

South Africa's Agriculture Policy Review

One in a series of policy notes on work by the OECD of interest to Canada

South Africa: Enormous Economic and Social Change

South Africa has undergone enormous economic, social and political change since its democratization process began in 1994. This policy note provides a preview of key findings of the OECD's agricultural policy review for South Africa.

Over the last 15 years, with the abolition of apartheid, South Africa has experienced fundamental change led by dramatic policy reforms aimed at creating a more open and market-oriented economy. As a part of the democratization process, the South African government has directed its macroeconomic policy towards stabilizing the economic environment, attaching high importance to the confidence of domestic entrepreneurs and the international community.

South Africa defines its agricultural policy objectives in the context of broad economic reforms. The government's vision for the sector entails sustainable and profitable participation in the South African agricultural economy by all stakeholders. It recognises the importance of maintaining and developing commercial production and strengthening international competitiveness, and at the same time it stresses the need to address the historical legacies and biases of apartheid. Agricultural and rural development play a critical role in contributing to this broad economic growth and macroeconomic stability.

Agriculture in South Africa is highly dualistic with a small number of commercial operations run predominately by white farmers and large numbers of subsistence farms run by black farmers. The dismantling of apartheid signified a strong commitment to develop a new class of black farmers and to integrate them into a market economy. Small holder farming, still located mostly in the former homelands, is an impoverished sector, dominated by low-input, labour-intensive production.

The Abolition of Apartheid

South Africa today is a multi-racial democracy. It held its first multi-racial vote and elected its first black president, Nelson Mandela, in 1994.

Apartheid dates back to 1948 when the National Party came to power, on the platform of racial discrimination. Apartheid became deeply entrenched in South African society, despite continued resistance, until 1992 when it was dismantled under F.W. de Klerk after decades of repression and economic troubles.

With the abolition of Apartheid in 1994, South Africa began the process of redressing past injustices through land reform and a broad-based programme of economic empowerment of the black population in the agricultural and food sector. 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.

Agriculture: Declining but still Economically Important

Domestically, South African agriculture is declining in importance in terms of its contribution to GDP, from around 6% in the 1980s to about 4% in 2001-02. Agriculture remains significant in terms of employment, accounting for approximately 10% of the country's jobs. It should be noted that work in the informal sector, subsistence or small-scale agriculture, is not included in the formal (officially reported) employment rate.

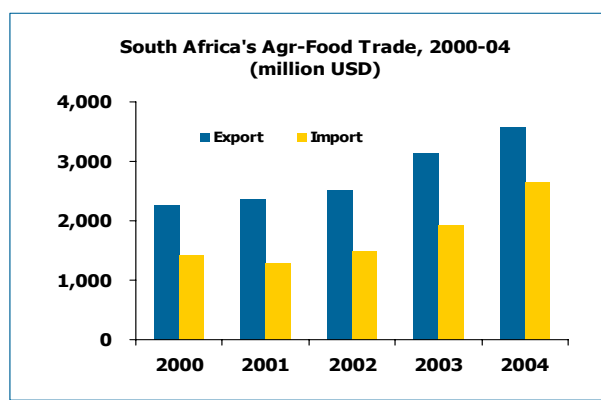
The three main sectors of agricultural production in South Africa are field crop production (33% of total agricultural output in 2001-03), livestock production (40%) and horticulture (27%). South Africa's agri-food sector is increasingly export-oriented. The opening of the sector placed South Africa among the world's leading exporters of such agri-food products as wine, fresh fruits and sugar. The country is also an important trader in the African region.

Agricultural export revenues reached nearly \$3 billion US in 2002-04, which constituted almost 9% of the total value of national exports. Europe is by far the largest importer, absorbing almost one-half of the country's agricultural exports. The African market is the second most important destination, accounting for around 26% of exports, with the Asian market slightly less important with an 18% share. North America (the United States and Canada) plays a relatively modest role as an export destination, absorbing only around 7%, while exports to Latin America and Oceania are marginal.

Adjusting to Dramatic Shifts in the Policy Environment

South Africa has undertaken a significant reduction of state involvement in agricultural markets. The lifting of economic sanctions against the country following the establishment in 1994 of a democratic government and the repeal of the *Marketing Act* of 1937 led to the establishment of a much freer economic and entrepreneurial environment. Market reforms implemented in 1996 through the *Marketing of Agricultural Products Act* liberalised prices and trade in large parts of the agri-food sector, including foreign trade (one notable exception is the sugar industry).

Although the deregulation of markets created some uncertainty, at the same time it opened opportunities for entrepreneurial farmers and led to a more efficient allocation of resources in agriculture. The net effect of these changes is that 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.



