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Structural Adjustment and Agricultural Policy Reform in South Africa

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Foreword

Policy reform — geared towards restoring macroeconomic stability and creating an efficient, effective economic environment — is one of the urgent challenges facing Southern Africa today. Most, if not all, members of the Southern Africa Development Community (SADC) are working to create economic environments that are conducive to growth and development. Two primary aims of these structural adjustment programs are (*a*) to transform economic policies and (*b*) to correct imbalances caused by years of economic mismanagement and pursuit of misguided development strategies. The policy changes pursued by these countries are typically based on macroeconomic reforms, deregulation of markets and prices, and trade liberalization.

Through a USAID subgrant provided through TechnoServe Kenya, the University of Swaziland has coordinated research to examine structural adjustment activities in four Southern African countries — Malawi, South Africa, Zambia, and Zimbabwe. As this research demonstrates, reform programs have had different rates of implementation and success in the different countries of the region.

This report presents the findings of research concerning reform activities in South Africa. As the report explains, the country's pre-Mandela government of the late 1980s undertook extensive privatization, commercialization, and deregulation. However, nonparliamentary political groupings and trade unions widely criticized and resisted the government's privatization programs. As a result, in February 1990 the pre-Mandela government effectively halted its pursuit of privatization and further increased the focus on commercialization and deregulation. The policy reforms of the 1980s, in effect, made the South African agricultural sector poorer and leaner. However, the reforms also appear to have made the sector better fit to encounter the challenges of superior economic growth rates and stable economic conditions that are anticipated with the new political era under Nelson Mandela.

Given the centrality of macroeconomic reforms to sustainable real economic growth and human development in South Africa, this study is timely. It offers an opportunity to reflect on the accomplishments and challenges of economic reform initiatives undertaken in pre-democratic South Africa. The report should serve as a guiding tool for government and donors alike in planning future and ongoing economic reform and structural adjustment efforts in South Africa, especially with regard to incorporating "social dimensions of adjustment" considerations in such reform programs.

This report is one in a series of studies on Africa's comparative advantage, a joint activity of the Africa Bureau's Food Security and Productivity Unit in the Office of Sustainable Development, Productive Sector Growth and Environment Division (AFR/SD/PSGE) and the Regional Economic Development Services Office for East and Southern Africa (REDSO/ESA).

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Executive Summary

Macroeconomic policy reform is arguably the single most pressing national challenge facing most economies of Sub-Saharan Africa today. The overall objective of these programs is transforming the policy environment and correcting structural macroeconomic imbalances which have arisen from years of economic mismanagement and pursuit of inappropriate policies and development strategies by these countries. In an effort to create an environment that would foster economic growth and development, the policy changes pursued by most countries in Southern Africa are typically based on macroeconomic reforms, deregulation of markets and prices, and trade liberalization.

This study is a comprehensive review of key developments and policy reforms associated with structural adjustment of agriculture and farming in South Africa. Although South Africa has not implemented a formal donor initiated structural adjustment program, the report presents and discusses a range of economic policy reforms that have been implemented by the pre-Mandela government in recent years. Vivid descriptions of the agricultural sector and the reconstruction and development program are offered, including implications of the latter for the former. The study finds that the policy reforms of the 1980s better prepared the agricultural sector to face the potentially more challenging economic conditions expected in the 1990sthe period of return to democracy and anticipated free market conditions.

Glossary of Acronyms and Abbreviations

AMS	Aggregate Measure of Support
ANC	African National Congress
ARC	Agricultural Research Council
CIMA	Committee of Inquiry into the Marketing Act
CP	Conservative Party
EEC	European Economic Community
EMA	Export Marketing Assistance
FOB	Freight on Board
FSP	Farmer Support Program
FSR	Farming Systems Research
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GNP	Gross National Product
GEIS	General Export Incentive Scheme
GNU	Government of National Unity
IMF	International Monetary Fund
ISCOR	Iron and Steel Corporation of South Africa
LAPC	Land and Agricultural Policy Center
NAFCOC	Black Chamber of Commerce of South Africa
NAFU	National African Farmers Association
NAMPO	National Maize Producers Organization
NARS	National Agricultural Research System
NFI	Net Farm Income
NTB	Non Tariff Barriers
PSE	Producer Subsidy Equivalent
PWV	Pretoria, Wits. and Venda
RSA	Republic of South Africa
RDP	Reconstruction and Development Program
RDPF	Reconstruction and Development Program Fund

SAAU	South African Agricultural Union
SAP	Structural Adjustment Program
SASOL	South African Coal, Oil and Gas Corporation
SATBVC	Formerly independent homelands of South Africa
SDA	Social Dimensions of Adjustment
SSI	Self Sufficiency Index
TFP	Total Factor Productivity
USAID	United States Agency for International Development
VAT	Value Added Tax

1. Introduction

South Africa has not been subjected to a formal donor initiated Structural Adjustment Program. However a range of policy reforms dramatically changed the structure of the South African agriculture of the early 1990s.

South African agriculture has been characterized by a "marathon" history of intensive direct governmental intervention. This has been manifested in commodity policy, factor policy and technology policy. These components of agricultural policy were effected through the Agricultural Marketing Act of 1937, the Land Acts of 1913 and 1936 and Subdivision of Agricultural Land Act of 1970 and other factor policies such as tax policies, and classifying technology services as "own affairs." According to Kassier and Groenewald (1992), the government interventionist program reached a high point around 1980 with a variety of laws, statutes and regulations controlling access to and the use of natural resources, finance, capital, labor, as well as marketing of agricultural products. They also indicated that weaknesses in the sector resulted from and were manifested in potential harmful effects in terms of efficiency and equity, whose remedy lied in deregulation of the industry.

Brand, *et al.* (1992), note that the agricultural sector was subjected to two phases of restructuring in the period up to the early 1980s. The first phase embraced initial steps directed at territorial segregation of white and black farmers which was realized through the promulgation of the Natives' Land Act of 1913. This served to effectively segregate ownership in addition to abolition of various tenancy forms (mainly share-cropping). Peasant farmers were in effect converted into farm laborers in their large numbers. Two decades later, intensification of state intervention in agriculture was achieved through introduction of legislative measures such as the Marketing Act of 1937 and the Cooperative Societies Act of 1939 which "excluded" other categories of farmers such as smallholder black farmers, and part-time farmers.

The second phase consisted of increased mechanization of commercial farming and resultant substitution of capital for labor around 1970. Around the same period, the government intervention in black agriculture consisted of physical "betterment planning" and administrative control. Failure of this "development" approach to achieve its welfare objectives saw shift to intensive large-scale, centrally managed agricultural development projects in black areas which became the mainstay of agricultural development efforts in the late 1970s and early 1980s. The structural imbalances between white commercial and black subsistence agriculture (Fényes, *et al.*, 1988) became apparent resulting from the "two-track policy" toward the two agricultural sub-sectors. This manifested itself through limited access to land and agricultural support services, and effective lobbying market for homeland farmers.

The 1980s saw increased concerns from commercial farmers about the "unhealthy state" of agriculture resulting mainly from the ever-widening gap between production costs and producer prices. In the late 1970s, producer prices rose by only 9 percent a year, while production costs rose by about 15 percent a year. Against this background, farmers' debts increased to R2 621-million in 1978. During the same year, agricultural sector's net income was only 62 percent of the total debt load. Rising production costs in agriculture also prompted the Minister of Agriculture's concern.

The maize industry, which is arguably the most important or most significant subsector in South African agriculture, experienced export losses borne by farmers amounting to R150-million annually. These losses were largely attributed to huge maize surpluses in the United States which flooded the world market. Most commercial maize producing areas were affected by the 1978/79 drought as a result of which financial assistance from the Government was given to affected farmers in parts of Orange Free State, northern Cape, northern Natal and western Transvaal.

Apart from the nature of the agricultural industry which makes it different from other sectors of the economy and its subjectiveness to natural factors (climate, diseases), the wider or macro milieu in which agriculture operates was also loaded with a multitude of other changes.

The main purpose of this article is to review some of these changes and major events associated with the structural adjustment of agriculture and farming in South Africa. This review will start with an assessment of the macroeconomic reform in South Africa. This is important due to the direct linkages between agriculture and the macroeconomic environment. Fiscal monetary trade investment and labor will be briefly reviewed.

The agricultural environment will secondly be described pointing out: vital changes in general growth in the sector; changes in farming costs, farm incomes, profits, yields and related variables associated with performance; changes in natural factors (climate, diseases, and disasters); as well as changes in agricultural policy. Most of the variable changes will be supported by statistical tables and figures mainly concentrating on the ten-year period from 1980 to 1989. On the basis of some of these statistics, general observations and conclusions will be made. The Reconstruction and Development Program (RDP) of the Government of National Unity (GNU) will be discussed briefly and possible impacts on the future structure of the agricultural sector will be analyzed.

2. Structural Adjustment in Macro-Economic Policies

FISCAL POLICIES

Public Enterprise Sector Reforms

The broad program of privatization, commercialization and deregulation embarked upon by the previous government in the late 1980s was aimed at reducing the size of the public sector, increasing the efficiency of government entities by exposing them to the competitive forces of the market place, and reducing or eliminating reliance on public funds by such entities/functions. Some criteria taken into account in the privatization of a function/activity were that privatization should not entail any fundamental risk to state security or internal order; not defeat the constitutional, social or economic objectives served by a certain function or activity; be reconcilable with the policy on competition, and be to the long-term benefit of the taxpayer and/or society in general.

Some entities which were privatized up till the beginning of the 1990s included ISCOR (the state iron and steel corporation), the South African Mint and a sorghum beer brewery company. Commercialization of government activities took place regarding the South African Weather Bureau, the forestry branch of the former Department of Water Affairs and Forestry, State Motor Transport, workshops of the former Department of Public Works and Land Affairs, the Agricultural Research Council and public holiday resorts. The commercialization process took different forms. Activities were granted greater managerial autonomy by putting them outside the regulatory framework of the former Office of the Commission for Administration; boards of directors were strengthened by involving managerial expertise from the private sector; and financial independence promoted, inter alia through the application of user-charge principles and the contracting out of some activities. Deregulation and the promotion of effective competition were encouraged by inviting individuals and organized commerce and industry to identify areas or aspects that they regarded as necessitating deregulation and to make constructive proposals to the Competition Board.

However, at that time, privatization initiatives of the government were met with considerable resistance from non-parliamentary political groupings and trade unions. Therefore, the political reforms announced on 2 February 1990, also included a commitment from the previous government that it would not proceed with economic restructuring initiatives such as privatization. Consequently, this brought the privatization program to a halt and the focus shifted to commercialization and deregulation. As part of the commercialization initiative, a large number of public enterprises have been reclassified as public corporations,[1] e.g., Transnet (former South African Transport Services) and the Department of Post and Telecommunications (divided into the two entities: South African Post Office Limited and Telkom SA Limited since 1991).

[1] Public Enterprises are non-incorporated enterprises which are corporate in nature and sell goods and services to the public at prices that normally cover production costs. Although each enterprise has its own budget, it has to obtain Parliamentary approval. The enterprises of the local authorities and provincial administrations must obtain approval from provincial administrations rather than Parliament on a national level. Non-financial public corporations are government-owned businesses formally established and regulated by law, or companies wholly or mainly owned by public authorities. Public corporations can be defined as corporate units which are controlled by the government either by the number of shares owned by the government or through the appointment of members of the board of directors.

Since the early 1990s the Office of State Enterprises has guided and monitored the commercialization process and ensured the maintenance of a level playing field for all participants - state corporations and private enterprise, whether big or small. The latter takes place, where required, through regulatory structures such as the Competition Board, the Regulatory Committee for public airports and air traffic services; the Independent Broadcasting Authority for broadcasting services; the Telecommunication Regulator and also the Post Master General for telecommunication aspects. The Minister of Public Enterprises is ultimately politically and managerially accountable for public enterprises and corporations, which have to submit their strategic and annual business plans as well as financial statements through this Ministry for approval by Parliament. In some cases price adjustments have to be approved by the Minister as well. In economic activities where competition is lacking, regulation is regarded as a precondition for the privatization or commercialization of public monopolistic activities.

Currently, measures that favor parastatals are more of a financial than a regulatory nature. The public sector has provided a cumulative total in loan guarantees and subsidies amounting to about R27,7 billion to corporations such as Eskom (electricity), Transnet (transport) and Aventura (holiday resorts) at the end of fiscal year 1993/94.

The debate on privatization has again been reopened in the South African political economy. Currently an inventory of all state assets and liabilities is undertaken, with the view of privatizing and commercializing assets.

Reduction in Deficit Spending

Up till April 1994 structural adjustment in the fiscal field supported the broad economic policy considerations of the former government and was focused on:

- raising the economic growth potential via tax reduction, changes in the tax structure, greater tax effectiveness, more efficient and purposeful state spending, a relatively lower level of state expenditure and the systematic elimination of government sector dissaving;
- promoting more equal opportunities via priority shifts in state expenditure towards socioeconomic services and more effective targeting of government assistance in the case of the genuinely needy; and
- promoting macroeconomic stability via the reduction of the fiscal deficit, avoidance as far as possible of money creation in financing the deficit, the redemption of public debt and a larger role for dynamic public debt management in short-term stabilization policy.

Although progress had been made in some areas in achieving these objectives, in other areas there had been little if any advance. Adjustments to the taxation and expenditure structure included:

(1) partial elimination of fiscal drag and reduction of the top marginal rate of income and corporate taxes;
(2) reduction or termination of several tax expenditures and their replacement, where appropriate, with better targeted direct expenditures;
(3) partial phasing out of the import surcharge;
(4) tax reforms, including the introduction of VAT, reduction of estate duty, full phasing in of fringe benefits tax, and elimination of double taxation on dividends;
(5) increase of general government expenditure on socioeconomic services as percentage of aggregate general government expenditure and GDP;
(6) far reaching policy decisions on the limitation and reallocation of state expenditure, such as those involving privatization and commercialization actions, and the reallocation of funds previously tied up in strategic supplies towards socioeconomic services; and
(7) the development of mechanisms in the public and private sectors of large-scale development financing, which implies a different pattern of investment in the economy.

Important fiscal areas in which little or no progress had been made include:

(1) reduction of the share of direct taxation in total taxation;
(2) complete elimination of fiscal drag;
(3) the systematic elimination of government sector dissavings; and
(4) the limitation of the share of state expenditure in the economy.

Cyclical factors, political transition factors and uncertainty regarding the nature and stability of a new constitutional dispensation acted to complicate the implementation of the foregoing fiscal strategy.

Saving by the general government turned negative for the first time in 1984 and has never been positive since. The accumulative dissaving by the general government over the past ten years amounted to R54,4 billion, i.e., an average reduction in national savings of some 5 percent of GDP. Since 1990, the budget deficit has increased from 1.2 percent of GDP to 7.8 percent in 1993 and to 6.4 percent in 1994. Government debt has increased from about 39 percent of GDP in 1990 to 49 percent of GDP in 1994. In a strict technical sense the government is caught in the so-called public debt trap, which has the effect that the government is borrowing more and more to, *inter alia*, finance its increasing interest bill. The government's interest on borrowing amounts to about 6 percent of GDP, which threatens to surpass education as the highest expenditure category.

In the first Budget of the Government of National Unity on 22 June 1994, the Minister of Finance singled out three important considerations of its fiscal strategy, namely:

- laying the base for public finance to be one of the principal instruments for the reconstruction and development of our country;
- contributing, through fiscal discipline, to macroeconomic stabilization as a crucial element in economic growth; and
- embodying institutional change in the process of transition from the old to the new constitutional order.

The GNU has already taken certain steps on the following aspects of reconstruction and development:

- early agreement on key principles of macroeconomic management, including guidelines on reducing the government budget deficit, government dissaving and inflation through restraint in general government consumption expenditure;
- improved coordination between the Departments of Finance and State Expenditure;
- establishment of a Treasury Committee, which is to assist Cabinet in setting budgetary priorities, evaluating expenditure requests and ensuring prudent fiscal management;
- development of a strategy for the orderly transfer of financial management, powers and functions to the new provincial governments; and
- design of an action plan to meet the objectives of the reconstruction and development program without compromising fiscal discipline.

The government has also established a Reconstruction and Development Program Fund (RDPF). This Fund does not have borrowing powers, but will be funded from amounts appropriated by Parliament, receipts from grants and proceeds from the sale of state assets. In the Budget for fiscal year 1994/95 an initial allocation of R2,5 billion was made for this purpose, and it was envisaged that these annual allocations would be increased progressively to reach a cumulative total of R40 billion over five years within the overall budgetary constraints. In accordance with the emphasis in the Budget on maintaining fiscal discipline, the funds allocated to the RDPF were found by decreasing other departmental expenditures, i.e. without increasing the planned level of total expenditure. It was also made clear that sound financial management would be applied to fund the process of reconstruction and development by providing, *inter alia* for:

- the rearrangement of priorities and redirection of funds in the Budget;
- efficiency gains through the rationalization of services and the effective utilization of public resources; and
- the broadening of the tax base through economic growth.

The Minister also appointed a Commission of Inquiry into Taxation in South Africa to investigate the tax system and to assess what improvements are required. Furthermore, the Department of Finance estimates that the sale of state assets could raise some R27 billion. It is speculated that a share of these proceeds could be applied to reduce government debt.

