Agricultural Policy Monitoring and Evaluation 2015

Chapter 20

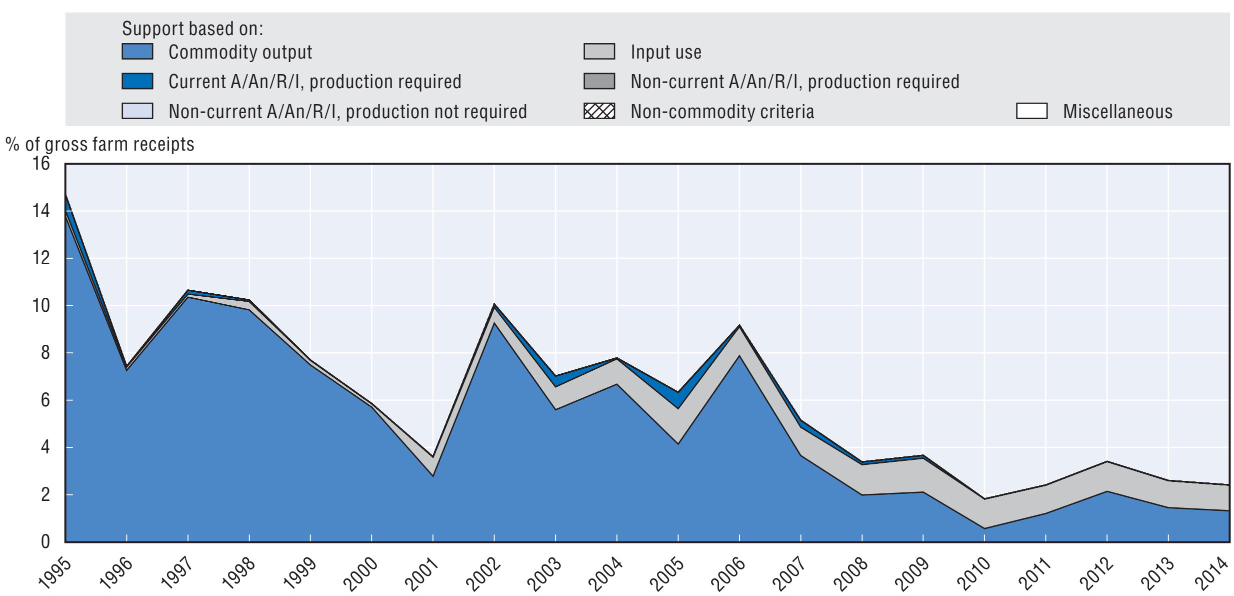
South Africa

The South Africa country chapter includes a brief evaluation of policy developments and related support to agriculture, contextual information on the framework in which agricultural policies are implemented and the main characteristics of the agricultural sector, an evaluation of support in 2013-14 and in the longer term perspective, and a brief description of the main policy developments in 2013-15.

Evaluation of policy developments

- The current relatively low level of support to South African agriculture (around 3% of gross farm receipts) is the result of sharp policy reforms implemented in the mid-1990s. Policy changes resulted in deregulation of the marketing of agricultural products, liberalisation of domestic markets, and reduced barriers to agricultural trade. These reforms reduced market price support and budgetary support to commercial farming resulting in a substantial reduction of total support to agriculture.
- Increased budgetary spending went to financing the land reform process and to supporting its beneficiaries (subsistence, smallholder and commercial farmers). The main agricultural policy developments and the main challenges in most recent years are related to the implementation of the land reform programme and strengthening the enabling environment for new farmers. During 2013-15 policies aimed to ensure the viability of new entrants and to restore and recapitalise failed projects continued to be implemented with increasing budgetary spending.
- The implementation and good targeting of the support programmes, tailored to the needs of emerging farmers, remain the main challenge into the future. The involvement of private stakeholders (experienced commercial farmers) in the support programmes is an efficient way to engage existing resources and address weaknesses in supporting programmes and services from public authorities.
- The pace of the land reform should be closely linked to the development of the enabling environment for the beneficiaries of the land reform; otherwise the land redistribution by itself cannot deliver the expected outcomes such as improving the welfare of the black, rural population, increasing food security in rural areas and developing a viable commercial sector.

