

## 6 Economic Empowerment in South African Agriculture

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One of the most important challenges facing the South African agriculture sector is the empowerment of previously disadvantaged people. The process of enabling black South Africans to become farmers in their own right will require some well-designed efforts to level the playing field and to bring about a more diverse agricultural society. This challenge requires a shift in agricultural policy. Although this policy shift implies a greater focus on the new client base, it would not necessarily mean that policy would discriminate against present commercial farmers. In fact, it would open a number of new opportunities for all farmers. In the end, these efforts could result in a more efficient agriculture sector that could provide the impetus for a growing rural economy.

Commercial agriculture in South Africa is widely regarded as a highly sophisticated and successful sector. However, the performance of South Africa's commercial agriculture sector is deceptive, in that it only conveys the appearance of efficiency (World Bank 1994). The sector has followed a pattern of growth that is far from normal, as a result of the distortions prevailing during a long history of persistent government intervention in its favor.<sup>1</sup> This history has encouraged excessive farm size and mechanization and excessive shedding of labor. Although these decisions were privately profitable and technically efficient, they reduced economic efficiency. Several analysts conclude that South African agriculture makes suboptimal use of its most abundant resource: labor. Subsidized low interest rates and various tax breaks encouraged the excessive substitution of capital for labor.

In sharp contrast, apartheid policies have resulted in the concentration of about 8 million blacks on 13 percent of agricultural land, primarily in the former homelands. Combined with inadequate access to markets and poor infrastructure and support services, this policy caused the virtual elimination of

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1. Some of these distortions are not peculiar to agriculture but characterize the entire economy, such as sluggish growth in total factor productivity and the high capital intensity of production in the presence of widespread unemployment. Nonetheless, it appears that agriculture has produced distortions that have been extremely far-reaching.

small-scale black agriculture and thus prevented the development of a viable, employment-intensive rural economy centered on agriculture. As a result, the usual vibrant and wide range of informal business activities created through forward and backward linkages of agricultural development have never emerged in South Africa's rural economy.

The agricultural strategy pursued in South Africa has achieved its two main objectives: food self-sufficiency and acceptable income levels for white farmers. It has done so by distorting the policy environment and imposing an enormous financial and social cost on society. Society has been deprived of the large contribution to gross domestic product (GDP) that a more efficient and dynamic agriculture sector could have provided. Moreover, because a large part of the population was deliberately excluded from productive resources and thus from the mainstream agricultural economy, these poor and landless people often suffer from food insecurity.

At this point, the agriculture sector is in a state of crisis. Nearly a decade ago, the financial cost of the agriculture strategy became sufficiently burdensome to prompt the introduction of limited liberalization, consisting of market deregulation and reduction of state subsidies. These policy changes, along with adverse weather conditions, had the effect of exposing farmers to a more exacting environment. As a result, profits declined and debt increased. Many sectors of large-scale commercial agriculture are not viable in the new policy environment.

This chapter begins by discussing the meaning, motivation, and objectives of a process of economic empowerment in agriculture. It then focuses on land reform, which is the cornerstone of the empowerment process. It is, however, not only access to land, but also access to other resources and services—such as water, capital, research and extension, and markets—that is critical in achieving meaningful and sustainable empowerment in agriculture. The final section of the chapter briefly considers some of the other important elements in bringing previously disadvantaged people into the agricultural mainstream.

### **Affirmative Action or Empowerment?**

The marginalization of black farmers in South Africa through a host of discriminatory legislation, especially the Land Acts of 1913 and 1936, which prohibited land ownership by blacks outside of native reserves, is well documented (Bundy 1979; Beinart 1983; Keegan 1986; Vink and Van Zyl 1989; Van Rooyen, Vink, and Christodoulou 1987). Other measures established the system of apartheid and prohibited black farmers from forming cooperatives and farmer organizations, participating in output and input markets, and gaining access to credit. These legislative and other measures of institutionalized discrimination against black farmers were partly responsible for the dual

nature of South Africa's agriculture sector. As apartheid is dismantled and discriminatory legislation is repealed, black farmers will certainly gain greater access to commercial agriculture. In addition, other effective measures are necessary to empower blacks to enter commercial farming.

Such measures are viewed as vital to assist black farmers in leveling the playing field and to establish equality of opportunity in agriculture. Van Rooyen (1990, 5) stresses the importance of agricultural restructuring to rid South Africa of the "two agricultures" phenomenon. He also argues for a broad-based access approach, or affirmative action, to ensure that all farmers are enabled to compete in the agricultural market on an equitable basis.

### *The Concept of Affirmative Action*

In the debate on how to restructure South Africa's economy, the terms affirmative action, black economic empowerment, and black advancement are used interchangeably to describe ways of integrating and democratizing the South African economy and creating equal opportunities.

It is widely believed that the concept of affirmative action originated in the United States, where it had a turbulent history. Although it is true that the term "affirmative action" originated in the United States, the concept of assisting the victims of past discrimination and the process of addressing inequalities in society has a much longer history in countries like India, Malaysia, and Sri Lanka. In these countries affirmative action was viewed in part as an effort to remedy past and present discrimination and was considered essential to assure that jobs are equally accessible to all qualified persons (Maphai 1992).

The concept of affirmative action has a variety of connotations. It refers to a range of programs and measures that attempt to redress historical gender, class (or caste), and racial inequalities. Maphai (1992, 72) defines two crucial senses of affirmative action. The term can be used to mean "fair equality of opportunity." It can also signify "preferential hiring," often referred to as "reverse discrimination." This second sense is the reason many people have a negative view of affirmative action. To a large degree, this negative view stems from the experience of employment-related affirmative action programs in the United States (Goldman 1979, 200).

Affirmative action is nothing new to South Africa, as Albie Sachs (1992, 203) argues: "[W]e have had it for decades, even for centuries, with this special difference, that it operated not in favour of the disadvantaged but for the benefit of the advantaged." The whole apartheid system amounted to a systematized and unjust form of affirmative action in favor of the whites. Now, therefore, just as apartheid touched on every aspect of life in South Africa, so does affirmative action. It involves a commitment to take steps in a firm, orderly, and principled way to overcome the enormous gaps created by apartheid. In the South African case, the concept of affirmative action should imply corrective action to remedy the wrongs of the past and should be viewed as a positive moral step.

