



AgEcon SEARCH

RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search

<http://ageconsearch.umn.edu>

aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

No endorsement of AgEcon Search or its fundraising activities by the author(s) of the following work or their employer(s) is intended or implied.

THE COMMERCIAL AGRICULTURAL ECONOMY OF THE EAST CAPE

GG Antrobus
Economics Department, Rhodes University, Grahamstown

Abstract

The East Cape, and in particular the Smaldeel area, is used to exemplify some of the characteristics and problems of commercial farming over a period of about three decades to serve as a backdrop for the broader theme of normalising South African agriculture. The regional economy is dominated by Port Elizabeth-Uitenhage and East London which account for most of the population and three-fourths of the Gross Geographic Product (GGP). Agriculture accounts for only 10% of GGP, but is one of the most labour intensive sectors in a region with 24% of its population unemployed. The agricultural economy of the region is very diversified, but livestock farming plays the most important part in all areas contributing 72% of gross income. The chief changes which have occurred in East Cape farming, as elsewhere, have been the decline in the number of farms and increase in farm size, greater capital investment, increased specialisation and declining employment. There are also indications, though based on limited information, of an apparent decline in the real returns to capital investment from livestock farming in the Smaldeel area. The causes are, *inter alia*, rising interest rates, inflation and a decade of below average rainfall. The implications for prospective commercial farmers is that the industry will continue to be difficult to enter because of the relatively large capital requirements and low short-term returns. Several possibilities, especially in direct sales and alternative labour arrangements may nevertheless enable successful competition.

Uittreksel

Dië kommersiële landbou-ekonomie van die Oos-Kaap

Kommersiële boerdery in die Oos-Kaap, veral die Smaldeel gebied, oor drie dekades dien as agtergrond vir 'n bespreking met hooftema - die Normalisering van die Landbou. Die streekseksonomie is deur die Port-Elizabeth/Uitenhage streek en Oos-Londen, verantwoordelik vir driekwart van die Bruto Geografiese Produk (BGP) van die Oos-Kaap, gedomineer. Landbou dra 10 persent van die BGP by van die streek alhoewel dit die mees arbeid intensiewe sektor in die streek, waar 24 persent werkloosheid heers, by. Die ekonomie van die landbou in die streek is gediversifiseer. Veeboerdery, die belangrikste vertakking, dra 72 persent van bruto landbou-inkomste by. Die belangrikste tendense in die Oos-Kaap is die afname in die aantal plase, toename in omvang van plase, stygings in kapitaalbelegging, groter spesialisasie en afname in indiensneming. Daar is ook aanduidings dat daar 'n afname is in reële inkomste van veeboere en die Smaldeel gebied. Dit is onder meer veroorsaak deur 'n verhoging in rentekoerse, inflasie en 'n dekade van ondergemiddelde reënval. Die gevolge van bogenoemde is dat dit die toetreding van nuwe boere verhoed van verminderde weens die omvang van kapitaalbehoefte en die lae korttermyn opbrengs. Daar bestaan egter nog alternatiewe geleenthede wat sukses mag verseker.

1. Introduction: the East Cape

The paper will look briefly at the overall economy of the East Cape and the place of agriculture before turning to a more detailed look at commercial farming and some of the changes which have taken place over the past twenty or thirty years. It has as its objective to serve as a backdrop for the broader theme of the conference on normalising South African agriculture. As the first occasion on which the annual conference of the Agricultural Economics Association has been held in the East Cape it is not inappropriate that the focus be narrowed to that area of Southern Africa.

The East Cape is variously defined but in this context will be used broadly to designate the areas traditionally known as the North-Eastern Cape, Border, Ciskei and the Eastern Province, excluding the Cape Midlands. The boundaries would include the land west of a line (coinciding with magisterial district boundaries) from Humansdorp on the coast to Aliwal-North on the Orange River and east of Transkei.

These outer boundaries are the same as those used by the Department of Agriculture to demarcate the "Eastern Cape Region" but, of necessity are used flexibly because of the enormous difficulty in reconciling the available statistics, especially those contained in recent agricultural surveys and those emanating from the Development Bank of Southern Africa (DBSA).

