

An inquiry into South African agriculture: Roles, context, performance and food security

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1. Research proposal
2. Roles
3. Context
4. Performance indicators
5. Four statements to drive the inquiry



1. Proposal

- ◆ TOPIC 1: Roles of agriculture and food - an international perspective: Agricultural growth has been regarded as an important instrument for poverty reduction and food security. However statistical results that report such a strong linkage under nearly all circumstances seems somewhat to miss the growing numbers of the poor; for high income gap countries the poorest and most food insecure quintile could run the risk to be left out of the growth process(Timmer,2002;FAO,2007)
- ◆ TOPIC 2: The philosophical-political-economic framework for food and agricultural development in South Africa
- ◆ TOPIC 3: How(and why) did SA agriculture perform: 1990 to 2008?
- ◆ TOPIC 4: Scenario development- designing for the future.
- ◆ TOPIC 5: Towards secure food supply systems and food security in South Africa: A strategic framework for a "prosperous and equitable agricultural sector".

2. Roles of agriculture

1. Providing increased food supplies

- ◆ International trade?

- ◆ Food security?

2. Enlarge agricultural exports

- ◆ Value adding?

3. Transfer labour to the non-farm economy

- ◆ Multipliers and linkages?

- ◆ Direct and indirect

2. Roles of agriculture

4. Contribute to capital formation

◆ Tax

◆ Investment

◆ Spending

5. Increase rural based net cash income

6. New roles? Expectations vs reality:
Social development, environment? Rural
stability? Food security? Employment
creation?

Statement 1

- ◆ Food security is to be achieved through income- and employment effects and household production. Different farm types will contribute differently.
- ◆ This requires the effective functioning of the whole agricultural business system and farm typology.
- ◆ Food security cannot be achieved by focusing on single aspects or elements of agriculture's role and the food system only.
- ◆ There has to be a strategic vision of the total system and how it functions in society and in the economy i.e. its various roles and linkages needs to be understood; and it changes over time!

Statement 2

- Understanding the role of agriculture in food supply and –security will require an understanding of the historical and political, social, economic and philosophical context in which agriculture is currently situated in South Africa
- An “agricultural typology” is needed to design the required roles for SA agriculture

3. The context of agriculture in South Africa today:

3.1 The philosophical-political-economy

- ◆ RDP- radical democratic?
- ◆ GEAR- neo liberal?
- ◆ Land reform- agrarian revolution?
- ◆ Water law reform
- ◆ Labour law reform
- ◆ Strategic Plan for Agriculture- social democratic?
- ◆ BEE Charters and Score Cards- social democratic?
- ◆ “New” politics-towards social democracy?

3.2 Agricultural policies

- ✦ **Trade policy**, which has been substantively liberalised below WTO obligations, since 1994, to the extent that there is little 'policy space' left.
- ✦ **Farm subsidies**: South African agriculture receives virtually no subsidies when measured according to OECD criteria.
- ✦ **Marketing policy**: The domestic market for agricultural products has been extensively deregulated since 1997 i.e. free market orientated for most commodity groups.

3.2 Agricultural policies

- ◆ **(Small) Farmer support and sustainable rural development support services** include the Integrated Strategy (ISRDS); the Integrated Food Security and Nutrition Programme and the National Land Care Programme.
- ◆ Support has been piecemeal and biased against small farmers in the former homelands
- ◆ The three most important **transformation policies** are the Land Reform Programme, AgriBEE, and the Comprehensive Agricultural Support Programme (CASP) (including MAFISA); and the Agri Sector Plan
- ◆ None of these has been particularly successful to date- Agri sector Plan review, 2008.

3.3 The Strategic Plan for Agriculture

- ◆ Approved 21 November 2001
- ◆ Three pillars:
 1. Equitable access and participation
 2. Global competitiveness and profitability
 3. Sustainable natural resource management
- ◆ Vision: "A united and prosperous agricultural sector"

3.3 The Strategic Plan for Agriculture

1. Priority programmes:

- ◆ Safety and security
- ◆ Good governance and social partnerships
- ◆ Fast tracking land reform
- ◆ Technology transfer
- ◆ Focus on agricultural market and trade
- ◆ Credible agricultural statistics
- ◆ Rural financial sources
- ◆ Natural disaster management

3.3 The Strategic Plan for Agriculture

1. What did government do?

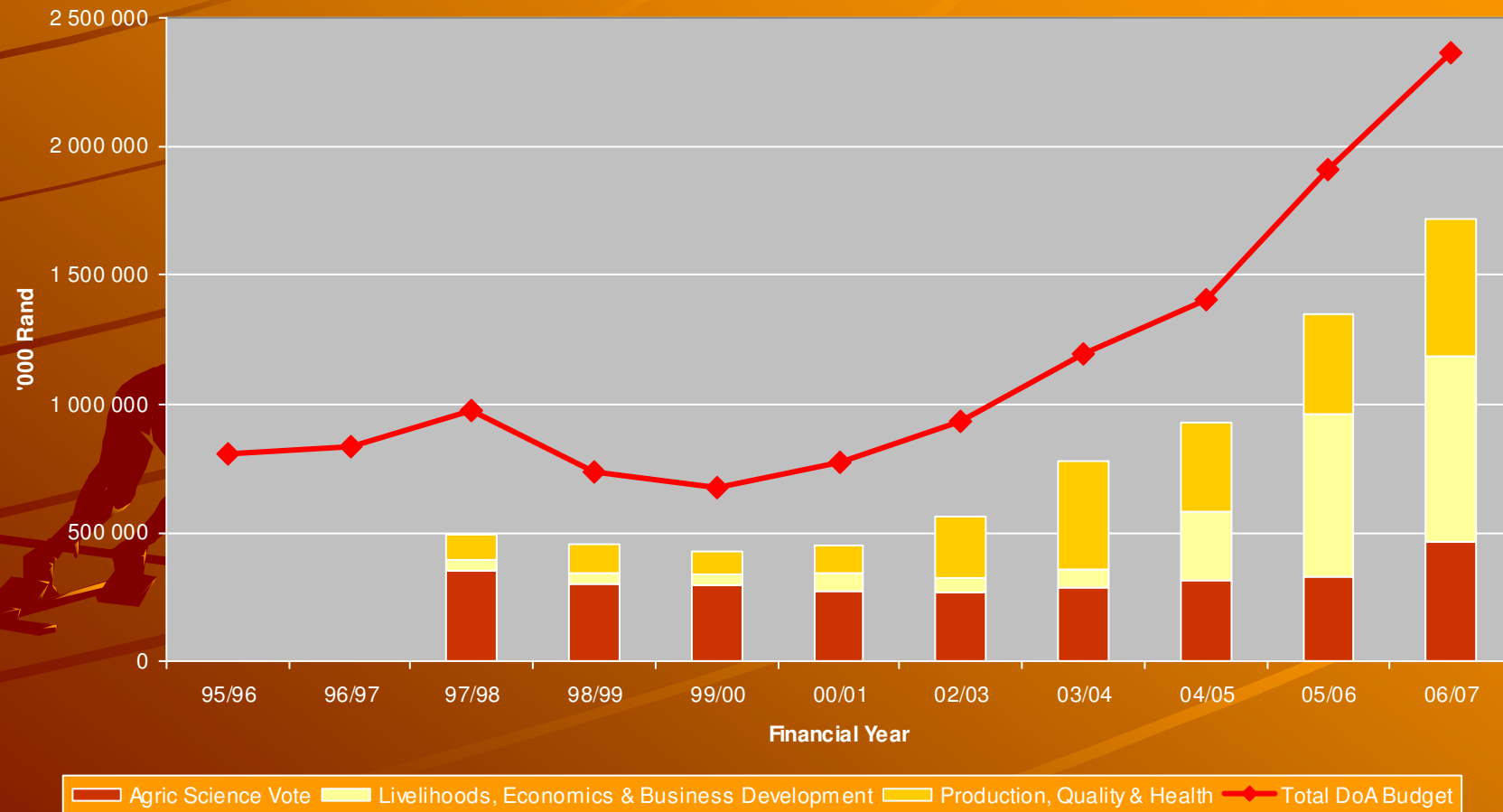
- ◆ Introduced new policies

- ◆ Implementation capacities?