Baber and Nieuwoudt (1992, 215) view affirmative action as a program to assist a specifically targeted group of economic agents within the established institutional rules of the game but not to change the structure of property rights. In the case of agriculture, it entails helping rural blacks who have been placed at a disadvantage in the competition for desired economic positions.

A number of observers use "affirmative action" to mean extraordinary interim measures designed to redress the imbalances of the past, especially where such inequalities were the result of deliberate state policy (Brand et al. 1992; Eckert 1991).

It is clear that the use of the term "affirmative action" can stir up emotional debates. It can be argued that "affirmative action" as used by Van Rooyen (1990), Eckert (1991), Brand et al. (1992), Van Zyl (1993), and Van Zyl and Kirsten (1993) refers to much more than affirmative action. "Corrective action" or "corrective measures" may be more appropriate, because these terms generate less emotional responses while acknowledging the need to correct the wrongs of the past.

Another term commonly used in South Africa since 1989 is black economic empowerment (Browning 1989). The goal of black economic empowerment is to help dismantle apartheid in the economic sphere and to help blacks take their rightful place in the economy and move up the economic ladder. The question is what should be done to ensure that all constraints to blacks' participation in the economy are removed. Although the definition of this term is still not clear, it is widely accepted that the process of economic empowerment must complement that of political empowerment. Political participation by black South Africans cannot be achieved in an economic vacuum, and economic empowerment is not a substitute for political empowerment.

The processes of affirmative action, black advancement, and black economic empowerment are to a great extent interlinked, and they have equity in the economy and society as a common goal. Affirmative action, for example, can be linked to black advancement and black economic empowerment because it removes the past constraints on black advancement in the economy and in society (Van der Berg 1992).

#### *The Need for Economic Empowerment in Agriculture*

The National African Farmers Union has listed four areas of concern for black South African farmers (NAFU 1993): (1) lack of access to agricultural land; (2) lack of lobbying power and representation; (3) lack of effective farmer support services (such as credit, marketing opportunities, research, and extension); and (4) the alienation of black farmers through the project approach to agricultural development, which relies on centrally administered, capital-intensive projects with a limited number of beneficiaries. A program of economic empowerment in agriculture should address these issues and would probably require restructuring the agriculture sector to eliminate inequalities.

The debate about agricultural restructuring revolves around a broad set of ethical, judicial, social, technical, ecological, and economic considerations.

With the emergence of the new democratic government in South Africa, it is broadly accepted that all people have equal claims on social services and public goods and should have equal access to economic opportunities (Eckert 1991). The principle of equal opportunity implies unrestricted freedom of opportunity to enter into or exit from any legally sanctioned economic position. This principle thus rules out all discrimination (Baber and Nieuwoudt 1992, 206).

The concept of equality must be qualified, however, to recognize the need for the economically optimal allocation of scarce production factors in order to produce sustainable levels of welfare. In principle, the market, as an institution that links demand and supply, provides an effective mechanism to allocate scarce resources according to need and utility, while differentiating on the basis of performance (Eckert 1991; Brand et al. 1992). As a result of apartheid policies, however, the market alone is not effective. Enormous differences in ability to enter and compete effectively in the South African market exist today as the result of a legacy of unequal access and opportunities and social discrimination. Simply ensuring equal opportunity to compete in market processes in the future is insufficient when the ability of the majority of South Africans to compete has been constrained by past policies (Brand et al. 1992). Inequality of opportunity in one time period creates inequality in subsequent time periods (Okun 1975, 77). The market mechanism therefore needs to be supported and complemented to bring about fairness in economic processes.

Equal opportunity in South Africa must be supplemented with the right to an equal start. This goal cannot, of course, be achieved easily or quickly, for it implies massive education and training and the creation of opportunities for those previously kept out of the mainstream. In addition, people must be afforded the opportunity to learn by doing—to be successful or make mistakes and to accept responsibility for their actions—which has both great practical value and significant costs. Adopting the principle of the right to an equal start would give direction to future economic restructuring programs.

In South Africa's agrarian economy, structural imbalances in the access to land and public support services have accumulated over years. Economically and socially efficient resource allocation can occur within a sustainable system only if all prospective participants have fair access to scarce resources, inputs, and product markets, as well as to the political market—that is, the ability to lobby effectively for government support. These kinds of access require both the legal ability to act (entitlements) and empowerment to act effectively. Steps have already been taken to establish legal access. The scrapping of the Land Acts of 1913 and 1936 (and a plethora of related acts and regulations), which constituted a major impediment to fair access to farming opportunities, has enabled some black persons to acquire agricultural land for farming purposes.

But this will not be sufficient to ensure that all people interested in farming, including small farmers, part-time farmers, and women farmers, will have a fair chance to acquire farmland and to practice economically viable farming. The present skewed distribution of wealth and farm size structure will inhibit many potential farmers, especially black smallholders, from obtaining land through outright purchase with their own funds. Farmers who have been discriminated against in the past may also have difficulty gaining access to other farmer support services (Brand et al. 1992). Access through entitlement will have to be supplemented by specific measures aimed at empowering these farmers to put these rights to use.

### *Restructuring of Agriculture*

The combination of economic inefficiency in the large-scale sector, the inequitable distribution of land, and the new democracy has produced a politically unsustainable situation that threatens the future viability of the entire economy. Despite the enormous difficulty of land reform and settlement processes, failure to execute major land reform in countries with highly dualistic farm size structures, or delayed implementation of such reforms and continued neglect of native peasant sectors, seems to have had far more adverse consequences than the relatively minor risks associated with the process of land reform.

South Africa needs solutions which will allow it to act quickly and cheaply. A successful strategy for the growth and development of the rural economy will require at least three elements (World Bank 1994). First, current distortions in white commercial agriculture must be removed, to increase competition and induce a shift toward more employment-intensive forms of production, processing, and marketing. The process of ongoing liberalization would include: (1) further reform of the input and output marketing system; (2) efforts to reduce the concentration of market power in the agroprocessing sector; (3) revision of land subdivision guidelines; and (4) restructuring of the present agricultural credit system. Continued liberalization along these lines is likely to result in more bankruptcies among large-scale farms, the expansion of small-scale farming (especially near urban areas), expansion of the horticultural sector, and contraction of grain and livestock production.