MONETARY POLICIES[2]

Tightening of Money Supply

Increase in real interest rates

Throughout the 1970s, monetary policy was rarely used to achieve macroeconomic goals, and was conducted mostly through direct control measures. With the increase in the inflation rate of the 1970s, however, nominal interest rates no longer reflected the real cost of capital and there was a shift to indirect monetary policy instruments. Up till the mid-1980s, the money supply increased strongly, with rapid growth following periods of very high gold prices. Excessive increases in liquidity resulted in low interest rates compared to domestic inflation and overseas interest rates. This was reinforced by exchange controls on residents, preventing funds from earning higher rates overseas. Artificially low real rates of interest contributed to low personal savings, the increased use of credit, capital intensity in production and thus low productivity of available capital.

A sharp policy reversal followed in 1984-85, contributing to a severe reduction in economic activity and the demand for credit, while inflation was lowered marginally. The resulting decline in investor confidence plus political considerations accelerated capital flight, leading to the refusal of foreign creditor banks to roll over foreign debts in 1985. Since then the basic philosophy behind the monetary policy followed in South Africa is that monetary policy has one prime and overriding responsibility, and that is to protect the value of the currency.

The framework within which monetary policy is applied by the South African Reserve Bank is based on predetermined guidelines for an acceptable rate of increase in the money supply. A broad definition of money, M3, including short- and longer-term deposits of the private sector with the banking sector, is used for this purpose.

The Reserve Bank does not regard its money supply guidelines as a rigid overriding “money rule.” Major deviations from these guidelines normally trigger proactive monetary policy actions by the Bank. Although divergences of the money supply from the target range is used as the most important indicator for monetary policy, policy decisions are also influenced by developments in other financial variables, such as interest rates, changes in domestic credit extension by the banks, the level of and the current trend in the foreign reserves, and exchange rate movements. The Reserve Bank does not, however, quantify or predetermine set targets for all the different variables. If rational decisions are taken all the time,

- The expansion of the money supply should remain within the target range.
- The general level of interest rates in the country should remain realistic and should stay at least at some margin above the rate of inflation.
- The domestic bank credit extension should not rise excessively.
- The total foreign reserves will remain at an adequate level.
- The exchange rate of the rand as determined by market forces will remain relatively stable.
- Inflation will be contained.

The Reserve Bank’s key operational variable in achieving its goals is its Bank rate, i.e., the lowest rate at which it lends to banks experiencing a shortage of liquid funds. The money supply in South Africa is to an important extent demand driven, and money is created mainly by the extension of credit by banking institutions. There is therefore a close relationship between the growth in money supply and the level of interest rates. A more restrictive

[2] This section draws on formal SA Reserve Bank statements as expressed in the SA Reserve Bank Quarterly Bulletins (various issues).

policy on the growth in the money supply would thus require a higher level of interest rates than a more expansionist monetary policy.

The first predetermined targets for the growth rate in the money supply were introduced in March 1986. At that time, an acceptable rate of growth of 16 to 20 percent in the M3 money supply for 1986 was announced. In the event, the actual rate of increase in M3 for 1986 turned out to be only 9.3 percent. Subsequently, in 1988, the growth rate in M3 accelerated to 27.2 percent, when a target range of 12 to 16 percent was applied. For 1994, a guideline of 6 to 9 percent is regarded to be compatible with the objectives of the Bank for the maintenance of overall financial stability.

The results achieved with monetary policy, particularly over the past six years, are positive. In an extremely unfriendly financial environment, the monetary authorities succeeded in:

- bringing the rate of increase in the M3 money supply down from 27 percent in 1988 to 7 percent in 1993;
- reducing the rate of increase in the total amount of bank credit extended to the private sector from almost 30 percent in 1998 to less than 10 percent in 1993;
- reducing the Bank rate from 18 percent in 1991 to 12 percent in 1994 and establishing the firm conviction that interest rates should remain positive in real terms at all times;
- bringing the rate of inflation down from 20.7 percent in 1986 to below 10 percent since 1993;
- establishing a sound and internationally compatible system of bank supervision and regulation; and
- introducing greater sophistication and efficiency in the money and capital markets.

However, there are still some obstacles to the longer-term goal of persistent overall financial stability.

- The current relatively low level of gold and foreign exchange reserves makes a switch to a more relaxed monetary policy stance very difficult.
- The exchange rate of the rand has remained under pressure, and the average weighted value of the rand against the value of a basket of the currencies of South Africa's major trading partners is depreciating—by 9.2 percent in 1993 and by a further 7 percent in the first four months in 1994.
- The foreign exchange market is still subject to extensive regulation, distorting economic decisions.
- The recent growing fiscal deficits and public debt are not reconcilable with the goals of overall financial stability

In many other countries, the money supply has lost some of its appeal as an anchor for monetary policy purposes, and, in some instances, has been abandoned and replaced by a different basis, e.g., the exchange rate. In some countries (particularly the United Kingdom, New Zealand and Canada) the authorities pursue inflation targets more directly, instead of through an intermediate target such as the money supply. This approach, however, requires a degree of cooperation between government, private businesses, trade unions and the central bank which will, in the present phase of sociopolitical reforms in South Africa, be extremely difficult to obtain. Therefore, the Bank is of the opinion that money supply targeting remains, at least in the present South African context, the most sensible anchor for monetary policy and for guiding the authorities in their decisions in executing their monetary policy responsibilities.

Change in Bank Reserve Requirements, Rules and Regulations

The Reserve Bank regards the variable cash reserve requirement as a useful instrument for monetary policy purposes. In 1993, it introduced a number of changes affecting the minimum cash reserve and liquid asset requirements for banking institutions and also the arrangements for the provision of accommodation by the Reserve Bank to banking institutions at the discount window. These changes have been intended to improve the efficacy of monetary policy in the longer run, and are also in line with its approach of greater emphasis on risk management in the implementation of prudential financial requirements for banking institutions.

As part of this approach, the regulatory authorities are engaged in a special study of risk exposures involved in securities trading in the South African financial markets. There is concern about the inequities that, under present arrangements, arise from prescribed financial requirements for securities transactions when executed by registered banking institutions, and when executed by other non-bank securities dealers. This constrains the ability of the monetary authorities to change the minimum cash reserve requirements for banks in response to changing monetary policy objectives. To ensure fair and equal competition among all participants in the securities market, the introduction of a more general risk-based capital requirement for all securities dealers, including the managers of funds, is considered.

Changes already effected include:

- a new simplified basis for the calculation of the banks' minimum cash reserve and liquid asset requirements. The new basis includes all the liabilities of the banks without making any distinction between short-, medium- and long-term liabilities. Banks, are however, allowed to deduct their issued share capital from total liabilities, accumulated reserves, as well as inter-bank liabilities and those repurchase agreements that are mainly used for the funding of securities trading. The latter is an interim measure and pending the introduction of more uniform financial prudential requirements for all securities dealers.
- a new narrower definition of liquid assets which excludes bankers' acceptances, promissory notes and negotiable loan levy certificates; and
- in the light of these changes, new lower levels for the minimum cash reserve and liquid asset requirements.

The minimum cash reserve to be held against short-term liabilities is 1 percent (3 to 4 percent in April 1993), and against other liabilities of each banking institution is also 1 percent (zero in April 1993). There is also a supplementary cash reserve balance of 1 percent of short-term liabilities to be held at the Reserve Bank by all banking institutions and on which they receive a market related interest. In respect of liquid assets, a minimum requirement of 5 percent against banks' liabilities was introduced with effect from April 1993.

As from April 1993, the Reserve Bank has also changed the method of providing accommodation at the discount window from rediscounting acceptable money market paper to extending overnight loans against the collateral of acceptable paper. In this regard, accommodation is now provided only on the following basis:

- Overnight loans are extended at Bank rate against the collateral of Treasury bills, government stock, Reserve Bank bills and Land Bank bills, all with an outstanding maturity of less than 92 days; and at Bank rate plus one percent against these kinds of collateral with an outstanding maturity of 92 days and longer, but shorter than three years.
- Accommodation against collateral of other forms of security, such as bank endorsed bills and long- term government stock, is available in exceptional circumstances, at a discretionary or negotiated rate and for a limited period.

Furthermore, since 1993, the monetary authorities have also made arrangements for the transfer of part of government deposits from the Exchequer account with the Reserve Bank to government deposit accounts with private banking institutions. In this way, large temporary shifts of money market funds from the market to the Reserve Bank and vice versa are avoided, thus reducing the need for banks to borrow large amounts of funds from the Reserve Bank for relatively short periods of time to neutralize the disrupting effect of such shifts on market liquidity.

The philosophy, the framework and the operational procedures of the monetary authorities in South Africa are all based on the presence of sound financial institutions, particularly banking institutions, and on the existence of well-functioning financial markets. The Reserve Bank is also actively involved in developing the money and capital markets. It also has the responsibility of managing the bank regulatory function which is now firmly based on the principles and directives of the Basle Committee.

Exchange Rate Policies

From the breakdown of the Bretton Woods Agreement in 1971, South Africa has accommodated floating exchange rates. Its dual exchange rate system, allows for a managed commercial rand and a floating financial rand. The commercial rand applies to all international trade transactions between South Africa and the rest of the world as well as payments and repayments of foreign loans and direct investments into the country. The financial rand was introduced to address capital flight. After being abolished in February 1983, the two-tier exchange rate system was reintroduced in September 1985 in the face of serious balance of payments difficulties.

The financial rand may be used for investment in listed securities and non residents may inject equity capital into nonlisted companies. In August 1986 the system was broadened to include property investments. While foreign investors are obliged to invest in listed securities via the financial rand, dividends and other returns are paid out through the commercial rand.

Abolition of the financial rand system will probably only be considered by the Reserve Bank when the following prerequisites have been reached:

- foreign reserves high enough to cover three months worth of imports and/or the availability of major IMF standby credit lines (foreign reserves cover five weeks' imports currently);
- a financial rand discount rate (i.e., the difference between the prices of the commercial and financial rand as a percentage of the commercial rand) of below 10 percent and that stays at this level for some time to breed confidence (financial rand discount rate is around 20 percent currently); and
- the financial rand pool held by non-residents on deposits in South African banks disappear (the finrand pool is R4 billion currently).

Exchange rate policy in South Africa is not independent, but an integral part of monetary policy. Monetary targets, which imply a certain level of interest rates, in combination with international inflation and interest rate differentials, largely determine the exchange rate of the rand. The Reserve Bank does not have a predetermined target for the exchange rate of the rand, except that it should be as stable as possible. The Bank intervenes from time to time in the foreign exchange market to smooth out short-term fluctuations, and sometimes even to counteract somewhat longer-term movements, as long as they are considered to be of a transitory nature.

In 1993 and in the first four months of 1994, for instance, the Reserve Bank sold considerable amounts of foreign currency in the exchange market to lean against the wind of a depreciating currency when it was of the opinion that the overall balance of payments deficit was not founded on long-term economic fundamentals, but rather on perceptions of a more non-economic nature. On the other hand, the Bank would also recognize that trying to stop an exchange rate movement that has its origin in changed economic fundamentals would be counterproductive. In 1994, the nominal effective exchange rate of the rand has depreciated to a level of about 25 percent of the 1980 level.

TRADE POLICIES[3]

Developments in and domestic perceptions of South African trade policy have been influenced by the sustained international move from protectionism to trade liberalization. Trade policy had been closely aligned with industrial development policy and im-

[3] This section draws on a World Bank discussion document (4) South Africa: A Review of Trade Policies, 1993 and the Blue-Book of South Africa, 55th Edition, published in Cape Town by National Publishing (Pty) Ltd., 1994.

port substitution, which led to the increasing introduction of a wide spectrum of protectionist measures. With increasing official acceptance of the necessity to liberalize trade, the emphasis has moved to export promotion.

By resorting to tariffs and quantitative restrictions on imports (e.g., import quotas, local content requirements and other non-tariff restrictions) the authorities sought to give effect to import substitution. Costs of quantitative restrictions were perceived to be prohibitive some ten years ago, and the system was partially dismantled. Since the mid-1980s, steps have been taken to reduce the number of tariff lines, and it is the declared intention of the authorities to continue with further reductions.

Exchange Rate Policy and Foreign Exchange Regulations

Import payments and export receipts

Foreign exchange to pay for imports is automatically granted by any bank upon presentation of consignment documents and an import permit, when required. Banks are normally not allowed to pay for imports before shipment, except with prior authorization from the Reserve Bank.

All export proceeds must be surrendered to the Reserve Bank of South Africa within six months of the day of shipment and seven days of the date of accrual. Exporters are required to cover forward their export receipts within seven days of shipment, to hedge against foreign currency fluctuations.

Exchange rate policy

The dominance of gold in South Africa's exports creates a problem for exchange rate management. Under a freely floating exchange rate regime, the volume of gold exports and the price of gold have had a major influence on the value of the rand, to the possible detriment of other exports. Investigations have indicated that the level of the real exchange rate discouraged manufactured exports from 1973 to 1984. A nominal depreciation of the rand in 1984 reversed this trend.

For importables, the real exchange rate encouraged the replacement of imports and the production for the domestic market in the early seventies, until 1975. From 1975 to 1984, the real exchange rate experienced a modest decrease and was only lowered significantly after the 1984 devaluation. Appropriate incentives for manufactured exports would probably entail: fixing the value of the rand at a level that is lower than the market-clearing rand; and keeping it at levels that maintain the competitiveness of South Africa's manufactured exports. The influence of gold on the value of the exchange rate suggests that a market-clearing rate may not be low enough to encourage and sustain rapid growth of industrial exports. To encourage industrial exports, the value of the rand must be maintained at a level that ensures their competitiveness. The level may be lower than the value that would prevail under a market-determined rate.

Import and Export Permits

Non-tariff barriers (NTBs) have been a characteristic feature of South Africa's trade regime for a long time. They were originally intended to foster industrialization, but in recent years they have been justified as strategic tools to attain self-sufficiency in light of trade sanctions. As the world has been lifting sanctions, the government has been replacing NTBs with tariffs. The process, however, is not yet completed and some NTBs remain, especially against goods of agricultural origin.

The Import and Export Control Act of 1963 determines that certain goods can only be imported into the RSA with an import permit issued by the Director of Imports and Exports. The permit is valid for imports from any country. The list of goods subject to import permits has been progressively reduced in recent years and was switched from a positive list (specifying the goods subject to import permits) to a negative list (specifying the goods that did not require an import permit). However, it still includes a considerable number of tariff items, ranging from foodstuffs to chemicals, paper, textiles and machinery. Apart from import permits, certain products require additional certification upon importation from such government agencies as the Departments of Health and Agriculture, the Dairy Marketing Board or the Police. These requirements are intended to protect health or general security, and are applied to items such as foodstuffs, medicines and explosives.

Tariff Reforms

Despite the substantial liberalization of the trade regime in the past, serious problems still remain, but these will be eliminated or addressed gradually in accordance with the phasing in of South Africa's proposals to GATT.

Up until now, the trade system has been subjected to excessively frequent changes, it has been over complex, the dispersion of the tariff schedule is exceedingly high, and the regime is biased against exports.

Owing in part to frequent changes, the South African tariff structure is one of the most complex in the world. In 1990, the tariff schedule consisted of 13,609 items of which 1,791 items showed no imports, although the items in question could have been imported duty-free. The complex tariff schedule also has a wide dispersion. While there is a comparatively large proportion of items with zero rates there is also a high proportion with high rates. The number of high rates, combined with the number of low rates yields a coefficient of variation that is second only to Nepal's. The highest rate, 1,389 percent and second highest rate, 1,320 percent, apply only to one product each. All tariffs above 400 percent affect only 26 lines. Many of these lines are flanked on both sides by products with significantly lower tariffs.

The line immediately preceding the product with a tariff of 1,320 percent, for example, has a tariff of only 10 percent and the one immediately after has a tariff of only 29 percent. However, from the point of view of the average statutory tariff (weighted by the value of imports) South Africa is not an overly protected country. According to a recent World Bank study, the average statutory tariff of 27.5 compares well with that in most developing countries. However, compared to developed countries, South Africa is a highly protected economy, with an average duty rate twice as high as New Zealand's, the country with the next highest average tariff.

In addition to having a multitude of rates that is far more numerous than in most countries, the manner of levying the tariffs is also complex. Import levies include ordinary customs duties and import surcharges, but there are numerous exemptions granted on a firm-by-firm basis. There is also a fuel levy on petroleum and petroleum products and there are anti dumping duties on a very limited number of products.

South Africa subscribed to the GATT Agreements reached in December 1993 and put forward a set of proposals as to how it intends to implement these GATT Agreements (see table 1). Its suggestion that it be awarded developing country status, was not accepted, but the USA was prepared to back a proposal that South Africa be treated as an "economy in transition" - whereby it could enjoy a status similar to the former communist countries of Eastern Europe.

GATT requirements will, within the foreseeable future, lead to a trade policy consisting of increased tariffication of import control, the elimination of formula duties, the lowering of tariffs over a period of five years except where alternatives have been negotiated, and greater reliance on action against dumping. The latter is increasingly viewed as an appropriate defensive mechanism against unduly low-priced exports by certain countries. Since mid-1992 to 31 March 1994, local South African companies have filed 23 dumping complaints against foreign exporters, of which 10 were upheld. There is a need to bring South African anti-dumping legislation into conformity with international practice.