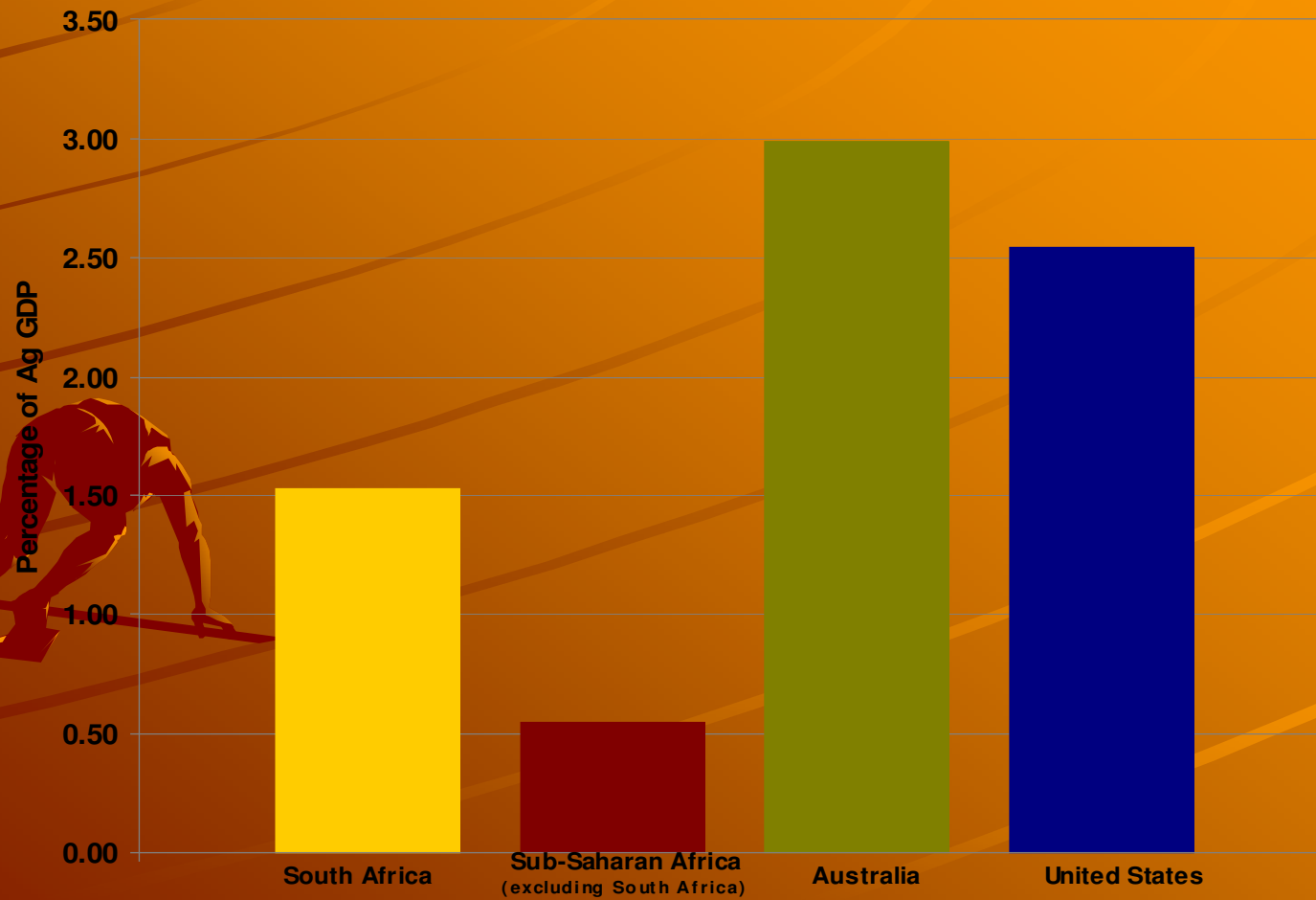
- ◆ Increased government expenditures on major programmes; yes, but?



Government expenditures



Government expenditures



3.3 The Strategic Plan for Agriculture

2. What did the private sector do?

- ✦ Sector (industry) plans – wine, grains, fruit, cotton, etc. Score Cards?
- ✦ Food security included in “ improved rural environments and CSI” strategies
- ✦ Expenditure? To be researched

3. What did they do together- PPP?

- ✦ Sector Plan
- ✦ Agri BEE (and Wine BEE)- food security and rural livelihoods again included in Score Card

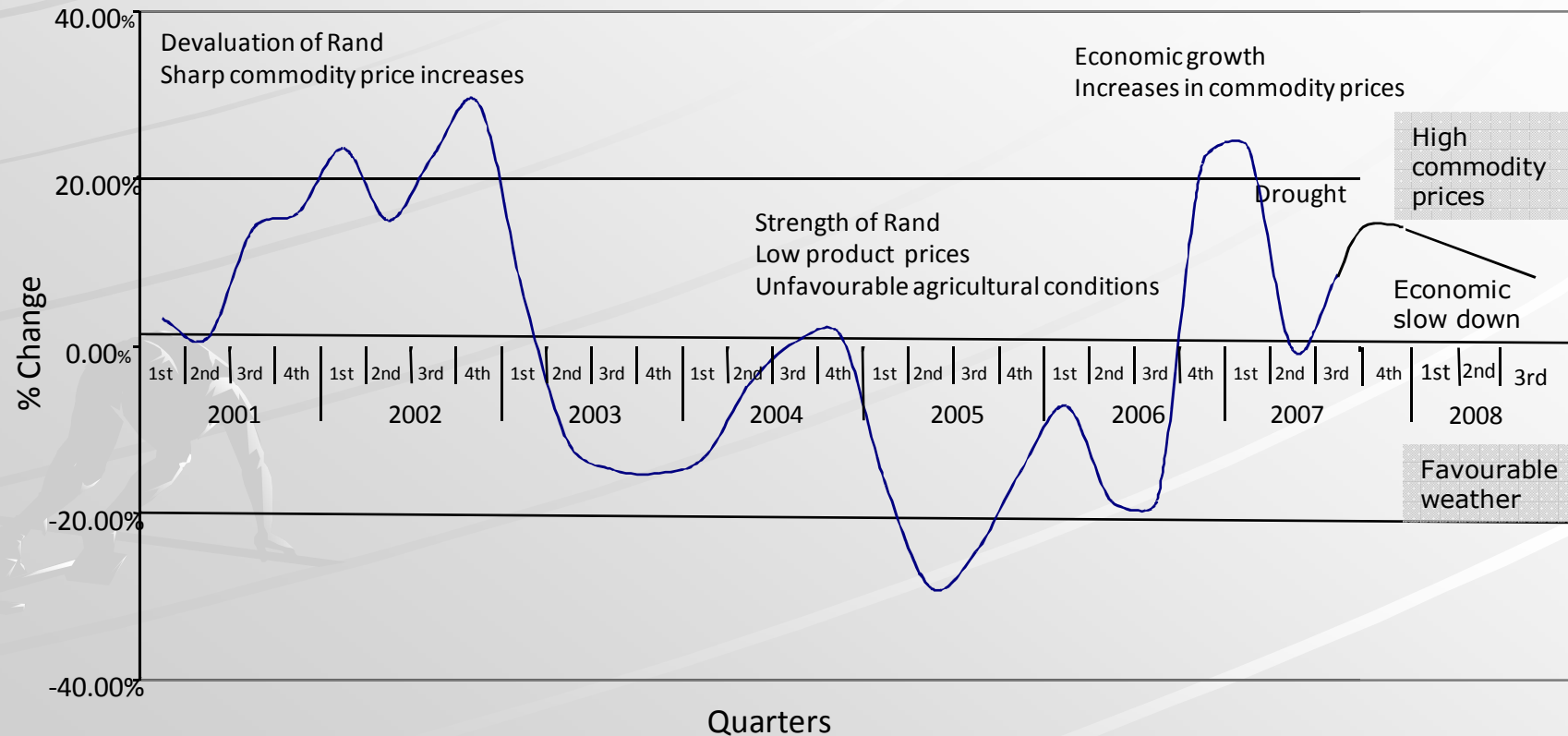
4. Are we achieving the vision ?

- ✦ Fragmented farmers unions?
- ✦ Review of the Plan(2008)- food issues not prominent
- ✦ Further research required!

3.4 Confidence in agriculture

?

