

## Smallholder farmers and opportunities for improving agricultural performance in South Africa

### Executive Summary

The persistence of the dualistic nature of the South African agricultural sector 30 years following the advent of democracy highlights the slow pace of transformation and the weakened ability of the sector to contribute to growth, poverty reduction and food security. As part of its Annual Submission for the 2025/26 Division of Revenue, the Financial and Fiscal Commission undertook a two-pronged analysis aimed at, firstly, reviewing existing support to smallholder farmers; and secondly, exploring opportunities to enhance the performance of this important cohort of farmers. The analysis highlights the low level of intergovernmental budget prioritisation afforded to agriculture, resulting in limited funding, which is distributed to an ever-increasing number of beneficiaries, with minimal to no impact on the long-term sustainability of smallholder farmers. Secondly, while much has been done to eradicate barriers to entry, smallholder farmers continue to operate on the margins and face significant challenges in accessing markets. The Commission's recommendations thus focus on how government support can better contribute to the sustainability of smallholder farmers. More specifically, the Commission recommends the strengthening of public food procurement from smallholder farmers. The analysis also highlights the need for government to explore innovative ways to enhance the performance of smallholder farmers. To this end, the Commission's analysis hones in on precision farming, which presents a particularly promising avenue for improving smallholder farmers' performance. Partnering with the private sector to fund and implement a precision farming approach with smallholder farmers is recommended.

### THE FINANCIAL AND FISCAL COMMISSION

The Financial and Fiscal Commission is a body that makes recommendations and gives advice to organs of state on financial and fiscal matters. As an institution created in the Constitution of the Republic of South Africa, it is an independent juristic person subject only to the Constitution itself, the Financial and Fiscal Commission Act, 1997 (Act No. 99 of 1997) (as amended) and relevant legislative prescripts. It may perform its functions on its own initiative or at the request of an organ of state.

The vision of the Commission is to provide influential advice for equitable, efficient and sustainable intergovernmental fiscal relations between national, provincial and local spheres of government. This relates to the equitable division of government revenue among three spheres of government and to the related service delivery of public services to South Africans.

Through focused research, the Commission aims to provide proactive, expert and independent advice on promoting the intergovernmental fiscal relations system using evidence-based policy analysis to ensure the realisation of constitutional values. The Commission reports directly to both Parliament and the provincial legislatures, who hold government institutions to account. Government must respond to the Commission's recommendations and the extent to which they will be implemented at the tabling of the annual national budget in February each year.

The Commission consists of commissioners appointed by the President: the Chairperson and Deputy Chairperson, three representatives of provinces, two representatives of organised local government and two other persons. The Commission pledges its commitment to the betterment of South Africa and South Africans in the execution of its duties.

## Background

The dualistic nature of the agriculture sector, entrenched during the apartheid era, persists 30 years following the introduction of democracy in South Africa. The slow pace of transformation means that small-scale, largely black, farmers in South Africa continue to operate on the margins, contributing less than 10 per cent to South Africa's total agricultural output. This is relative to white commercial farmers accounting for 90 per cent of the value added to agricultural output and owning 86 per cent of agricultural land and water. The government has implemented numerous interventions aimed at combatting these constraints and facilitating transformation. This includes financial support (e.g. through the Comprehensive Agricultural Support Programme (CASP), Ilima Letsema and the Land Care grants) and non-financial support (such as extension officers and interventions aimed at assisting with market access). Notwithstanding these interventions, smallholder farmers continue to face difficulties and struggle to attain long-term sustainability. As a result, the Commission undertook a two-pronged analysis aimed, on the one hand, at reviewing a selection of existing smallholder farmer interventions; and secondly, exploring the advantages of precision farming, an approach purported to increase smallholder farmer yields to levels comparable with commercial farmers.

## Research findings

Three key findings emanate from the FFC's analysis.