In addition:

- 99 percent of all tariff lines of the industrial tariff is offered to be bound as opposed to 56 percent of the offer of 1990. Import control is retained for regulating trade in secondhand goods. Furthermore, formula duties are done away with
- tariffs will be standardized at the 4 digit Harmonized level as opposed to the present 8 digit level, except for tariff lines in respect of motor vehicles and components, chemicals and some other.

Table 1. The December 1993 Gatt Agreements and South Africa's Counter Proposals	
GATT Agreements	
Developed countries	Tariffication of all quantitative and other non-tariff controls and/or barriers (with exceptions in the case of agriculture) 33 percent average reduction within 5 years of all industrial tariffs - with tariffs for certain subsectors (e.g. construction, high-tech goods, steel, pharmaceuticals, paper) to be negotiated - the ultimate objective being 0 percent 36 percent average reduction of all agricultural tariffs - with a 20 percent reduction of domestic agricultural support (calculated according to the GATT-prescribed "Aggregate Measure of Support" (AMS) formula), a 36 percent reduction of agricultural export subsidies and a 21 percent reduction of the volume of agricultural products exported with export subsidies. All reductions to be effected within 6 years.
Developing Countries	Tariffication of all quantitative and other non-tariff controls and/or barriers (with exceptions in the case of agriculture) 33 percent average reduction within 5 years of all industrial tariffs - with tariffs for certain subsectors (e.g. construction, high-tech goods, steel, pharmaceuticals, paper, etc.) to be negotiated - the ultimate objective being low tariffs. 24 percent average reduction of all agricultural tariffs - with a 13.3 percent reduction of domestic agricultural subsidies, a 24 percent reduction of agricultural export subsidies and a 14 percent reduction of the volume of agricultural products exported with export subsidies. All reductions to be effected within 10 years. Least-developed countries are exempted from all agricultural reduction commitments.
South Africa's Counter Proposals	Tariffication of all quantitative and other non-tariff controls and/ or barriers (with exceptions in the case of agriculture) 33 percent average reduction within 5 years of all industrial tariffs - with tariffs to be set as follows (depending on the specific type of good): for consumption goods between 20 percent and 30 percent within 5 years; for intermediate and capital goods between 10 percent and 15 percent within 5 years; for raw materials between 0 percent and 5 percent within 5 years; for clothing at a maximum of 45 percent within 12 years; for textiles at a maximum of 25 percent within 12 years; for assembled motor vehicles at a maximum of 50 percent within 8 years; for motor vehicle components at a maximum of 30 percent within 8 years 36 percent average reduction by 1999 of all agricultural tariffs - with a 20 percent reduction of domestic agricultural sup port (calculated according to the GATT-prescribed AMS for mula) within 6 years; a 36 percent reduction of agricultural export subsidies within 10 years and a 21 percent reduction of the volume of agricultural products exported with subsi dies within 6 years

Export Incentives

There is not clarity regarding the future evolution of trade policy in so far as export incentives are concerned, except for the phasing out of the General Export Incentive Scheme. Various ideas are mooted at this stage, ranging from the establishment of export processing zones to the introduction of an effective duty drawback scheme or similar mechanism.

Export Subsidies

The General Export Incentive Scheme (GEIS) is the major incentive scheme in place and dates back to April 1990. GEIS was designed to help firms offset the price disadvantage that the South African exporters face in international markets. GEIS provides a tax-free financial subsidy to exporters based on the value of exports, the degree of processing and the local content of the exported product. Under GEIS, exports fall into one of four categories: primary products (e.g., logs or mineral products); beneficiated primary products, i.e. products with some degree of processing (e.g., saw logs, billets); material intensive products (e.g., planed planks, sheet metal); and manufactured products (e.g., furniture, steel cabinets). The export subsidy increases with the level of beneficiation (processing), the level of local content, and with the value of the rand against a basket of currencies. The subsidy applies to most exports. About R800 million was budgeted for GEIS payments in the first year and by March 1992 GEIS payments were running at more than R2 billion per annum. Because GEIS increases in proportion to the percentage of local content, exporters must choose between the duty drawback scheme or GEIS. Most exporters take advantage of GEIS.

In accordance with the general prohibition of GATT on formula duties, GEIS should have been terminated by 31 March 1995. However, it will now be phased out over a period of three years, i.e., by the end of 1997. In order to facilitate moves closer to GATT demands, structural adjustment programs (SAPs), aimed at promoting export consciousness, have been introduced for the textile and clothing industry, the electronics industry and the motor vehicle industry.

Customs Duties Drawbacks and Exemptions from Customs Duties

Under the Customs and Excise Act, exporters are eligible for drawbacks (item 521.00) or exemption (item 470.03) of customs duties paid or payable on imported materials used in making or packaging goods for exports. Relief from customs duties can be permanent or granted on a specific transaction. Permanent relief is granted in accordance with standing provisions for drawbacks for materials used in the manufacture, processing, etc. of specific products for export. By contrast, specific relief is temporary and takes the form of rebate of duty, granted on importation of certain materials stipulated in permits for the manufacture of specific products for export.

Schedule 5 of the Customs and Excise Act contains the list of goods eligible for (permanent) drawbacks of customs duties, when used in connection with the manufacture, processing or packaging of exported goods. Schedule 6 of the same Act lists the goods eligible for rebates and refunds of excise duties.

The procedure for granting duty drawbacks and exemptions is oriented towards protection rather than facilitation of exports. Furthermore, it is cumbersome and time-consuming. An exporter applying for drawback or exemption must submit proof that the material will be used only in the production of the named end-product for export; a justification for using imports rather than domestic goods; proof that local industry cannot supply the inputs; and estimates of quantity and FOB value of the material contained in the end-product exported and the amount of customs duties involved. Currently, firms make little use of duty drawbacks and exemptions.

Exporters' Allowances

There are various export incentives intended to partially compensate costs incurred in the development of new export markets. A tax-deductible "marketing allowance" calculated as a percentage of marketing expenditures incurred in the development of export markets is granted to tax-paying exporters of goods and services. Normally, up to 75 percent of actual expenditures can be deducted, but if an increase of 10 percent or more on the exporter's basic export turnover is achieved within a specified period, the full amount of marketing expenditures may be deducted. This benefit does not apply to marketing expenditures incurred on exports to Namibia, Botswana, Lesotho, Swaziland or any other country that was formerly a part of South Africa. Because of the large number of applications for this incentive, tax rebates have been limited to 20 percent of export turnover.

The Export Marketing Assistance (EMA) Scheme gives partial compensation for transportation costs and subsistence allowance for travel regarding primary export market research as well as for outward-selling and inward-buying trade missions. The scheme also grants financial assistance to companies wishing to participate in specialized trade fairs outside the Southern Africa Customs Union area. The scheme applies to exhibitions in which South Africa participates officially by means of a nation pavilion. In such cases the Department of Trade and Industry makes all arrangements and bears the cost of space, rental construction and maintenance of stands, electricity and water charges as well as freight costs up to a certain maximum level. The scheme also makes provision for the granting of financial assistance, limited to 80 percent of certain acceptable items, up to a maximum of R20,000 to companies wishing to participate individually in specialised fairs.

Additional Export Incentives

The Department of Trade and Industry, in cooperation with the Credit Guarantee Insurance Corporation of Africa Ltd., administers a scheme called export credit re-insurance, which provides financing and insurance facilities to exporters. The insurance covers commercial, political and transfer risks at a premium. Exports of large capital projects which are being repaid over a number of years are eligible for interest rate subsidies from the Department of Trade and Industry. Under the export development finance scheme, the Industrial Development Corporation may provide finance at reduced rates for selected expansion schemes that will result in increased foreign earnings. Financial assistance is also available from ISCOR for exporters of fabricated products containing iron or steel, exports of certain filled containers, and use of certain iron or steel products in repair of foreign ships. ISCOR also grants special price rebates in the case of steel used in the manufacture of export products.

INVESTMENT POLICIES

Foreign Investment and Investment Incentives

Incentives which support an industrialist to establish an industry in South Africa include:

Guarantees

There are no written or legal guarantees but there are no restrictions at present on the transfer of profits, dividends, interest, etc on any investment from outside the country. The GNU is supporting a market oriented private business economy. In the past, expropriation of property had been entirely for local infra structural requirements with suitable compensation, and this is expected to continue in future. With the dual exchange rate policy incorporating the financial rand, a free flow of capital has been maintained. With regard to foreign investment, there are no targeted sectors or sectoral restrictions, foreign/local equity ratio requirements and minimum investment levels. Expatriate employment should comply with the basic requirements of the Aliens Control Act, 1991.[4]

[4] The provisions of the Aliens Control Act may be summarized as follows:

1. Possession of sufficient means of maintenance for his own use so as to satisfy an immigration officer that he is not likely to become a public charge.
2. Free from contagious, communicable or other disease as the Minister of Home Affairs may from time to time determine, and disabling mental or physical defect.
3. Free from conviction of certain criminal offences.
4. Possession of a valid passport

Import Protection

Currently, modification of the protection policy is taking place (see section 3).

Exemptions and Deductions from Tax

The import surcharge paid on capital and intermediate goods used in the manufacture of products of which a minimum percentage is exported is exempted from tax. Manufacturers are also exempted from VAT by way of a full input credit for capital and intermediate goods. In some cases allowable deductions are greater than is the norm overseas. Deductions granted include export allowances (see section 3) and wear and tear allowances of 20 percent per annum over five years. The Commission of Inquiry into Taxation in South Africa that has been appointed to investigate the tax system and to assess what improvements are required will also undertake cost-benefit analyses of all tax allowances.

Special Incentives

The GEIS is an incentive to exporters based on the net value of exports of manufactured products achieved. However, GEIS will be terminated in 1997, while other export incentives will probably be investigated for improvements.

Assistance Measures

Financial assistance is available through the Industrial Development Corporation, the Small Business Development Corporation, the Department of Trade and Industry and in some provincial areas. A performance-linked Regional Industrial Development Program came into being in May 1991, embracing financial incentives for viable enterprises in respect of new manufacturing projects, in all areas excluding the central PWV and Durban Core areas. Under this scheme, foreign enterprises, based upon, inter alia, new technology, import replacement or export orientation, can apply for a relocation grant of up to R1 million per project. This grant can also be made for foreign projects destined for the central PWV and Durban Core areas. Through specific industry programs additional assistance is given, such as cash grants for research and development programs in electronics.

Access to Advanced Financial Facilities to Foreign Controlled Companies

In terms of Exchange Control Regulation 3(I)(f) a South African concern at least 25 percent of whose voting securities, voting power, power of control, capital, assets or earnings is held or controlled directly or indirectly by (a) person(s) resident outside the RSA may not obtain South African credit facilities (which may include leasing/hire purchase/factoring arrangements and other local financial assistance) without prior authority of Exchange Control.

Policies Promoting/Restricting Investment Elsewhere in the Region

South African residents are not permitted without the specific approval of the Exchange Control to export funds to other countries for investment purposes. More favorable consideration than otherwise is given to applications by South African concerns who wish to make direct investments abroad with the object of promoting or safeguarding the Republic's interest and/or exports.

LABOR POLICIES

Foreign workers

There exist no ethnic quotas with regard to employment in South Africa. Since 1979 *de jure* discrimination on the basis of race, color, gender, etc., has been removed from the labor statutes, but the *de facto* situation is that discriminatory labor practices still prevail, e.g. the wage differentials between male and female workers, and between White and non-White workers, especially in the unskilled and semi-skilled categories. Furthermore, through the abolishment of influx control and changes with regard to regional development policies, the one time policy of fixed ratios between skilled and semi-skilled categories in manufacturing has been removed.

Movement of labor between countries, including cross-border movement, is embodied in the Aliens Control Act, 1991. At present, the policy as regard immigration to South Africa is aimed at persons who:

- are highly qualified in occupations for which a proven demand exists and who are able to obtain offers of employment prior to applying for permanent residence; or
- can prove that they are able to transfer a substantial amount of capital for investment and/or establishing industrial concerns which will lead to economic growth and employment generation opportunities for permanent residents of South Africa. Obviously such investment and entrepreneurial undertakings should be of a nature and content that render them beneficial to South Africa.

Within the framework as outlined above, applications for permanent residence form prospective immigrants will be considered on merit individually by the Immigrants Selection Board. Immigration is regarded as supplementary to South Africa's manpower resources, taking cognizance of the availability locally of workers and trainee material in the population. In terms of the Aliens Control Act, a permit for permanent residence will not be issued unless the applicant is of good character, is likely to become readily assimilated and a desirable inhabitant of the RSA within a reasonable period, and is not likely to pursue an occupation which, in the opinion of the Immigrants Selection Board, a sufficient number of persons is already engaged in the country to meet the requirements of the inhabitants.

Wage Policies

Virtually no price, wage or salary is determined in South Africa without inflation indexing playing a role in one form or another. Wage bargaining in South Africa is, however, influenced by many factors, such as socioeconomic and political considerations. Issues such as inequalities and disparities in income and socioeconomic goods and services, have served as variables in the level of wage demands since the 1980s, although the sources of these problems need to be addressed by other policy measures, that should augment and complement labor policies and labor market processes.

The wage bargaining structures and processes in South Africa have not changed substantially over the past 70 years, except for the dualistic nature of the collective bargaining system at the beginning of the 1980s to provide access to all workers to the formal bargaining machinery. Apart from this, the levels of wage bargaining revolved around the industrial council, reconciliation board and the Wage Board centralized systems, while the major part of wage bargaining took place on a mainly decentralized industrial or individual basis (although heavily influenced by the centralized wage bargaining process). Since 1924 the government has been an active partner in the wage bargaining process through the legalizing of minimum wages. The determination of centralized minimum wages and adjustments on industrial council[5] and Wage Boards[6] levels are statutorily supported by the govern-

[5] The industrial council system is formal, statutorily-assisted (as prescribed by the Labor Relations Act), and represents a centralized level of collective bargaining between employer and employee groups or trade unions, and is the primary form of wage bargaining in South Africa. The major economic sectors in the country, e.g. iron and steel, motor, food and textile industries, annually engage in a collective bargaining process, amongst others, to reach an agreement on changes in wage levels. After the conclusion of such an agreement between the parties, the agreement is converted into legislation and published in the Government Gazette. This set of wage agreements (and other workers' benefits) is a set of minimum wage determinations or agreements which is legally applicable and enforceable in predetermined industries, areas and occupations. Incidentally, employers usually interpret these wage rates as actual wages, whilst labor unions often take them as minimum rates.

[6] The jurisdiction of the Wage Board is applicable only to parties who are not subject to the formal collective bargaining process which falls under the Labor Relations Act.

ment. The legal wage determinations are further extended to non-participating parties in related industries, regions and occupations, again with the support of the government.

Adjustments in the minimum wage levels are usually made annually for a specific industry or occupation through the process of statutory centralized wage bargaining. In the 1980s only wage increases were negotiated, but recently there are also many other workers' benefits that are simultaneously negotiated, e.g., pension and medical fund contributions. Minimum wage determinations by the Wage Board are lower than comparable determinations by the industrial council system, whilst the latter's wage levels, especially that of unskilled employees, are higher than wage levels determined in industries who are not part of an industrial council.

A new Labor Relations Bill is currently being drafted and will be widely discussed with all stakeholders before being enacted. There is little clarity on its content to date, but it is speculated to contain improvements regarding mediation and conciliation services, decriminalize strikes and lockouts, provide for accessible, cheap and speedy labor court system to determine disputes of rights and will take a first step towards worker participation at company level along the lines of the European social democracies.

OTHER POLICIES

Price and Market Controls

Subsidies in South Africa take many forms. Firstly, many goods and services are provided free of charge or at prices substantially lower than actual cost. Traditionally, these have included provisions for the disabled, and education and health services. Secondly, there are also a large number of prices, equity, loan and interest rate subsidies to public enterprises and private business in railways, the nuclear and armament industries and petrochemicals, as well as subsidies for housing and water supply and water works. Thirdly, there are special provisions for deductions or exemption from taxes and excise duties for households and enterprises (both private and public). Mossgas and SASOL's exemption/reimbursement of fuel levy and tariffs constitute large indirect subsidy items not recorded as public expenditure in the government's budget.

3. Trends in Agricultural Production and Consumption

An analysis is made of the production and consumption of the most important agricultural commodities produced in South Africa during the period 1985 to 1990, see Table 1. This is done in order to establish total production, surplus production for the export market and the degree of self-sufficiency.

Table 2 shows that in spite of the periodic droughts experienced during the 1980s, South African agriculture still succeeded in producing surpluses. This is confirmed by the Self Sufficiency Index (SSI) which indicates that South Africa is self sufficient in all the important staples. Total crop production can therefore drop before South Africa becomes a net importer of these products on a regular basis. Some individual commodities in this group are, however, imported on a net basis (i.e., oilseeds).

The table also indicates that in horticultural production, particularly fruit, South Africa is not only self sufficient, but to a large degree dependent on the export market. The situation in respect of horticultural products is therefore even more favorable than that of crop production. In contrast to crop and horticultural products, red meat has a self-sufficiency index of lower than 100. This implies that South Africa did not produce enough red meat during the years 1985 to 1990 to meet domestic requirements. These shortages were supplemented by imports from, among others, Namibia, Botswana and some European countries.