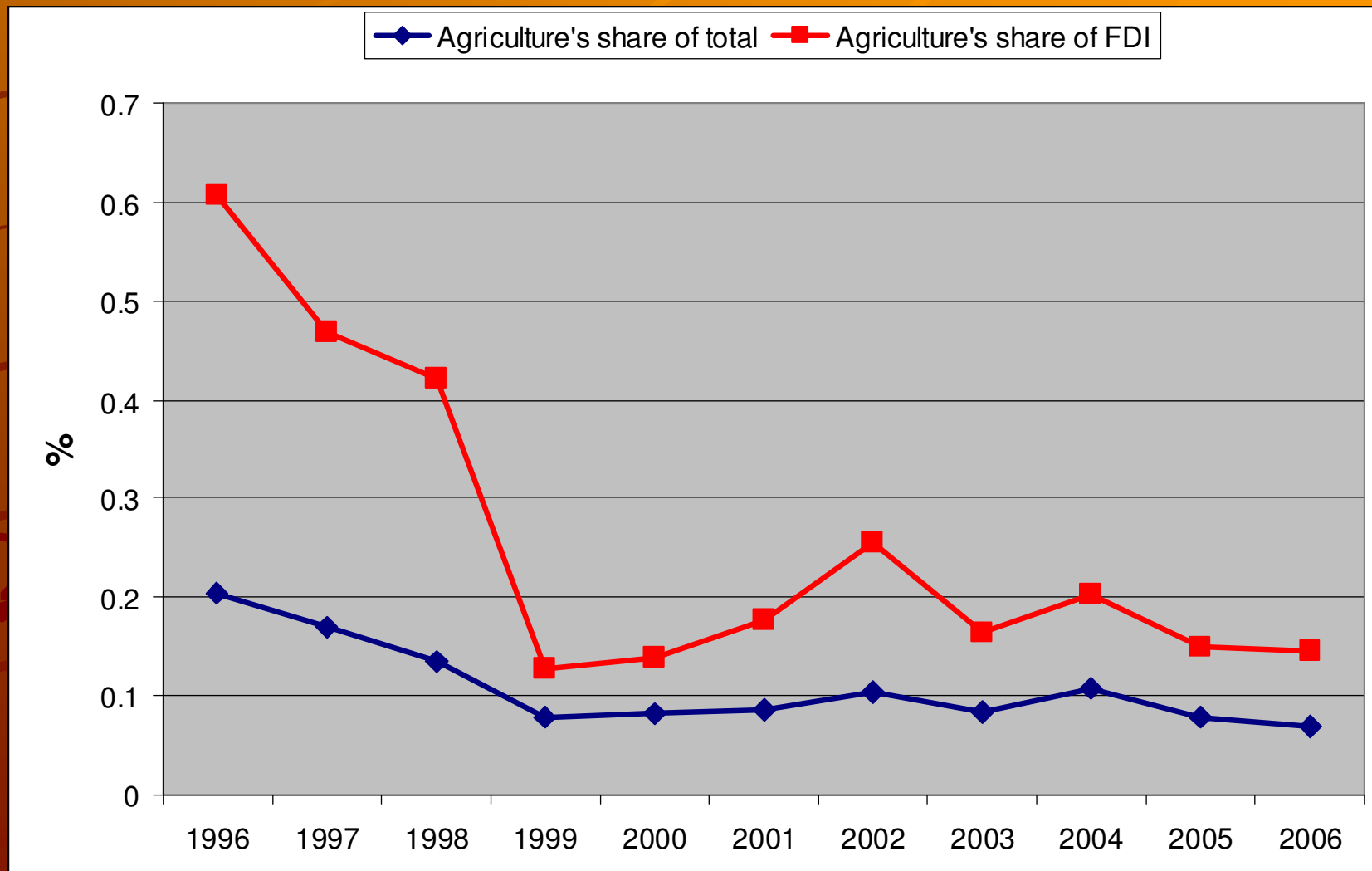
Trends in the confidence of agribusinesses in South Africa



3.4 Confidence in agriculture

Sub-indices	Year-on-year movement
Turnover	Increase
Net operating income	Increase
Employment	Increase
Capital investment	Increase
Economic growth	Huge decrease
Volume exports	Decrease
General agricultural conditions	Increase
Market share of the business	Slight decrease
Debtor provision for bad debt	Increase
Financing costs	Slight increase

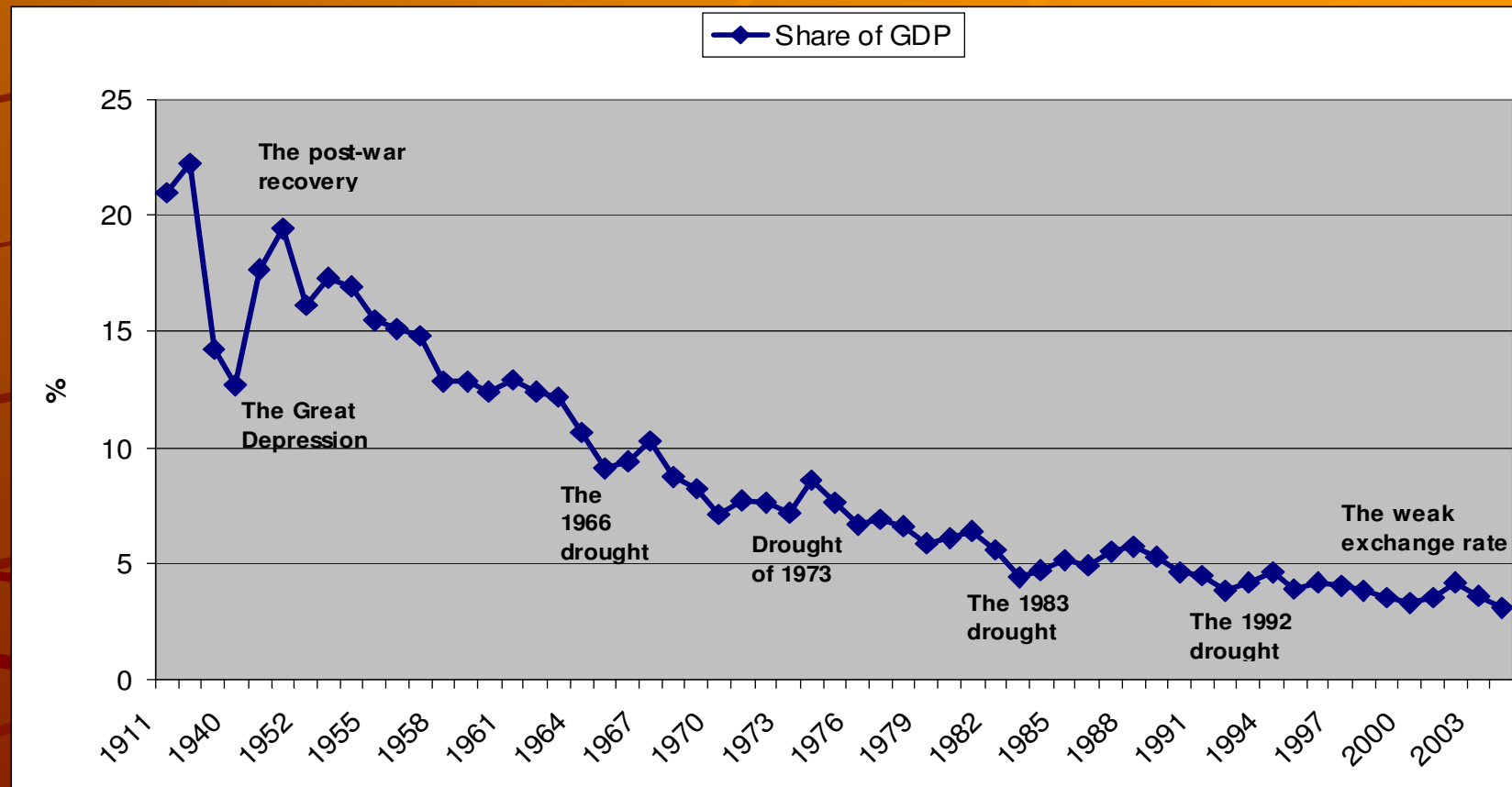
3.4 The effect on investment ?



4. Agricultural performance indicators

- ◆ The share of agriculture in South Africa's GDP has declined to less than three percent
- ◆ The physical performance of South African agriculture is heavily influenced by the climate. However, since the first democratic elections in 1994 there has not been a country-wide drought.