### 1. Low prioritisation of funding for agriculture and fragmentation of assistance for smallholder farmers

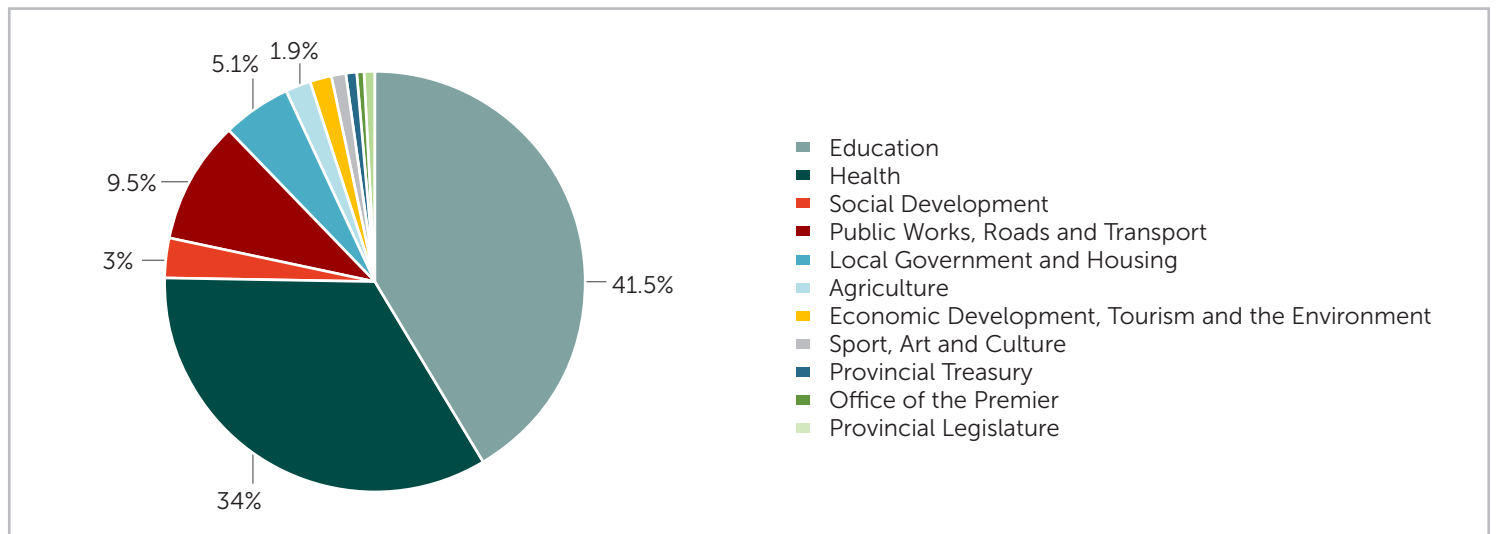
The dominant sources of intergovernmental funding in the agricultural sector include the allocations by the nine provinces from the provincial equitable share (PES) allocation to their respective agriculture-related departments, and conditional grant allocations that are disbursed annually from the national Department of Agriculture, Land Reform and Rural Development (DALRRD) to the nine provinces. In terms of prioritisation of resources by provincial governments across the various departments for which they have responsibility, it is clear, as illustrated in Table 1 and Figure 1, that the dominant focus is on basic education and health. From a total provincial resource envelope of R739.3 billion in 2024/25, agriculture was allocated R14.3 billion, which equates to 1.9 per cent of the resource envelope. Provincial agriculture departments have consistently received below 2 per cent of total provincial revenue over the past few years. Similarly, year-on-year growth in allocations to provincial agriculture departments has been muted, reflecting an annual average growth rate of 1.7 per cent over the 2019/20–2025/26 period.