Red meat, coffee, rice, vegetables, animal fats and vegetable oils are the most important food products imported. The total gross value of agricultural production in South Africa was almost R15 000 million in 1987, whereas that of food imports amounted to about R1200 million. Food exports in the corresponding period amounted to about R2400 million.

The area grown to crops has been fluctuating throughout the decade (see Table 3). The decline since 1986/87 in the area under maize is particularly noticeable. This is largely the result of the change in the price policy of the maize industry and the land conversion scheme introduced to take land out of maize production.

The changes in area cultivated under crops such as maize, sorghum, groundnuts and sugar cane have been rather mixed. All showed declining rates ranging between -0.61 percent and -10.78 percent per annum between 1980 and 1990. The area under cultivation of sunflower seed, dry beans and soybeans increased by 5.24 percent, 2.3 percent and 11.57 percent per annum respectively (see Table 4). The growth in area under soybean cultivation is good for soil conservation in light of the fact that a large proportion of South Africa's agricultural land is devoted to maize production which exerts a lot of pressure on soil fertility.

Although the area under cultivation for maize, groundnuts and sugar cane showed a declining trend during the period 1980-1990, production of these commodities grew steadily during the same period. This may have been the result of the following developments:

- During the period 1980-1990 research improved the yielding capacity of these crops.
- A combination of research and production shifting away from the marginally productive areas(farmers in drought prone and less fertile areas reduced cultivation of say maize).
- Farmers have become more intensive in their agronomic practices.

Table 2. Average Production and Consumption of Selected Agricultural Commodities in South Africa, 1985-1990

Commodity	Imports	Exports	Production (1,000 ton)	Consumption Total*	Consumption Human**	SSI***
Wheat	94	449	2,612	2,262	2,119	115,5
Maize (white & yellow)	484	1,689	7,422	6,127	2,615	121,1
Potatoes	5	8	1,042	1,039	872	100,3
Vegetables	4	27	1,739	1,717	1,545	101,3
Sugar	63	863	2,044	1,258	1,258	162,5
Beef	81	16	579	644	639	89,9
Mutton, goat's meat and lamb	14	1	182	195	193	93,3
Pork	1	2	110	109	108	100,9
Chicken	3	0	521	524	519	99,4
Eggs	0	3	181	178	169	101.7
Deciduous and subtropical fruit	0	466	1,366	897	808	152,3
Dairy products	35	58	2,344	2,321	2,321	101,0
Sunflower seed oil	14	1	84	96	85	87,5
Citrus fruits (fresh and processed)	0	426	706	278	278	254,0

* Available for use = Opening stock + Production - Closing stock + Imports = Exports
* * Net human consumption = Available for use - Other uses - Losses, and further adjusted for extraction rate
* * * SSI (self-sufficiency index) = Total production + Total consumption x 100
Source: Food balance sheets of the Directorate of Agricultural Economic Trends of the Department of Agriculture (as processed)

Table 3. Area Grown Under Selected Crops ('000 ha)

Crop	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89
Maize	4,028	3,913	4,054	4,029	3,778	3,475
Wheat	1,809	1,919	1,919	1,729	1,985	1,830
Sorghum	283	315	307	265	182	138
Dry Beans	54	47	56	60	64	69
Sugar Cane	412	407	411	388	380	375
Tobacco	32	34	31	25	25	25
Potatoes	67	66	57	65	72	63

Source: Volkakas (1994), Agrifokus.

Table 4. Annual Growth Rates of Area and Production of Selected Crops

Growth Rate (a)	Maize	Sorghum	Sunflower Seed	Ground Nuts	Dry Beans	Soya Beans	Sugar Cane
Area							
1980-1985	-1.37%	13.13%	-2.38%	-3.98%	-3.56%	5.30%	1.31%
1980-1990	-2.64%	-3.28%	5.24%	-10.78%	2.30%	11.57%	-0.61%
Production							
1980-1985	-8.07%	6.44%	-18.60%	-10.84%	3.57%	10.74%	4.27%
1980-1990	0.84%	-0.24%	7.87%	0.62%	6.08%	17.03%	1.64%

Note: (a) calculated using the exponential equation $Q=Al^{ce\ Time}$ where ^{ce} gives the growth rate.
Source: Calculated from Abstract of Agricultural Statistics.

4. Agricultural Trade

The cost effectiveness, efficiency and competitiveness of South African agriculture are dependent on free access to foreign markets and international trade. The effect of sanctions which restricted South Africa's access to international trade, caused a loss of export marketing opportunities for the agricultural sector. In spite of this, the quality of South African agricultural products, marketing reliability, and stringent quality controls, enabled South Africa to maintain its export position in the world market (Liebenberg, 1990). During the 1980s, incentives were also introduced to promote exports.

Terms of trade are important considerations when determining the potential international competitiveness of a country. In the case of South Africa, agriculture has been experiencing weakening terms of trade as influenced mainly by tariffs and exchange rate depreciation (Liebenberg and Groenewald, 1990). The 1980s experienced low levels of terms of trade which slightly improved towards the turn of the decade. The improvement has been mainly due to favorable changes in world prices for primary products since 1987 (Liebenberg, 1990).

Agricultural trade matters were put on the world stage in 1986 with the launch at Punta del Este of the Uruguay Round of Trade Negotiations under the GATT. South Africa being a founder member of the GATT took part in all the negotiations up to the signing of the final agreement in Morocco in April 1994. With regard to GATT, Liebenberg and Groenewald (1990) conclude that, in view of South African agriculture's great dependence on international trade and the possibility of counter measures, South Africa could not afford not to heed to the agreements under the Uruguay Round.

Turning to South Africa's agricultural trade figures for the period 1980-1990 (see Table 5) one remarkable aspect is the growth in South Africa's deciduous fruit exports at an average rate of 0.55 percent per annum despite trade sanctions. When disaggregating the decade, deciduous fruit exports grew at 2.95 percent per annum between 1980-1985 but declined between 1985-1990 at a rate of -0.74 percent per annum, largely as a result of stricter trade sanctions in Europe against South African products. Citrus export volume showed an overall decline of 2.02 percent and 9.3 percent per year between 1980-1990 and 1980-1985 respectively. However between 1985-1990 citrus exports grew impressively by 5.3 percent per annum (see Table 6).

Maize exports declined over the periods 1980-1990 and 1980-1985, but showed marked growth of 22.79 percent per annum over the period 1985-1990. Sugar exports grew at rates of 2.81 percent and 1.58 percent in the periods of 1980-1990 and 1980-1985 respectively but declined at a rate of -2.71 percent per annum during the period 1985-1990.

Table 5. Export Figures (1000 tons)

Year	Maize	Sugar	Citrus Fruits	Deciduous Fruit
1980	3,662	976	458	259
1981	4,690	905	446	247
1982	4,245	1,016	442	307
1983	1,320	806	394	235
1984	15	826	314	305
1985	370	1,206	300	296
1986	1,769	1,202	313	288
1987	2,443	1,303	350	309
1988	337	1,153	380	211
1989	2,933	1,218	395	243
1990	2,001	1,014	372	336

Source: Central Statistical Services

Table 6. Annual Growth Rates in Export Quantities of Selected Export Commodities

Category	**1980 - 1990**	**1980 - 1985**	**1985 - 1990**
Rate of Growth			
Deciduous Fruit	0.55	2.95	-0.74
Citrus Fruit	-2.02	-9.3	5.3
Maize	-5.91	-85.33	22.79
Sugar	2.81	1.58	-2.71

Source: Central Statistical Services

5. Aspects of Agricultural Policy

CHANGES IN AGRICULTURAL POLICY

It was mentioned earlier that the agricultural sector was subjected to two phases of structural change in the period up to the early 1980s. The Land Acts formed an integral part of these two phases of restructuring of the rural economy of South Africa. Their effects went much wider than their prescription of who could get access to which land. They also affected agricultural production systems, the structure of farmer support systems, and the status of black farmers, first as farmers in their own right and later as farm laborers.

The third period of structural change in South African agriculture started early in the 1980s and witnessed a major change in farm policy, the result of changes in the broader political economy, on the one hand, and of more direct policy reactions to the needs of the farming sector on the other.

Vink (1993) argues that the deregulation of the agricultural sector started outside agriculture in the late 1970s when the financial sector was extensively liberalized following the publication of the De Kock Commission report. The immediate effect on agriculture came from changes in the external value of the currency and in the interest cost of farm borrowing. The decline in the value of the Rand resulted in farm input prices, which have a relatively large import component, rising faster than farm output prices. Changes to the reserve requirements of the banking sector made it impossible for the Land Bank to continue subsidising farmers' interest rates. The use of interest rate policy by the Reserve Bank led to a rise in interest rates to very high levels resulting in interest becoming the single largest cost of production in agriculture. These changes led to farmers' exposure to market-related interest and exchange rates.

Other changes in the broader political economy which led to the changes in agricultural policy were the lifting of controls over the movement of labor in South Africa in the mid 1980s and the considerable micro economic deregulation leading to increased activity in the informal activity (Vink, 1993).

Within this climate of macroeconomic change, a number of shifts in agricultural policy took place during the 1980s (Brand *et al.*, 1992; Vink, 1993).

- Budgetary allocations supporting white farmers declined by some 50 percent since 1987. (See also Vink and Kassier, 1991 and LAPC, 1993.)
- The real producer prices of important commodities such as maize and wheat declined by more than 25 percent in real terms since 1984 and 1986 respectively.
- Controlled marketing incurred extensive deregulation in terms of the Marketing Act.
- Price controls were liberalized in large parts of the farm sector, again mainly in terms of the Marketing Act. This include the change in price setting in the grain industries from a cost-plus basis to a market based systems leading to substantial declines in real farm output prices. Further examples include the eventual abolition of price control of dairy products, and later of flour, meal and bread and the termination of consumer price subsidies on maize meal and bread.
- Changing tax treatment for agriculture has, for example, seen the writing off of capital purchases extended from one to three years, thereby reducing the implicit subsidy.
- There has been a shift away from settlement schemes, as the major instrument of agricultural development in the developing areas, in favor of an approach based on the provision of farmer support services such as infrastructure, exten-

sion services and research, and access to credit and markets.

These policy shifts are discussed in more detail below.

FOOD POLICY

One of the major aims of agricultural policy in South Africa was "self sufficiency in respect of food, fibre and beverages and the supply of raw materials to local industries at reasonable prices" (RSA, 1984). The White Paper on Agricultural Policy (RSA, 1984 : 8-9) motivates this policy aim as follows:

"For any country, the provision of sufficient food for its people is a vital priority, and for this reason it is regarded as one of the primary objectives of agricultural policy. Adequate provision in this basic need of man not only promotes, but is also an essential prerequisite for, an acceptable economic, political and social order and for stability."

In order to achieve this aim, the South African agricultural bureaucracy was geared in a biased manner to support the white commercial farmer. Farmers were protected from foreign competition, received various forms of subsidies, received producer prices at a premium to world prices and had access to the latest and most productive mechanical and biological technology through an impressive research and extension network. Through these measures South Africa maintained its position as a surplus agricultural producer and achieved the aim of self-sufficiency in the majority of commodities as shown earlier in Table 1.

Although these favorable circumstances encouraged farmers to produce and thereby contributed positively to the aim of self-sufficiency, it also encouraged some environmentally and economically unsound and unsustainable farming practices. These measures for example made the cultivation of maize so profitable that large stretches of marginal land in South Africa was planted to maize (Brand *et al.*, 1992).

It should, however, be said that the policy of food self-sufficiency was apparently justifiable at the time. This policy was followed by many countries in the world, especially in the post World War II period. The South African policy was to some extent based on the world experience during the 1960s and 1970s. Surplus agricultural production was also seen as a way to earn foreign exchange in a world plagued by "Malthusian views" of chronic food shortages. This policy was also necessary in order for South Africa not to rely for its basic foodstuffs on an increasingly antagonistic and hostile world. With the threat of sanctions becoming a reality in the 1970s and 1980s the policy of food self-sufficiency fitted well into the total strategy to build the apartheid based "fortress of South Africa." The apparent initial success of the policy, from the beneficiaries' viewpoint, also strengthened the government's hand in telling the world: "Do your damnedest!"

The policy of self sufficiency benefitted producers considerably at the expense of consumers. The strong agricultural lobby at that time, through parliamentarian representation and indirect interest in agriculture, ensured that agriculture for some time received beneficial treatment. It can therefore be said that many producers benefitted largely from the agricultural policy of the past four decades. The policy however was at the cost of the consumers and also a total welfare loss to the country as a whole (Van Zyl, 1989).

Because the policy encouraged unsound farming practices (Brand *et al.*, 1992), it can be argued that the policy of self-sufficiency contributed to the present detrimental position of white commercial agriculture. Apart from the problems faced by producers, the policy was also to the detriment of the consumers. Food prices kept on rising and despite the exports of surpluses more than two million people are still hungry in South Africa every day. It can therefore be concluded that the policy of food self-sufficiency served its purpose and should be replaced by a policy that to a greater extent addresses the needs of the consumers and the needy. Such a policy change need not be radical and should not overlook the basic and very important role of agriculture in the economic growth of the country. A new policy should in a very balanced way serve the needs of the consumer as well as the producer, but should specifically address the problems and the needs of the food insecure.

Agricultural policy during the 1980s was also characterized by the large sums of government subsidies to farmers in the form of drought aid and other disaster payments. In 1985/86, government subsidies to farmers amounted to R708 million. In early 1988, it was noted that 25,000 of the 59,000 farming units had received government aid which amounted to R24 billion in the previous seven years. This did not include the government financial aid to the wool industry (R15,5 million), the maize industry (R309 million) as well as flood aid. It also did not include the government guarantee for debt carried over (R900 million) and the additional R400 million to keep insolvent farmers on land.

Apart from the subsidies to individual farmers, the government also paid industry subsidies to the wheat, maize, dairy industries amongst others. The industry subsidy to the wheat industry was paid to keep consumer prices of wheat and wheat products (flour, bread) as low as possible. The payment to the maize industry was in terms of the government's subsidization of the Maize Board's handling and storage costs in order to keep selling prices of maize as low as possible. The extent of the subsidies to the wheat and maize industry is shown in Table 7. Apart from the subsidization of the Maize Board's handling costs, the government was from year to year also responsible for payment of the Maize Board's export losses due to the fact that the producer price was fixed by the Minister of Agriculture.

Table 7. Government Subsidies to the Wheat and Maize Industries (1980 - 1990)

Year	Maize (R mil)	Wheat (R mil)
1980/81	59.5	162.7
1981/82	82.9	181.9
1982/83	69.9	193.4
1983/84	132.4	276.6
1984/85	215.0	194.3
1985/86	250.0	180.5
1986/87	151.0	147.0
1987/88	359.0	147.4
1988/89	79.9	132.0
1989/90	76.0	105.9

Source: Abstract of Agricultural Statistics

AGRICULTURAL MARKETING POLICY

Agricultural marketing policy in South Africa is to a large extent determined by the Agricultural Marketing Act (Act 59 of 1968 as amended). The Act enables the Minister of Agriculture to proclaim a marketing scheme to control the marketing of a particular commodity. The Marketing Act was the direct result of the deliberations of the Viljoen Committee, appointed in the depression of 1934. In those times it was argued that the inelastic demand for farm products, the adverse climate, and the lack of information and risks inherent to a free market justified state intervention. It eventually resulted that most of South Africa's agricultural products were marketed by control boards, established in terms of the Marketing Act (No. 26 of 1937) to facilitate orderly marketing (Van Rensburg, 1962; Rees, 1979; De Swardt, 1983).

The initial Act has been revised and amended several times and eventually consolidated in Act No. 59 of 1968. This act, which was also amended annually as recently as 1993, provides the legal structures for agricultural marketing in South Africa. The Act provides for the promulgation of subordinate legislation called Schemes. Each Scheme pertains to a different product and institutes a Board to administer such a Scheme.

The primary objective of most agricultural marketing boards was to improve the income and price situations of their producers and products. However, this was not the only objective. Most boards had secondary objectives of reducing the variability in agricultural prices and bringing about an artificial equity in marketing opportunities for producers. The degree of compulsion to which producers were subject, or the legal powers, varies between different commodities and areas. The Minister of Agriculture has to approve all decisions of the board, emphasising the centralized political control of agricultural marketing in South Africa.

Agricultural marketing policy impacts directly on a wide range of critical policy areas for agriculture and wider economic and social development and, as such, is critical in the success of any rural restructuring program regardless of how it is to be achieved. South Africa followed policy models from many other countries (especially from the UK and the British Dominions) in establishing a system of producer boards with monopoly powers. A total of 23 marketing schemes were established under the Marketing Act. With these Schemes, it is possible to transform the agricultural output and input marketing system, determine commodity prices, the level and stability of food prices, and to create certain concentrations of monopoly power, especially in agricultural processing industries. The Act provides for schemes to regulate the domestic market, to control imports and exports, to promote demand, and to support research. The Act provided for five main types of schemes.

