

Brief reflections on South Africa's agricultural economy

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SAGIS Annual General Meeting

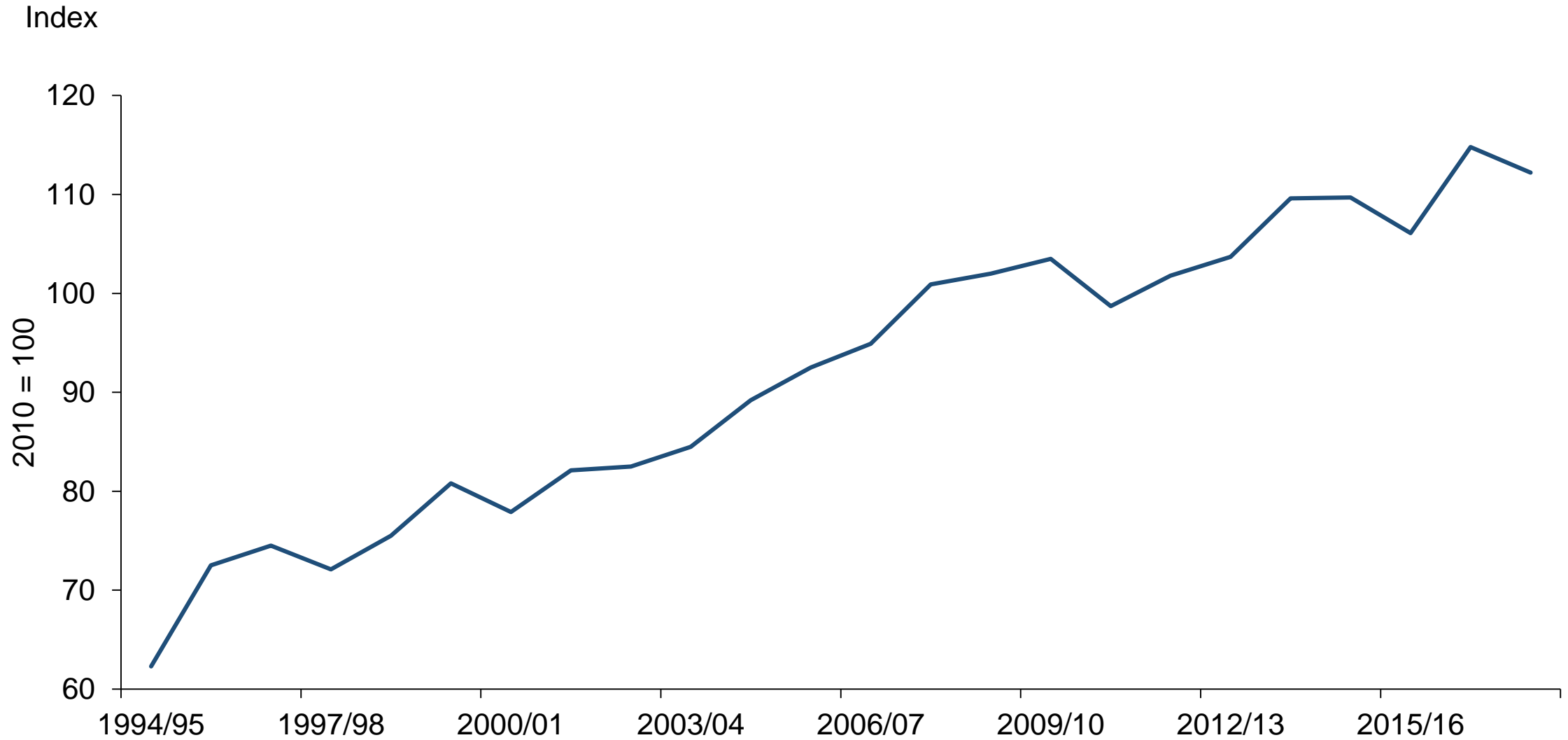
Pretoria, 18 July 2019



Outline

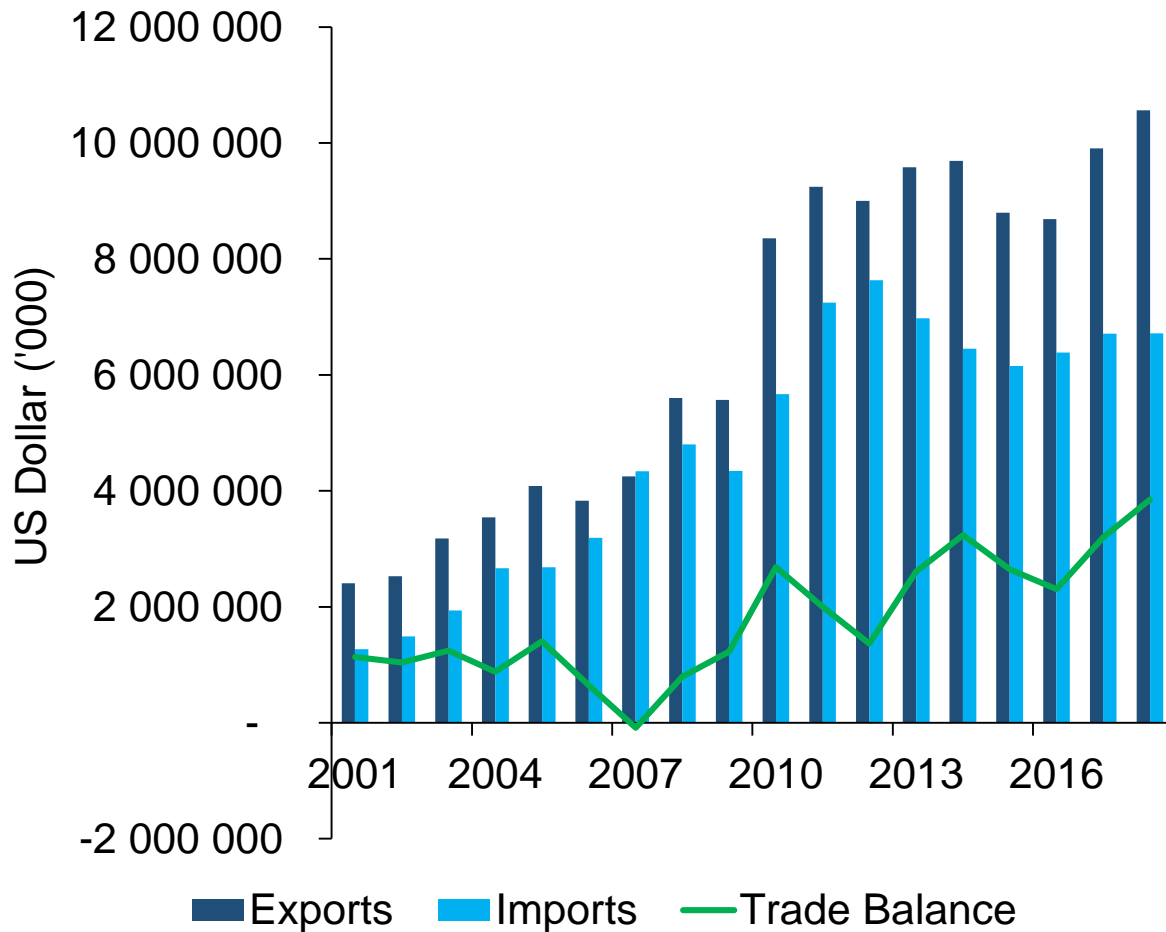
- Framing the discussion with background on the journey of SA agricultural production
- Key policies that dominated SA agricultural sector since 1994
- Impact on agribusiness confidence levels and investment over time
- Near-term possible policy focus for South African agriculture
- Closing remarks

SA agriculture's journey from 1994 (volumes of production)