Source: OECD

Box 1 – Land Reform in South Africa

About 82% of total land area in South Africa is classified as farmland, but most of this farmland is only useable as extensive pasture. Due to specific soil, water and market conditions, farmers often have little scope to diversify agricultural production within a region. The main objectives of land reform in South Africa are to:

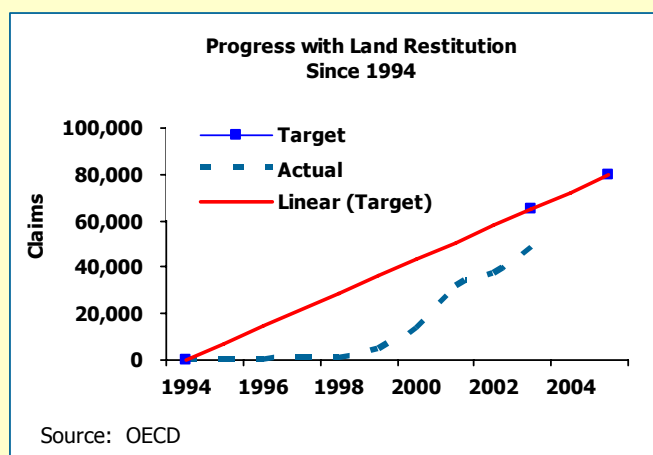
- redress past injustices
- foster reconciliation and stability
- support economic growth
- improve household welfare and alleviate poverty

The South African Land Reform Programme is implemented through three main programs:

- Land restitution: targeting people who lost their land in the past by racially discriminatory legislation.
- Land redistribution: providing the poor and disadvantaged with land to improve their livelihoods, to resettle or to establish farming enterprises.
- Land tenure reform: ensuring security of tenure by strengthening the rights of residents on privately owned farms and state land and by enabling individuals to benefit from their property.

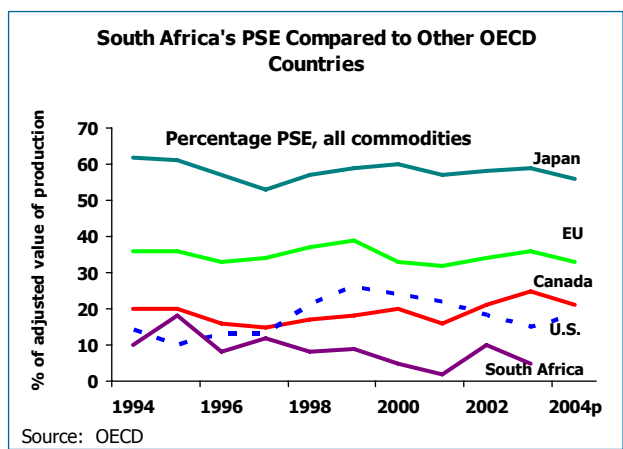
Under the South African Land Reform Programme, land restitution is well advanced (61% of claims settled). In contrast, land redistribution has performed below its expectations due to a variety of financial, institutional, educational and technical constraints. These include the speed of land delivery, institutional capacity, financial insufficiency, inadequate agricultural support services and poor co-ordination.

While agricultural development may play a role in addressing poverty and inequalities, South Africa's relatively scarce natural resources (arable land, and water) suggest that only a limited number of people may secure fair living standards from agriculture alone. A more comprehensive response will require the provision of social security, education and training as well as health care, and adequate infrastructures in rural areas.



Low Levels of Support to Agriculture

Since the 1990s, reforms in South Africa have resulted in low levels of government support to producers. As measured by the aggregate percentage Producer Support Estimate (PSE), producer support in South Africa averaged to 5% of the gross farm receipts in 2000-03, fluctuating between 2% and 18%.



Support to producers make up about 55% of the total support to South African agriculture (1994 – 2003). The remaining support includes budgetary spending on general services supports mainly research, development and training, as well as investment in infrastructure.

Most support for general services is increasingly focused on emerging small farmers who are the beneficiaries of the land reform.

The total support estimate for South Africa averaged 0.6% of GDP in 2000-03, roughly one-half of the OECD average. Compared with other non-OECD countries, the South African percentage total support estimate is close to that of Brazil or Russia.

Sharing Gains from Reforms

A number of social problems persist despite government efforts to reduce poverty and increase social spending. Many social needs remain unmet with a large segment of the population excluded from the formal economy and having limited access to services. High unemployment is a principal cause of food insecurity and malnutrition for many households. Low skills and illiteracy, coupled with the challenges of HIV/AIDS, also hamper employment and productivity, and hence the competitiveness of the South African economy.

Future Prospects

South Africa's wide-ranging reforms have created a good base for development. South African agri-food trade is increasingly integrated with world markets and South Africa is exporting around one-third of its agricultural production.

Despite strong economic gains from liberalisation and progress to date fostering a more equal distribution of resources, major economic and social challenges remain.

For a link to the report see:

OECD Review of Agricultural Policies — South Africa

http://www.oecd.org/document/24/0,2340,en_2649_201185_36482904_1_1_1_1,00.html

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