Second, a new type of commercial, small-scale agriculture centered on the family farm must be developed to increase employment intensity and efficiency in agriculture. This strategy would also involve upgrading agricultural support services and investing in an improved physical and social infrastructure in the former homelands. These steps would continue the process of policy liberalization and concentrate public sector resources on some of the most obvious victims of apartheid.

Third, a fundamental institutional restructuring is required to support the new vision: on the one hand, a downsized and employment-intensive white farming subsector, and on the other hand, an emerging commercial small-scale

farming subsector. This option would include the redistribution of land in the large farm sector to achieve three critical objectives: (1) to reduce the uncertainty experienced by current owners, thereby encouraging those who continue farming to invest; (2) to address the present inequitable distribution of land; and (3) to encourage those with an interest in land use to gain access to and use land efficiently. This last objective would lead to a more dynamic rural economy and to greater employment and income generation among low-income groups than would either of the first two strategic options.

### **Land Reform: The Cornerstone of Empowerment in Agriculture**

The most obvious motivation for land reform in South Africa is the unsustainability—from a political, social, economic, and equity point of view—of the present distribution of the ownership of agricultural land. From the beginning of the century until the 1950s, the number of farms and the total area cultivated in South Africa increased, while average farm size declined. After 1950, the trend was reversed: farm size grew consistently, accelerating in the 1970s before leveling off in the late 1980s. Average farm size rose from 738 hectares in 1953 to 988 hectares in 1971 and 1,339 hectares in 1981, but declined to 1,280 hectares in 1988. In 1988, the median farm size was about 500 hectares, and significantly smaller in the high-potential areas. Nonetheless, large-scale farms dominate South African agriculture, and the average size of these farms is extraordinary by international standards. As a result of the history of distortion, a small minority of 60,000 farmers owns 86 percent of South Africa's agricultural land, while 50 percent of farmers own just 6 percent of the land. Distribution of gross farm income in commercial agriculture is also highly unequal. In 1988, 26 percent of the farmers earned 81 percent of the total gross farm income, while the remaining 74 percent of farmers earned a mere 19 percent of the total income.

International experience with land reform and rural restructuring, as well as that of South Africa, suggests that land reform should rely as much as possible on the existing land market (Van Zyl and Binswanger 1996). This is the approach that is being followed in designing the Land Reform Pilot Programme. This program is an effort to translate the outcomes of the debate on land reform policy into an implementable strategy for redistribution. The program will test a mechanism of delivery while seeking to establish a facilitative role for the state in a manner that is both replicable and affordable.

Nonmarket-oriented programs typically vest too much control in public sector bureaucracies. These bureaucracies develop their own set of interests that are in conflict with the rapid redistribution of land (Kinsey and Binswanger 1993). Nonetheless, a well-functioning land market is not a sufficient condition to allow for subdividing large, mechanized, and relatively inefficient farms into smaller family-type farms, specifically where economic and institutional

distortions favor large farms over small farms. Therefore, nonmarket interventions, in the form of grants, are necessary to ensure successful implementation of any land reform program. Giving grants or vouchers to beneficiary groups, who buy from willing sellers, obviates the need for a land reform/settlement agency and reduces the chances for bureaucratic rent seeking. Beneficiaries are free to choose the land in the market and do with it what they wish, rather than having to follow guidelines of an agency.

The prospect of market-assisted land reform in South Africa raises a number of legal and policy questions. The history of land reform around the world demonstrates that land invasions, which governments then normalize through legal processes of expropriation and allocation, have been the most common and effective processes of land reform. Given the potential for violent conflict inherent in the process of land invasions, a legal framework must aim to reduce the likelihood of this alternative. Is the present legal framework in South Africa conducive to land redistribution?

Current South African land law has characteristics that undermine its legitimacy and have profound consequences for the establishment of a functional system of land law (Klug 1996). Freehold, as opposed to communal, property rights are privileged, land law is fragmented in different parts of the country, the system for recording land rights is inadequate, bureaucrats have discretion over land rights and the disposition of land claims, and rights of land inheritance are stratified by race and gender. While the restitution of land to people who were forcibly removed has largely been taken care of through the adoption of the Restitution of Land Rights Act in November 1994, there is still a need for comprehensive legislation to facilitate the land redistribution process. For example, the Act on the Sub-division of Agricultural Land, which prevents land, especially large farms, from being subdivided, must be abolished. The elements of comprehensive land legislation will include:

- the creation of a single national legislative framework for land rights and administration,
- provisions enabling the state to redistribute land,
- new rules to regulate the tension between ownership rights and illegal use of land based on necessity, and
- the creation of a viable system of land administration at the district level, which may be coupled with the recognition of land rights.

A prerequisite for any market-assisted land reform program is the removal of policy distortions that favor relatively large farms over smaller farms and drive up land prices to levels well above the capitalized value of future farm profits. High land market prices relative to the capitalized value of future farm profits will increase the cost of a reform program, serve as an incentive for the selling of farms by beneficiaries to get windfall profits (see Carter and Mesbah 1993 on reservation prices), limit the supply of land to beneficiaries, and

encourage land purchases by groups other than beneficiaries, for example, good farmers and businesspeople looking for tax shelters. Measures favoring relatively large farms over smaller farms lower the reservation prices of small farmers, who are often poor, thereby encouraging the selling of land by beneficiaries and the purchase of land by groups other than beneficiaries.

Today the policy environment in South Africa is conducive to market-assisted land reform. Since the early 1980s, most of the privileges enjoyed by large farms have been or are being abolished (see Kirsten and Van Zyl 1996). These steps have paved the way for better-functioning markets with fewer distortions.

Can the land market handle a land reform? The results of an analysis by Van Schalkwyk and Van Zyl (1996) of the underlying factors driving land price changes in South Africa clearly demonstrate that the agricultural land market is not only active enough, but also stable enough to be used as a transfer mechanism for substantial amounts of agricultural land to the people disadvantaged and excluded by past policies. In addition, the current relatively small difference between the market price of land and the capitalized value of farm profits enhances repayment ability since buyers of land will now find it easier to repay a loan from the productive capacity of the land itself. It also firmly establishes a market-assisted approach as a real and workable option for land reform.

Land reform in South Africa will involve not only redistribution but also restitution, because of the country's history of forced removals and other discriminatory policies regarding landownership. In light of this favored approach to land reform in South Africa, individuals (or groups) that wish to gain access to land have three choices: seek land through the restitution process, acquire land through the redistribution channel, or purchase land without assistance from the program.