**Table 1. Allocation per provincial department, 2019/20 to 2025/26**

| Provincial department<br>(R'billion)                    | 2019/20         | 2020/21      | 2021/22      | 2022/23<br>adjusted<br>appropriation | 2022/23<br>revised<br>estimate | 2023/24      | 2024/25      | 2025/26<br>indicative<br>baseline |
|---|-----------------|--------------|--------------|--------------------------------------|--------------------------------|--------------|--------------|-----------------------------------|
|   | audited outcome |              |              |                                      |                                | MTEF         |              |                                   |
| Education   | 257.8           | 265.9        | 280.8        | 297.3                                | 298.2                          | 304.0        | 306.9        | 319.6                             |
| Health  | 210.9           | 231.4        | 236.0        | 246.0                                | 248.2                          | 242.9        | 251.6        | 261.7                             |
| Social Development                                      | 19.6            | 20.3         | 21.3         | 21.4                                 | 21.4                           | 21.6         | 22.2         | 23.1                              |
| Public Works, Roads<br>and Transport                    | 60.0            | 56.5         | 63.4         | 69.9                                 | 69.8                           | 71.6         | 70.4         | 72.3                              |
| Local Government<br>and Housing                         | 35.1            | 30.1         | 32.9         | 36.4                                 | 36.3                           | 38.0         | 37.7         | 38.7                              |
| Agriculture   | 13.2            | 12.2         | 12.8         | 13.9                                 | 13.9                           | 13.9         | 14.3         | 14.8                              |
| Economic Development,<br>Tourism and the<br>Environment | 12.1            | 11.6         | 12.5         | 13.0                                 | 13.0                           | 13.3         | 13.1         | 13.3                              |
| Sport, Arts and Culture                                 | 5.9             | 4.8          | 5.8          | 6.5                                  | 6.5                            | 6.6          | 6.9          | 7.3                               |
| Provincial Treasury                                     | 4.0             | 3.8          | 3.7          | 4.1                                  | 4.1                            | 4.6          | 4.7          | 4.9                               |
| Office of the Premier                                   | 6.1             | 5.7          | 6.0          | 6.7                                  | 6.7                            | 7.5          | 7.0          | 7.0                               |
| Provincial Legislature                                  | 3.8             | 3.6          | 3.8          | 4.4                                  | 4.4                            | 4.4          | 4.5          | 4.6                               |
| <b>Total</b>  | <b>628.4</b>    | <b>645.9</b> | <b>678.9</b> | <b>719.6</b>                         | <b>722.6</b>                   | <b>728.2</b> | <b>739.3</b> | <b>767.3</b>                      |

Source: National Treasury, 2023.

Figure 1. Portion of total provincial revenue allocated to agriculture, 2024/25



Source: National Treasury, 2023.

The result of the above prioritisation process is the thin distribution of limited funding across numerous beneficiaries, with the average allocation per beneficiary being insufficient to contribute to the long-term sustainability of smallholder farmers. This situation extends to the various agriculture conditional grants. Table 2 for example, illustrates the average CASP allocation per beneficiary since the inception of the grant, which confirms the limited average funding per beneficiary.

Table 2. Comprehensive Agricultural Support Programme average spend per beneficiary

| Year    | CASP spending (R'million) | Number of beneficiaries | Average spending per beneficiary (rands) |
|---------|---------------------------|-------------------------|--|
| 2004/05 | 123                       | 46 500                  | 2 645                                    |
| 2005/06 | 157                       | 53 200                  | 2 951                                    |
| 2006/07 | 252                       | 67 400                  | 3 739                                    |
| 2007/08 | 333                       | 60 300                  | 5 522                                    |
| 2008/09 | 402                       | 31 039                  | 12 951                                   |
| 2009/10 | 693                       | 26 266                  | 26 384                                   |
| 2010/11 | 854                       | 27 972                  | 30 531                                   |
| 2011/12 | 984                       | 36 504                  | 26 956                                   |
| 2012/13 | 1 260                     | 59 286                  | 21 253                                   |
| 2013/14 | 1 600                     | 65 075                  | 24 587                                   |
| 2014/15 | 1 394                     | 113 257                 | 12 308                                   |
| 2015/16 | 1 630                     | 42 869                  | 38 023                                   |
| 2016/17 | 1 572                     | 25 958                  | 60 559                                   |
| 2017/18 | 1 446                     | 22 906                  | 63 128                                   |
| 2018/19 | 1 643                     | 16 203                  | 101 401                                  |
| 2019/20 | 1 537                     | 10 714                  | 143 457                                  |
| 2020/21 | 1 041                     | 10 831                  | 96 113                                   |
| 2021/22 | 1 127                     | 11 340                  | 99 450                                   |