Figure 20.1. **South Africa: PSE level and composition by support categories, 1995-2014**



Source: OECD (2015), "Producer and Consumer Support Estimates", *OECD Agriculture Statistics* (database), *http://dx.doi.org/10.1787/agr-pcse-data-en*.

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Contextual information

According to its GDP per capita, South Africa is an upper middle income country. However, income inequality is severe and widespread poverty persists. It has a relatively moderate level of inflation but a persistently high rate of unemployment that is currently around 25%. Since 2011 the GDP growth rate has declined and was around 1.5% in 2014. The part of agriculture in the economy is relatively low with a share of 2.4% of GDP, and 5% of employment. The sharp reduction of employment in agriculture compared to the mid-1990s is the result of reforms and resulting reduction of labour use on commercial farms. South Africa is a net exporter of agro-food products. The share of agro-food exports in total exports is around 10%, while the share of agro-food imports is around 7%. South Africa has a large area of agricultural land, but only 14% is arable while the remaining is mostly semi-arid area suitable only for extensive pasture. There is a highly dualistic farm structure, with a well-developed and internationally competitive sector of commercial farms on one side, and a large number of smallholder and subsistence farms on the other side.

Table 20.1. **South Africa: Contextual indicators, 1995, 2013[1]**

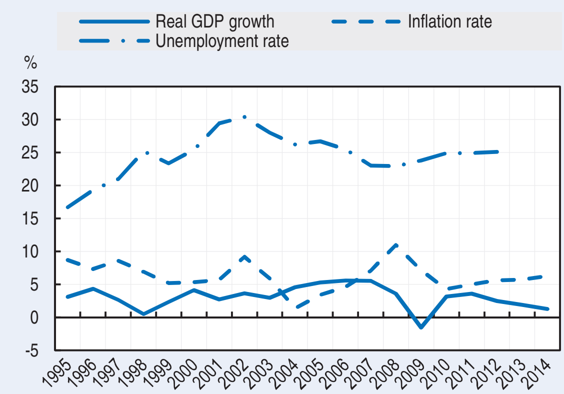
	1995	2013[1]
Economic context		
GDP (billion USD)	151	351
Population (million)	41	53
Land area (thousand km^2)	1 214	1 213
Population density (inhabitants/km^2)	34	43
GDP per capita, PPP (USD)	5 930	12 891
Trade as % of GDP	18.2	28.3
Agriculture in the economy		
Agriculture in GDP (%)	3.9	2.4
Agriculture share in employment (%)[2]	15.6	4.6
Agro-food exports (% of total exports)	8.3	10.2
Agro-food imports (% of total imports)	7.4	6.6
Characteristics of the agricultural sector		
Agro-food trade balance (million USD)	383	2.913
Crop in total agricultural production (%)	54	53
Livestock in total agricultural production (%)	46	47
Agricultural area (AA) (thousand ha)	99 525	96 341
Share of arable land in AA (%)	15	12
Share of irrigated land in AA (%)	..	1.3
Share of agriculture in water consumption (%)	..	60
Nitrogen balance, kg/ha	..	..

1. Or latest available year.
2. 2000.

Sources: *OECD Statistical Databases*, *UN Comtrade Database*, *World Development Indicators* and national data.

StatLink http://dx.doi.org/10.1787/888933235488

Figure 20.2. **South Africa: Main macroeconomic indicators, 1995-2014**



Source: OECD Factbook Statistics.

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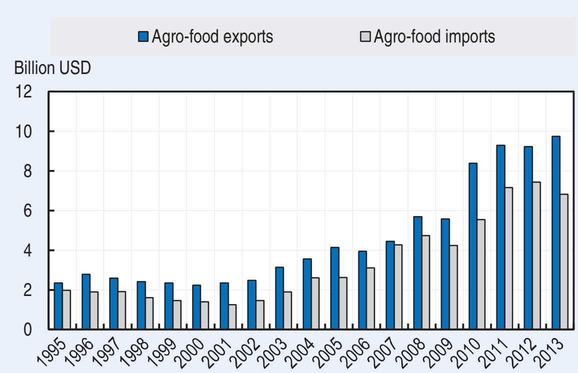
Figure 20.3. **South Africa: Agro-food trade, 1995-2013**



Source: UN Comtrade Database.