In a market-assisted redistribution process the beneficiaries would be responsible for identifying a piece of land, but would be eligible for assistance in this activity. Once a suitable piece of land is identified, three possible forms of financing could be arranged: a grant from the program, the beneficiary's own resources, or a bank loan. The grant element of the program is essential to accomplish a redistribution of assets and to ensure that beneficiaries emerge from the program with a net increase in their asset position. A matching-grant scheme that forces participants to use some of their own resources to gain access to land will help assure that beneficiaries are committed to farming and seeking to obtain a decent return on their own investment.

#### *The Land Market as a Redistributive Mechanism in a Market-assisted Land Reform Process*

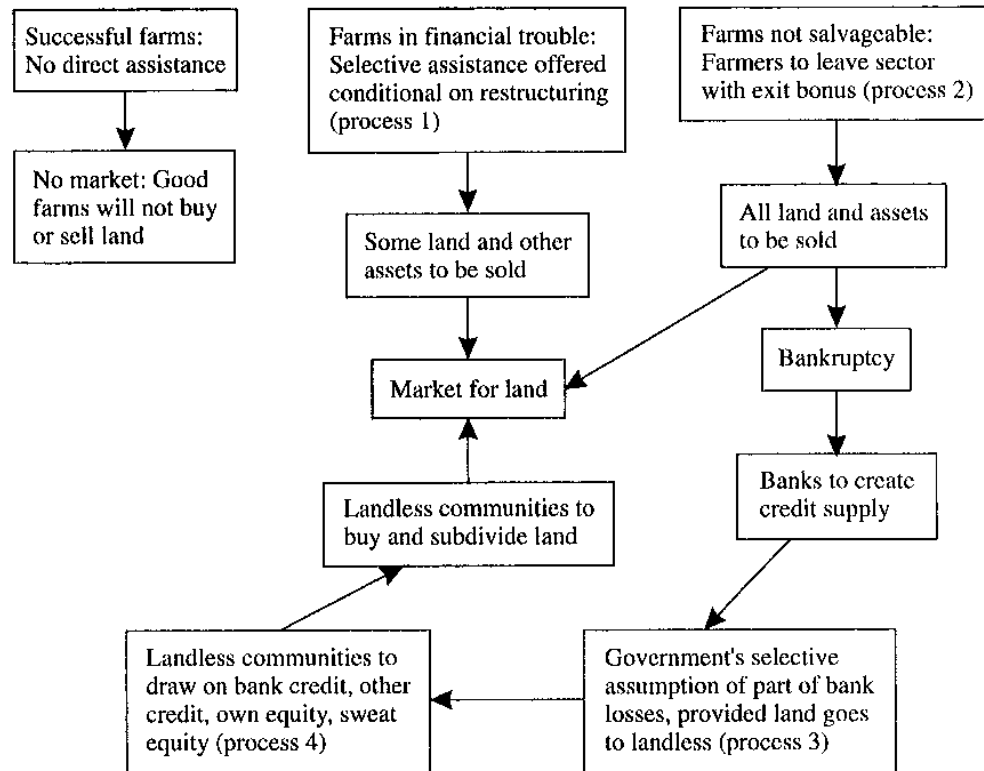
South African agriculture is going through a period of crisis associated with change. Many privileges to large-scale agriculture, such as tax benefits, sub-

sidized credit, and price supports, have been withdrawn. Combined with the effects of increasing international agricultural competition under the General Agreement on Tariffs and Trade (GATT) and higher input costs as a result of the weakening exchange rate, the loss of privileges and the more deregulated economy will continue to place agricultural profits and land prices under severe pressure, especially in the grain and livestock subsectors. In the present situation, a market-assisted land reform program provides a unique opportunity to alleviate some of the problems caused by market liberalization and removal of privileges, especially in grain and livestock production.

The elimination of privileges will cause a pause in investment in agriculture, bankrupt many farms, reduce demand for land, decrease farmland prices, increase demand for blanket debt relief from both the farm and bank sector, aggravate already high urban and rural unemployment, and worsen rural poverty and malnutrition. Already in many areas in South Africa, large-scale bankruptcy has been prevented or prolonged through blanket debt relief and credit subsidies. The social impact will be most severe in the rural areas where poverty is already crushing—75 percent of the poor are from the rural areas (Kirsten, Van Zyl, and Hobson 1994). Market-assisted land reform can help solve some of these problems. It can help resolve the financial crisis of the commercial farm sector by creating a market for land and help solve the employment problem by generating self-employment on the new farms and in the associated nonfarm economy at a low cost per job. The workings of the proposed market-assisted land reform process in an impending debt crisis situation are described in Figure 6.1.

These processes push down farm profitability in the large-scale commercialized and mechanized grain sectors. Although all farms are affected, they can be classified into three categories: farms that are not viable under the new policy regime and are likely to go bankrupt, farms that are viable provided they shed assets and restructure their debt, and farms that can survive the crisis without major change or assistance. Since all farms are affected by the crisis, they will join together to request blanket debt relief. The banking sector is not eager to declare farms bankrupt since it knows that the farms will be nearly impossible to sell. The banks, therefore, will join the alliance asking for blanket debt relief. This process has already occurred several times during the past decade, with heavy costs to taxpayers. It is an expensive approach that keeps inefficient farmers alive. A better approach is based on assistance designed for specific categories of farms (Processes 1 and 2).

Farms in financial trouble, but which can make it with some restructuring of assets and liabilities, could receive selective financial assistance conditional on their restructuring, including the shedding of some land and other assets (Process 1). The banking sector should decide which farms should be restructured and how, based on their future viability. Farmers whose businesses are not viable could receive an exit bonus or other package (Process 2), including

**FIGURE 6.1** The process of market-assisted land reform

relocation allowances, retraining assistance, or help setting up a new business. Successful farmers will need no financial assistance, but the process of market-assisted land reform will stabilize their land prices and the value of their assets. The number of farms in each of the categories will be determined by the severity of the debt crisis and the criteria and amount of selective assistance provided to farms.

Land and other assets will become available on the market from both the nonviable and the restructured farms. However, financially sound farms are unlikely to buy the land and assets because they are already large enough and because of high real interest rates and decreasing farm profitability.