- *Single-Channel Fixed Price Schemes:* The maize industry was one of the first that was subjected to government intervention with the promulgation of the Maize Control Act, 1931. Policy makers were always of the opinion that some measure is necessary for orderly marketing and stability because of the non-existence of a free maize market worldwide. Intervention was the mainstay, especially with respect to the fixing of selling prices by the Maize Board and the single-channel marketing system which applies in the major production areas. Another example of a single marketing scheme was the marketing scheme for winter grains. The Wheat Board administers the scheme which controls the marketing of wheat, barley, and oats. Although maize and winter grains are classified as single-channel fixed price schemes, they have, in practice, been operating as single-channel pool schemes since 1987.
- *Single Channel Pool Schemes:* Deciduous fruit, citrus, dried fruit, tobacco, chicory, bananas, fresh milk, cream, wool, mohair, tobacco, oilseeds, rooibos tea, and lucerne seed are examples of single-channel pool schemes. Most of these Schemes were established in the 1950s, except the first five, which were established during the depression years. Many of these Boards had distributional and trade functions such as quantity, quality and import control.
- *Surplus Removal Schemes:* A number of Schemes such as red meat, potatoes, eggs, dry beans, and sorghum operate surplus removal schemes in an effort to support producer prices. The red meat industry is one of those with the highest level of concentration and vertical integration (Lubbe, 1992) which enables a few organizations to influence the commodity policy. The egg industry and dairy industry were similar to the meat industry.
- *Supervisory and Price Regulatory Schemes:* The Canning Fruit Board was formed in 1963 to oversee the marketing arrangements between producers and a small number of canners. The marketing of cotton is under the supervision of the Cotton Marketing Board which also later controlled export and import of cotton.
- *Promotion Scheme:* The Karakul marketing scheme was established in 1968. Because of anti-animal cruelty actions by the Green Peace movement, the demand for fur coats decreased substantially causing the industry to lose its importance to such an extent that it collapsed. This lead to the abolishment of the scheme during the 1980s.

A number of political and economic pressures led to a more market related approach in the marketing of agricultural commodities in South Africa since the early 1980s. There was a reduction in the use of price control on a number of commodities. There were also shifts to more market based pricing systems, away from the old cost plus pricing procedure. Other pressures came from within the system with many farmers becoming increasingly unhappy with aspects of the controlled marketing of many agricultural products. Furthermore, there was also a realization of the poor performance of the agricultural sector in aggregate as measured by the very slow rate of productivity growth (Thirtle, et al., 1993). In addition to the sectoral reforms, the economic environment for agriculture has been profoundly affected by changes in macroeconomic policy, most notably the tightening of monetary policy through increases in interest rates, and exchange rate depreciation.

The trend of market liberalization was further enhanced by the pressures emerging from the GATT negotiations for the abolishment of quantitative import controls and the introduction of tariffs on all agricultural commodities. The replacement of quantitative controls on external trade by tariffs is intended to reduce the distortions created by quantitative administrative controls, to create a more commercial environment in the planning of imports, to reduce the role of government in allocation of licenses, to limit the use of quantitative controls, and to increase the extent of competition. A general policy of tariffication has been in operation since 1985, but this has only begun to be applied to agricultural commodities as recently as 1992. During the past year tariffs have been established for poultry, tobacco, vegetable oil, oilcake, and red meat, and an overall strategy has been developed for submission to GATT.

The appointment by the Minister of Agriculture of the Committee of Inquiry into the Marketing Act (CIMA) in June 1992 was probably the main event which triggered the current process of market deregulation since the beginning of 1993. Since the release of the CIMA report in January 1993, a total of eight marketing schemes and marketing boards were abolished, while the one channel pool scheme of the Wool Board was abolished, but with the Wool Board remaining intact to perform product development, advertising and other services. The impact of the CIMA report on the reform and deregulation of South Africa's agricultural marketing system is evident from Table 5.

The South African consumer market is dramatically changing and international competition is increasing. It will be important for local producers to reach consumers with a product of desired quality and at a price as low as possible. Large but poor urban markets require food such as meat, milk, vegetables, etc. Deregulation, the scaling down of health regulations, farmers' markets, abattoirs, etc. may allow for major opportunities for farmers to serve these markets at affordable prices. Support systems to assist informal and emerging small traders should also encourage flows of inexpensive food stuffs.

It can be argued that the most important determinants of change in the farming sector will however not be land reform or access to farmer settlement and support services, but rather arrangements to link producers to consumers, i.e., marketing arrangements. A large market is emerging in South and Southern Africa, however, the majority of consumers are poor and require food at affordable prices. The present marketing system does not allow for efficient, effective and low cost service to consumers. Marketing arrangements should allow for a flexible market driven system linking farm producers to consumers in the various emerging markets. Such a marketing system will allow for competition and eventually result in an efficient and diversified farming sector.

Liberalization of Price Controls in the Food Sector

The 1980s saw extensive deregulation of the agricultural marketing sector as discussed above. One of the important aspects of this deregulation was the liberalization of price control on a wide range of products. Examples of this price liberalization are contained in Table 8.

In their 1992 discussion document the Board on Tariffs and Trade argue that abolishing price control was directly responsible for sharp price increases in all the products listed in Table 8.

Change in Tax Policy

In the past, the agricultural sector benefited from favorable fiscal policy. Lamont (1990) estimates that income tax concessions to farmers amounted to 70 percent of their theoretical tax bill in 1981-84. Before the changes in fiscal policy in the 1980s, farmers could depreciate an entire asset, for tax purposes, within the first year of purchase.

Resources were not optimally deployed as capital formation occurred at the expense of a relatively cheap labor resource. Such tax concessions tend to

Table 8. Examples of Price Liberalization in Some African Agricultural Products

Product	Level	Year Abolished
Milk	Retail	1983
	Wholesale	1983
	Producer	1987
Cheese	Retail	1985
	Wholesale	1986
Butter	Retail	1985
	Wholesale	1988
Wheat Flour	Retail	1991
	Wholesale	1991
Bread	Retail	1991
	Wholesale	1991

result in over-investment in good years but led to cash-flow problems in bad years (LAPC, 1993).

During the second half of the 1980s, tax concessions were reduced. Assets had to be depreciated over three years at rates of 50 percent, 30 percent and 20 percent per annum respectively. Although this amounts to a significant reduction in tax concessions, depreciation provisions for agriculture are certainly more generous than for other sectors.

Agricultural Research and Technology Policy

At present, the major research institution in South African agriculture is the Agricultural Research Council (ARC). The ARC is a product of extensive deregulation and privatization within the Department of Agricultural Development, from which the ARC was created April 1992. The ARC, consisting of 12 different institutions, was established with the mission of:

"Provision of effective technology to all participants in agriculture and associated fields to ensure dynamic and environmentally friendly industries capable of supplying adequate agricultural products of acceptable quality to the consumer."

Before April 1992, the twelve research institutes formed part of the Department of Agricultural Development, an "own affairs" department under jurisdiction of the white parliament. This in effect meant that the NARS of South Africa only serviced "white commercial agriculture", as the other departments of agriculture in the apartheid system set up to service the needs of the other groups (coloreds, Asians and blacks in the ten homelands, thus a further 12 departments) conducted virtually no research. The situation thus was, and to a large extent still is, that all meaningful agricultural research done by the public and semi-public sector is focused on commercial agriculture. An exception to this rule is some research conducted at universities, albeit not the main focus.

Research Structure in 1990 (Before the Change)

Before the major restructuring of the South African national agricultural research system (NARS) in 1992, the Department of Agricultural Development was responsible for the bulk of agricultural research. In this task the Department was aided by the faculties of agriculture of eight universities, marketing boards, the Department of Development Aid, agricultural cooperatives and private companies. While the four latter institutions focused mainly on development work, 93 full time personnel at the four traditionally white universities (Pretoria, Natal, Stellenbosch and Orange Free State) were involved in training and 110 in research (in 1990).

The Department of Agricultural Development therefore had the biggest person-power component for agricultural research: apart from the head office in Pretoria, which was attuned to mainly administration and coordination, the executive activities of the Department were entrusted to 10 research institutes, two research centers, seven regional organizations and eight directorates. Of the total work force of 5,600 people, 950 were researchers and 1,200 were technicians actively involved in research, while the rest of the scientific personnel (including 190 extension officers, 12 advisers, 58 economists and 46 agricultural engineers) were concerned with development work.

In addition to these researchers, the Department of Agricultural Development had well equipped laboratories with a total area exceeding 14,000 inches squared, as well as 74 experimental farms representing most of the climatic regions and cultivation areas in South Africa. These experimental farms played a major role in the three areas of involvement of the Department: research, extension and training. On the experimental farms, field trials were conducted under controlled conditions which simultaneously served as practical demonstrations of practices, systems, new cultivars and animal breeds.

The Department's research was, as a general rule, problem oriented. This approach yielded nearly 600 published scientific articles from the more than 2,500 ongoing research projects in 1990, apart from the simultaneous interpretation of the data in a more practical and accessible manner by means of leaflets, lectures, radio talks and semiscientific articles.

In spite of its clear disadvantage in terms of research staff, the university sector nearly matched the research output of the Department in published scientific articles.

Research Structure after April 1992

As already mentioned, the ARC was established as a semipublic and relatively autonomous institution with the restructuring of the Department of Agricultural Development in April 1992. Twelve research institutes were transferred to the ARC, while the Department retained the seven regional organizations and eight directorates. The latter includes the Directorates for Agricultural Engineering and Agricultural Economics. The universities were not affected by this restructuring. However, more market related policies also impacted on the role of marketing boards, especially with respect to research.

The Department of Development Aid has also been closed down with most of its functions in the field of agriculture being transferred to a new Directorate of Agricultural Promotion within the Department of Agriculture. These changes have resulted in a gradual shift in emphasis of agricultural research in South Africa to also include the developing sector, and more specifically the black smallholder and subsistence areas excluded under the previous dispensation.

Not much research has been conducted regarding technology policy in South Africa. Van Zyl (1985) did, however, model the issue of optimum maize cultivar selection under conditions of risk. Here it was shown that farmers with average to low levels of management ability, and faced with high levels of risk, would do better to plant lower yielding cultivars which perform better with lower levels of intermediate inputs. Vink and Van Zyl (1989) have also commented on the bias towards mechanical technology, away from biological technology in South African agriculture while Van Rooyen (1984) argued the need for a farming systems research approach (FSR-E) to support on farm problem solving. Some progress was made in this regard with the establishment of a FSR-E network in Southern Africa.

South African agriculture has become capital intensive in the face of a relative abundance of land and labor (Van Zyl et al., 1987). This contrasts with agriculture in the USA and Japan (where capital is in relative abundance), where farmers have adopted technology which economizes on the scare production factor (labor and land respectively) (Ruttan, 1982). This adoption of sophisticated mechanical technology in South Africa has resulted in increased production, particularly by a small group of farms in the commercial sector (mainly non-individually owned), as well as from the large scale projects in the developing sector.

This has contributed towards the major structural imbalances that have been building up in the agricultural sector. Capital should therefore be used with a great deal of discretion to maximize income and work creation opportunities. Agriculture, especially agribusiness, ultimately yields the largest number of job opportunities per unit of capital invested through the multiplier effects (Kirsten and Van Zyl, 1990), but can lead to unemployment in the short term.

It would be fair to conclude therefore that the research and technology transfer system in South African agriculture is unsustainable over the long term, even in the face of market distortions which affect the relative prices of land, labor and capital. Given the potential contribution of output-increasing technology to the development of the South African economy, it is also fair to conclude that priority should be given to improving the research and technology transfer system. In this regard, an ideal research and technology transfer mechanism is one where farmers are served with affordable technology which suits their needs. The supply of technology by researchers, and its dissemination to farmers by the extension service, should match the demand for technology by farmers.

Natural Resources and Infrastructure Policy

Current natural resource issues in the rural economy of South Africa need to be examined in the context of the political and economic policies that have been in force, particularly with respect to agriculture, forestry, water resources and conservation during the past century, as well as the unique opportunity of structural reforms in rural areas brought about by the imminent achievement of a democratic society.

Although agriculture in South Africa is widely regarded as a successful sector, primarily because of the economy's self sufficiency with regard to most agricultural commodities, specifically staples, this apparent success is largely based on a wide range of political and economic policy distortions that have favored large scale, white owned farms. This apparent efficiency was not accompanied by the other political and social goals of equity and sustainability, specifically at the political, economic, financial and environmental level.

These same distortions have contributed significantly to the degradation of the natural resource endowment in rural areas. In particular, three factors stand out as having caused much of the environmental degradation in rural South Africa:

(1) the poverty of large numbers of the rural population, especially those in the homelands;
(2) the impact of the prevailing structure of incentives faced by large-scale farmers with respect to natural resource use; and
(3) the property right regime that allowed virtually unrestricted use of natural resources by favored groups in society.

These factors were largely brought about and exacerbated by two sets of policies, namely

(1) the racially motivated political policies of apartheid; and
(2) inward-oriented import replacement economic policies aimed at obtaining self-sufficiency at the national level, which distorted both society and the economic incentive structure.

These two sets of policies are also to some extent interlinked, and many researchers and analysts treat them as part of a wider set of apartheid policies.

While these factors are interlinked and mutually reinforce each other, it is nevertheless important to consider each separately and examine its impact on the environment. The reason for doing so is that with the imminent demise of apartheid and white domination in South Africa, one may see a major change in the structure of incentives vis-a-vis large scale farming as well as in the property rights regime. Clearly, however, an immediate reduction of the impact of poverty among the rural black population on the environment will not occur. Consequently, while policy reforms aimed at improving allocative efficiency, equity and, in turn, environmental sustainability are necessary, they will not be able to address all of the environmental problems in rural areas.

The dominant form of agricultural production in South Africa is the white-owned, large-scale farm, accounting for 90 percent of the value added and owning 86 percent of the agricultural land. The current dominance of the large farm model of production (commercially oriented and capital-intensive) is partly the result of more than a century of racially-based policy distortions. At the heart of these distortions were the discriminatory land acts, the first of which was passed in 1913. These acts drew a line between the areas of black and white land ownership by prohibiting the ownership of land by members of one racial group in areas reserved for the other group. By this and subsequent reinforcing mechanisms, blacks (approximately two thirds of the population) were restricted to ownership of land in areas that comprised about 13 percent of the country. Restrictions on land ownership were further reinforced by policies that severely restricted the provision of infrastructure and agricultural support services to those areas of the country where blacks were allowed to own land.

This policy of geographical segregation of racial groups culminated in 1948 when the new Nationalist government instituted its policy of apartheid and created the self-governing homelands or Bantustans for the African population. The Bantustans are characterized by:

(1) a dearth of income opportunities, on average about two thirds of household income in the Bantustans came from sources outside the Bantustans, i.e., remittances and pensions;
(2) a comparatively high population density, about 16.2 hectares of agricultural land per rural resident in the white areas in contrast to 1.3 hectares per resident in the Bantustans; and
(3) a generally poor resource endowment; the poverty of the Bantustans has resulted in considerable degradation of their natural resource endowment.

The complement to the apartheid policy of discrimination against ownership of land by blacks in most parts of South Africa has been a set of policies that strongly favored the white large-scale, commercial farmers, e.g., subsidies on some input prices and credit, favorable tax policies, subsidized water for irrigation purposes and subsidized output marketing structures. These policies have artificially supported the profitability of large-scale commercial farms and, apart from allocative and efficiency problems, introduced distortions that have had profound environmental consequences. Examples of these consequences include the following:

A. *Support of agricultural commodity prices,* specifically for maize and wheat, at higher than market clearing levels and the creation of subsidized infrastructure, specifically storage facilities, contributed to an expansion of cultivation into marginal production areas;
B. *Subsidies for investments in irrigation facilities* contributed to an expansion of irrigation into marginal lands and led to the accelerated depletion of ground water aquifers;
C. *Subsidies for fertilizer and agricultural chemicals* led to growth in fertilizer use of 7.7 percent per annum between 1947 and 1979, while dips and sprays grew at 9.7 percent per annum between 1947 and 1973 and at 20.6 between 1973 and 1980;
D. *Subsidized water provision for irrigation purposes* contributed to water being treated as an abundant resource used in an inefficient manner; and
E. *Favorable tax treatment of capital equipment,* combined with negative real interest rates, has encouraged an over mechanization of agricultural production that, in turn, has led to an extensification of production into marginal and often environmentally fragile land.

Another feature of the South African policy environment that has had an impact on the degradation of the natural resource base is the framework of property rights. An integral part of the concept of sustainable development is the need for property rights (and transaction rules) that create incentives for sustainable resource use. A consequence of apartheid was to bestow private property rights (freehold) on those individuals deemed important to the success of the political system (mines, factories, the energy sector, the commercial forestry sector, white commercial farmers) and then to retain everything else under state control. In forestry and agriculture, freehold tenure of land was granted to those sectors deemed essential to the economy. Tax laws, rules over the ownership of land, and rules over the partial alienation of the freehold estate were largely motivated by the need to provide certain environmental resources (land, water, trees) to selected groups. The resulting property regimes, especially in the agricultural sector, are therefore simple artifacts of apartheid.

As new environmental policy is formulated, it is essential that the existing property regimes in land be carefully assessed. The artificial economic incentives under apartheid encouraged agricultural enterprises to extend the freehold estate beyond the economically rational boundary (under most feasible economic policy regimes). While marginal lands were incorporated into the freehold estate under the past policy regime, new policies in South Africa will mean that many of these marginal areas will move back out of the freehold estate, driven by the institution of a more coherent taxing system on land and its economic value.

