

Agriculture – a tale of two sectors 7 June 2016

Amidst the noise from our body politic, it is good to look at some fundamental trends. Something extraordinary has happened in SA agriculture over the last 20 years.

Much more produced

Production, measured in constant rands to get rid of inflation and so give us a real picture of change, increased by 40% between 1994 and 2014. I am going to write that again: over a 20 year period agriculture in SA expanded by 40%.

Naturally the drought, which started in 2015, has taken some shine off this performance. In 2015 production declined by 8% from 2014 levels But even then it was still 29% higher than it was in 1994.

This increase occurred at the same time as the number of commercial farmers declined by more than 50% - from about 66 000 at the end of the eighties to about 32 000 today. The number of farmworkers also declined by at least 50% - from well over 1.2 million to a low of 626 000 in 2011.

Higher production while the number of farmers and farmworkers declined means only one thing, much higher productivity. There is no other explanation: more production with fewer people means higher productivity.

Higher productivity came from economies of scale, more scientific farming methods, new technology and mechanisation, amongst others. The credit for all this must go to SA farmers. Their performance is all the more remarkable given that they receive very little support from government – unlike the situation in countries like the US, Japan and the EU where farmers are mollycoddled by their governments.

It goes without saying that higher productivity brings with it higher incomes, more investment and in general more modernity.

Employing more

As this productivity revolution played out the number of farm workers first decreased – to that low of 626 000 in 2011. Since then, however, employment has increased by nearly 40% to reach 876 000 people in the March 2016 quarter.

This increase in jobs is all the more remarkable given the huge jump in minimum wages in March 2013, when it was raised by more than 50% to R105 a day. Such is the power of higher production – the point is reached where it pays to employ more people.

A lot more

Apart from the 32 000 commercial farmers and 876 000 workers formally employed in agriculture, a further 1 690 000 people were engaged in subsistence farming in the first quarter of 2016. Combining formal and subsistence agriculture, it means that 2.5 million people from 1.25 million households are currently making a living in the sector.

We need to understand more of the smallholder and subsistence sector and discuss it further below. But first a word on the other big development since 1994 and that is land reform.

Land reform

Since 1994 7 846 680 mil ha (9.5% of agricultural land) was bought for either restitution or redistribution. It went to more than 2 million beneficiaries in 435 000 households. Government plans to acquire another 2

million ha by 2020. The National Development Plan calls for 16.4 mil ha to be transferred by 2030.

With 20 years of experience now behind us some observations are in order.

The higher production and more jobs we saw in commercial agriculture happened during exactly the same period that land restitution and land reform took place. It indicates that the sector at large has been able to absorb the impact of land reform. One can talk about a “productivity dividend” that subsidised land reform.

The critical importance of that dividend is illustrated by the fact that many farms became less productive after transfer. Even the Minister of Land Affairs has referred to this with his “80%” remarks. For the country at large that lost production must be made good; and it is the commercial farmers that have done so.

Prof Ben Cousins from the University of the Western Cape observed that 50% of land beneficiaries improved their incomes after receiving land. That means about 1 million people. 50% (or another million) did not increase their income and many left the land they received. We thus have a dualism: some individuals actually improve their income, but the land they farm is less productive than it once was. Micro progress, macro regression.

This dualism underscores the need to have a flourishing commercial sector next to a subsistence sector. The first provides the productivity that keeps production going and earn forex; the second provides a livelihood for 1.69 million people in 1.25 million households.

The biggest outstanding issue on land reform is tenure reform in communal areas. Progress is slow. A previous bill was declared unconstitutional by the Constitutional Court and a new bill is likely to be tabled this year. It is already under heavy contestation from groups who oppose the powers it will give to traditional leaders. It is essentially a clash between people who want land rights and chiefs who resist it. Watch this space.

From subsistence to commercial

This year government will spend R4.1 billion on grants, extension services and rural infrastructure to support 54 500 smallholder and 435 000 subsistence farmers. Included is R50 million for the Land Bank to support a “retail emerging markets model” and money for the establishment of the first five of 27 agri-parks.

The aim of all this is to increase food production by small holder and subsistence farmers and to link them with markets.

To some extent this process is already under way. Prof Cousins points out that “smallholder farmers currently ... supply informal traders and loose value chains that have less demanding requirements for fresh produce than ... supermarket chains and formal markets”.

These efforts to help small and subsistence farmers certainly go against the trend of bigger farmers and higher productivity which characterises the formal agricultural sector. But they can help to feed families; produce a small surplus; engage more people in small holder farming; and help build a new class of Black farmers.

If efforts to link small and subsistence farmers with markets are reasonably successful the 50% with higher incomes which Prof Cousins observed can increase. A game changer for national production it is not; but it could be a game changer in the lives of very poor people.

Over time it is probable that smaller farms will again be consolidated into bigger, more commercial entities – a process then hopefully led by a new generation of Black commercial farmers. This is already happening in places like Malelane. What one could call “accumulation from below”.

Make no mistake, this process will take a long time to show results. It makes it all the more important that the two sectors, highly productive commercial farming and smallholder subsistence farming, must co-exist. Each has a role to play in serving the needs of the country.

Threats to productivity

Several pieces of legislation are currently in the political and legislative processes. Two in particular have a bearing on agriculture, the Expropriation Bill and the Land Holding Bill. The latter will regulate farm sizes and restrict foreign ownership of agricultural land. The Expropriation Bill now awaits the President's signature and several parties have indicated a Constitutional Court challenge. The Land Holding Bill has not entered Parliament yet. We will comment on these as the real issues (as opposed to the noise) become clearer.

So what?

- The commercial agricultural sector has expanded by some 40% since 1994.
- This explodes the myth that a decline in the number of farmers means a decline in agriculture. On the contrary.
- This is unqualified good news for food security and forex earnings.
- 1.69 million people make a living from the smallholder and subsistence sector, making it an important part of food security for poorer families.
- The commercial and smallholder/subsistence sectors will co-exist next to each other for a long time to come; it is in the country's interest that both sectors progress and score successes.
- Land reform will continue. The trick is to let the commercial sector flourish to keep harvesting a productivity dividend from there sector whilst the subsistence sector absorbs more people.