Incorporating the bank sector as an active partner and beneficiary will also help increase the supply of land and farm assets (Process 3). Banks can be encouraged to participate by the government's selective assumption of part of their losses when they foreclose on and restructure farms, provided that the land and other farm assets go to the intended beneficiaries of land reform. The bank sector could then offer financing to these beneficiaries if they meet normal bank standards at market rates and conditions.

The demand side of the land market is created by providing eligible beneficiaries—the large number of landless rural people, mostly “colored” or black farm workers—with grants and access to credit. They can combine these resources with their own equity, in the form of assets, financial contributions, and labor contributions to farm and infrastructure development (Process 4). Credit sources include the former owners of the land, lenders (banks), and suppliers (such as input manufacturers). Banks must lend to land reform beneficiaries if they wish to be eligible to have their foreclosure losses covered by the government (Process 3). Communities that buy land can subdivide it according to their own negotiated agreements. They, or individuals, should be eligible for partial grants to create the necessary infrastructure or for other approved purposes, on condition that they have good-quality land.

The key to market-assisted land reform is to break the coalition between farmers (good and bad) and the banks, in favor of blanket debt relief. Instead, a coalition between good farmers, banks, and beneficiaries is necessary to make the process work. Limited exit bonuses to nonviable farmers and benefits to participating banks are important in this respect. The objective of exit packages for nonviable farmers who are likely to go bankrupt is to increase the supply of land to the market. These packages can take various forms, including exit bonuses, training for other careers, alternative employment, increased foreign currency allotments, and pension schemes.

Small farmers cannot purchase land and other inputs with the proceeds of their farming operations. Even when the difference between the market price of land and the capitalized value of future farm profits is small, farmers may find it difficult to borrow money to purchase land and to repay the loan from the proceeds of farming. Experience has shown that, depending on the type of farming, farmers with a debt-asset ratio of more than 0.3 are unlikely to be able to shoulder the high risks of farming and to be financially viable and creditworthy in the long run. Beneficiaries of market-assisted land reform therefore require some grants to reach and maintain a desirable debt-asset ratio and repay their debts. Grants are superior to subsidies because they are immediate and transparent, they can be targeted, and their distortive effects are small.

Grants can be justified on other grounds as well. Targeted interventions to promote access to finance for the rural poor can help reduce poverty, although financial interventions must be shown to be cost-effective compared with other targeted interventions. Externalities, such as possible risk diversification and nutrition benefits associated with improved access to land, are an additional justification. Covariance, seasonality, and risk averseness may create a need for additional equity to serve as a safety net against disaster. Infant industry considerations justify limited initial grants to allow inexperienced farmers to face the special inherent difficulties in farming.

The size of grants required to achieve the 0.3:1 debt-asset ratio depends both on factors related to the reform program and on those independent of the program. Factors related to the reform program are farm policy and macro-economic variables, on-farm investment requirements (land, machinery and equipment, livestock, and working capital), and profitability, as well as interest rates. These factors are exogenously given in the construction of farm models. Another issue is the difference between the market price of land and other assets on the one hand and the capitalized value of farm profits on the other.

### **Other Important Elements in the Empowerment Process**

Although land is the crucial element to bring previously disadvantaged South Africans into the agricultural mainstream, a number of other issues must be addressed to ensure that this process of empowerment is successful.

#### *Agricultural Finance*

In the past the principles adopted by formal sources of credit, such as the Land Bank, commercial banks, and cooperatives, in general prevented emerging and black farmers from obtaining credit. Landownership by farmers that were previously excluded would allow these farmers to gain access to agricultural finance from sources such as commercial banks. Innovative strategies, however, are required to improve farmers' access to rural financial markets. The recommendations of the Rural Finance Commission (1996) may help improve previously disadvantaged farmers' access to agricultural finance. This commission concluded that the state must coordinate the provision of a balanced range of reliable services to the rural people and made a number of related specific recommendations.

#### *Access to Support Services*

Access to information, technology, and marketing services are critical for efficient and unconstrained farming. The reorientation of research and extension services to focus on the needs and problems of smaller-scale and emerging farmers would be an important contribution to the process of empowerment. A number of achievements have already been made to broaden access to these agricultural services for all farmers.

To market their produce efficiently, farmers also require good, accessible roads, depots, and cooperatives. Investment in marketing and other infrastructure is thus another element of empowerment. The trend toward deregulation of agricultural marketing will open up marketing opportunities for all farmers but will also require better management, which could put emerging farmers at a disadvantage. Training in marketing and other management practices may also therefore be important in the process of empowerment.

### *Access to Lobbying Power*

Empowerment also entails the ability to influence government policy. Historically, white farmers had a disproportionate amount of political influence. Increasing the political power of black farmers may require giving assistance to black farmer lobby groups such as the National African Farmers Union, although cooperation between all lobby groups could also have the necessary effect.

Actions to empower black South Africans in agriculture are essential to place South African agriculture on an efficient and sustainable development path based on a flexible farm structure (see Van Zyl 1996). In such a structure, the majority of produce is marketed rather than consumed; the predominant source of labor is the family, with some labor hired; households have frequent additional off-farm sources of income; and the size of these farm enterprises differs enormously because of climate, land quality, capital availability, distance to markets, commodities cultivated, family size, and the management capacity of the household. Profitability is not determined by the absolute size of farms in hectares, but by the on-farm organization of the means of production. In addition, international experience shows that owner-operated farms have clear advantages, particularly for credit arrangements, over other forms of operation and tenure arrangements when the majority of goods are produced for the market.

### **A Vision of a Future Agriculture Sector in South Africa**

The goal of empowerment is an element in a vision of a more efficient, equitable, and employment-intensive South African agriculture sector, based on competitive, commercial, owner-operated family farms.<sup>2</sup> These farms should not depend on subsidies and government support for their sustainability but should be supported and serviced primarily by the private sector. Government's role is to establish a comprehensive legal, institutional, and policy framework that will ensure a level playing field. This framework will include increased reliance on markets, privatization, deconcentration of market power, and deregulation of markets. Three complementary approaches to attaining this vision exist: accelerating rural development, increasing access to land for the poor, and increasing access to land for small- to medium-sized commercial farmers.

#### *Accelerating Rural Development*

Accelerated rural development is the approach currently followed by the Department of Agriculture. It consists of the following measures:

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2. This section draws on parts of Van Zyl (1996).

