

Isaac B. Oluwatayo (South Africa), Stephen M. Mantsho (South Africa)

## Budgetary allocation to agriculture in South Africa: an empirical review from 1994 to 2014

### Abstract

The agricultural sector is no doubt one of the most important sectors in sub-Saharan Africa, considering its prime place as a livelihood source and employer of the vast majority of residents, especially those in rural areas. In South Africa, for instance, agriculture plays a very significant role despite its declining contributions to the Gross Domestic Product (GDP) for some years now. This dwindling share of agriculture in the country's GDP could be attributed to a number of factors ranging from changing government policies, declining budgetary allocation to the sector, and aging infrastructure and population growth. It is against this backdrop that a review of the effect of this downward slide in budgetary allocation on the development of the country is considered to be important.

**Keywords:** agriculture, budgetary allocation, GDP, South Africa, welfare.

**JEL Classification:** D13, E23, I30, O13, Q18.

### Introduction

South Africa is a middle income country characterized by unsustainably high levels of unemployment and poverty and one with the highest levels of income inequality internationally. South Africa's economy was traditionally rooted in the primary sectors, the result of a wealth of mineral resources and favorable agricultural conditions. This was so in the previous decades, but it has since changed over the recent years. South Africa also has a strong industrial sector which contributes significantly to its economy. With the strongest economy in the African continent, South Africa obtains its riches from the mining and agricultural sector, which are the first and second biggest sectors that contribute massively to the Gross Domestic Product (GDP) of the country, respectively. The latter has been the biggest contributor to the economic growth of South Africa until recently when the mining sector took the bigger piece of the pie.

However, the national budget is a legal document that is often passed by the legislature, and approved by the chief executive or president as an instrument of economic management for a given financial year (Muftau, 2010). The structure and size of the budget in any economy depends on the economic prosperity of the country, which also determines whether a deficit, balance or surplus budget will be in operation. A balanced budget occurs when the total sum of money a government collected in a given year is equal to the amount spent on goods, services and debt interest. Budget deficits, on the other hand are defined as the amount by which government spending exceeds income from government revenue.

To cover this shortfall, the government usually borrows from the public by floating long and short terms bonds. A surplus budget occurs when government revenue exceeds its total expenditure.

Government budgets are very important in the achievement of economic growth of any country. This is because there are public goods needed by diverse sectors of the economy. The right expenditure pattern is required to guarantee smooth running of the economy. Therefore, budgetary allocations to the different economic sectors have serious consequences on the social acceptance of the government. Government budgets are implicit on the expanded role of government which includes provision of public goods (hospitals, schools, defence, law and order, property rights, social security among others).

Meanwhile, the Food and Agricultural Organization (FAO) recommends that 25 percent of government capital budget be allocated to agricultural development. This is attributable to the fact that, agricultural budgetary allocation is positively related to economic growth in the long-run but not significant in the short-run. Agriculture plays numerous roles in the society. The most obvious is the production of food (and, to a lesser extent, fibre). While agriculture is the mainstay of the rural economy, it also shapes social relations and landscapes. However, in South Africa, agriculture is built on the back of dispossession of the African population, and their social, economic and political marginalization, and uses extractive methods that deplete the soil, the water and the natural vegetation (Greenberg, 2010).

The objective of the South African government is to increase food production by supporting smallholder farmers through Comprehensive Agricultural Support Program (CASP). Broadly speaking, budgetary allocations to important sectors, according to Gupta, Clements, Guen-siu and Leruth (2001),

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Isaac B. Oluwatayo, Ph.D., Department of Agricultural Economics and Animal Production, School of Agricultural Economics and Animal Production, University of Limpopo, South Africa.

Stephen M. Mantsho, Department of Agricultural Economics and Animal Production, School of Agricultural Economics and Animal Production, University of Limpopo, South Africa.

are meant to enhance equity and reduce poverty. Going by the National Development Plan (Zarenda, 2013), agriculture is the key to job creating sectors with the potential of providing 300,000 jobs for smallholder farmers and 145,000 jobs in agro-processing by year 2020. The sector can improve the living conditions of 660,000 farmworkers and ensure a third of the country's food trade surplus is produced by small scale farmers.

Meanwhile, recent statistics showed that about 8.5 million people are directly or indirectly dependent on agriculture for employment and income in South Africa (GCIS, 2011). In fact, the sector contributes about 3% to the GDP and 7% to formal employment. About 1.3 million hectares of agricultural land are irrigated. The New Growth Path has set a target of 300,000 households in smallholder schemes by 2020 and 145,000 jobs to be created in agro-processing by 2020 (GCIS, 2010). Irrigated agriculture is the largest single use of water in South Africa (60%) and it has a huge potential socioeconomic impact in rural communities.