Agriculture's output and GDP contribution

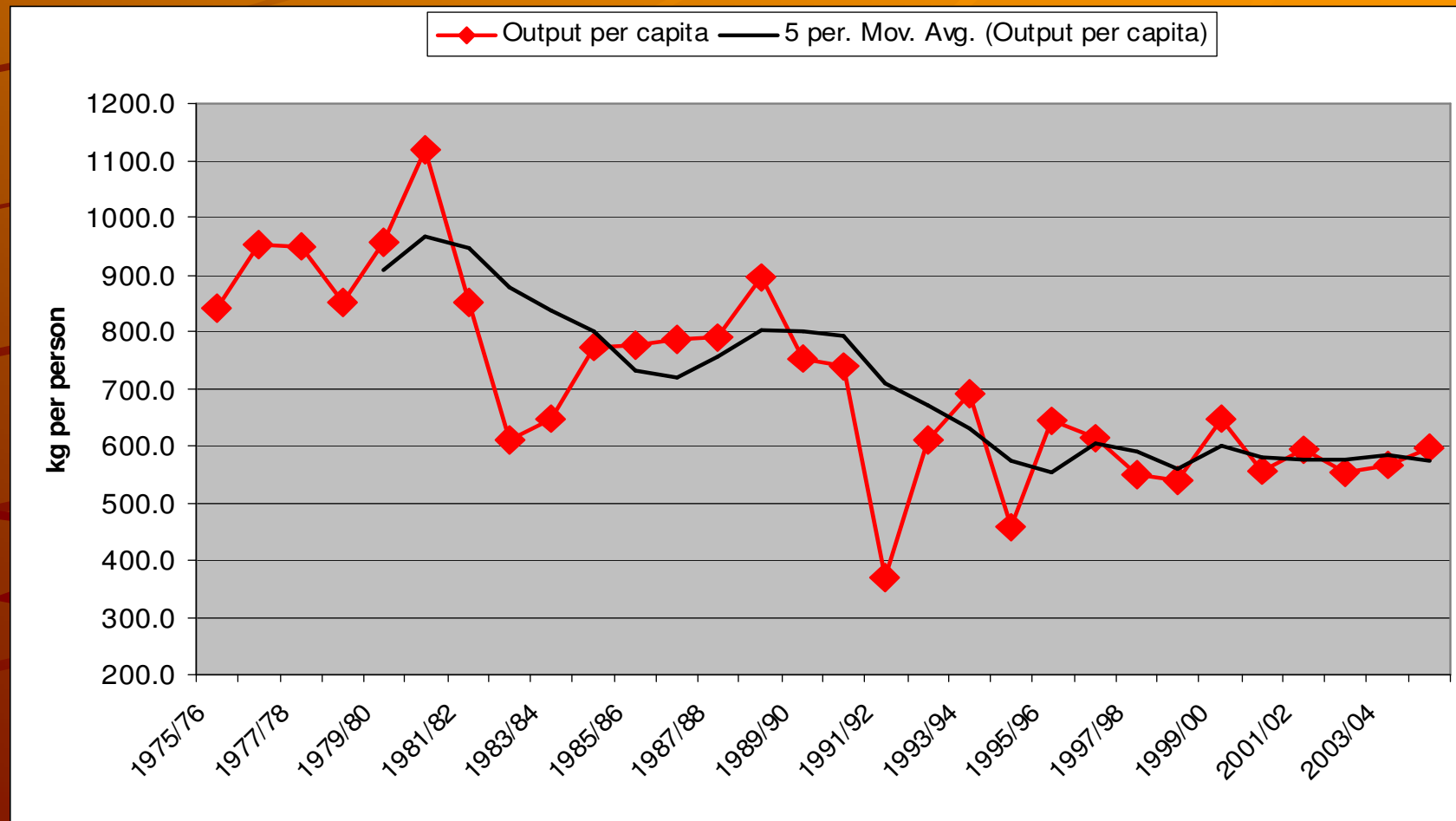


4.1 Agriculture's output, income and GDP contribution

- ✦ Growth in physical production of agricultural products was not sufficient to keep up with population growth until the middle of the 1990s, but per capita output has remained stable since then.



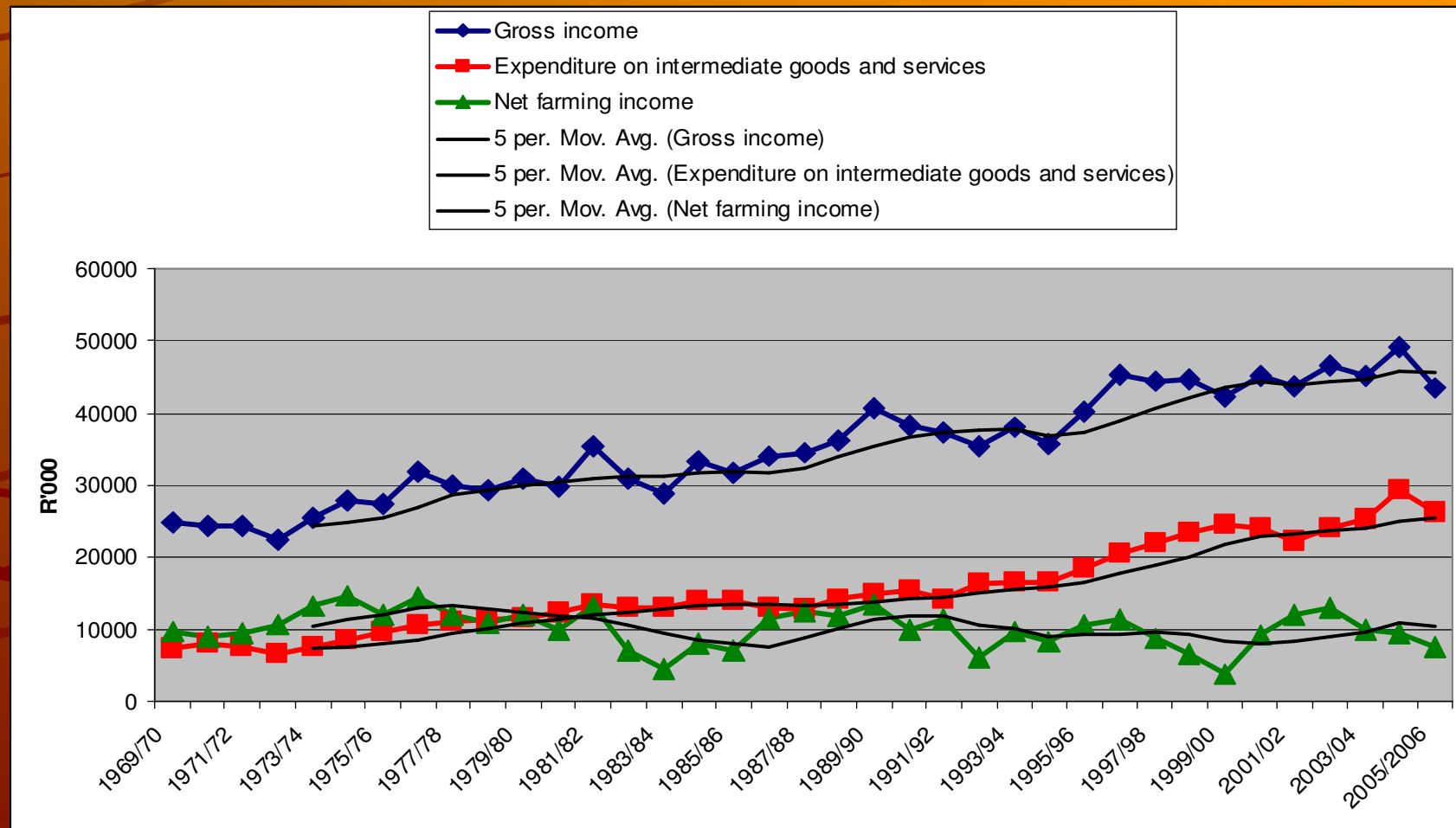
4.1 Agriculture's output and income and GDP contribution



4.1 Agriculture's output and income contribution

- ◆ The next Figure shows the trends in real gross and net farm income and the cost of intermediate goods at prices in 2000
- ◆ Expenditure on intermediate goods and services tracks the upward trend in real gross farm income over the entire period, while real Net Farm Income has remained stagnant
- ◆ Given that the prices of intermediate goods have risen faster than output prices, this reflects an increase in **Total Factor Productivity**.