- Removal of many of the distortions and policies favoring large-scale white farmers. Much progress has already been made in this respect, although subsidized credit still distorts markets and crowds out further private sector involvement.
- Rural development in the former homeland areas through, for example, programs to develop infrastructure, health facilities, water provision, electricity, and schooling. Many ideas and plans still have to be executed.
- Services with cost recovery in the commercial farm sector. Good intentions must still be put into practice.
- Labor reform in the commercial farm sector. Efforts already under way must be expanded and implemented.

These actions, however, will not address the issues of inequity, inefficiency, and unsustainability. Poverty and a dual system of commercial and subsistence farmers will continue to be major features of South African agriculture, and farm bankruptcies, loss of employment on existing farms, and inefficiencies in the commercial farm sector will persist.

#### *Increasing Access to Land for the Poor*

The Department of Land Affairs is following an approach of increasing land for the poor. This option involves support for all the measures already mentioned, plus the additional issues of restitution under the recently passed Restitution Act; distribution of state land to the poor; and acquisition of additional land to redistribute, essentially, to the poor under the current Pilot Programme and grant structure proposals. While these actions should be encouraged, they do not address the method for redistribution of currently technically bankrupt commercial farms; the present inefficiencies in the farm structure, particularly with respect to size; and market-assisted acquisition of farms by less poor households. In isolation, these actions will neither attain the government's redistribution target of 30 percent of agricultural land in five years as reiterated in the Reconstruction and Development Programme nor substantially improve the overall farm structure in the direction of family farms.

#### *Increasing Access to Land for Small- to Medium-sized Commercial Farmers*

Efforts to assist farm owner-operators, whether they are individuals or communities, should be increased. First, land rental markets, including sharecropping, should be improved. A more flexible rental market would increase opportunities for households with some farm resources to engage in agriculture. Land rentals, however, should not become a dominant aspect of the farm structure because of the inherent problems of underinvestment, environmental costs, and collateral limitations for credit.

Joint ventures of workers and owners, such as envisaged under the Development Bank of Southern Africa equity sharing option, will broaden the ownership base in agriculture. However, the joint venture option may have limited replicability, requiring special conditions to be successful. Transaction costs may be high because of the unique characteristics of each case; success may depend on the goodwill of the owners; and the schemes may only be applicable to high-value products.

Contract farming between owner-operators and a processing or marketing firm should be encouraged. Contract farming is particularly appropriate for commodity production that involves a central processing plant or packing house requiring large capital outlays and benefiting from economies of scale. Examples are sugarcane and cotton farming.

Land should be redistributed to communities or groups of owner-operators. This approach is being tried in the Land Reform Pilot Programme of the Ministry of Land Affairs. It has a strong poverty alleviation orientation.

Market-assisted land redistribution to individual small- to medium-scale owner-operators should be undertaken. At this point, no such program has been implemented.

### **Facilitating the Empowerment Process**

Facilitating access to land for small- to medium-scale owner-operators requires close cooperation among the Departments of Agriculture, Land Affairs, and Finance, as well as the active participation of the private sector. The following elements are crucial:

- *Grants.* The function of grants is to provide equity to beneficiaries who do not have it, in order for them to access the credit system and to operate within acceptable financial parameters. The size of the grant depends on the size of the farm operation and the financial requirements, as well as the contribution the beneficiaries (or group) can make from their own sources.
- *Viable financial and credit system.* A viable financial and credit system involves mobilizing savings in rural areas to use as credit for the purchase of land and for operating capital. The criteria for government intervention in agricultural credit markets are clear. Direct government credit to farmers should occur only when there is absolutely no chance of the private sector's extending credit to these farmers. If government finds it necessary to provide such credit, the target beneficiary group should be well and narrowly defined. The duration of the loans should be clearly specified, and conditions of the loans should not create distortions in credit markets or create disincentives for paying back the loan capital.

Interest rates should be market related, and the loans should concentrate on reducing the transaction costs of getting the loan. Grants play an important role in addressing the lack of collateral.

- *Substantial private sector involvement.* Many of the goals set for agriculture require the involvement of the private sector, especially agroindustry, developers, technical advisory services, and a cooperative system for inputs, marketing, credit, and extension. The involvement of the private sector hinges on the creation of economically and financially viable farm enterprises, small and large. Without this condition, there will at best be very small contributions from the private sector.
- *Selective government support services.* Government-funded or financed support services should concentrate on strategic research; public infrastructure; regulation of pesticides; standards, grading, and other measures that make markets operate better; and adaptive research and extension, particularly related to natural resource management, small farms, integrated pest management, control of epidemics, and environmental issues.

### **Conclusion**

The history of eliminating black commercial agriculture and small-scale agriculture has prevented the development of a viable, employment-intensive rural economy centered on agriculture. Thus, the usual vibrant and diverse informal business activities created through forward and backward linkages of agricultural development have never fully emerged in South Africa's rural economy. To increase the incomes of the existing rural population and create employment for a considerable share of the growing population, the rural economy must be restructured with small-scale, family-type farms at the center of the new model (after the removal of all distortions).

The combination of the inefficiency of large farms in the absence of policy distortions, the inequitable distribution of resources, and the new democracy have produced a politically unsustainable situation in the rural economy, and one that threatens the future viability of the entire economy. International experience clearly demonstrates that economies with a pattern of land distribution similar to South Africa's that do not undertake radical and rapid reform are doomed to a debilitating pattern of civil disorder and violence.

A successful strategy for the growth and development of the rural economy will require at least three elements. First, current distortions in white agriculture must be removed to increase competition and induce a shift toward more employment-intensive forms of production, processing, and marketing. Agriculture generates more jobs per rand invested than any other major sector (both farm and nonfarm). Production and marketing of inputs, processing, and marketing of output create jobs in a more employment-intensive way than

typical urban and industrial sources of growth. Second, a new type of commercial, small-scale agriculture centered on the black family farm must be developed to increase employment intensity and efficiency in agriculture. The potential of black agriculture is clearly much greater than has been acknowledged to date. The contribution of agriculture to household income (currently averaging 15–20 percent) in the rural areas of the former homelands could double or triple, thereby reducing dependency on declining levels of remittances and pensions. Third, institutions must be restructured to support the reforms.