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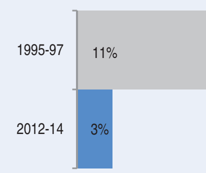
Note: Detailed definitions of contextual indicators and their sources are provided in the "Reader's guide".

Development of support to agriculture

South Africa has a relatively low level of support around 3% of farmer's receipts in the most recent years. The relatively high share of the most distorting forms of support has to be interpreted against the low level of support as measured by the PSE. The level of price distortions has been low and in current years domestic prices are almost aligned to world price levels (except sugar) as documented by the Nominal Protection Coefficient. Most of the budgetary payments are related to the implementation of the land reform and assistance to emerging farmers and to general services to the whole sector.

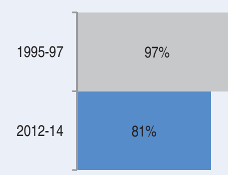
PSE as % of receipts (%PSE)

The level of support as measured by the percentage PSE has substantially declined and remains relatively low. Around 3% in 2012-14, it is well below the OECD average of 18%. Following a slight increase in 2012 to 3.4%, the share of support on total farm receipts dropped back to around 2.5% in 2013 and 2014.



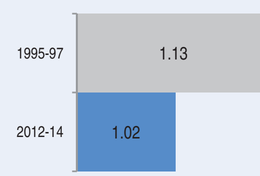
Potentially most distorting support as % of PSE

The share of the most production and trade distorting forms of support (based on output and unconstrained input use) has declined but remains relatively high around 80%. However, this relatively high share is to be interpreted in the context of the low overall level of support).



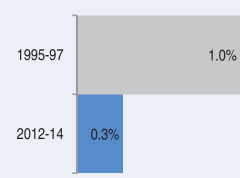
Ratio of producer price to border price (NPC)

The relatively low level of price distortions was further reduced and the level of domestic prices was almost aligned to world price levels in 2013-14, as measured by the NPC. The NPC was highest for sugar, followed by wheat and milk.

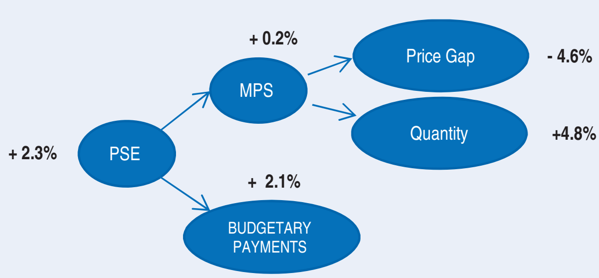


TSE as % of GDP

The total support represented 0.3% of GDP in 2012-14, and the share of the general services in the total support estimate was around 40% over the same period, with a rise in most recent years.

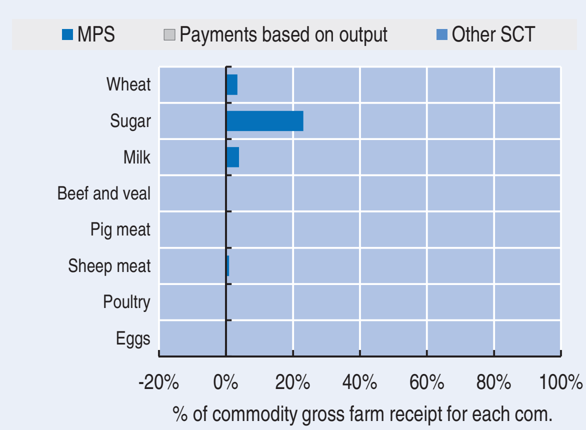


Decomposition of change in PSE, 2013 to 2014



The level of support increased in 2014 mainly due to a rise of budgetary payments related to the implementation of the land reform and supporting programmes to its beneficiaries.

Transfer to specific commodities (SCT), 2012-14



In 2012-14, the Single Commodity Transfer (SCT) represented 58% of the PSE. The share of the SCT in the commodity gross farm receipts was the highest for sugar (23%), around 4% for wheat and milk, and close to zero for the remaining commodities.