Source: Commission calculations based on data sourced from the Department of Agriculture, Land Reform and Rural Development, 2021/22.

In addition to intergovernmental funding for agriculture, various pools of funding exist either to explicitly provide assistance to farmers and stimulate growth in farming activities, or more broadly, to facilitate greater entrepreneurship. Figure 2 provides a sense of these various pools of funding and the amounts available. One way of enhancing government’s ability to provide comprehensive support to smallholder farmers is to reduce the fragmentation of available funds through a pooling of resources.

**Figure 2. Funding support available for agriculture-related activities**



Sources: Adeaga (2023), SME South Africa (2022) and Green Agri (n.d).

**2. Opening access to markets through public food procurement from smallholder farmers**

Access to a market presents a common barrier to the long-term sustainability of farmers. To alleviate this challenge, governments can adopt a targeted approach by opening government markets via public food procurement from smallholder farmers. With the proviso that adequate care is taken to balance preferential procurement against the maintenance of traditional procurement principles to avoid misuse, public food procurement can be a viable vehicle to achieve social, economic and environmental goals, and has proven advantageous across several developing countries. In addition, risks regarding smallholder farmers not being able to consistently cope with demand can be mitigated through farmer supply partnerships. However, conditional grant funding to enable provinces to assist farmers to develop infrastructure and acquire the logistic-related needs that are associated with becoming part of the formal supply chain process is critical. This includes, for example, the need to construct packhouses and acquire refrigerated trucks for transportation.

### 3. The proven benefit of holistic support centred around precision farming

Precision farming is a farm management approach that relies heavily on data and technology to inform decisions and farm operations. By facilitating the more efficient use of water, fertilizer, pesticides and other agricultural inputs, precision farming reduces costs and minimises the environmental impact of farming practices. An assessment of the performance of smallholder farmers who have implemented precision farming highlights the benefits of this approach, such that smallholder farmer yields are comparable to those of commercial farmers.

While the initial financial outlay may present a hurdle to smallholder farmers being able to implement this approach, with collaboration between government and the private sector, the challenge of unlocking financing can be easily overcome. A public-private partnership (PPP) approach will not only minimise the financial pressure on government, particularly in light of the current strained economic environment, but will provide an opportunity to leverage the expertise of the private sector, where this approach to farming has been implemented over a much longer time. In terms of the design of the partnership, particularly around roles and responsibilities, the Minister of Finance should take the lead, working with the Minister of Agriculture, Land Reform and Rural Development, and the private sector. The role of government should be largely focused on providing a facilitative policy and regulatory environment for the promotion of precision farming.

## Recommendations

### The Commission made the following recommendations:

1. The Department of Agriculture, Land Reform and Rural Development should consider consolidating the three agriculture conditional grants (the Comprehensive Agricultural Support Programme, Ilima Letsema and the Land Care Grant), along with other existing pools of funding geared at assisting smallholder farmers, to ensure that the assistance provided can contribute to the long-term sustainability of smallholder farmers.
2. As a means of strengthening food security and facilitating transformation in the agricultural sector, public food procurement from smallholder farmers should be actively supported. Consideration should be given to establishing a conditional grant to enable provincial departments of Agriculture to assist smallholder farmers, at least initially, with costs associated with supply integration.
3. To strengthen the performance of smallholder farmers and promote greater transformation of the agricultural sector, government should enter a public-private partnership to drive the implementation of precision farming more widely with smallholder farmers.

### References

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