The transition from the present agriculture system to one that will embrace the principles set out in the vision will require careful management of both political and economic aspects. The two fundamental political hurdles are (1) to design an approach that is acceptable to a sufficiently broad spectrum of key interest groups to form a coalition for change and reform; and (2) to design a land reform program so that a sustained coalition will year after year insist on sufficient budget appropriations to carry out the land reform and resettlement for the many years required to implement it. A strong and sustained political commitment—in the face of tremendous odds and frequent setbacks—is critical to achieve these goals. Persistent and continued backing is required not only from the highest tier of politicians, but also across a wide spectrum.

The publicity, information, and consensus-building campaigns surrounding land reform are important to making the program a success. On an issue as politically loaded as land reform, a packaging strategy should accentuate conservative forces, thus making it easier for opponents of the initiative to support the land reform process. In addition, political leaders must keep in touch with grassroots aspirations, expectations, and perceptions. Lobby groups are vocal, but their messages often deviate from or fail to address the real issues and desires of the people they represent.

The development of this new rural economy may reduce the alarming population flows to the already overcrowded urban sectors. Rural population projections, assuming a continuation of the current apartheid-induced settlement and employment patterns and a continued decline of the rural population in relative terms, indicate that the absolute number of rural people will increase. To reduce flows to already overcrowded urban areas, investment in a wide range of commercial and welfare activities in rural areas is essential. Agricultural production (with its high employment multipliers within a conducive structure) will necessarily be at the center of this program.

The growth of commercial, small-scale agriculture will also generate more foreign exchange to be employed elsewhere in the economy through an increase in agricultural exports and a reduction of the import-intensity of current agricultural production.

Finally, the removal of existing distortions and development of a commercial small-scale farm sector will reduce the relative price of basic wage goods

food items such as maize, wheat, vegetables, and meat. This price reduction will help make the South African economy more competitive.

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## Comment

GLENN THEMBA MAGAGULA

Christopher L. Delgado and Johan van Zyl and Johann Kirsten touch on issues that are critical in advancing the debate on finding sustainable solutions to (1) increasing the productivity of Southern Africa's smallholder agricultural subsector, and (2) addressing rural poverty. These chapters sharpen the discourse on concrete measures and processes for transforming the smallholder communities of Southern Africa.

Delgado relies on extensive empirical evidence obtained over the past 10 years (mainly in West Africa and to a lesser degree in East and Southern Africa) and unearths a wide range of key points affecting the smallholder farming sector in Sub-Saharan Africa, excluding South Africa. He outlines some of the structural impediments to stimulating smallholder farming in Sub-Saharan Africa, including paucity of markets, high transaction costs faced by producers, environmental and demographic pressures, and a hostile economic environment, and logically concludes that the transformation of smallholder farming is dependent on overcoming these barriers. He further identifies areas he considers vital for promoting economic growth through smallholder agriculture. These include improving efficiency of production, providing incentives and social infrastructure, exploiting intersectoral linkages, making use of comparative advantage in channeling resources, and accentuating trade and specialization.

The chapter suggests that production of tradable agricultural commodities in Sub-Saharan Africa is the way to go, as it has a multiplier effect on rural incomes. The additional incomes arise mainly from further production of nontradable rural goods and provision of services and farm inputs. Increases in the production of tradable agricultural goods seem to be the most sustainable measure for enhancing rural incomes. Policy reforms that lower the unit costs of distribution in rural areas and technological progress that lowers costs of production are necessary to the emergence of such income growth.

Using the results of studies by Quisumbing et al. and Saito et al., Delgado isolates the disadvantaged role and status of women in agricultural production

as a fundamental constraint to appreciable transformation of the rural sector in Southern Africa. According to Delgado, if women farmers have equal access to resources and human capital, they can achieve yields equal to or greater than those of male farmers. Improving the social status of female farmers and their access to resources and public services is, therefore, critical for transforming disadvantaged rural communities and enabling them to play a more dynamic economic role in society.

Delgado posits the following actions as necessary conditions for enhancing rural productivity and incomes:

- Investing in new sources of productivity growth. Emphasis is placed on research and extension in order to reduce unit costs of producing mainly tradable commodities.
- Promotion of market development through investment in transport.
- Reduction of transaction costs. Delgado argues that the presently high transaction costs, due mainly to missing or incomplete markets, are an impediment to market entry and increased participation by poor farming households. High transaction costs make it increasingly difficult for smallholders to participate in higher-value enterprises. He proposes introduction of supportive policies and economic liberalization for ensuring more decentralization, privatization, and major institutional changes.
- Responsible intensification and specialization. Delgado surmises that, while in the past mixed farming has been used as a form of risk management, technological progress and commercialization will accelerate specialization of households and diversification across households. The function of public policy is, therefore, to minimize some of the risks confronting farmers in order to render specialization and intensification possible.
- Maximizing growth linkages among high- and low-potential rural areas. Delgado posits that employing trade and specialization, based on economic comparative advantage, is an eminently more efficient method of regional distribution and incorporation of disadvantaged regions and households in the development process.

Delgado's chapter will serve as a useful tool for policymakers and analysts in Southern Africa. Mention of how this chapter contributes to the advancement of some of the issues in IFPRI's 2020 Vision for Food, Agriculture, and the Environment initiative would have been extremely useful. Some of the sources of growth mentioned can be exploited only in an incremental fashion; they therefore lend themselves to long-term analysis.

The exclusion of South Africa from the analysis is unfortunate, because South Africa is a key player in agricultural development efforts in this region. Lack of comprehensive data, of course, may have precluded the inclusion of South Africa. This exposes the need for increased accumulation of information, particularly that which relates to black farming communities.

The chapter tends to gloss over research, education, and extension as powerful sources of agricultural growth. Such an emphasis is highly important given the high payoff derived from investing in these areas.

The chapter by van Zyl and Kirsten raises pertinent issues for the progressive incorporation of disadvantaged people into the economic mainstream of South African agriculture. Van Zyl and Kirsten argue that land reform is a necessary, albeit insufficient, condition for black advancement and empowerment. Land reform is necessary to redress the effects of apartheid and decades of laws and policies that reinforced and intensified asymmetrical conditions that followed racial lines.

Although they acknowledge that the market is an effective mechanism for allocating scarce resources, they point out that in South Africa, apartheid laws have rendered the market incapable of performing its legitimate role. The enforcement of discriminatory laws and policies over decades has so distorted the market that the vast majority of black South Africans would be unable to compete effectively. It is necessary, therefore, to find complementary measures for ensuring the fairness of the market mechanism.