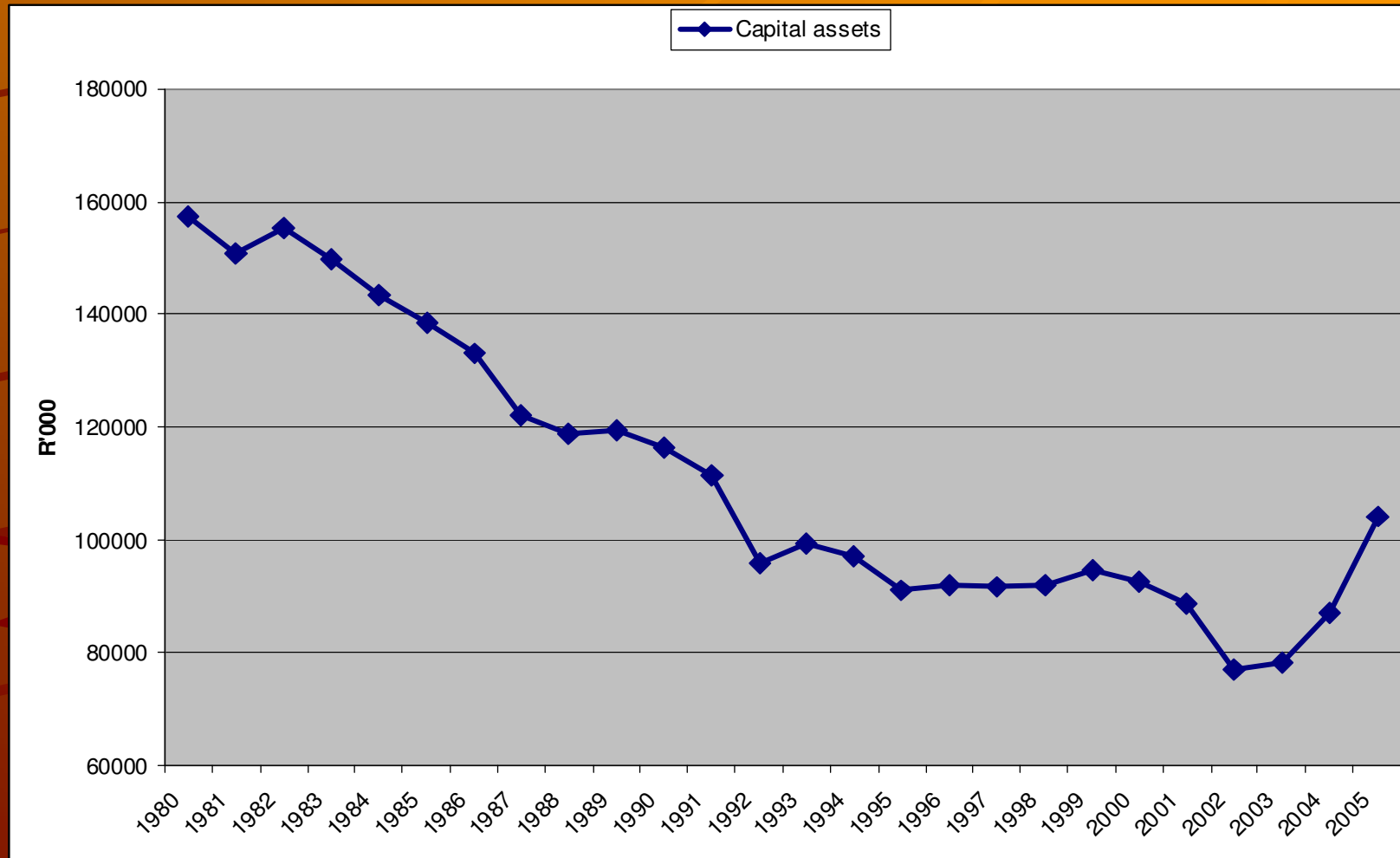
Agriculture's output and Income contribution



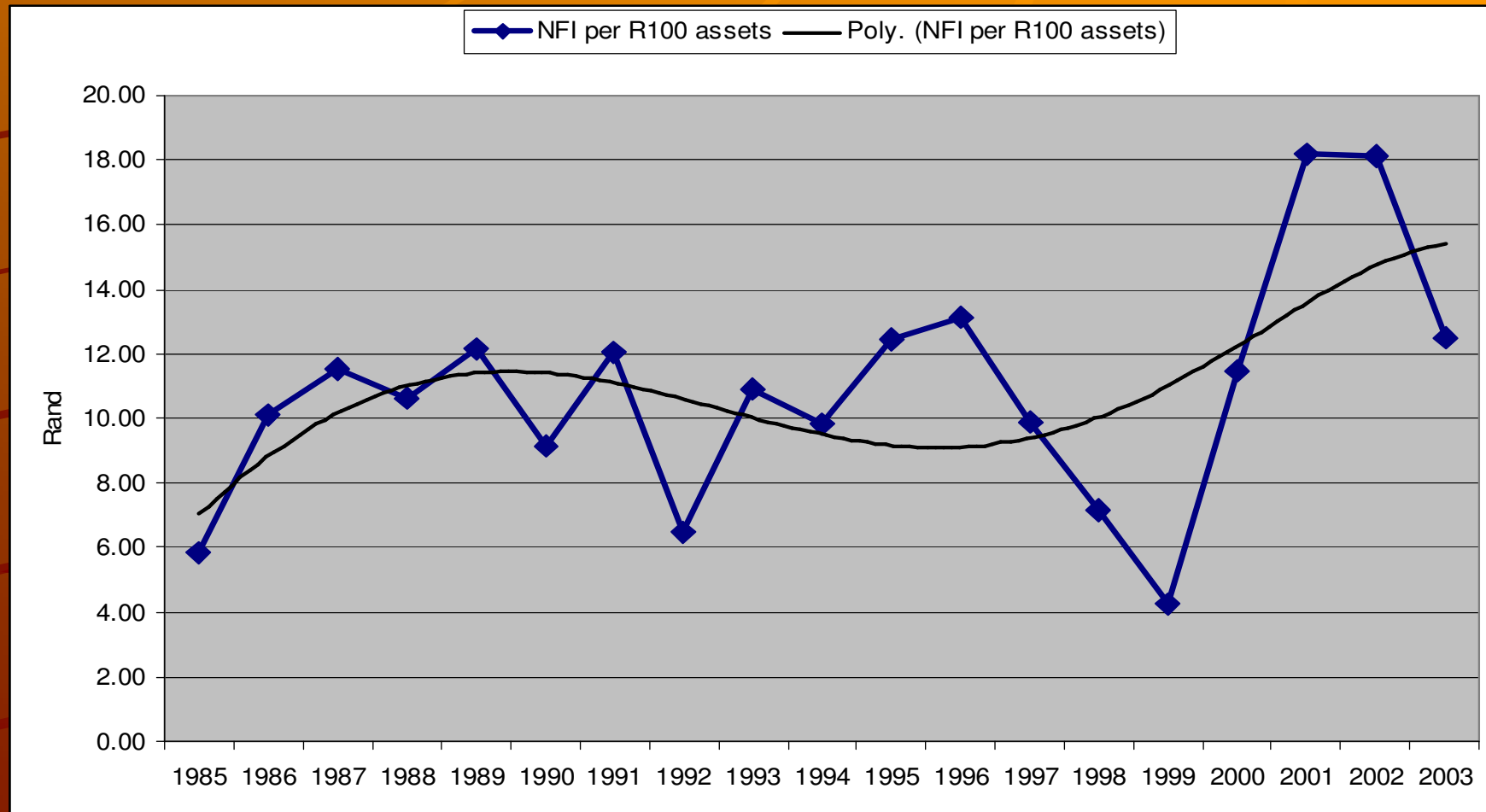
4.1 Agriculture's output and income contribution

- ✦ This **stagnation** in real net farm income should, however, be seen in perspective: the value of capital assets in agriculture declined rapidly throughout the first half of the 1990s, then increased moderately in the second half of the decade.
- ✦ The result was that the amount of real net farm income generated from each R100 in assets increased in the second half of the decade, a reflection of improved **efficiency** in the use of capital.