Table 20.2. **South Africa: Estimates of support to agriculture**

Million ZAR

	1995-97	2012-14	2012	2013	2014p
Total value of production (at farm gate)	**37 243**	**184 546**	**162 407**	**186 047**	**205 184**
***of which:** share of MPS commodities (%)*	74.0	76.2	76.9	76.1	75.5
Total value of consumption (at farm gate)	**34 730**	**177 129**	**155 938**	**175 757**	**199 692**
Producer Support Estimate (PSE)	**3 983**	**5 175**	**5 613**	**4 899**	**5 013**
Support based on commodity output	3 824	3 012	3 534	2 745	2 755
Market Price Support[1]	3 824	3 012	3 534	2 745	2 755
Payments based on output	0	0	0	0	0
Payments based on input use	62	2 163	2 079	2 154	2 258
Based on variable input use	30	1 190	1 063	1 154	1 353
with input constraints	0	0	0	0	0
Based on fixed capital formation	30	947	984	972	884
with input constraints	3	0	0	0	0
Based on on-farm services	1	27	32	27	21
with input constraints	0	0	0	0	0
Payments based on current A/An/R/I, production required	97	0	0	0	0
Based on Receipts / Income	87	0	0	0	0
Based on Area planted / Animal numbers	10	0	0	0	0
with input constraints	0	0	0	0	0
Payments based on non-current A/An/R/I, production required	0	0	0	0	0
Payments based on non-current A/An/R/I, production not required	0	0	0	0	0
With variable payment rates	0	0	0	0	0
with commodity exceptions	0	0	0	0	0
With fixed payment rates	0	0	0	0	0
with commodity exceptions	0	0	0	0	0
Payments based on non-commodity criteria	0	0	0	0	0
Based on long-term resource retirement	0	0	0	0	0
Based on a specific non-commodity output	0	0	0	0	0
Based on other non-commodity criteria	0	0	0	0	0
Miscellaneous payments	0	0	0	0	0
Percentage PSE (%)	**10.9**	**2.8**	**3.4**	**2.6**	**2.4**
Producer NPC (coeff.)	**1.13**	**1.02**	**1.02**	**1.02**	**1.01**
Producer NAC (coeff.)	**1.12**	**1.03**	**1.04**	**1.03**	**1.02**
General Services Support Estimate (GSSE)[2]	**2 120**	**3 835**	**3 166**	**3 977**	**4 362**
Agricultural knowledge and innovation system	1 797	1 572	1 404	1 611	1 702
Inspection and control	146	622	515	645	707
Development and maintenance of infrastructure	175	1 372	1 073	1 451	1 594
Marketing and promotion	2	268	174	271	359
Cost of public stockholding	0	0	0	0	0
Miscellaneous	0	0	0	0	0
Percentage GSSE (% of TSE)	**35.2**	**42.5**	**36.1**	**44.8**	**46.5**
Consumer Support Estimate (CSE)	**-3 922**	**-2 701**	**-3 347**	**-2 046**	**-2 711**
Transfers to producers from consumers	-3 681	-2 486	-3 279	-1 895	-2 283
Other transfers from consumers	-382	-227	-68	-161	-450
Transfers to consumers from taxpayers	0	0	0	0	0
Excess feed cost	141	11	0	11	22
Percentage CSE (%)	**-11.4**	**-1.6**	**-2.1**	**-1.2**	**-1.4**
Consumer NPC (coeff.)	**1.14**	**1.02**	**1.02**	**1.01**	**1.01**
Consumer NAC (coeff.)	**1.13**	**1.02**	**1.02**	**1.01**	**1.01**
Total Support Estimate (TSE)	**6 103**	**9 010**	**8 779**	**8 876**	**9 375**
Transfers from consumers	4 063	2 712	3 347	2 056	2 733
Transfers from taxpayers	2 422	6 524	5 500	6 982	7 092
Budget revenues	-382	-227	-68	-161	-450
Percentage TSE (% of GDP)	**1.0**	**0.3**	**0.3**	**0.3**	**0.3**
GDP deflator (1995-97=100)	**100**	**316**	**307**	**325**	**..**

.. Not available

Note: 1995-97 and 2012-14: unweighted averages. p: provisional. NPC: Nominal Protection Coefficient. NAC: Nominal Assistance Coefficient.