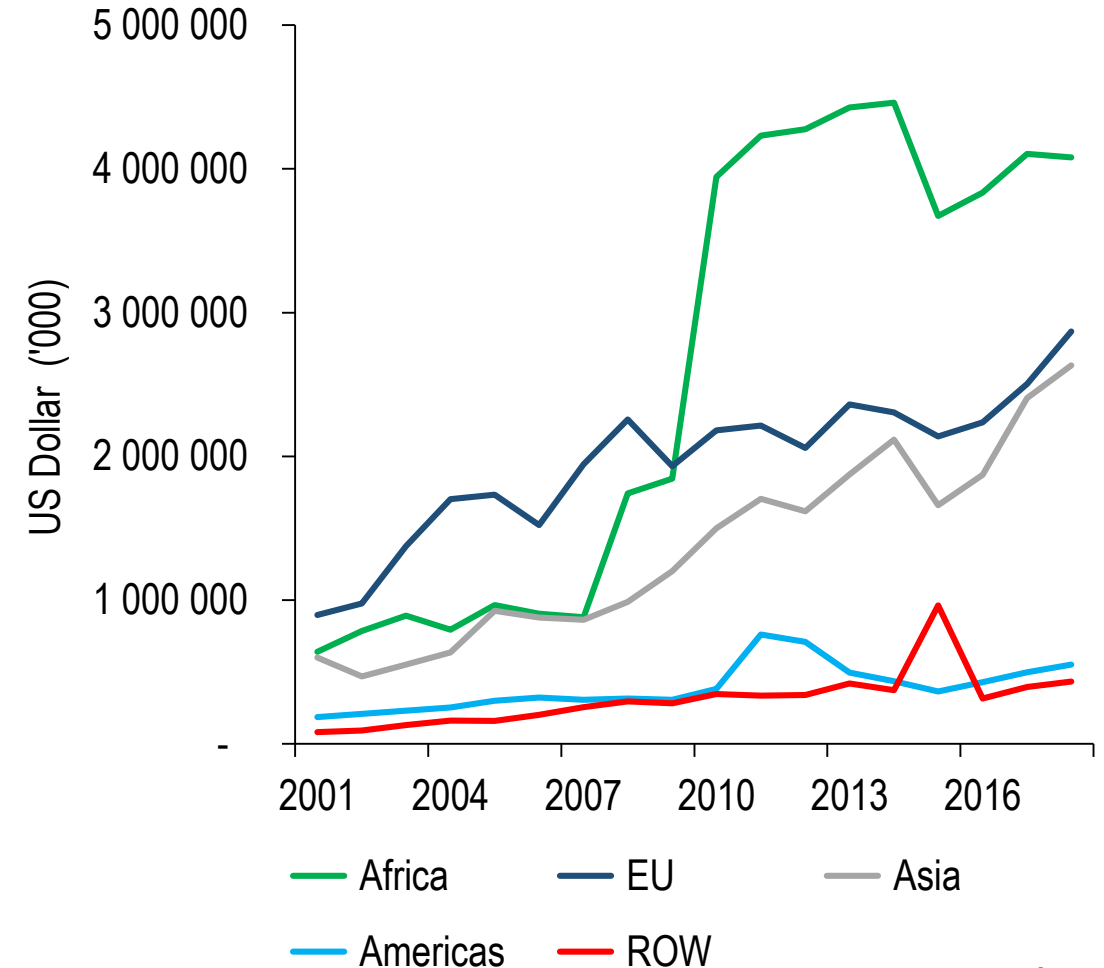


SA agriculture has enjoyed an export-led growth

SA agricultural exports reached record level in 2018



Africa, Europe, and Asia remain key markets



Important events in SA agricultural policy 1994 to 2019

- 1994: Decline in State funding to agriculture (subsidies) due to fiscal policy constraints
- 1994: Implementation of land reform policy
- 1994: Labour market policy
- 1994: Trade policy
- 1997: Liberalization of agricultural markets
- 1997: Genetically Modified Organisms Act
- 1998: Water policy
- 2000: Meat Safety Act