4.1 Agriculture's output and capital contribution



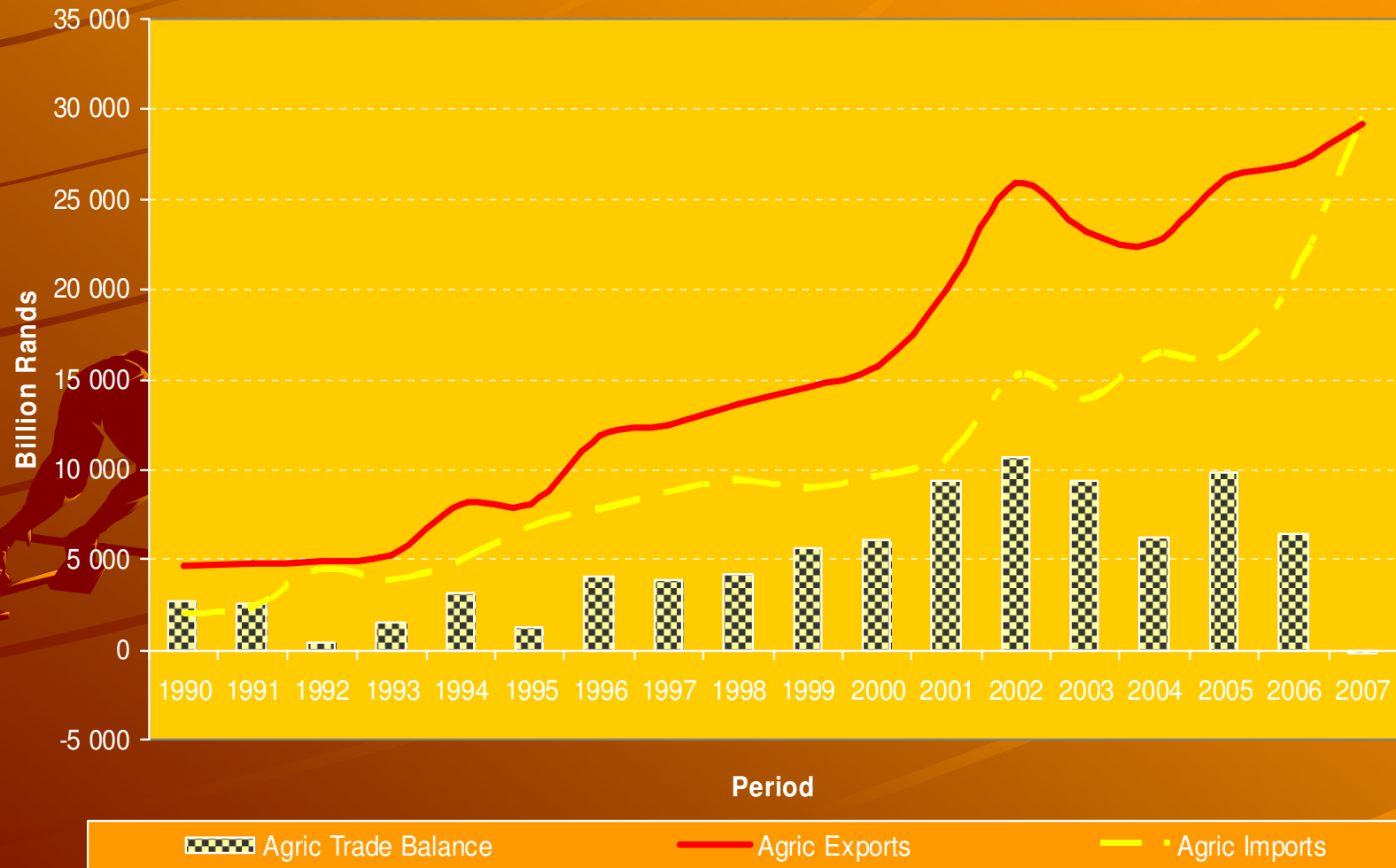
4.1 Agriculture's output and income and GDP contribution



4.2 Balance of trade

- ◆ South Africa's trade balance in **food and beverages** was positive for most of the second half of the 1990s; however, by 2005 imports were equal to exports, i.e. there was a neutral trade balance
- ◆ Import cover declined from 7.64:1 to 1:1 in 1965 to 2007. The agricultural **commodity** balance turned negative for the first time in 2007

4.2 Balance of trade



4.3 Employment

- ◆ South Africa's agricultural employment data are inaccurate because:
 1. StatsSA classifies farmers in the former homelands as 'self-employed' in the informal economy and hence part of the labour force, but does not seem to include paid farm workers from these areas as workers
 2. A growing part of agricultural output comes from horticulture: seasonal employment.
 3. There are many different kinds of employment, and little is known about how many people are employed under each heading:

4.3 The most prominent employment types are ...

- ◆ Self-employed farmers in the commercial farming areas and tenants (46 027)
- ◆ Self-employed farmers in the communal (former homeland) farming areas (473 000) workers
- ◆ Full-time, permanent farm workers on commercial farms, estimated at up to 600 000. These are subject to the Basic Conditions of Employment Act, hence receive a minimum wage
- ◆ Seasonal workers, who are mostly engaged in harvesting fruit and vegetables in season (606000)

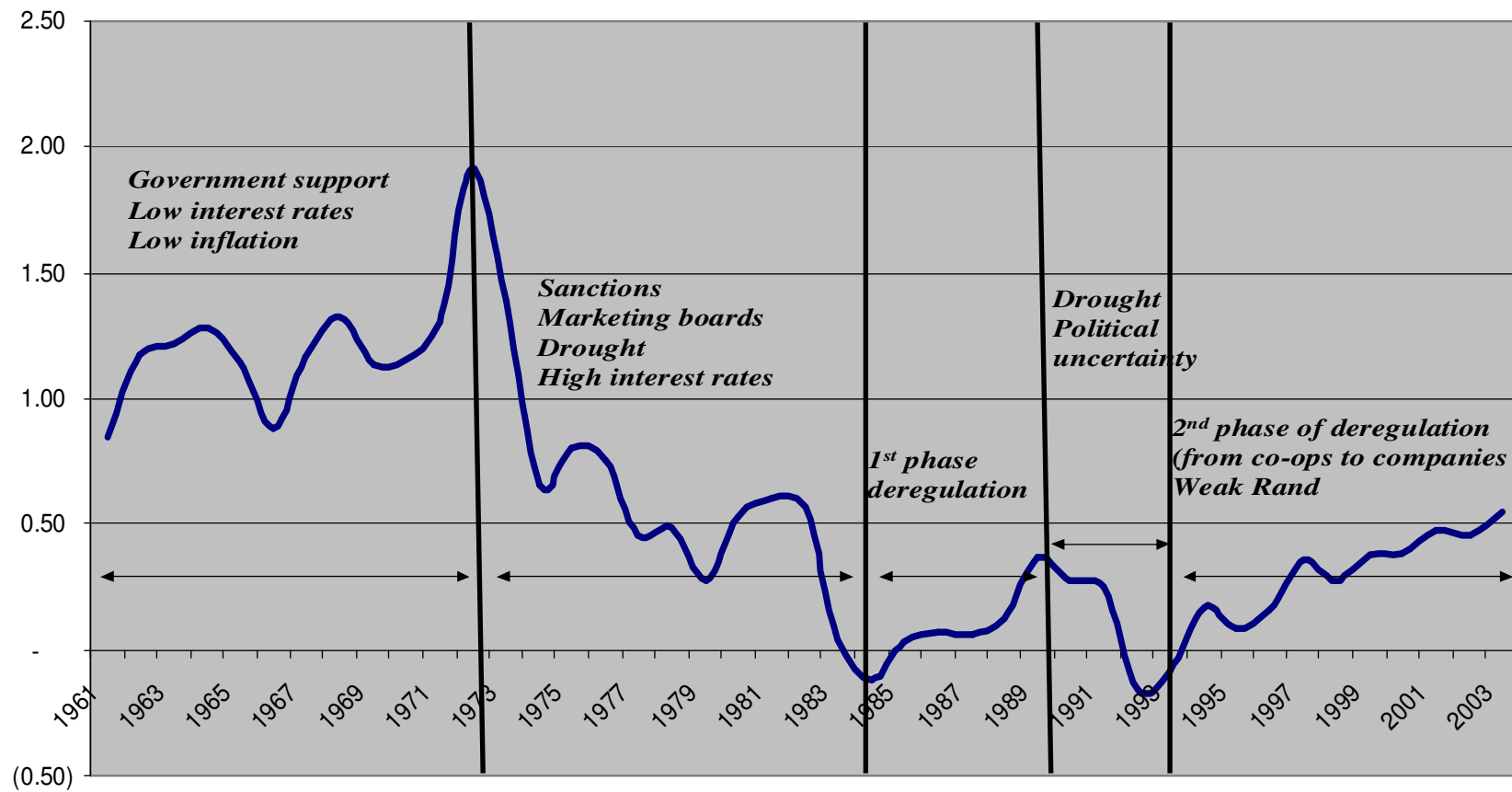
4.3 The most prominent employment types are ...