Van Zyl and Kirsten point out that the appearance of an efficient agriculture sector in South Africa is deceptive as it masks the substantial distortions and economic inefficiencies brought about by the discriminatory policies of the previous regime. These policies encouraged excessive growth in farm size, inefficient allocation of factors of production, uneconomic substitution of capital for labor, and inequitable distribution of land. They therefore suggest that South Africa's rural economy requires the following treatment:

- removal of distortions in commercial farming in order to enhance competition and restore labor-intensive approaches to farm production
- policy actions that would increase the dominance of small-scale commercial family farms
- redistribution of agricultural land to enable disadvantaged black farmers to gain access to land and to ensure efficient agricultural practices

Because of what they consider the inability of the market mechanism to ensure successful land distribution, the authors suggest use of nonmarket strategies (grants and vouchers) to serve as measures for assisting the market. The use of market-assisted strategies is also justified as a means of accelerating poverty reduction, exploiting externalities associated with risk diversification and improved nutrition, and protecting the inexperienced black farmers (infant industry argument). They further argue for a policy framework that is designed to stem the possibility of large-scale farmers' driving up land prices beyond the capitalized value of future farm profits.

The authors point out that the benefits of the land reform program are likely to be large and far-reaching. They will include creation of rural employment and reduction of rural-urban drift, increased rural incomes, increased

competition in the agriculture sector, acceleration in the generation of foreign exchange, and reduced inflation in the food market, making South Africa more competitive.

The subject of land reform is extremely important to the maintenance of peace and social cohesion in South Africa, and to other countries in Africa where a significant proportion of the population has been left out of the economic mainstream. Prescriptions for land reform must be rigorously scrutinized to ensure that the desired ends are actually attained. The following points must therefore be considered and should form part of the design for the program:

- Full participation of all stakeholders in the design, implementation, and management of the land reform strategy is crucial to avoid a top-down approach to such an important subject and to engender a sense of ownership among affected parties. Intense negotiations among stakeholders must attempt to arrive at a solution that is as close to Pareto optimality as possible.
- For the land reform program not to degenerate into a mere palliative, it is important that the magnitude of public investment necessary to execute it be calculated beforehand. This is crucial to allow policymakers to assess the likelihood of sustained public support for the program and the impact of the program on public budgetary expenditures.
- In computing the benefits of the land reform program, it is probably important to adopt a long-term perspective, for there is likely to be a lag between the implementation of the reforms and the realization of the benefits. For instance, in the case of South Africa, there will probably be a need to reorient research and extension to serve small-scale farmers. Benefits of the land reform program are therefore likely to be realized only in the long term.
- Research and extension programs must be developed to ensure the competitiveness of the black farming community. In addition, maximum effort must be devoted to ensuring that white farmers do not slow total agricultural production by substantially curtailing or completely abandoning production in order to undermine or derail the program.
- Land is an emotive issue in Africa. Designers of the South African land reform program must ensure that the process is as smooth as possible by negotiating and developing consensus among all parties.
- Women farmers must constitute a fair proportion of those who benefit from such a program.
- In implementing the program, transparency will be critical in order to ensure that only obviously disadvantaged South Africans benefit from the reform and that misuse of national resources through a variety of malpractices is completely obviated. Failure to impose strict controls will completely discredit the program.

## Comment

JULIAN MAY

Both chapters mentioned history and moved over the issue quite quickly. I would like to examine more closely what that history actually means and what the link is between history and distortion.

My first comment concerns the idea of liberalizing distorted markets and what this means for how South Africa embarks on a land reform. Delgado raises the important ideas of transaction costs and missing markets. He argues that markets are distorted not only by the action of the state, but that many markets may in fact be intrinsically distorted for small-scale producers, who do not have access, for example, to finance or cannot afford transportation. He comments that the playing field is rarely level, in fact, which I find particularly interesting in the context of South Africa.

Invariably, when economists talk about liberalizing and removing distortions, they talk about eliminating the privileges that certain groups have had in the past, taking away subsidies, taking away access to markets. They forget about the other set of distortions that affect disadvantaged people, which in many instances have actually dispossessed people of land, of capital, and of access to human capital. When considering market-assisted reforms, policy-makers must be much more critical about what kinds of reforms the market can assist and how the grave injustices that have probably taken place in most of Sub-Saharan Africa and definitely in South Africa can be corrected.

Both chapters offer some useful insights for South African land reform. (I must raise one issue: The chapter by van Zyl and Kirsten mentions gender only once, and women not at all. This is not good enough, for the reasons outlined by Delgado.) Both discuss the need to get productive resources into the hands of a disadvantaged group and emphasize the importance of removing distortions in white agriculture. But why only white agriculture? Black agriculture has considerable distortions as well, which simply do not give them privileges.

Both Delgado and Van Zyl and Kirsten state that the land market has been active and stable and that the market can be used to transfer substantial amounts of land to disadvantaged people excluded by past policies. I disagree.

In South Africa black people were not able to buy land at all and in fact had land taken away from them as people were moved from areas in commercial agriculture and placed in the homelands. People within the homelands were also forced to move into villages, and again land was taken away and re-allocated through bureaucratic procedures rather than through custom or tenure rights. Black South Africans could own only a certain number of cattle, and when they exceeded that number, that asset was confiscated. They were not able to trade, for they could not sell their commodities and produce in many areas. In fact, they could not stand in the same queue as whites in the banks. The education system was structured so that black people were denied the opportunity to learn.

So it is not good enough to talk about market distortions without talking about these profound and fundamental things. Policy must go beyond providing grants to offering education and training and improving access to capital, if it is to reduce rural poverty in South Africa and other countries. Angola and Mozambique may have similar histories. It is important to help develop small, medium, and even large black agriculturalists. In my own province of Kwa-Zulu, I estimate that if such an effort works particularly well, it may benefit about 65,000 households out of the 500,000 households that live there.

Delgado offered some useful solutions. One is to lower transaction costs through, for example, the establishment of appropriate marketing institutions, whether state run or fostered by the private sector. Periodic village markets can give people a more convenient way to exchange goods instead of trading only a couple times a year, as they often do now. Another step is the establishment of transportation networks. South Africa has a particularly vibrant communal transport industry, the taxi industry. Good transportation is highly concentrated, however, and it is difficult to move goods out of remote rural areas into urban areas.

## **PART IV**

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# **The Effective Development of Southern Africa's Water Resources**