



Boost growth and gender equality in South Africa through rural development investment

By Vandudzai Mbanda, Bokang Vumbukani-Lepolesa, Sifiso Mboneni Ntombela, Singobile Ncube and Nthabiseng Rakgotho

Key messages

- **Public policies on land redistribution and agricultural capital spending should continue but complementary policies are needed to achieve poverty reduction and income inequality aims.**
- **Land redistribution and agricultural capital spending boost economic growth, household welfare, and reduce gender inequalities.**
- **However, if the policies are implemented as planned, poverty persists.**

Policies yet to remedy high levels of inequality, unemployment and poverty in South Africa

The population of South Africa faces the triple challenges of high levels of inequality, unemployment and poverty, with those living in rural areas and women being the most affected. The need for rural development as a strategy to improve the socio-economic lives of the rural poor is widely acknowledged, including among decision-makers¹.

Furthermore, the agricultural sector has shown great resilience to the economic shocks brought by

the current Covid-19 pandemic and could be key to the country's recovery. However, formal agriculture and farmland ownership remain in the hands of a few white farmers². This limited access to agricultural land in rural areas, especially among smallholder farmers and women, remains the main impediment to inclusive growth, job creation, poverty eradication and inequality reduction³.

There is thus the need for significant land provision to rural communities

through land redistribution from commercial agriculture to smallholder agriculture. The New Growth Plan (Economic Development Department, 2010) and the National Development Plan (NDP) Vision 2030 (National Planning Commission, 2012) articulate a vision of an integrated rural economy through land reform, job creation and increasing agricultural production. However, progress is slow and there is a long way to go to achieve inclusion⁴.

PEP project

Between 2019 and 2020, a team of local PEP researchers and government officers in South Africa set out to provide evidence-based policy recommendations to address rural unemployment, poverty and income inequality between women and men.

The project had two parts:

1. A scientific study to assess the economy-wide and distributional impact of government policies of land reallocation and increasing agricultural capital spending to understand whether they are likely to address or perpetuate the challenges stated above (see page 3).
2. A comparative evaluation of the policies that could reduce unemployment, poverty and income inequality.



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Policy options to reduce unemployment, poverty and income inequality ^{5,6}

Of the agricultural sector measures proposed by the government to address rural unemployment, poverty and income inequality, the project team selected two for analysis and comparison:

1. Land reallocation from commercial to smallholder agriculture, without compensation

- As there is low public spending on agriculture in South Africa, reallocation of land from commercial to smallholder agriculture could provide the rural poor with resources to improve their livelihoods. However, land redistribution is a contentious issue. Supporters argue it is essential while critics contend that it is a threat to property rights and can choke off investment⁷.

2. Increase capital spending for agriculture through government deficit

- This is expected to trigger an increase in demand for labour used by the agriculture sector, and consequently an increase in output production by the sector as well as inter-linked sectors.



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Key findings & policy recommendations

The team's scientific analysis⁵ (see page 3) indicates that **both policies can increase GDP and demand for labour, and improve welfare** though increased household consumption. Both are expected to benefit rural people and specifically women who are predominantly operating in rural areas.

Option 1 (Land reallocation)	Option 2 (Capital spending increase)
GDP increases by between 0.02% and 0.04% over the 20-year period under analysis	GDP increases, relatively more than under scenario 1, by between 0.14% and 0.43% over the 20-year period under analysis
Labour demand increases by between 0.01% and 0.02%	Labour demand increases by between 0.08% and 0.31% and female labour benefits relatively better
Unemployment declines by between 0.02% and 0.06%	Unemployment declines by between 0.3% and 0.64%
Rural households consumption increases relatively less than that of urban households	Rural households consumption increases relatively less than that of urban households

Source: Authors' analysis

Overall, the policy option of **increasing capital spending for agriculture is more effective** than the land reallocation option **for addressing unemployment and gender inequality while also strengthening the wider economy.**

- Increasing land for small-scale farming and increasing agriculture capital spending can have positive impacts.
- However, the benefits are relatively less for rural households.
- The positive impacts are not strong enough to eradicate unemployment, poverty and inequality.

As such, **both of these policy options would need to be reinforced with other strategies for rural development to achieve the government's objectives.**

According to another study conducted in the Western Cape⁸, adequate funding, public infrastructure development and skills development programs for rural farmers are critical for rural development that supports agriculture.

Due to the costs of combatting the COVID-19 pandemic, funding towards agriculture support may be significantly reduced, jeopardising inclusive growth. However, **given the resilience of the agricultural sector during the pandemic, supporting the sector might be the answer to some of the socio-economic challenges facing the country.**

As both increased land allocation to smallholder agriculture and increased agriculture capital spending have positive effects, **these policies should be continued, but with better targeting and complemented by supplementary policies** that include rural infrastructure development.

Policy road map

Strategic partnerships between relevant stakeholders are key to improving the land reallocation and agricultural capital spending policies.

- **Land allocation**

Should be made with the focus on addressing poverty, gender inequality and achieve food security.

It is important to involve key stakeholders, particularly **Department of Agriculture, Land Reform and Rural Development (DALRRD)** and the **Inter-ministerial Committee on Land Reform and Parliament**

- **Capital spending**

The **Land Bank** is a key stakeholder for providing funding for increasing agricultural capital spending.

The Scientific Analysis

A team of local PEP researchers assessed the impacts of agrarian support policies of land redistribution and increased capital spending in the agricultural sector in South Africa.

The research team assessed the economywide and distribution impacts of government intervention on the rural economy through agriculture-related support, focusing on how the impacts varied for rural and urban people and male and female workers.

They used a Computable General Equilibrium (CGE) model, calibrated to the 2015 Social Accounting Matrix (SAM) developed by Van Seventer, et al. (2019) and available from the International Food Policy Research Institute (IFPRI), to simulate two policy options:

1. Redistributing land from commercial to smallholder agriculture proxied by a 7.5% increase in smallholder agriculture capital.
2. A 10% increase in capital for the agricultural sector as an endeavour to increase employment improve rural livelihoods and food security, given that farming takes place largely in rural areas.

References

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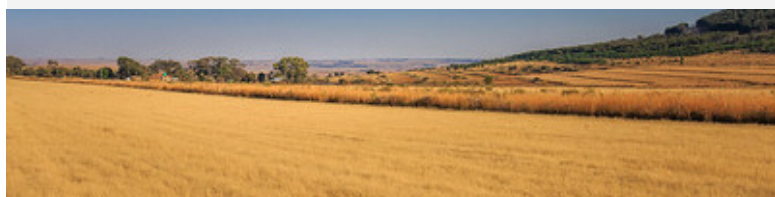


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They then used 2014/2015 National Income Dynamics Study data for micro-simulation to assess the effects of these policy options on welfare.

Results from both simulations indicate that generally, **agriculture industry support could yield positive impacts on the South African economy and may increase welfare** as household consumption increases.

Women's labour benefits are relatively better than men's meaning that **these policies could improve gender equality in the labour market**.

However, **poverty persists** and urban households benefit more than rural ones. For the government's proposed policy of reallocating land from commercial to smallholder agriculture to have significant impacts on reducing gender inequality and poverty, there would be need for corrective strategies to address the unexpected negative impacts.

This brief summarises policy analysis outcomes from the project **MPIA-20452**, conducted 2019-20. The project had two components: a scientific analysis and a policy analysis. To find out more about the scientific research methods and findings, read the full research paper, published as part of the **PEP working paper series**.

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