- ◆ Part-time workers: some do farm work, others domestic work and/or seasonal work
- ◆ Temporary workers who work intermittently. Labour brokers provide seasonal workers to farmers: it is not always clear whether these are included as temporary or as seasonal workers
- ◆ Labour tenants in KwaZulu-Natal and Mpumalanga
- ◆ Labour will be an important component in building a farm typology for SA to reflect diversity in the food production system (refer to roles)

4.3 Performance: the unit cost of labour

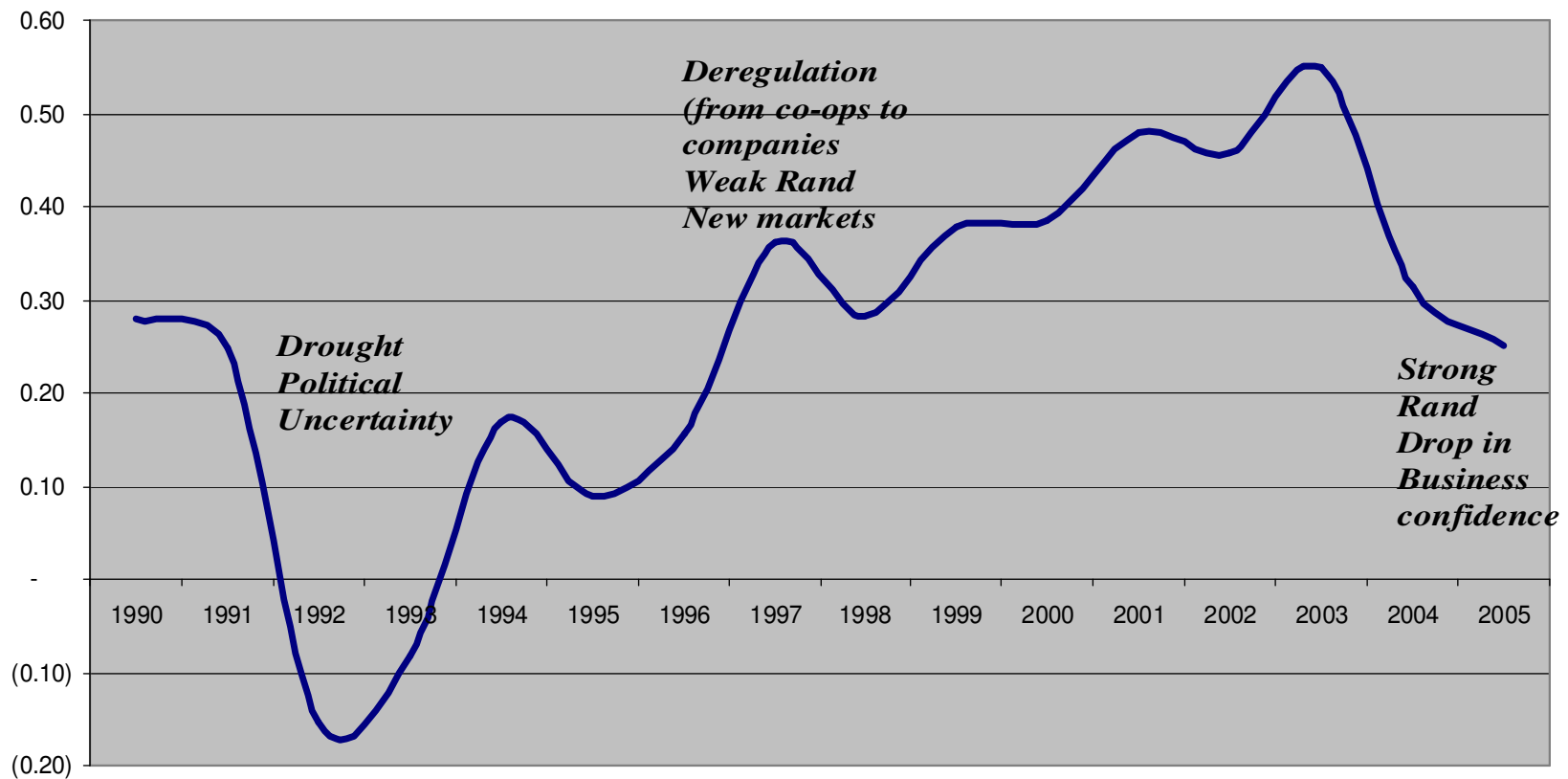
- ◆ **Labour productivity** has increased so fast that the cost of labour has declined despite an increase in wages:
- ◆ In 1970, 16 cents was spent on labour for every R1 of output produced
- ◆ Decreased to 13 cents in 1980
- ◆ Increased to 19 cents in 1994
- ◆ Decreased to 17 cents in 1998
- ◆ In 2001 it had declined to 11.7 cents

4.5 Agri-competitiveness



4.5 Agri- competitiveness

The AGRIBUSINESS COMPETITIVENESS STATUS index (ACS)



“Winning” and “losing” primary products

Trends in competitiveness 1993 -2002			
Competitiveness in 1993		Increase	Decrease
	Competitive	<u>Winners:</u> Sugar; Groundnuts; Oranges; Apricots; Grapefruit; Grapes; Lemons; Pineapple; Plums; Wool	<u>Declining high performers:</u> Maize; Apples; Avocados; Mangoes; Pears; Sweet potatoes; Mohair; Hides and skins;
	Marginal	<u>Rising moderate</u> <u>Performers(catch-up):</u> Potatoes; Sunflower; Tobacco; Tomatoes; Soybeans; Green beans; Bananas; Cabbages; Carrots; Chillies and peppers; Coffee; Honey; Lettuce; Onions; Papayas; Peaches; Strawberries; Watermelons; Eggs; Milk; Pork	<u>Declining moderate</u> <u>Performers:</u> Asparagus; Sorghum; Barley; Garlic; Hops; Mushrooms; Peas; Chicken meat; Mutton and lamb;
	Not Competitive	<u>Turn-around:</u> Wheat; Cotton seed; Dry beans; Tea; Beef;	<u>Chronic underperformers</u> <u>(losers):</u>

“Winning” and “losing” value added products

Trends in competitiveness 1993 -2002

	Increase	Decrease
Competitive	<u>Winners:</u> Flour of maize; Groundnuts shelled; Grapefruit juice; Grape juice; Raisins; Pineapples canned; Wool, scoured; Mohair, coarse;	<u>Declining high performers:</u> Flour of wheat; Oil of groundnuts; Beer of barley; Apple juice; Dry apricots; Pineapple juice; Eggs dry whole yolks; Hides dry salted; Hides wet salted;
Marginal	<u>Rising moderate Performers (catch-up):</u> Flour of potatoes; Macaroni; Breakfast cereals; Oil of maize; Potatoes, frozen; Sugar refined; Sugar confectionery; Maple sugar and syrups; Prepared groundnuts; Margarine; Cigarettes; Cigars cheroots; Tomato paste; Essential oils; Orange juice; Coffee extracts; Wine; Dried mushrooms; Eggs liquid; Eggs liquid, dried; Canned chicken; Beef and veal, boneless; Dry whole milk; Cheese; Cream; Ice cream; Pork prepared; Pork sausages;	<u>Declining moderate Performers:</u> Pastry; Oil of soybeans; Cake of soybeans; Soya sauce; Cake of sunflower; Tomato juice; Peeled tomatoes; Coffee roasted; Canned mushrooms; Plums dried; Beef preparations; Beef dried salt smoked; Dry skim milk; Butter; Chocolate products; Yoghurt; Leather; Bacon-ham of pigs;
Not Competitive	<u>Turn-around:</u> Bran of wheat; Bran of maize; Cake of groundnuts; Oil of sunflower; Cotton carded and combed; Cotton linter; Malt of barley; Dried peas;	<u>Chronic underperformers (losers):</u> Oil of cotton seed; Cake of cotton seed; Cotton lint;

COMPETITIVENESS:

- ◆ Some conclusions:
- ◆ S.A. agriculture is more competitive today than a decade ago; some groups sustained their competitive performance i.e. wine, fruit, horticulture- all high income and employment generating activities;
- ◆ primary/farm level production generally operated more competitively than agro-processing. Why?
- ◆ constraints/enhancements to gain the competitive advantage to be research

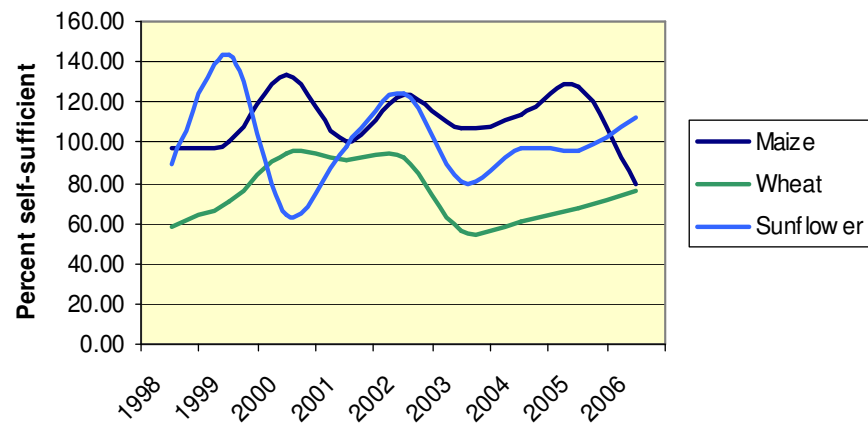
4.6 Food prices and poverty

- ◆ The 'big question -again": Is food self-sufficiency important/relevant ?
What does it say/mean?
- ◆ Is it related to food security?