A/An/R/I: Area planted/Animal numbers/Receipts/Income.

1. Market Price Support (MPS) is net of producer levies and excess feed cost. MPS commodities for South Africa are: wheat, maize, sunflower, sugar, milk, beef and veal, pig meat, sheep meat, poultry, eggs, peanuts, grapes, oranges and apples.

2. A revised GSSE definition with new categories was introduced in 2014. When possible, the revision was implemented for the whole time series. The GSSE series and the resulting TSE are not comparable with the series published previously. (For more details see the Annex 1.A1 to Chapter 1).

Source: OECD (2015), "Producer and Consumer Support Estimates", *OECD Agriculture statistics* (database). doi: dx.doi.org/10.1787/agr-pcse-data-en

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Description of policy developments

Main policy instruments

In the mid-1990s, substantial reforms reduced state intervention in agricultural markets, which lead to a stronger market orientation of the sector. Under the current system, there are no domestic market support interventions and no export subsidies applied. Other policy instruments used are input subsidies, mainly in the form of diesel rebate; programmes supporting new farmers benefiting from the land reform; and general services provided to the sector, mainly research, extension and inspection services. The *National Land Care Programme* (NLP) is a community-based and government supported approach promoting sustainable management and use of natural agricultural resources. The Land reform, launched in 1994, is the key policy issue related to the agricultural sector. The main objectives of the Land reform are to redress past injustices, foster reconciliation and stability, support economic growth, improve household welfare and alleviate poverty in the rural areas. Land restitution, land redistribution and land tenure reform are the main elements of the land reform.

The key Government bodies implementing these policies are the Department of Agriculture, Forestry and Fisheries (DAFF) and the Department of Rural Development and Land Reform (DRDLR). The *National Agricultural Marketing Council* (NAMC), a national public body, was established through the Marketing of Agricultural Products Act No. 47 of 1996, to provide the department with strategic advice on agricultural marketing issues; it undertakes investigations on agricultural marketing and marketing policy; and co-ordinates the implementation of all statutory measures implemented by the various agricultural industries. The *Agricultural Research Council* (ARC) is another national public body which fund and co-ordinates the research and extension activities related to the agricultural sector.

Attempts to rectify the racially skewed access to land and land ownership in South Africa are supported by the Provision of Land and Assistance Act (No. 126 of 1993) as amended, which addresses land restitution, land tenure reform and land redistribution. During the process of the implementation of the land reform a range of programmes (*Comprehensive Agricultural Support Programme; Illima/Letsema projects; Micro-agricultural Financial Institutions of South Africa – MAFISA*) were implemented to support activities creating an enabling environment for the previously disadvantaged farmers (subsistence, smallholders and commercial), such as capacity building, provision of appropriate information services and infrastructures.

A review of the *Land redistribution for agricultural development (LRAD)* projects indicated that a number of projects implemented are not economically viable. The DRDLA amended the land reform regulation in order to rationalise the land redistribution process and to assist the vulnerable projects. The *Agricultural Land Holding Account* (created in 2009) is responsible for land acquisition and, through the *Recapitalisation and Development Programme*, for recapitalisation and development of distressed land reform projects.

The *Integrated Food Security Strategy* (IFSS) introduced in 2002, is based on public and private civil society partnerships and focuses on household food security as the building block for national food security. The target goal of the IFSS is to reduce the number of food insecure households by half by 2015. One of the strategic approaches to reach this target is to increase household food supplies by providing production support services to households own food production. The food security objective is further supported by *Fetsa Tlala* integrated food production initiative (introduced in 2013), which is aimed at production of staple foods on fallow land with agricultural potential in communal areas.

A *Comprehensive Rural Development Programme (CRDP)* was launched in June 2009 by the newly created *Department of Rural Development and Land Affairs* (previously *Department of Land Affairs*). The main focus of CRDP is on providing education and skills, small farmer development, water resources management, storage capacities, promoting co-operatives and investment in social rural infrastructure (schools, clinics).