However, Bos (2002) of the International Union for Conservation of Nature (IUCN) was of the opinion that ensuring water security requires integrated management of water resources, by balancing between natural and human needs at the ecosystem level, and by accounting for the actual value of natural services in development decision making. Also, a number of studies have alluded to some of the problems associated with water use and this ranges from transboundary conflict or even terrorism of water resources (Dinar, 2004; OECD, 2005) to its impact on or association with climate change (Draper and Kundell, 2007).

Thus from the foregoing, it is very clear that agriculture plays a very significant role in developing countries especially among those depending on it for livelihood since the bulk of agricultural activities in the continent is climate-dependent. Therefore budgetary allocation to the agricultural sector determines to a great extent the pace of development in the sector.

### **1. Public spending and budgetary allocations to agriculture in South Africa**

In relation to public spending on agriculture, the agricultural budget constitutes about 0.5% of the national budget. Some analysts have argued that state expenditure on agriculture shows low importance attached to the sector, especially considering that the budget remains lower than it was in the late 1980s, when it now caters for a greater number of farmers than it did during apartheid segregation (Moyo, 2010).

Provincial farming budgets dedicated for farmers' support in Mpumalanga, the Free State, Northern Cape and the Western Cape have risen significantly

and those in KwaZulu Natal and Gauteng have witnessed a slight increase. Eastern Cape and Limpopo agricultural budgets have been steady. The NorthWest is the only province where there has been a sharp decline in the share of the budget dedicated to farmers' support (Greenberg, 2010). In 2007, there were 39,982 commercial farms out of which 11 are in South Africa as opposed to the 45,818 registered in 2002. There has been a clear downward trend in the number of commercial farming enterprises, which underscore the need to grow the commercial agriculture sector to maintain South Africa's food sustainability potential and support interventions to develop skills across the agricultural sector, especially for transformation and development of the small and emerging agricultural sector. This is caused on the other side by the lack of growth in the agricultural budget.

Another agricultural factor which depends on agricultural budget is agrochemicals. In relation to agrochemicals, deregulation and liberalization in the fertiliser sector led to the shutdown of local production capacity, and South Africa became an importer of fertiliser for the first time in 2000. According to SAG (2010) there are three large players in the fertiliser sector, Sasol Nitro, Yara and Omnia. South Africa imports an estimated 70% of fertilisers and pesticides. Fertiliser prices rose by over 200% between 2006 and 2008, but dropped somewhat after that. However, this hike signified the volatility of the agrochemicals industry and South Africa's dependency on imports, and the potential risk for emerging farmers and food production of this dependency on imports, as the country cannot control the prices, making inputs both difficult to budget for and in many cases unaffordable. The price of agrochemicals is also particularly influenced by the prices of oil and the exchange rate.

Figure 1 shows budgetary allocation to agriculture between 1994 and 2014. Meanwhile, the data on allocation for 1994 and 1995 were not indicated because the institutions responsible were under restructuring. However, after deregulation in 1996, the government was able to spend more on agriculture than the earlier years of deregulation. Also, there was low budgetary allocation to agriculture between 1998-2003 and between 2006-2008 because agriculture was not considered one of the priority areas to invest. Budgetary allocation grew from 2010 up until 2014 because of the rising wave of food insecurity and the need to stem the trend. Again, the demand for food and textile increased thereby coercing government to increase allocation to the agricultural sector. This is further depicted in Figure 2 (low budgetary allocation to agriculture when weighted against total budget) – agriculture as a share of total budget.