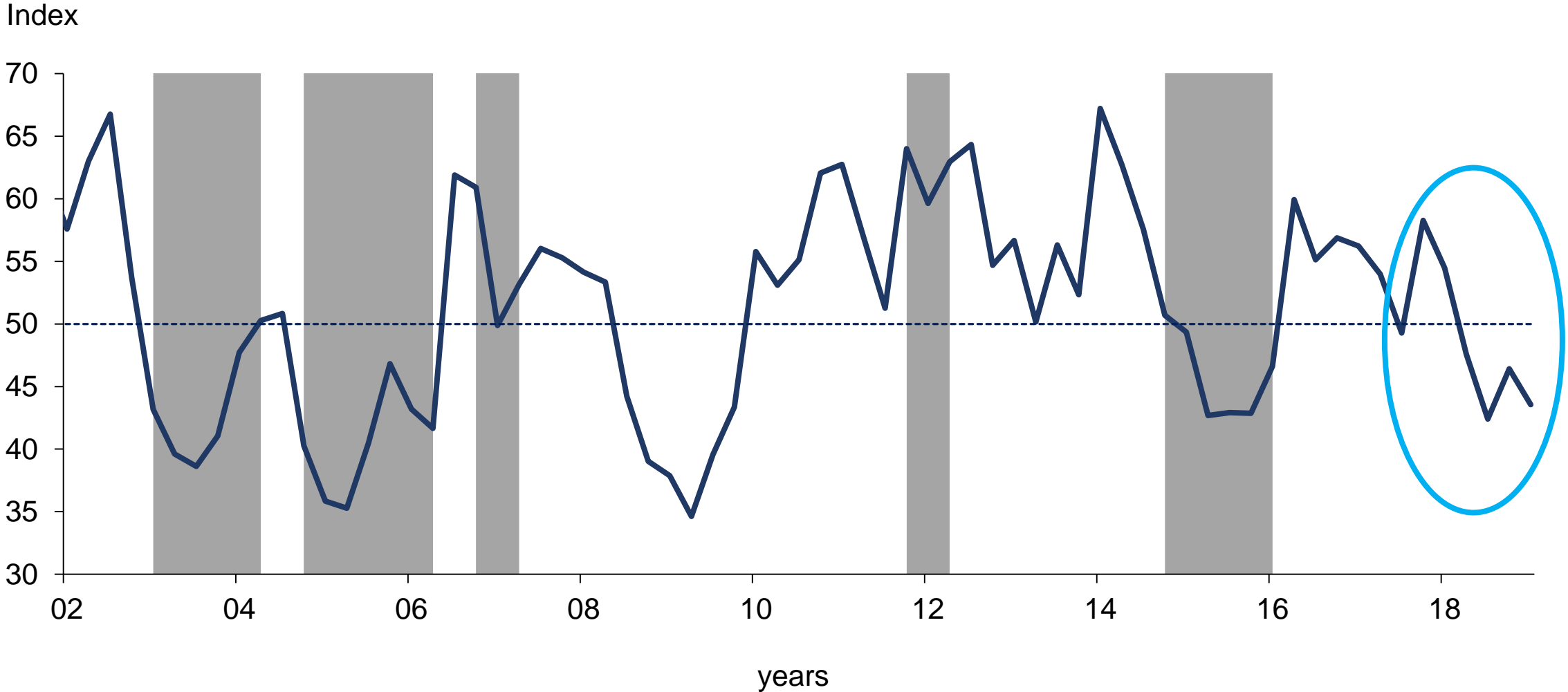
“The more things change, the more they stay the same.”