2. The economy of the East Cape

The economy of the region, which covers approximately one-half of the area of Region D, i.e. excluding the Karoo districts in the West and Transkei in the East, is dominated by Port Elizabeth-Uitenhage and East London which account for 1,5m or 60% of the total population of 2,6m and 75% of the Gross Geographic Product of the region (DBSA, 1991).

The major economic problems of the East Cape are its high unemployment rate, which stands at 24% of its economically active population against 14,8 for South Africa as a whole, and the low level of personal income per capita. (In 1985 the latter for Region D amounted to 74% of the national average.)

3. Commercial agriculture within the East Cape economy

East Cape commercial agriculture is set within this broader region including subsistence areas within Ciskei. Unlike two decades ago when it could safely have been said that, for practical purposes, Ciskei could be ignored when considering the extent of commercial agriculture, this is no longer the case.

Over the last 15 years a number of large scale agricultural projects were initiated such as the Tyefu Irrigation Scheme in the Peddie district and the Keiskammahoek Dairy Scheme. In the former, vegetable production mainly for the fresh frozen market has brought in a new previously unproductive area, although after a decade and a half still shows a net loss of more than R1m annually over current expenditure. In the case of the Keiskammahoek Dairy Scheme, as elsewhere, this partially replaced existing production because commercial farms had been expropriated for incorporation into Ciskei (Antrobus, 1988). However, because of the difficulty of reconciling the necessary statistics, in this paper East Cape commercial agriculture generally excludes Ciskei.

In 1989 the agricultural sector contributed 10% of the Gross Geographic Product (GGP) of the East Cape which was an increase from 7,5% in 1970. This increase resulted from both the decline in the share of manufacturing, especially the motor industry in Port Elizabeth, and the relatively rapid growth of the agricultural sector mainly due to boom conditions in the mohair industry.

The commercial agricultural sector employed 14,8% of the economically active population of the region. As pointed out in a recent study: "The true role of agriculture is not accurately reflected by its growing relative importance in GGP alone. As agriculture is one of the most labour intensive sectors, its potential for employment is enormous. In 1989, the agricultural sector employed 100 people for every R1m in GGP". A R1m exogenous increase in final demand was calculated to result in an additional 159 job opportunities compared to 105 in the construction, the next high highest employment multiples industry (DBSA, 1991).

4. Land use and main farming enterprises

The agricultural economy of the East Cape is extremely diversified, although in all areas livestock farming plays an important part. Of the total farmland of 5,9m ha in 1988 about 89% was natural veld. An average, though not typical, farm would comprise:

- 995 ha natural veld,
- 18 ha irrigated land,
- 69 ha dryland,
- 29 ha planted pasture,
- 9 ha forestry, thus
- 1120 ha in total.

Most farm income is derived from livestock and animal products, especially meat, mohair, wool and milk. Of gross income of R779m in 1988 livestock accounted for 72% of the total while horticulture and field crops contributed 22% and 5% respectively. The breakdown is shown in Table 1.

Table 1: Gross farm income in the East Cape (1988)

	Rm	%
Field crops	41	5,2
Horticulture	170	21,8
Livestock	560	71,8
Forestry	7	0,9
Other	1	0,2
GROSS INCOME	779	100

Source: Agricultural Survey, 1988.

To gain an idea of a typical Eastern Cape farm, averages are not very helpful. A study undertaken by Bradfield and Barnard (ca 1981) identified ten so-called "Reasonably Homogenous Ecological Areas" (RHEA's) in the Eastern Cape Region. No RHEA comprised more than 16% of the Eastern Cape and most magisterial districts could be described as containing two or three distinct ecological sub-divisions. (See Table 2.)