The result of these past policies on resource use has been contrasting: in the relatively small homeland areas relatively scarce natural resources were used (abused) by millions of the poor to complement remittances and pensions from "outside" as part of a survival strategy; and in the white commercial farming areas relatively abundant natural resources were used (abused) by a small number of the "privileged" to produce increasing surpluses. The latter group was heavily supported by policies creating welfare transfers from taxpayers and consumers particularly from the poor.

Total land resource depreciation and off-farm costs for various types of land degradation were calculated to be R672.6 million in 1992/93, 12.5 percent of the total net national agricultural income. This amount is distributed as shown in Table 9:

The total cost associated with water erosion, including both on and off site costs, accounts for 57 percent of total costs due to degradation. Of importance to policy formulation is that off site costs of water erosion are far larger than on site costs; some 71 percent of total annual costs due to erosion are externalized. Of these off site costs, roughly half can be ascribed to degraded rangelands.

Hence, the opinion that emerges from research is that many parts of South Africa's natural resource endowment is now significantly degraded, although measures of the magnitude of this degradation are imprecise. Two main causes of this degradation seem to be:

(1) the racially based apartheid policies; and
(2) policy distortions aimed at supporting large-scale white farming.

These distortions have led to extreme poverty in the Bantustans and the misuse and misallocation of resources in the large farm sector. It is hypothesized that both of these factors have played a critical role in the degradation of the natural resource base. Further, another consequence of the broader set of policy distortions rights (including apartheid) has been a set of property and other natural resources, i.e., water) that have also contributed to this pattern of degradation.

Agricultural And Rural Development Policy

As a result of the dualistic nature of South African agriculture, different policies apply to white commercial agriculture and to black small-scale farmers in the former "homelands." Three clearly defined

Table 9. Breakdown of Land Resource Depreciation and Off-farm Costs for Various Types of Land Degradation

Category	Million Rand
Annual depreciation of land	372.6
Arable land through water erosion	372.6
Wind erosion	7.0
Soil crusting	28.0
Soil compaction	24.0
Increased acidity	80.0
Salinization & water logging	30.0
Rangeland	17.2
Off farm cost	300.0
Sedimentation of dams	100.0
Increase cost of purification	200.0

approaches to agricultural development can be identified, i.e., betterment planning since 1936 to the late 1970s; centrally-managed project farming and farmer settlement projects during the 1970s and 1980s; and the more broad based farmer support programs since the late 1980s (*cf.* Ellis-Jones, 1987; Christodoulou and Vink, 1990; Van Rooyen *et al.*, 1987; Van Rooyen, 1993; Bromberger and Antonie, 1993). This dualism was further highlighted by the separation between agricultural and rural issues. Rural issues were in fact scattered over a wide range of departments, (i.e., Water Affairs, Transport, Energy, Forestry, Agriculture, and Regional and Land Affairs).

Increasing emphasis was placed on large scale centrally managed estate project farming during the 1970s (Christodoulou and Vink, 1990), particularly in the case of industrial crops "where large units were desirable" (Van Wyk, 1970 : 66). The project farming approach obtained a further boost with the establishment in 1973 of an agricultural division in the Bantu Investment Corporation.

According to Bromberger and Antonie (1993), Christodoulou and Vink (1990), and Christodoulou *et al.* (1993), it appears that substantial financial losses were rather the norm with these schemes, and the distribution of benefits was very limited in relation both to total need and to aggregate resources available for development. Although higher levels of resource use and production and the creation of wage employment were promoted through modern farming enterprises managed by parastatal companies and consultants, little was done to promote a class of self-employed farmers and improved farming methods for smallholders outside these schemes. Schemes were later adjusted to settle selected persons as "project farmers" operating under paternalistic control (Van Rooyen, 1993). Occupiers of plots were strictly selected, they had to farm according to direction and under supervision and they were dismissed from their plots if they were unsuccessful (Van Wyk, 1970 : 66). This approach, commonly known as the farmer settlement approach, focused on large schemes but concentrated on settling selected laborers as project farmers operating under strict control. Participation by so-called farmers was accommodated by using farmer committees to assist the project manager. These farmers were however, nothing more than paid wage laborers with virtually no control over their production activities. As such, a drive towards self-reliant farm businessmen still did not materialize (Christodoulou *et al.*, 1993). This approach was dominant in the late 1970s and early 1980s (Christodoulou and Vink, 1990).

With time, disillusionment developed about these projects. They were expensive, often loss-incurring, and rarely involved spill-overs or linkages with the surrounding communities. They were often viewed as "islands of prosperity amidst an ocean of poverty" (Bromberger and Antonie, 1993). These models of development were thus viewed with increasing scepticism in terms of their undesirable impact on investment and operational costs, entrepreneurial establishment, fiscal affordability, upliftment of adjacent communities, project sustainability, and overall rural development (Christodoulou *et al.*, 1993; Van Rooyen *et al.*, 1993).

Acknowledging the limitations of agricultural projects, an alternative approach to agricultural development was designed. The Farmer Support Program (FSP) was introduced in 1986, trying to achieve a shift away from investment in projects to a program which could provide access to support services for a large number of small holders and rural households in a broad based manner. An important motivation for this program was the promotion of equitable access to support services, resources and opportunities.

6. Some Effects of the Changing Agriculture Policy

FARM POLICY

While it is important to note that different farming regions have experienced different circumstances. The changes in farm policy since the early 1980s have had significant effects on the agricultural sector. Aggregated data show that the sector is becoming more flexible in at least some parts of the country. This is highlighted by the improved aggregate debt service ratio along with financial difficulties for some groups of farmers; increasing land use intensity in high potential regions and "over cropping" in more marginal regions; the aggregate decline in farm size; shifts in the cropping pattern; and the relative absence of yield effects.

The effects of these changes in farm policy can be traced through variables such as:

- the financial position of farmers;
- land use patterns; and
- farm size and ecological considerations

A discussion of such effects is necessarily speculative, although it is possible to make educated guesses about certain broad trends.

Much has been made of the increase in total farm debt in the period since 1980; also about the fact that debt repayment has become the biggest input cost item for commercial farmers. The ability of farmers to service their debt has, however, improved in the period since the mid 1980s. These data refer to total farm debt; the preceding discussion makes it obvious that the size of debt and the ability to service debt will differ between regions. Examples include the successful use of credit to gear production by farmers in high-potential regions, especially where crops are produced for export; the more extensive production systems being followed by maize farmers in the highveld, that is, by using fewer production inputs; and the higher rates of sequestration of farming enterprises in the lower potential regions. Many of these changes are reflected in changing land use patterns, which are discussed below.

Table 10 shows how the patterns of land use in South Africa have changed between 1981 and 1988 (the latest available data). The amount of rain-fed arable land under crops has increased by 1 percent per year in this period. During this time the area planted to maize, the largest single crop in South Africa, has decreased by 1.52 percent per year, while there has also been a decrease in the planting of crops such as wheat, sunflower seed, grain sorghum, soya beans, cotton, forestry, and pastures.

These changing land use patterns in commercial farming have manifested differently in the different regions of the country. These changes are related to the policy changes discussed earlier through changes in relative product prices and factor costs, the cash flow position of farmers, shifts in tax incidence, etc. A theoretical analysis of the effects of the changes in farm policy over the past decade would lead to the conclusion that such a decline in average farm size was indeed possible. This would, however, be the aggregate effect of a number of more specific micro level and regional changes.

Budgetary Allocations to Agriculture

Over the decade of the 1980s, expenditure on agriculture, forestry and fishing increased in nominal terms from R833 million in 1982/83 to R2 240 million by 1990/91. When expenditure is deflated by the consumer price index, real expenditure rose between 1982/83 and 1984/85 but declined for the rest of the decade (LAPC, 1993). Figures on budget expenditure provided by the Central Statistical Service indicate that white farmers' share of the agriculture budget was

Table 10 . The Changing Land Use Patterns in White Farming, 1981-88				
Crop	**1981 (ha)**	**1988 (ha)**	**Increase/ Decrease (ha)**	**Growth p.a. rcent p.a.)**
Dryland	8,721,750	9,367,620	645,870	1.0
Irrigation	851,943	1,290,070	438,127	6.1
Planted pastures	1,195,512	1,449,845	245,333	10.8
Natural veld	73,453,976	69,742,302	(3,711,674)	-0.7
Forestry	1,151,290	1,510,628	359,338	4.0
Other	892,638	1,408,065	515,427	6.7
Total	86 267 109	85 768 530	(498 579)	-0.1

Sources: Central Statistical Service, Census of Agriculture, Report No. 06-01-20, Pretoria: Government Printer, 1981: Central Statistical service, Agricultural Survey 1988, Report No. 11-01-01, Pretoria Government Printer, 1988.

Table 11. Phasing Out of Government Subsidies in the Food Chain		
Item	**1980/81 Subsidy (R)**	**Date of suspension**
Bread	R 162.75 million	March 1991
Maize marketing margin	R 59.55 million	March 1991
Butter	R 3.80 million	1983/84
Crop insurance	R 3.69 million	1987/88
Fertilizer	R 5.98 million	1987/88
Total	R 235.77 million	

declining in the latter part of the 1980s. Between 1988/89 and 1990/91, white agriculture's share of the budget dropped from 72 percent to 61 percent. Conversely, over the same period, the homelands received a greater proportion. Figures from auditors' reports and expenditure estimates of the government indicate a similar trend. These figures show a steady fall in white agriculture's share of total expenditure from 79 percent of the budget in 1985/86 to 52 percent in 1990/91.

The decline in the "white" budget vote is, to a large extent, attributed to the decline in industry subsidies. Government subsidies to the food industry amounted to an estimated R236 million in 1980. These subsidies have been suspended gradually during the 1980s up to the end of the decade and eventually led to an increase in food prices (BTT, 1992). The most important of these subsidies was the bread subsidy which contributed 69 percent to the total government subsidy (Table 11).

The trend in agricultural financing (subsidies and loans to farmers), the largest single component of the budget, is less straightforward. Between 1985/86 and 1990/91 there was a steady fall in real expenditure on agricultural financing. As a proportion of the total budget, there is no marked trend—it fluctuated between a low of 27 percent (1987/88) and a high of 47 percent (1988/89).

During the early 1980s, the following financing schemes (subsidies and loans) of the Agricultural Credit Board were suspended:

- soil conservation works;
- eradication of invading weeds;
- the establishment and/or management of private

Table 12. Annual Increase in Producer Prices vs. Increase in Prices of Agricultural Inputs (1980 - 1991)		
Product	**Producer price (percent increase p.a.)**	**Prices of inputs (percent increase p.a.)**
Summer grains	9.7	12.4
Winter grains	9.0	9.8
Dairy products	11.2	11.3
Poultry	11.9	11.9
Red meat	11.1	12.2
Vegetables	10.1	10.1
Fruit	13.5	13.3
Average	10.6	12.0

Source : Agricultural Abstracts

plantations or the financing of debts incurred for that purpose;

- housing for nonwhite farm workers; and
- buying of private farm land.

During the 1980s, a change in the composition of governmental support to agriculture was also noticed.

Decline in Real Producer Prices

Producer prices in many of the major commodities such as maize, wheat, red meat, oilseeds have shown a decline in real producer prices. Farmers also experienced a cost price squeeze as a result of prices of farm requisites rising faster than producer prices in nominal terms as indicated in Table 12.

Changes in Domestic Support To South African Agriculture

In a study by Helm and Van Zyl (1994) the total support received by the South African agricultural sector during the period 1988/89 to 1993/94 was calculated in terms of the producer Subsidy Equivalent (PSE). The composition and changes thereof were also analysed. In order to determine the total domestic support to farmers in South Africa, the PSE was calculated on a sector wide basis and not on a product-specific basis. Certain policy measures, however, had to be calculated per product and then only could it be brought into the sector wide PSE. When formulating the PSE, there are two components that must be taken into account.

The first component is the income transfers to producers as a result of agricultural policy. These transfers are calculated by means of a comparison between an internal market price and an external world price (Van Heerden, 1992). It is this component, the Market Price Support, which has to be calculated on a product specific basis.

The second aspect is to bring into calculation the transfers from government sources. These transfers from either direct or indirect budgetary payments are calculated from government financial accounts. These calculations are done on a sector wide basis with the advantage that no proportionate allocation is necessary. According to Van Heerden (1992), the accuracy of these estimates depends on a reasonably accurate knowledge of the budgetary cost of these measures, which means not only information on budgeted funds, but also on the revenue foregone by governments (tax concessions) or costs not fully recovered (interest subsidies).

Table 13 shows the evolution of assistance to agricultural producers (as measured by the PSE) associated with South African support measures for the period 1988/89 to 1993/94, while Figure 1 depicts the evolution graphically.

Table 13. The Calculation of Total Domestic Support (PSE)

Description	Unit	1988/89 R' 000	1989/90 R' 000	1990/91 R' 000	1991/92 R' 000	1992/93 R' 000	1993/94 R' 000
a. Value of production: Products with MPS	Rand	11 321 897	13 454 158	13 784 297	15 736 341	12 872 328	16 467 791
b. Value of production: Products without MPS	Rand	5 231 386	5 965 538	6 910 111	7 497 910	11 193 516	11 860 609
c. Direct Payments	Rand	113 549	115 621	119 871	91 674	89 075	79 803
d. ADJUSTED VALUE OF PRODUCTION (a+b+c)	Rand	16 668 832	19 535 317	20 814 279	23 325 925	24 254 919	28 408 203
e. Policy transfers to agriculture	Rand	216 819	701 428	1 308 831	2 321 722	2 448 684	2 119 873
f. Indirect income support	Rand	367 977	335 768	332 025	250 019	2 616 106	386 477
g. Market price support	Rand	942 692	774 528	703 863	819 426	1 278 611	1 048 097
h. Indirect income support	Rand	422 001	446 259	503 761	512 940	1 155 325	564 305
i. General services	Rand	1 949 489	2 257 983	2 848 480	3 904 107	7 498 726	4 118 752
Total PSE (e+f+g+h)	Rand	11.40	11.56	13.69	16.74	31.04	14.50
PERCENTAGE PSE (i/d)							

Figure 1. Total Domestic Support 1988/89 - 1993/94

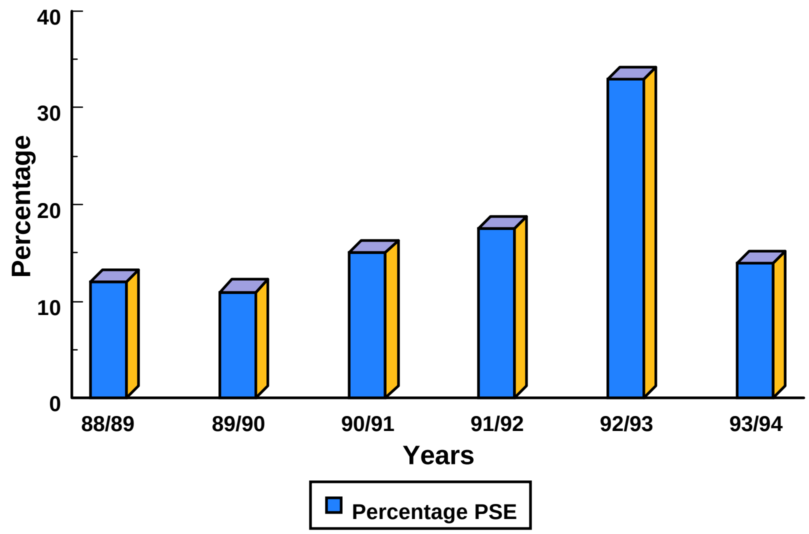

Table 14. The Aggregate Measure of Support (AMS) for Maize in South Africa, 1985-1991

Description	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91
Total AMS (R)	459,749,902	950,276,162	1,010,668,482	(99,773,264)	(2,714,886)	(45,710,926)
Unit AMS (R/t)	R55.42	R114.20	R137.44	(R14.22)	(R0.23)	(R5.25)
Percentage AMS	17.61%	37.86%	40.99%	(4.41%)	(.07%)	(1.45)

Source: Van Heerden, 1992.

The total PSE was at its lowest during 1988/89 with market price support accounting for only eleven percent of total assistance, the remainder being financed by taxpayers. Of all the agricultural products, producer prices of only sugar, rye, chicory, eggs, beef, sheep, and dairy products were higher than the representative world prices. The increase in the total PSE in 1989/90 was due to the higher production volume which led to a slight decrease in the percentage PSE from 11.70 percent to 11.56 percent in that year. Market price support accounted for about 31 percent of total assistance in 1989/90. The reduction in the indirect income support component was mainly due to the fact that the production input subsidy paid to farmers was substantially reduced and then entirely eliminated the following year. In 1990/91, the total PSE again increased as a result of substantially higher producer prices being paid to certain products, together with a decline in world prices. Market price support accounted for about 46 percent of total assistance in 1990/91. With regard to direct and indirect income support, the amounts of support involved remained the same to a large extent, in comparison with the previous year. The percentage PSE increased to 13.69 percent. Both the increases in producer prices and/or the decrease in world prices of agricultural products were once again the main reason for the higher market price support together with the subsequent increase in the total PSE in 1991/92. Market price support accounted for about 60 percent of total assistance and was 37 percent higher than the previous year.