-- Jean-Baptiste Alphonse Karr

The current policymakers' thinking revolve around these aspects

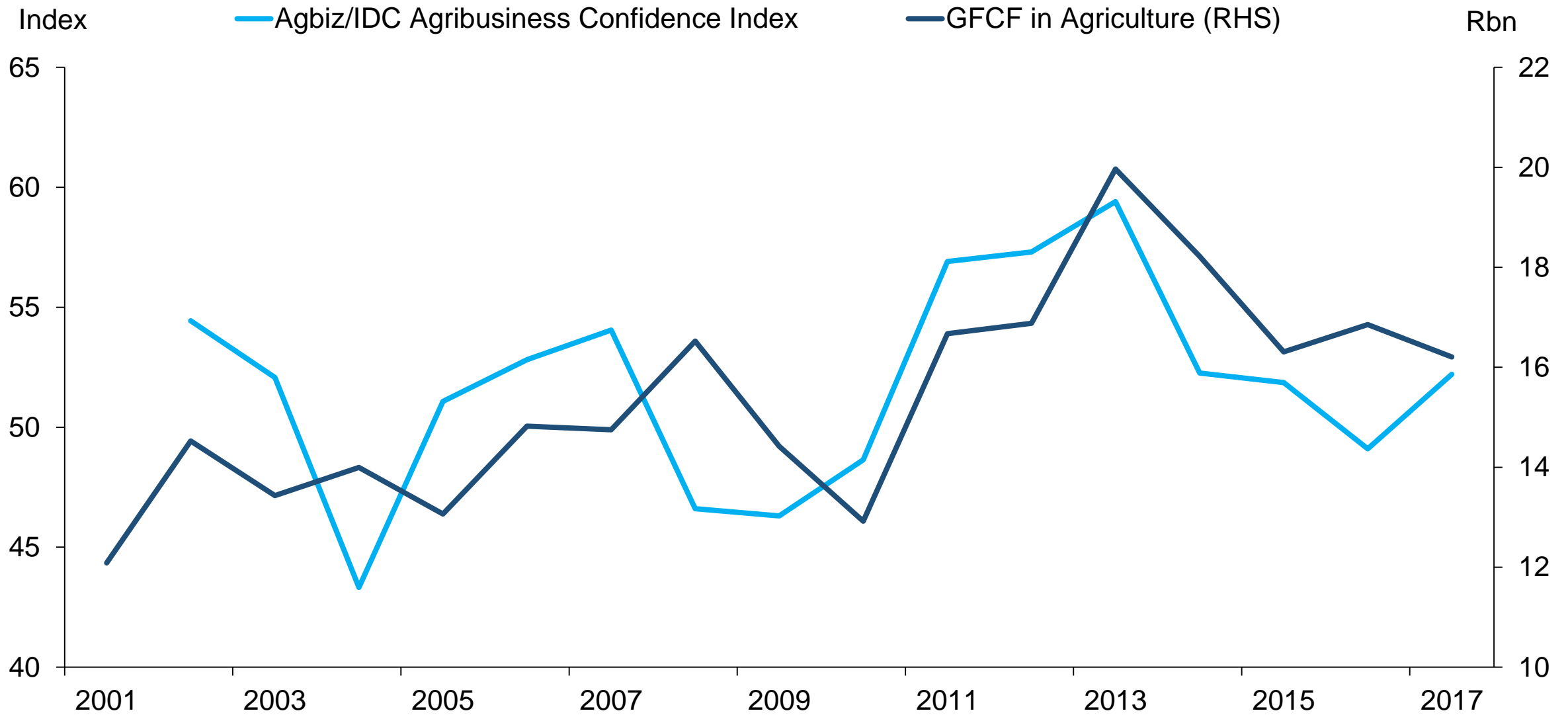
- Inclusive growth and jobs creation
- Land reform
- Climate change
- Water rights regulations and water infrastructure
- Infrastructure constraints in some farming areas, particularly former homelands
- International trade matters (market access, and expansion of export markets)

Inconsistencies in policy impacts agricultural business confidence and investment