Domestic policy developments in 2013-15

During 2013 and 2014, South Africa increased it border protection for wheat and sugar. On 25 April 2013, a new variable wheat tariff was based on the US No. 2 HRW Gulf fob Price of USD 294/tonne which replaced the previous variable tariff based on the US No. 2 HRW Gulf fob Price of USD 215/tonne set in May 2010.[1] On 4 April 2014, SA increased the domestic dollar-based reference price (DBRP) for sugar from USD 358/tonne to USD 566/tonne based on the four-year average London No.5 settlement price of sugar.[2] The Sugar Agreement of 2000 (between different agents in the sugar production chain) still permits raw sugar to be exported only through a single-channel industry arrangement, and allocates quotas to individual producers for sugar sold on the domestic market.

Under a diesel refund system, introduced in 2000, farmers receive a refund on the tax and road accident fund levies paid on diesel fuel. The refund is applied for 80% of the total eligible purchases used in primary production. The refund per litre was ZAR 1.58 (USD 0.19) in 2012, ZAR 1.75 (USD 0.18) in 2013, and ZAR 2.10 (USD 0.19) in 2014.

A new programme was introduced in 2013 to foster food security in rural areas. The *Fetsa Tlala* food production programme provides support to subsistence and smallholder producers, mainly in communal areas, to put idle agricultural land back into production. Due to resource limitations, 70% of the allocation to the Comprehensive Agricultural Support Programme's infrastructure pillar (ZAR 1.7 billion or USD 157 million) has been redirected to this programme in 2014/15.

A large part of the smallholder sub-sector continues to be underproductive and economically unsustainable. The DAFF and the DRDLA provides post settlement assistance including production loans to new and upcoming farmers (mostly operating on redistributed or restituted land). Several programmes are implemented to support those farmers in order to assist them to develop commercially viable businesses.

The *Comprehensive Agricultural Support Programme (CASP)* focuses mainly on providing support in the following areas: on and off-farm infrastructure and production inputs; targeted training, skill development and capacity building; marketing and business development and support; information and knowledge management; technical and advisory services, regulatory services and financial services. Overall, the budgetary expenditure financing CASP were ZAR 1 137 million (USD 139 million) in FY 2012, ZAR 1 301 million (USD 135 million) in FY 2013, and ZAR 1 366 million (USD 126 million) budgeted for FY 2014.[3]

The *Ilima/Letsema Programme* was implemented in 2008/09 to increase food production, particularly by the smallholder farming sector. The funds were transferred to provincial departments of agriculture to finance conditional grants for specific production projects such as upgrading irrigation schemes and other infrastructure and on farm investments to support production capacity. The budget allocation to the programme was as follows: ZAR 416 million (USD 51 million) in FY 2012; ZAR 440 million (USD 46 million) in FY 2013 and for FY 2014 the budgeted amount is ZAR 461 million (USD 42.5 million).

As the majority of projects implemented within the land reform were not economically viable, the DRDLA amended the land reform regulation in order to rationalise the land redistribution process and to assist the vulnerable projects. Under the amended regulation, all the newly acquired land have been registered as state owned on the *Agricultural Land Holding Account* and provided to selected beneficiaries under lease contracts. The beneficiaries may dispose of the land after an agreed lease period, provided the project is economically viable. The *Land Reform Grants* programme is no longer used to buy agricultural land and transfer it directly to select beneficiaries. Its funds are now financing, together with the Agricultural Land Holding Account, the *Recapitalisation and Development Programme*.

The *Comprehensive Rural Development Programme (CRDP)* is providing support for the development of rural areas through two main programmes, both of them related to the agricultural sector. The *Rural Infrastructure Development* (RID) sub-programme expenditure increased significantly due to the increase in funding projects providing access to basic services, particularly sanitation, irrigation and roads. The RID funding increased from ZAR 253 million (USD 31 million) in FY 2012 to ZAR 783 million (USD 72 million) in FY 2014. The *Rural Enterprise and Industrial Development* (REID) sub-programme provides assistance in the co-ordination and facilitation or rural enterprise development, industrial development and support to rural communities to produce their own food. The budgetary expenditures financing the REID have been also steadily increasing from ZAR 287 million (USD 35 million) in FY 2012 to ZAR 600 million (USD 55 million) budgeted for FY 2014.

