural South Africa, and agricultural development has an important role to play in their resolution. This circular dependence between agricultural and economic growth on the one hand and human development on the other ultimately represents the most difficult challenge facing South Africa's policy makers.

The need to redress inequitable land allocation which emerged from the apartheid past is driving the land reform in South Africa. There is a broad consensus that continued efforts are needed, as a matter of urgency, to resolve the land issue. However, at the same time there is much controversy about the ways this should be done. The key challenges are to create stakeholder consensus around the implementation strategy and improve the procedures of land acquisition and resettlement. Land reform is a massive, complicated process. The identification of realistic objectives and careful sequencing of activities are conditions for success.

Land reform should lead to the emergence of viable farms. However, some of the beneficiaries of land reform have suffered defaults, being inadequately prepared for commercial farming in a high risk environment, or unable to raise sufficient capital for commercial production. Adjustment assistance therefore should be seen as an inherent component of land reform. Proper selection and follow-up of beneficiaries is crucial for land reform to develop sustainable commercial farming. Training and extension is essential, not only in farm technologies, but also in marketing and financial management. A large potential also rests with the mentoring by commercial farmers of new entrants – a practice which has emerged in recent years. The appropriate support services

need to be developed, including financial services, market information, input supply networks, transportation and storage infrastructure and extension.

While recognising the role of agricultural development in addressing poverty and inequalities, it is clear that the potential of agriculture and agricultural (land) reform itself to reduce poverty is limited. The long-term solution to poverty reduction requires involving a greater part of the rural poor in economic activities generating sufficient income. The main potential to reduce rural poverty and inequity lies in the development of overall frameworks providing social security, education and training as well as health care, and in developing adequate infrastructures in rural areas.

The commercial agricultural sector adjusted well to policy reforms and liberalisation efforts. However, economic and financial pressure on commercial agriculture is substantial, and as with other sectors, farmers must adapt their production and investment decisions to the market situation and overall economic developments. The ability of the commercial sector to respond to increased market opportunities will ultimately determine any gains from global trade liberalisation. Farming policies need to be conducive to quality and productivity improvements for this sector to further improve its international competitiveness and exploit its export potential. ■

For further information

For more information about the OECD's work on agriculture in South Africa, please contact: Václav Vojtech: tel.: +33 (0)1 45 24 92 66, e-mail: vaclav.vojtech@oecd.org.

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For further reading

- **OECD, 2006, OECD Review of Agricultural Policies: South Africa**, ISBN 92-64-03679-2, 50.00 €
- **OECD, 2005, Development Centre Studies: Reducing Capital Cost in Southern Africa**, ISBN 92-64-01401-2, 30.00 €
- **OECD, 2005, African Economic Outlook 2004/2005**, ISBN 92-64-01000-9, 76.00 €
- **OECD – FAO, 2005, Agricultural Outlook 2005 – 2014**, ISBN 92-64-01018-1, 50.00 €
- **OECD, 2004, Corporate Governance in Development – The Experience of Brazil, Chile, India and South Africa**, ISBN 92-64-10658-8, 25.00 €

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Where to contact us?

OECD HEADQUARTERS

2, rue André-Pascal
75775 PARIS Cedex 16
Tel.: (33) 01 45 24 81 67
Fax: (33) 01 45 24 19 50
E-mail: sales@oecd.org
Internet: www.oecd.org

GERMANY

OECD Berlin Centre
Schumannstrasse 10
D-10117 BERLIN
Tel.: (49-30) 288 8353
Fax: (49-30) 288 83545
E-mail:
berlin.contact@oecd.org
Internet:
www.oecd.org/deutschland

JAPAN

OECD Tokyo Centre
Nippon Press Center Bldg
2-2-1 Uchisaiwaicho,
Chiyoda-ku
TOKYO 100-0011
Tel.: (81-3) 5532 0021
Fax: (81-3) 5532 0035
E-mail: center@oecdtokyo.org
Internet: www.oecdtokyo.org

MEXICO

OECD Mexico Centre
Av. Presidente Mazaryk 526
Colonia: Polanco
C.P. 11560 MEXICO, D.F.
Tel.: (00.52.55) 9138 6233
Fax: (00.52.55) 5280 0480
E-mail:
mexico.contact@oecd.org
Internet:
www.oecdemexico.org.mx

UNITED STATES

OECD Washington Center
2001 L Street N.W., Suite 650
WASHINGTON DC. 20036-4922
Tel.: (1-202) 785 6323
Fax: (1-202) 785 0350
E-mail:
washington.contact@oecd.org
Internet: www.oecdwash.org
Toll free: (1-800) 456 6323

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