Van Heerden (1992) calculated the aggregate

Table 15. Average Annual Growth Rates in Real Net Farm Income by Period, 1973-91 (%)			
Period	**NFL**	**TFP**	**Terms of Trade**
1973-91	-1.06	1.48	-2.63
1973-83	-8.14	0.27	-3.27
1983-91	6.24	4.63	-3.11

measure of support for maize which also indicates the changes in domestic support to agricultural producers since 1987 when much of the market liberalization commenced. The calculations by Van Heerden are summarized in Table 14 indicating the low levels of support (direct or indirect) maize farmers received since the 1988/89 marketing year.

Effects on Productivity in South African Agriculture

The change in agricultural policy as discussed above also had some effect on the Total factor Productivity (TFP)—the ratio of aggregate output to an aggregate of all inputs combined of South African agriculture.

The results of TFP calculations by Thirtle *et al.* (1993) show that between 1947 and 1991, the output index has grown by nearly 350 percent, at a rate of 3 percent per annum. The index of inputs has more than doubled, growing at 1.8 percent per annum. This aggregate conceals the fact that inputs grew at over 2.5 percent per annum until 1979 and since then have been falling at 0.9 percent per annum. This fall in inputs explains the recent growth in the TFP index. Over the full period, TFP grew rather slowly, at 1.3 percent per annum, but there was fairly rapid growth in total factor productivity of 2.88 percent per annum since 1981.

These TFP results are meaningful and extremely useful. The growth rate is greater than would be expected on the basis of Liebenberg and Groenewald's (1990) preliminary study of productivity in grain production. The increasing rate of growth over the period is in accordance with Van Zyl and Groenewald's (1988) perception that farmer's profits came under increasing pressure as inflation gathered pace. The rapid growth of productivity since 1983 is in agreement with the regional econometric study by Van Schalkwyk and Groenewald (1992), which since 1981 found evidence of substantial growth in some regions. This can be explained by the increasing competitive pressures and the removal of price distortions caused by credit, tax and macro policies.

In a further study on TFP growth and growth in net farm income, calculations by Van Zyl *et al.* (1993) revealed that total factor productivity grew 4.63 percent annually since 1983 and countered the decline of -3.11 in terms of trade during the same period and a growth of 6.24 percent in real NFI resulted (Table 15). The growth in productivity since 1983 can be ascribed to a gain in capacity utilization which can be attributed to a longer replacement period of tractors.

The analysis by Van Zyl *et al.* (1993) shows that the agricultural sector experienced a steady decline in its financial performance since 1973, with the largest downswing in 1983 when a recovery phase started. The decline is attributable to the cost price squeeze which exerts considerable pressure on income. The negative trend was countered by an annual growth in productivity of 4.63 percent since 1983. Agricultural policy, especially issues like import substitution, import protection, price policies of marketing boards and general macroeconomics resulting in high inflation, should be addressed in order to rectify the unfavorable terms of trade of the sector if a sustained growth in profit is sought.

The agricultural sector today is poorer and leaner because of the inflictions, but it is also fitter and in excellent shape to meet the challenges of higher rates of economic growth.

Table 16. Growth Rates of Income and Cost of Intermediate Goods and Services

Category	1980-1990	1985-1990
Rate of growth in real terms (a)		
Total debt	0.38 percent	-7.12 percent
Gross income	-0.65 percent	-0.41 percent
Net income	1.55 percent	2.38 percent
Farm expenses	-1.61 percent	-1.85 percent
Cost of intermediate goods services	-1.74 percent	-1.55 percent
Subsidies	-10.64 percent	-30.57 percent

Source: Abstract of Agricultural Statistics

Changes In Farmers' Financial Position

During the early 1980s, farmers continued to increase their indebtedness to most of their sources, namely Land and Agricultural Bank, commercial banks, agricultural cooperatives, Department of Agriculture, private persons, and other financial institutions. In the period 1980-1990, total farm debt grew at a rate of 0.38 percent in real terms but showed a drastic declining rate in the period 1985-1990 of -7.12 percent per annum in real terms (Table 16).

The total debt increased from R5 537.9 million at the end of June 1982 to R7 408.9 million by the end of December 1983 largely as result of declining incomes during the severe drought of 1982/1983 and cost inflation. At this point in time, farmers owed the Land Bank and agricultural cooperatives, R1 330.5 million and R1 780.2 million respectively in nominal terms (Table 17).

Figures have been deflated using the consumer price index (1985 = 100). Farmers' debt at the Land Bank grew at an average rate of 12.7 percent per annum between 1980 and 1985 and by 2.98 percent per annum between 1980 and 1990, yet debt at the commercial banks grew by 21.14 percent and 2.88 percent per annum in the periods 1980-1985 and 1980-1990 respectively in real terms. This high growth rate in debt at commercial banks between 1980-1985 could be attributed to the high rate of inflation and an increase in debt repayment problems, especially since it covers the period 1982-1983 in which a severe drought was experienced. The drought had the greatest impact on the gross income from field crop production, where the value for field crop production was on average 45.3 percent per annum lower during the period 1982-1985 (Van Zyl *et al.* 1987b).

The farmers' debt held with the department of agriculture grew at an average rate of 5.49 percent per annum in the period 1980-1990, yet all the other sources' annual growth rates dropped with the Land Bank showing the highest at 2.98 percent per annum. Most notable was the -6.66 percent per annum decline rate in real debt value held by farmers from private persons between 1980 and 1985. A clear indication that inflation was on the rise when compared with the annual growth rate of debt held at commercial banks in the same period, this implies that the commercial banks, Land Bank and other sources with the exception of private persons were responding to the increasing rate of inflation by increasing their interest rates.

The Land Bank trend was higher than that of commercial banks between 1980 and 1981, but shortly after 1981 this fell below that of the commercial banks. This could be attributed to the subsidised interest rates that were being offered by the Land Bank. The diversion between the trends of the two sources was greatest between 1983 and 1984, a period which depicts the effects of the 1982/83 drought. Between 1984 and 1988, there was a dramatic decrease in the real debt value held at the commercial banks. The high growth rates per an-

Table 17. Farmers' Debt in Real Terms

	Land Bank	Commercial Banks	Agricultural Cooperatives	Department of Agriculture	Private Persons	Other Financial Institutions	Debt	Total Debt
1980	13.02	15.44	16.70	3.47	11.17	11.80	2.36	73.96
1981	14.31	17.64	18.89	3.37	10.06	13.93	2.71	80.91
1982	14.41	23.32	19.94	3.60	9.24	11.29	2.54	84.34
1983	17.26	29.32	23.09	4.00	8.69	11.42	2.40	96.09
1984	22.36	34.52	25.97	5.15	8.37	11.62	2.41	110.41
1985	23.38	33.15	27.54	5.49	7.92	11.28	2.41	111.18
1986	22.33	28.98	25.98	5.77	7.51	11.98	2.12	104.66
1987	20.39	24.37	23.41	5.73	6.83	10.98	1.92	93.54
1988	18.81	22.38	21.95	5.92	6.43	9.65	1.80	86.95
1989	17.67	26.09	20.13	5.45	6.02	7.58	1.69	84.63
1990	16.88	24.29	18.15	4.97	4.67	5.89	1.59	77.83

Source: Abstract of Agricultural Statistics

Table 18. Annual Growth Rates of Debt from Selected Sources

Category	1980-1990	1985-1990
Land Bank	2.98 percent	12.7 percent
Agricultural Cooperatives	1.0 percent	10.29 percent
Department of Agriculture	5.49 percent	10.49 percent
Private Persons	-6.48 percent	-6.66 percent

Source: Abstract of Agricultural Statistics

Table 19. Real Land Value Index and Index for Subsidies (1985=100)

Year	Consumer Price Index	Real Index for Subsidies	Real Land Index
1980	51.9	129.1	101.0
1981	59.8	142.5	109.5
1982	68.6	125.8	109.2
1983	72.1	101.4	108.7
1984	86.0	128.6	107.8
1985	100.0	100.0	100.0
1986	118.6	71.8	88.7
1987	137.7	36.2	81.0
1988	155.4	48.1	77.5
1989	178.2	18.1	75.5
1990	203.8	9.5	77.3

Source: Abstract of Agricultural Statistics num for the period 1980-1985 within the different financial sources, except private persons (see Table 18), is attributed to the drought and general economic conditions. Interest rate, drought index, volume of field crop production, real GNP and the ratio of input to output prices have been shown to have relatively high elasticities for the period 1970-1985. This implied that a change in any of these factors would result in proportionally bigger changes in the real debt burden (Van Zyl *et al.* 1987).

While the total debt was expanding in the period 1980-1990, farmers' gross incomes were declining at a rate of -0.65 percent in real terms, but net incomes showed a growth rate of 1.55 percent in the period 1980-1990 and a rate of 2.38 percent in the period 1985-1990. Yet in both these periods, gross incomes were declining. The growth in net incomes can be attributed to the declining growth rate of farm expenditure and the cost of intermediate goods and services.

Farm expenses declined at -1.61 percent in the period 1980/90 and by -1.85 percent in the period 1985/90. In real terms, both these rates were notably higher than those at which the gross income was declining, and added to that, the gross income decline appears to have fallen in the period 1985/90 to a rate of -.41 percent compared to the 1980/85 period which had gross incomes declining of a rate of 2.05 percent per annum which was mainly due to the drought of 1982/83. The cost of intermediate goods and services in real terms shown a decline of a rate of -1.74 percent during the period 1980/90 and a slightly lower decline rate of -1.55 percent.

In 1985 the South African agricultural union carried out a national survey on the financial situation of all farmers. The survey revealed that 49 percent of the farmers were basically sound at end of 1983. The percentage in this category was expected to fall below 39 percent at the end of 1984. The financial position of farmers older than 50 years, those engaged in wool, fur, and mohair and those in the Eastern Cape were most sound at the end of 1983.

More than 75 percent of the farmers older than 65 years and more than 60 percent of those aged between 51 to 65 years had a debt burden ratio of 10 percent and lower. While for farmers aged between 25 and 35 years, 38 percent were in a critical position and this proportion increased to well over 50 percent by the end of 1984.

By the end of 1986 farmers owed the Land Bank R2 380 million in long-term loans secured by mortgages and charges against fixed property— an average increase of R272 million over that held at the end of 1985. At the end of 1986, unpaid interest and capital instalments on loans totalled R137 million. During this year, the Land Bank was compelled to "exercise its special powers of sale in 48 cases, compared to 15 cases in 1985." When the unpaid interest and capital installments were R78 million. Liquidity and solvency problems have been attributed to high nominal interest rates (Van Zyl et al. 1987).

But the rate of growth of net income in real terms gives a different picture in that, despite the heavy dependence on intermediate goods such as fertilisers and machinery, commercial agriculture appeared to be doing fairly well nationally.

Trends in Land Values

There was a strong demand for farms and farming land in the southern and western Cape, with properties fetching high prices. As shown in Table 19 below, the land value index in real terms (1985 = 100) showed a fairly stable level in the period 1981/84 with a declining growth rate of -0.52 percent. This occurred in the period when the real index for subsidy and rebates was highest before subsidies began to rapidly decline at a rate of -30.57 percent per annum in real terms.

Van Schalkwyk and Van Zyl (1994), in their study on land values, show that since 1951, the difference between market price and agricultural value increased.

The reasons for the increasing difference between the market and agricultural value of land since 1951 are clear, as farmers got more subsidies and policies were distorted in their favor, this got capitalized into land values.

In an earlier study Van Schalkwyk and Van Zyl (1993) showed that whereas market prices of agricultural land rose gradually in real terms from 1970 until the early 1980s, they generally declined strongly afterwards. Real land prices in the summer rainfall region fell by 45 percent from their peak between 1981 and 1990, in the cattle grazing areas by 37 percent from their peak in 1976 to 1990, and in sheep grazing areas by 28 percent from their peak in 1980.

Van Schalkwyk and Van Zyl (1993) analysed forces driving land market prices between 1955 and 1990. The following conclusions emerged from their work.

- Real land prices were positively related to lagged inflation, suggesting that investments in land were partially made as a hedge against inflation.
- Real land prices rose as real interest decreased to negative levels during the 1970s; correspondingly, real land prices decreased as interest rates increased to more normal levels in the 1980s.
- Real land prices followed the trends in real returns per hectare closely, except for most of the period after 1983 when land prices and real returns per hectare followed opposite trends; and real land prices were positively related to real debt per hectare except for the period between 1980 and 1985, when real debt-load rose while land prices plummeted.

Van Schalkwyk and Van Zyl (1994) indicated that the gap between the average market and agricultural value of South African land showed a general decline since 1984. The decline is attributable to the withdrawal of some of the major support services and policy distortions to the farming community and inflationary conditions which had a negative influence on both sellers and buyers. The inflationary conditions had the effect that land was not an effective inflation hedge since the mid 1980s. The agricultural sector showed a steady decline in its financial performance since 1973. The decline is attributable to the cost-price squeeze which obviously exerts considerable pressure on income. The negative trend was, however, countered by an annual growth in productivity of 4.63 percent since 1983. This had a positive effect on agricultural land values, thus closing the gap between the market and agricultural value of land.

7. Institutional Aspects of South African Agricultural Policy

INSTITUTIONAL FRAGMENTATION

Before 1980, South African ("white") agriculture was served by three departments, i.e., Department of Agricultural Technical Services, Department of Agricultural Economics and Marketing, and Department of Agricultural Credit and Land tenure. In 1980 these three departments were amalgamated into one department, the Department of Agriculture and Fisheries, to ensure a more all-embracing policy of agricultural and marine development.

With the new constitutional dispensation on 31 March 1983, the various government departments had to restructure and reorganize once more. The reorganization was completed in September 1984 with the formation of the "white" own affairs Department of Agriculture and Water Supply, the general affairs Department of Agricultural Economics and Marketing, and the two own affairs departments in the House of Representatives and the House of Delegates. As a result, agriculture in South Africa and the formerly independent homelands (the TBVC states) was, until recently, served by 14 departments of agriculture, each with its own agricultural policy. A drive to view South African agriculture in a more holistic manner was, however, also apparent during this period.

As a result of the Good Hope initiative, where the private sector's role in development was confirmed, and the Carlton summit, where a regional approach to economic development was initiated, the dualism between "White" and "Black" agriculture was placed under pressure. The "regional development policy" that economic opportunities across political (or homeland) borders had to be exploited through joint initiatives. This led to the issue of policy harmonization since most of the homeland states had policies which differed to a large or lesser degree from South African policy. Interest rates to farmers for example differed substantially in the SATBVC, market policies were different, different subsidy structures applied, etc.

One innovation to support policy harmonization was the multilateral technical committee system, attending to a variety of agricultural matters ranging from agricultural trade and economics, animal health, crop production, to the use of prisoners as agricultural laborers. Although these committees were largely bureaucratic, valuable transfer of information and approaches were recorded (Van Rooyen, 1985; SECOSAF annual reports). The regional advisory committee system also contributed to a less dualistic view of agricultural issues. The Development Bank of Southern Africa played a positive role in developing a regional approach to agricultural development in the context of the nine "development regions." The introduction of the farmer support program, rationalisation of abattoir facilities, the provision of access to Land Bank funds to commercial farmers in the TBVC states are a few of the examples of the first albeit small steps to "deracialize" South African agriculture during the latter half of the 1980s (Van Rooyen, 1993).

Lobby Groups

Political influence is an important mechanism for farmers to gain access to resources, input and product markets for farmers. The present agricultural milieu has, to a large degree, been influenced by political lobby groups in terms of both direct and indirect intervention in the agricultural sector. Historically, white commercial farmers have had a disproportionate amount of political influence. In 1910, over 50 percent of the MPs in the South African parliament were farmers (Lipton, 1986 : 258). The electoral system was also biased towards agricultural interests, with the vote being loaded in favor of rural areas. In 1943, for example, 70 percent of whites were urbanized, while 53 percent of the seats were still rural (Lipton, 1986 : 273). By 1948, almost 70 percent of MPs were connected with agriculture in one way or another. The effect of the political influence is clearly shown if one analyses the agricultural budgets in South Africa as discussed above.

South African farmers through the SAAU and representation on the various marketing boards had considerable influence on agricultural policy throughout the years and especially during the 1980s. The breakaway by the Conservative Party (CP) from the National Party in March 1982 was probably the main cause of this trend. The CP with its largely rural (white) voter base had an important impact on agricultural policy in general and on the annual fixing of commodity prices (for example, maize) in particular. The government's effort to "buy votes" from the farmers, many of whom were CP supporters were particularly noticeable during the 1980s.

During 1980 the National Maize Producers' Organization (NAMPO) was formed from the two rival producer groups Sampi and Samso. These two producers groups had opposing views in "maize politics" for much of the 1970s and finally decided to get rid of their differences and unite in one single body of maize producers.

The late 1980s saw also the emergence of NAFU (the National African Farmers' Union) from NAFCOC (the black chamber of business) as well as a whole range of farmer unions in the former homelands.

8. Agriculture's Contribution to the Economy

Agriculture has been a major field of employment but in spite of a dearth of time series data concerning numbers of people economically active in the homelands, it is safe to assume that, in total, the percentage of economically active people in agriculture has declined. Data pertaining to employment of workers in the commercial agricultural sector reveal an interesting phenomenon.