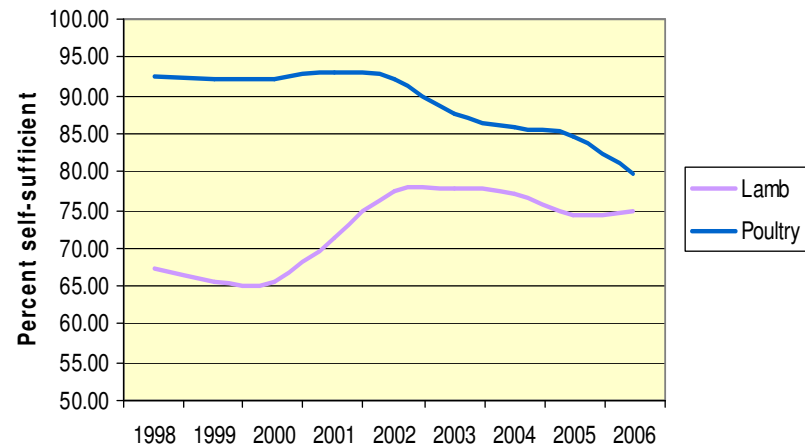


Self-sufficiency Indices

SSI for Grains



SSI for Poultry and Lamb



4.6 Food prices and poverty

1. Channels linking agriculture and poverty alleviation to be explored(Timmer; FAO):
 - ✦ Labour market channel- is agriculture trapping or releasing labour to non agric sectors? (to be researched)
 - ✦ Direct and indirect income effects- is agric enhancing rural livelihoods/reducing poverty? Timmers findings re poverty? (To be researched)
 - ✦ Food price channel- is food less expensive as the result of agric performance? Supply chain analysis? (To be researched)

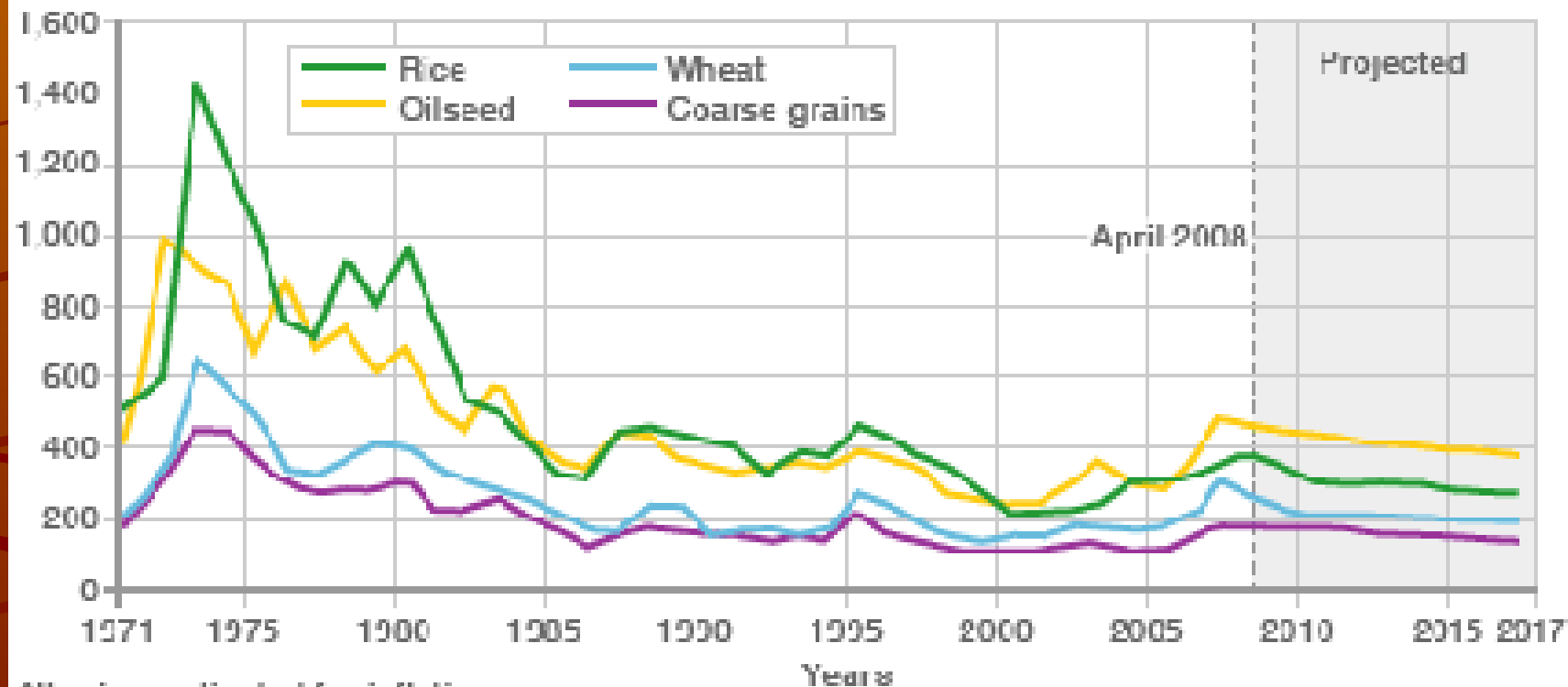
The recent food price “storm” causes

- ◆ The consensus seems to be ‘A Perfect Storm’:
 1. Strong underlying demand (increasing house hold level incomes? Social grants?) coupled with the skewed trade regime
 2. Historically low stocks
 3. Triggered by Australian drought, **(US) biofuels**, speculation

or a storm in a teacup ...

WORLD FOOD COMMODITY PRICES

\$US/tonne



All prices adjusted for inflation

SOURCE: FAO/OECD

4.6 Food prices and poverty

- ✦ While this shows that the food price scare may not have been that severe, we know that retail food prices do not follow commodity prices downwards
- ✦ Poor people are, therefore, poorer as a result of these increases in retail food prices
- ✦ Unless they are surplus food producers far
- ✦ 2. Food security strategies: Farm typologies; household focused food production?; keeping real food prices low; generating income flows to the poor

4.7 Land reform

- ◆ Total failure: too little, too slow, unanticipated spill-over effects too large
- ◆ Slow bureaucracy, legal processes and measurement problems-race; recording transfers are complex
- ◆ No mechanisms to facilitate “willing-buyer-willing-seller” opportunities: the Land Bank’s core focus?
- ◆ No post settlement support vision- farmer selection, mentorships, business linkages and commercialisation. PPP’s?
- ◆ What is happening to AgriBEE/WineBEE?

Land reform: Where to focus?

- ◆ Determine real need for agricultural/ farming land transfers viz-a-viz residential land
- ◆ Speed up land purchase offers for farmer development(75:25 situation); training, mentorships, PPP's
- ◆ Speed up legal processes
- ◆ Establish a dedicated land transfer and development capacity as a PPP

4.8 Environment

- ◆ Evidence of considerable benefits from minimum-intervention farming after deregulation- reduction in chemicals, etc.
- ◆ Environmental 'footprint' of agriculture increases as farming intensifies and cold chain increases
- ◆ What role can agriculture play in wider conservation initiatives? Fair Trade, BWI, IPW, Carbon foot print protocol for BRAND SOUTH AFRICA?

Statement 3

- ◆ South African agriculture is in a position to perform efficiently and effectively on all the various roles, BUT:
- ◆ only if secure expectations are guaranteed (commercialisation, investment, innovation, competitive performance, etc.)
- ◆ only if land reform succeeds and a class of successful "new" black farm producers emerge
- ◆ only if such "new" farmers find profitable opportunities
- ◆ only if farmers are commercially linked to competitive value chains- local & global
- ◆ only if farmers across the broad spectrum/ typology are served effectively and efficiently(R&D, financing, extension, business intelligence, infrastructure, market development support- building BRAND SA, etc.)

Statement 4

- ◆ South African agriculture's contribution to food security and poverty reduction will be found in the following:
- ◆ **Employment and wage effects**, linking the farming environment to **non-agricultural employment** and urban opportunities i.e. to improve farm/rural family mobility;
- ◆ **Employment and wage effects**, through the expansion of **labour intensive exports** i.e. horticulture, wine, vegetables;
- ◆ **Income effects**, through commercialization of farming to generate reliable and relevant income streams – scale effects : when is small to small? How to link small scale agric to value add activities?
- ◆ **Food price effects**, through the lowering of real food prices for food buyers(most poor house holds) and through house hold savings due to own production(small scale activities in urban and rural environments).