Only one magisterial district could be designated within a single RHEA, namely Aliwal-North. Any description on the basis of RHEA's therefore is a futile exercise. Nevertheless for convenience the region may be divided into three ecologically overlapping sub-regions:

- (i) North-Eastern Cape consisting of 1,7m ha 95% of which can be described as sweet, mixed and sour grassveld;
- (ii) Central Eastern Cape consisting of 2m ha of which 85% can be described as sourveld, dry grass-bush, false karoo and valley bushveld; and
- (iii) Eastern Cape Coast consisting of 1,8m ha, 99% of which can be described as valley bushveld, humid grass-bush, forest and coastal thornveld and false macchia.

Table 2: Reasonably homogenous ecological areas of the Eastern Cape 1976

	Ecological description	Area (000 '000 ha)	%	Recommended stocking rate (S.S.U./ha)
1.	False Karroo	387	7,0	0,6
2.	Sweet Grass	798	14,5	1,2
3.	Sweet mixed grass	467	8,5	1,6
4.	Mountain veld	250	4,5	1,0
5.	Sourveld	783	14,2	2,1
6.	Dry grass-bush	594	10,8	1,3
7.	Valley bushveld	894	16,2	0,9
8.	Humid bush-grass	338	6,1	2,0
9.	Forest & coastal thorn	535	9,7	1,8
10.	False macchia	462	8,4	0,4
Total East Cape		5508	100,0	1,3

Source: Bradfield, R.E.D. and Barnard, H.H. (ca 1981).

5. Commercial farming in three East Cape sub-regions

While farms in the Central and North Eastern Cape average about 1400 ha in extent those in the Coastal sub-region are significantly smaller (586 ha) as shown in Table 3. Furthermore a large proportion (39%) of coastal farms are less than 100 ha in extent compared to only 5% in the North Eastern Cape (see Table 4). Coastal farms, although having the same or smaller areas under rainfed crops produce mainly higher valued crops such as pineapples, chicory and wheat, while irrigated crops of importance include citrus (Kirkwood) and vegetables.

Table 3: Land use by sub-regions - East Cape, 1988 (ha)

North	Central	Coast
1223	1352	Veld 470
144	50	Dry 50
11	16	Irrig. 27
19	10	Past. 29
1401	1442	Farm 586

Source: Agricultural Survey, 1988.

Significant areas of rainfed wheat and maize are to be found in the North Eastern Cape, while irrigated citrus is important in the Central area.

Livestock is important throughout the region. The distribution of beef cattle, sheep and goats generally coincides with the suitability of the vegetation, while dairy cattle, pigs and poultry are found in the Coastal region nearer the larger urban concentrations of population.

6. Farming trends

The chief changes in East Cape farming, as elsewhere, have been the decline in the number of farms and the increase in average size, increased specialisation, greater capital investment and declining employment of farm labour. In the period from about the mid-1980's drought, high interest rates and declining terms of trade have resulted in lower net returns from farming and rising debts.

The Smaldeel (Adelaide and Bedford districts), livestock farming area, was chosen to exemplify the changes because of the availability of records over a period in addition to agricultural censuses.

Table 4: Farm size distribution - East Cape, 1981 (%)

	< 100	100-999	1000 +
North East	5	47	48
Central	15	38	47
Coast	39	43	18
East Cape	24	43	33

Source: Agricultural Census, 1981.

Subject to the vagaries and definitional changes of successive agricultural Censuses, the number of Smaldeel farms declined by over 50% from a maximum in 1952 of 347 to 189 in 1983 while average size increased from 1171 ha to 2005 ha. Farm numbers apparently remained static between 1971 and 1983 (the latest available census), but a good deal more evidence would be needed to conclude that an optimum size had been reached.

As a result of mechanisation, albeit on a limited scale, specialisation of farming enterprises, and increased fencing and improved stock watering systems the number of farm workers employed declined by one-half over the thirty year period (Antrobus, 1984; Agricultural Censuses).

An indication of the specialisation which has occurred over time, especially up to the 1960's, is the decline in the average number of dairy cows per farm, eg. 28% of all cattle in Smaldeel in 1958/59 were dairy cattle (Department of Agricultural Economics, ca 1960), whereas by the early 1970's this had declined to 13% in the 1980's (Study Group reports, 1973/74-89/90).