Between 1971 and 1983, the total employment declined from 1,64 million to 1,13 million to be followed by three years of increasing employment; in 1987, some 1,37 million were employed in commercial agriculture (Abstract, 1990). The declines were mainly the result of substitution of capital for labor, especially in commercial summer grain producing areas (Van Zyl et al., 1987a). Subsidized agricultural credit and generous tax concessions on machinery purchases undoubtedly stimulated this development, which was accompanied by declining substitutability between capital and labor. The interest rate subsidies and the tax concessions are being phased out. One gets the impression that rather than replacing machines (often with larger ones), farmers in parts of South Africa have decided to substitute labor for large machines.

Agriculture has been an important supplier of raw materials to South African industry. Between 1974 to 1988, the producers' share of the consumer value for the food basket declined from 55 to 46 percent (Abstract of Agricultural Statistics), indicating that by 1988 some 54 percent of consumption expenditure on food was spent on services and processing intervening between farmer and consumer. Forward linkages of agriculture as calculated by Van Zyl et al. (1988) indicate that the total intermediate turnover of agricultural products amounts to some R9 000 million. Also, in 1978, the South African Agricultural Union claimed that between 25 and 30 percent of both industrial employment and output occurred in industries based on agricultural raw materials.

Backward linkages of agriculture from the same source reveal that agriculture spends over R4 000 million on intermediate inputs annually while total inputs exceed R10 000 million. The agricultural economy, particularly commercial agriculture, has regressed since 1980. This retrogression may be ascribed to drought, inflation and managerial deficiencies, including over-mechanization and too-high expenditure on some short-term inputs such as fertilizer (Janse van Rensburg & Groenewald, 1987; Groenewald, 1985).

The general impression, however, as is evident from aggregate macro data is that of an efficient, modern agriculture which simultaneously served the population with adequate and increased per capita food supplies, contributed positively to foreign exchange earnings, industries and employment, and which formed a substantial market for industrial output.

This would appear to be a remarkable situation, an agricultural sector yielding more and better goods, contributing through its linkages to more and better employment (directly and indirectly) and ultimately to abundance for the whole population. And yet, this is not uniformly the case. There are deficiencies, inequities, poverty amongst riches and hunger next to the granary.

9. Toward 2000: The Reconstruction and Development Program (RDP)

As the majority of the people in need reside in rural areas, whilst they have been denied access to land and a range of support services and capital, the reconstruction of the rural and agricultural environment can be expected to be an important and dynamic force under a new democratic government system.

Various interest groups, locally and internationally, offer different policy view points regarding such restructuring and redressing of these imbalances in the rural and agricultural sectors. Consensus among reports from various scholars and development institutions[7] since 1992 appears to favor comprehensive rural restructuring programs aimed at creating access to land, support services and other resources, to those previously denied such access, to allow for productive and sustainable land use and farming. An immediate goal of such programs would be to enhance the quality of life of the impoverished rural communities thereby eradicating the persistent poverty amongst these communities. A long-term goal would be that of building up a fast growing and sustainable rural economy characterized by maximum participation of society through entrepreneurship, employment and income generation.

The drafting of the Reconstruction and Development Program (RDP) (1994) and various policies on Land and Agriculture should be viewed against this background, i.e., that of a remarkable conversion on strategic notions amongst some of the most influential groupings which participate in the debate and analyses of issues on agricultural and rural development.

[7] These groupings include the Development Bank of Southern Africa, the Land and Agricultural Policy Center of the ANC, South African Agricultural Union, Department of Agriculture, various South African Universities, Department of Land Affairs, The World Bank and a range of NGOs, CBOC. conferences and independent consultants (refer to Christiansen, Van Rooyen and Cooper, 1993).

The RDP, however, refers rather scantily to agricultural issues which is somewhat alarming, as the reality is that up to 16 million people reside in rural areas. Rather, a bias towards urban issues emerges in the various programs proposed. In view of the central position of the RDP for the restructuring of South African society it could be assumed that there is space for the articulation and elaboration of agricultural and rural issues by the various sectorial stakeholders. These would however, have to be within the terms of the principles and broader programs of the RDP. It is necessary therefore, to ensure than agricultural issues are placed on the agenda now and not left to become political "footballs."

In view of this limited reference to agriculture within the RDP, for this paper it was also necessary to include statements and perspectives from the ANC's agricultural policy document released earlier this year and other recent policy statements.

In this section various aspects of agricultural and rural restructuring with reference to the RDP principles and guidelines and other related policy documents will be discussed. These include land and farm worker issues, marketing of agricultural products and food security, agricultural support (research, extension, training, input provision, etc.) infrastructure, finance policy, and rural development issues.

LAND ISSUES AND FARMER SETTLEMENT

The RDP stipulates that a national land reform program is central to and a vital driving force of a process of rural reconstruction and development. Such a program should aim to redress the injustices of forced removal and also historical denial of access to land through legal means and to ensure security of tenure for rural dwellers.

According to the RDP the land reform program has two key aspects, namely redistribution of residential and productive land to those who were previously denied access and restitution for those who lost land due to "apartheid" laws. Land redistribution will realize its objectives by strengthening land rights of communities already occupying land; by combining market and non-market mechanisms to provide land; and by using vacant government land. Where applicable, the government will expropriate land acquired by "corrupt means from the apartheid state", and pay compensation accordingly. Additional expropriation may also be used against fair compensation.

The new government, it is argued, will have to provide substantial funding for land redistribution. In addition, beneficiaries must pay in accordance to their means. A land tax should be introduced, based on clear criteria and must help "free up" unutilized land, must raise revenues for rural development and infrastructure, and must promote effective use of land. The RDP also raises the point that the land redistribution program must target deprived women as beneficiaries since they often face specific difficulties in obtaining land.

Land restitution must also include the restoration of land to South Africans dispossessed by discriminatory apartheid legislation since 1913, through the use of a land claims court. Constitutional rights to restitution must be guaranteed in order to promote effective functioning of the court. Claims need to be lodged within three years after the institution of the land court.

The RDP aims at redistributing 30 percent of agricultural land within the first five yeas of the program. According to the RDP, a land restitution program must aim to complete its task of adjudication in five years.

Discussion

The RDP strikes a nerve of the South African society with the emphasis placed on land redistribution and restitution. The importance of these goals is not disputed.

It will, however, be important to balance these objectives and targets with other national and economic needs such as availability of scarce resources to support the program, the importance of productive land use for agricultural and food production, and employment and income creation through many linkages generated by a productive farming sector. The South African situation also clearly requires a strategy which exploits various options for land redistribution. The potential of small scale farming settlement, equity opportunities to farm workers and cooperative farming to create a more balanced pattern of ownership of land and productive farming assets in existing farms should be considered.

The RDP appropriately supports the equalization of the status of different forms of tenure. Private ownership should be viewed as one possible land tenure system. However, land leasing, share cropping (or "time share"), and "sectional title" type of options for the new land owners should also be available to assist market-driven land redistribution. New and innovative settlement schemes should be introduced on state land to promote access.

Agricultural and residential use should be considered as an outflow from access to land. To ensure that land acquisition does act as a stimulant of development, the provision of support services and policies to support the productive and sustainable use of land should equally receive priority. The environmental impact of land settlement and evolving farming systems will have to be attended to in an interdisciplinary basis. These would need to be designed with the active participation of targeted beneficiaries. This then raises the question of who is to benefit. The RDP in its broad sense seeks to mobilize all the people and resources, present and future, in order to build a sustainable democracy. Within specific programs, however due to resource allocations, capacities to deliver and program objective, criteria will be needed to target communities as beneficiaries.

The target of a 30 percent land redistribution within five years, where the present land exchange through market processes is about 4 percent per annum (± 5 million hectare per annum), implies that a 20 percent exchange in land rights will occur.

The people in need of land are those who were previously denied access to it by law, and they by conservative estimates, are in the millions. It is therefore doubtful whether this transfer will fully be to the benefit of those previously denied, even if special support systems such as access to finances are activated. It is however doubtful whether this 30 percent constitutes a realistic target inter alia due to the cost of and capacity required by effective support services, both in the farming and residential land situation, to allow for the productive and sustainable settlement of people.

Conclusively, additional measures to release land for agriculture will have to be introduced to meet a significant portion of this target.

COMMERCIAL FARMING - QUO VADIS?

The RDP, and a range of policy statements from various groupings on agriculture in its reference to commercial farming, expresses support of a market-related farming system, the introduction of a rural land tax and the upliftment of farm workers. Essentially a multi-pronged approach to agriculture is proposed in which there is space for the existence of diverse forms of farming.

Discussion

Commercial farming is expected to remain important. South Africa, with a large and diverse internal and international consumer market for a range of products, has an excellent opportunity to boost a dynamic, vibrant, and labor-creating commercial farming sector. The link with agribusiness is of particular importance.

Commercial farming is thus expected to function in a market orientated environment with less support from the government services than small-scale agriculture. Government support is rather to be directed to small-scale and emerging commercial farming. (Commercial farming will therefore increasingly have to stand on its “own feet”, creating support systems from the private sector.) One particularly favorable effect of the market based agricultural policies over the past decade, was the improvement in productivity rates in commercial farming. Labor and capital were used much more efficiently by sectors of commercial farming over the past decade than previously. It is therefore expected that commercial farming will be in a favorable position to survive, especially if market related policies are also employed in the input supply, marketing and processing sectors. Commercial farming in South Africa is also well placed to participate in food security programs in South and Southern Africa, as well as linking up with agro business and consumers through contract farming and exploiting niche markets with in large consumer markets.

The farm worker issue is critical in the above discussion. To ensure high quality labor, commercial farmers will have to upgrade living conditions and labor arrangements. This will, in any case, be enforced by the new labor law, and thus a fair argument could be developed for government support for housing and education of farm workers and their families. This and other related policy issues will require thorough deliberation.

The introduction of a rural land tax will have to be analyzed carefully to ensure that benefits exceeds costs, including administrative expenditures.

AGRICULTURAL MARKETING AND FOOD SECURITY

The RDP refers only briefly to agricultural marketing, however it is discussed in a range of other policy documents. In the ANC policy document on agriculture this is expanded upon. As a starting point the ANC proposes to reform the legislative framework to provide a uniform regulatory and legislative system of agricultural marketing throughout South Africa. The improved provision of and access to marketing services for small farmers will form an important part of government policy and relates to the opportunity to raise the productivity of small farmers (present and new).

More direct government involvement in the regulation of certain commodities, at least on a transitional basis, may be justified on the grounds of the size of the industry, the existence of monopoly power within the marketing system, and the importance for food security, the nature of world. markets, or to promote agroindustrial linkages. This will call for consideration of marketing and pricing interventions on a case-by-case basis.

The ANC policy proposes a removal of most of the remaining statutory powers of agricultural control boards in order to free up the marketing system. Certain statutory controls will need to be maintained for reasons of health and hygiene and to enable the collection of data. It is also proposed that uniform national pricing effectively be done away and rather placing greater emphasis on market forces and transportation costs. These recommendations mirror the Kassier committee (1994) and AMPEC (1994) approaches to a large extent. For strategic commodities for food security purposes, such as maize, a state supported marketing agency will be required to serve as a buyer of last resort through operation of a floor price system.

These policy statements furthermore proposes that the composition of the National Marketing Board and individual agricultural control boards be made more representative of all interest groups in order to curtail the institutionalized powers of farm producers.

Agricultural marketing policy must be in line with the broader food security objectives and therefore affordable and sustainable prices for the basic foodstuffs of the low income groups must be ensured.

Comments

The South African consumer market is dramatically changing and international competition is increasing (GATT, etc). It will be important for local producers to reach consumers with a product of desired quality and at a price as low as possible. Large but poor urban markets require food such as meat, milk, vegetables, etc. At present, market structures are providing these at a high cost; for example, per capita consumption levels of milk is declining because milk is too expensive. Inappropriate health regulations (EEC market standards) also inhibit market action. Deregulation, the scaling down of health regulations, farmers' markets, "abattoirs/bush abattoirs", etc. may allow for major opportunities to farmers to serve these markets at affordable prices. Support systems to assist informal and emerging small traders should also encourage flows of inexpensive food stuffs. All these have implications for the attainment of adequate household level food security, particularly the nutritional component.

With regard to the Agricultural Control Board system it is expected that freedom of choice will prevail, and producers will be afforded the choice of whether to join a board or not. Joining a board and the payments of levies ("club fees") could provide member farmers access to price security and floor price schemes by such an organization.

The need for affordable food stuffs at a national level may require government intervention in stock piling of basic grains in order to ensure a consistent supply. It must however be emphasized that a vibrant, effective, direct marketing system is likely to provide greater assurity of inexpensive food flows to the mass markets of South Africa.

AGRICULTURAL SUPPORT SERVICES, CREDIT AND INFRASTRUCTURE

One of the stipulations of the RDP and most other statements on agricultural policy is that a land reform program must include the provision of those services to beneficiaries of land reform so that they can use their land as productively as possible. For agriculture this will include extension, input provision systems, marketing systems, information, education, training, research and financial services. A program of production assistance to the rural poor will be financed on the basis of sound fiscal policies to enable sustainable rural financial institutions to emerge. The total restructuring of the financial support system is discussed. A Rural Finance Enquiry will soon be appointed to attend to this matter.

The RDP furthermore regards the provision of water to rural society as a matter of high priority. A public works program is also viewed as a key area where special measures to create jobs and meeting the basic needs and redressing infrastructural disparities can be linked that will entail provision of rural infrastructure, appropriate energy supply system, and repair of environmental damage.

Comment

It is a widely accepted fact that the current set of public and private sector agricultural support institutions are organized mainly to meet the needs of the large-scale commercial farming sector. This needs to change. The present system of support services are too fragmented and unclear in terms of mission and focus to serve these new farm producer groups efficiently. This will therefore require the restructuring of the sector to ensure a cost-effective, productive and integrated support system. It can furthermore be expected that government support and funds will be directed towards these particular groups. Commercial large-scale farmers will increasingly rely on support from the private sector at market related rates. However, in the long run, service provision within the sector will need to reflect a comprehensive approach which does not discriminate on the basis of race, gender, and particularly scale.

RURAL DEVELOPMENT ISSUES

An underlying principle in the RDP is the emphasis on the integrated nature of development. Other issues raised include: poverty, a key problem for redress, is manifested primarily in the rural areas (it affects up to 16 million people, 11 million of whom reside in rural areas); access to basic needs whilst a national phenomenon is prevalent in rural areas and is more complex as a result of distance; access to resources and infrastructure; and affirmative action programs that address deliberate marginalization of rural communities.

Comments

All these point to a need for a thorough and comprehensive rural development strategy. The success of rural development will ultimately be seen in the improvement in the quality of life of rural dwellers. The strength of the RDP is its emphasis on local level participation in the design and implementation of its programs. In addition to support services, it will also be important to allow and encourage South African farmers and other rural dwellers to develop a strong political lobby, in order to balance the urban industrial bias emerging in the South African economy. The consolidation of interests between existing and new farmers and other rural dwellers could, to a large extent, positively influence this. Without such a comprehensive and integrated approach rural development would fail. Yet, within the RDP, there is an urban bias particularly in as far as program details are articulated. This should not result in urban formulations being applied to rural areas. In addition, there is admittedly a strong link between land reform, agriculture and rural development, but this should not influence the positioning of rural development squarely in the agricultural and land reform policy domains. Rural development is the result of actions from all public sectors like health, education, social services, finance and agriculture within rural areas. Therefore, in developing the strategy for the provision of these services and the mobilization and capacity development of rural dwellers to participate in rural development, the need for an integrated and sequenced process is emphasized.

SOME CONCLUSIONS ON THE RDP AND AGRICULTURE

Some of the major aspects of the RDP and policy positions by important “role players” on agriculture as it relates to land reform, agricultural, and rural development were briefly discussed. These programs and policies create space for the coexistence of various farming systems ranging from small-scale to large-scale. Three important conclusions can be reached. Firstly the most important economic determinants of change in the farming sector will not be land reform per se, or access to farmer settlement and support services but rather arrangements to link farm producers to consumers i.e., marketing arrangements. A large market is emerging in South and Southern Africa. The majority of consumers however are poor and they require food at affordable prices. Successful agricultural and rural development is a vital ingredient for peace and stability in South and Southern Africa. The present system does not allow for the efficient, effective and low cost service to consumers. Marketing arrangements should allow for a flexible market driven system linking farm producers to consumers in the various emerging markets. This, supplemented by other measures including land redistribution and accessible support services, will eventually influence production patterns, land use patterns, labor use, and farm size. At the same time, such a marketing system will allow for competition and eventually result in an efficient and diversified farming sector.

The second point relates to the importance of converging notions. The emerging consensus on strategic issues needs to be cultivated and strengthened, as it provides a sound basis for restructuring. The position however remains fragile, but it must be stressed that such a basis, involving the important stakeholders, constitutes a necessary, albeit not sufficient, ingredient for a success transformation.

For those with innovative ideas, farming holds an exiting future providing that government policies are supportive. The third issue therefore relates to the question of whether agricultural issues, and indeed development in rural areas, will receive the necessary attention and support from government in the form of resource allocation and emphasis. If agricultural and rural issues are afforded priority, the RDP provides an integrated framework for policies and support programs.

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