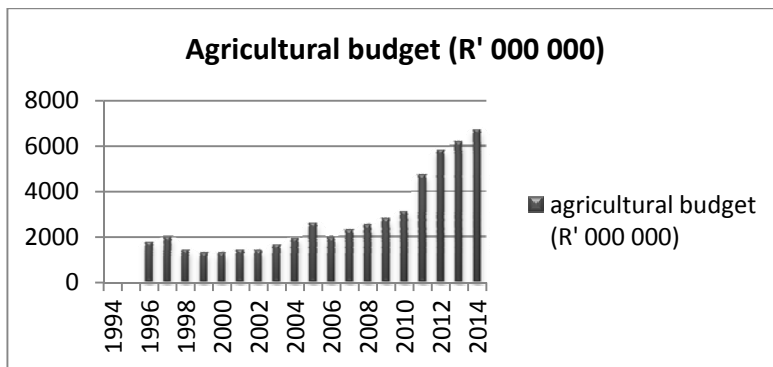


Fig. 1. Agricultural budget as of 1994 to 2014 in South Africa

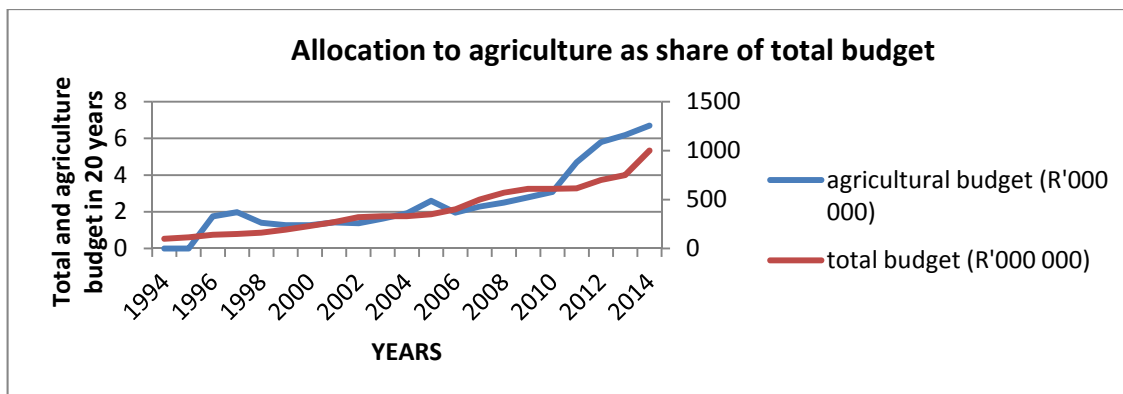


Fig. 2. Total budget and agriculture share

## 2. Agricultural budget's response to changes in Gross Domestic Product (GDP)

It is inarguable that agriculture plays a big role in providing growth in the GDP, contributing between 3% and 7% to the GDP annually. The graph in Figure 3 shows how the investment on agriculture fluctuates with GDP. It can be inferred from Figure 3 that when there is growth in GDP, the investment in government budget for agriculture remains low and when there is a poor performance in the GDP, government increases the budget allocation to agriculture. Between 1998 and 2008, the GDP was high but the allocation remained low, as sometimes there was a reduction in the allocation. After 2008 when recession was rife the government increased

allocation to address the issue of food insecurity and to increase the total output produced in the country.

Several international and local factors impact on the productivity of the agricultural sector and its growth. Notable amongst these include growth of the South African economy and rising consumer demand, international trade and trade agreements, global recession and rise in food prices. Others are land reform program, reliance on imports, water availability, changing consumer patterns and demands (e.g. organic food stuffs), technological changes and mechanisms, quality standards, farm safety and security, broad-based black economic empowerment, legislation, skills demand and supply and HIV/AIDS.

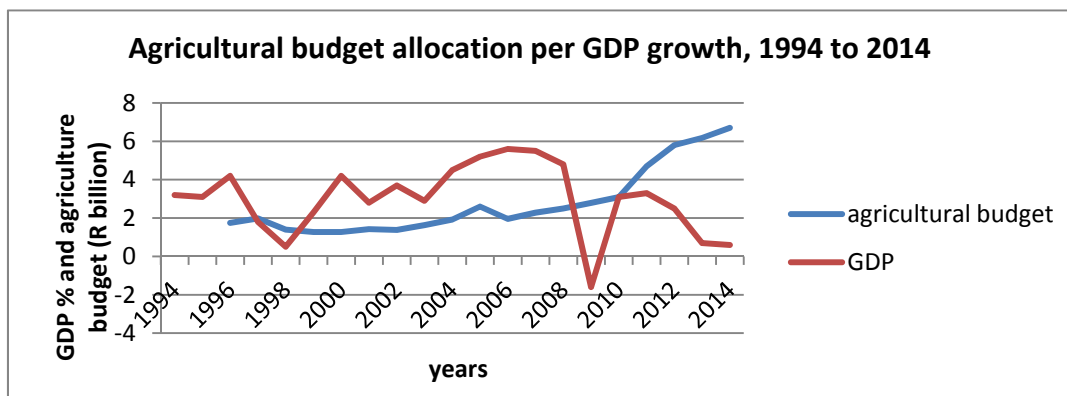


Fig. 3. Agricultural budget's response to GDP