Table 5: Total capital investment and returns to capital, Smaldeel, selected years 1958/59 to 1989/90

	Capital investment (Rm)		NFI/R100 capital	
	Nominal	Real	Nominal	Real
1958/59	0,10	1,28	4,5	1,2
1973/74	0,21	1,62	10,4	-0,1
1983/84	0,58	1,35	4,9	-7,2
1989/90	1,50	1,50	9,7	-4,3

* Capital investment for an average sized farm; 1989/90 held constant at 1983/84 level

** Adjusted to 1989/90 values with CPI

*** Net Farm Income per R100 capital investment less inflation rate; value for 89/90 is the average rate for 88/89-89/90

Source: Dept of Agriculture, 1960; Quarterly Bulletin, 1991; SA Stats, 1988; Study Group Reports, 1973/74 to 89/90.

The capital investment, including vehicles, equipment, machinery and livestock, for an average sized farm rose in real terms from R1,28m in 1958/59 to R1,35m in 1983/84 and is estimated at R1,50m for 1989/90. It was not possible to determine the farm debt situation because of a paucity of suitable published data, but suffice it to say that the situation, particularly since the mid 1980's, has given rise to a number of official investigations of the financial position of farmers. The information has not been made public, but there is no doubt that asset:debt ratios have deteriorated. The causes have been manifold, including rising interest rates and continued high inflation in the face of a relative decline in the terms of trade of pastoral products against the prices paid for farm inputs and successive years of below average rainfall between 1978 and 1991 (Hughes, 1991).

Unfortunately no run of data is readily available over a long enough period to determine accurately the trend in returns from farming in the East Cape. Nevertheless, available information suggests a deterioration in real returns as shown in Table 5. A survey conducted for the 1958/59 year in Smaldeel and annual study group reports since 1973/74 indicates a rise in net nominal returns to capital from about 4% to an average of 9%, but a decline in real terms from 1,2% to negative returns (See Table 5).

7. The implications

Even with assistance, entry into farming in the East Cape is likely to be difficult because of the large amount of capital required and the relatively low short-term returns farmers have been prepared to accept. Nevertheless, it is possible that untapped opportunities, particularly direct sales of pigs, poultry, meat and milk, lower overheads with family labour or labour tenant arrangements, and perhaps even lowered expectations as to the required opportunity earnings, new entrants will be able to compete successfully.

References

AGRICULTURAL CENSUSES AND SURVEYS. (Various years). Central Statistical Services, Pretoria.

ANTROBUS, GG. (1984). South African farm wages and working conditions, with specific reference to the Albany district, 1957 - 1977. Unpublished Ph.D dissertation. Rhodes University, Grahamstown.

ANTROBUS, GG. (1988a). The economic importance and environmental impact of domestic livestock in the Eastern Cape. In: Bruton, MN and Gess, FW. (eds). Towards an environmental plan for the Eastern Cape. Rhodes University, Grahamstown.

ANTROBUS, GG. (1988b). Agricultural development prospects of Ciskei. Economic development of the Eastern Cape Workshop, Rhodes University, Grahamstown.

BRADFIELD, RED and BARNARD, HH. (1981). The animal husbandry situation in the reasonable (sic) homogeneous ecological areas (RHEA's) of the Eastern Cape Region. Report Project OK-Do 92/1, Dohne Research Station, Stutterheim.

DBSA. (1991). Economic and social memorandum Region D. Development Bank of Southern Africa, Halfway House.

DEPARTMENT OF AGRICULTURE. (1960). Verslag van die boerdery-bedryf en kostestudie - Oos Kaap 1958/59. Afdeling ekonomiese en markte, Departement van Landbou-ekonomie en Bemaking, Pretoria.

HUGHES, DA. (1991). Director, Hydrological Research Unit, Rhodes University, Grahamstown.

QUARTERLY BULLETIN. (1991). Quarterly Bulletin, March 1991, SA Reserve Bank, Pretoria.

SA STATS. (1988). South African Statistics. Central Statistical Services, Pretoria.