Due to an outbreak of foot and mouth disease, the expenditure on infrastructure was increased to finance the construction of fences along South Africa's border with Zimbabwe and Mozambique to manage the incidence of the disease. Additional funding was also provided in recent years to the Agricultural Research Council to upgrade the foot and mouth vaccine facility. Over the medium term, key activities will include reviewing and strengthening animal disease control measures in order to maintain the foot and mouth disease free country status, which SA regained in February 2014.

Trade policy developments in 2013-15

Import protection for agricultural and food products is based on specific and *ad valorem* **tariffs**. The zero import tariffs for maize (applied since 2007) continued in 2013-15. As a member of *South African Customs Union (SACU)*, South Africa applies the common external tariffs established for all members. The average tariff applied for agricultural products is around 10%, which is much lower compared to the 40% average MFN tariff bound for agricultural products.

Tariff rate quotas (TRQs) exist for a range of agricultural products under the WTO minimum market access commitments, with tariffs at 20% of the bound rates. For substantially all trade, preferential tariffs are granted to imports from the EU under the Trade, Development and Co-operation Agreement. Equally imports from Southern Africa Development Community (SADC) countries outside the SACU are duty free, with very few exceptions.

South Africa is a founding member of the *Southern African Customs Union (SACU)*,[4] This is a full customs union, with a common external tariff. In 1994, South Africa (SACU) became a member of the *Southern African Development Community (SADC)*,[5] For the implementation of the FTA, the SADC incorporated the principle of asymmetry: A phase-down (started in 2000) of SACU tariffs in five years (by 2005); and those of other SADC countries to be completed in 12 years, i.e. by 2012. The SADC free trade agreement (FTA) has now been fully implemented. Negotiations are underway between SADC, EAC and COMESA (the three regional free trade areas in South and East Africa) within a *Tripartite Free Trade Agreement* (TFTA) with the aim to significantly reduce tariff barriers mainly for agro-food products.

The *SADC – EU Economic Partnership Agreements* (EPA) negotiations – A main element of the EPA negotiations was to replace the non-reciprocal trading preferences that African, Caribbean and Pacific (ACP) countries have been receiving from the EU (under the *Lomé* Agreement) with reciprocal free trade arrangements. The implementation of EPAs between the EU with the ACP countries was envisaged as from 1 January 2008; this however did not happen for the SADC countries. The EU and SADC member states subsequently agreed on a two-stage approach to the conclusion of EPAs, i.e. the first stage was to conclude an interim agreement, and a conclusion of a full agreement at a later stage. The *Interim Economic Partnership Agreement* (IEPA) with the EU was signed in June 2009 by Botswana, Lesotho, Mozambique and Swaziland, all of which are members of the SADC and, with exception of Mozambique, also SACU members. However, the most important members of the SACU, South Africa and Namibia have not signed the IEPA yet. The negotiations towards a final EPA are at the final stages, in fact, the text of the EPA has been initialled, marking the end of the negotiations.

Notes

1. The US No. 2 HRW Gulf fob Price is used as the World reference price in calculating the South African wheat tariff. If the US No. 2 HRW Gulf fob Price is USD 10/tonne below the set RSA World reference price (US No. 2 HRW Gulf fob) of USD 294/t for 3 consecutive weeks then RSA applies a tariff on wheat imports, based on the difference between the prevailing World reference price and the set SA reference price, taking into account the exchange rates prevalent at the period. If the World price (US No. 2 HRW Gulf fob Price) is above USD 294/t the tariff does not apply, imports can enter the country duty free.
2. The variable tariff on sugar works almost similar to the wheat tariff.
3. FY – financial year April/March.
4. The SACU members are: Botswana, Lesotho, Namibia, Swaziland and South Africa.
5. The SADC member countries are: Angola, Botswana, the Democratic Republic of Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe.

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