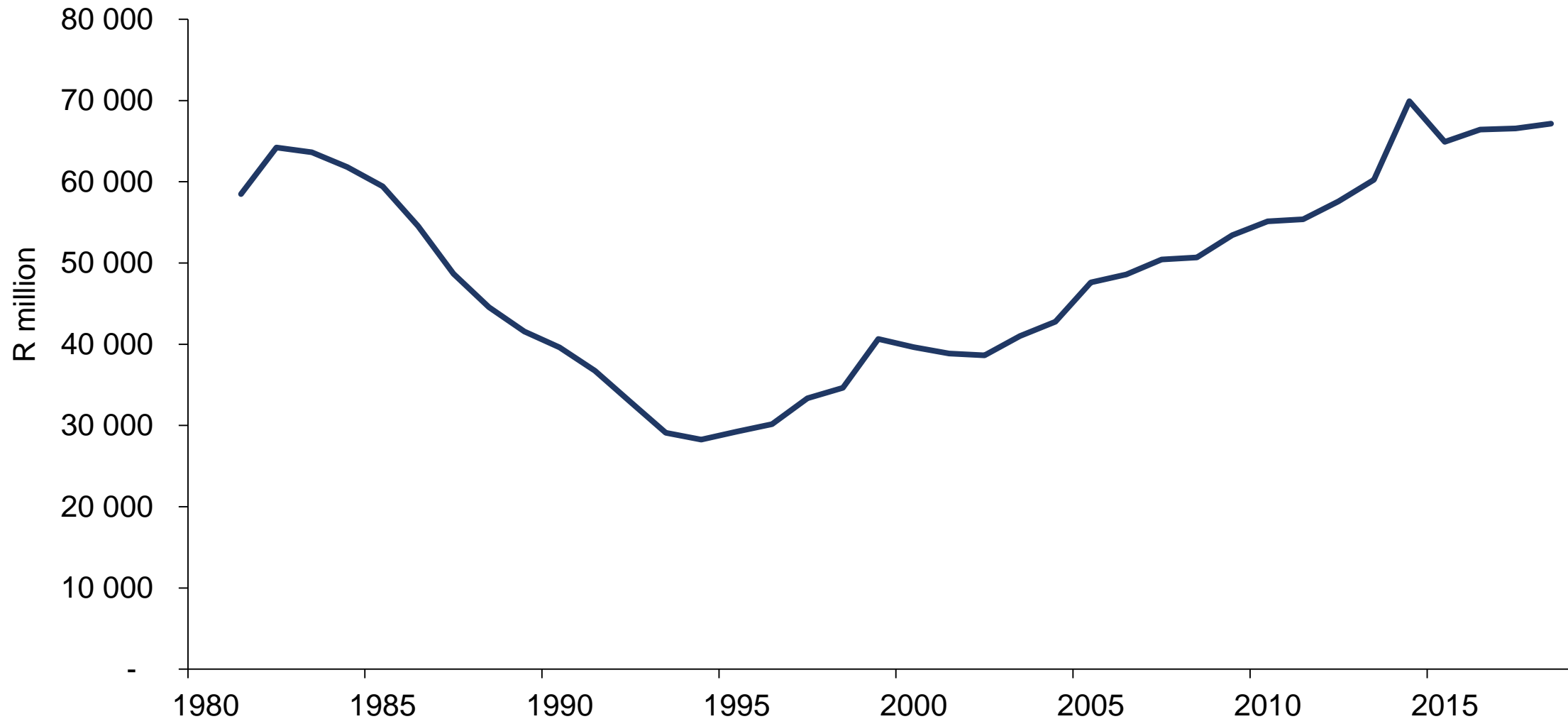
(Shaded areas indicate periods when rainfall across South Africa was below the average level of 500 millimetres)

Fortunately, there has not been disinvestment in SA agriculture thus far



Movable assets sales have been solid thus far

Value of sales South Africa's agricultural machinery, implements, motor vehicles and tractors

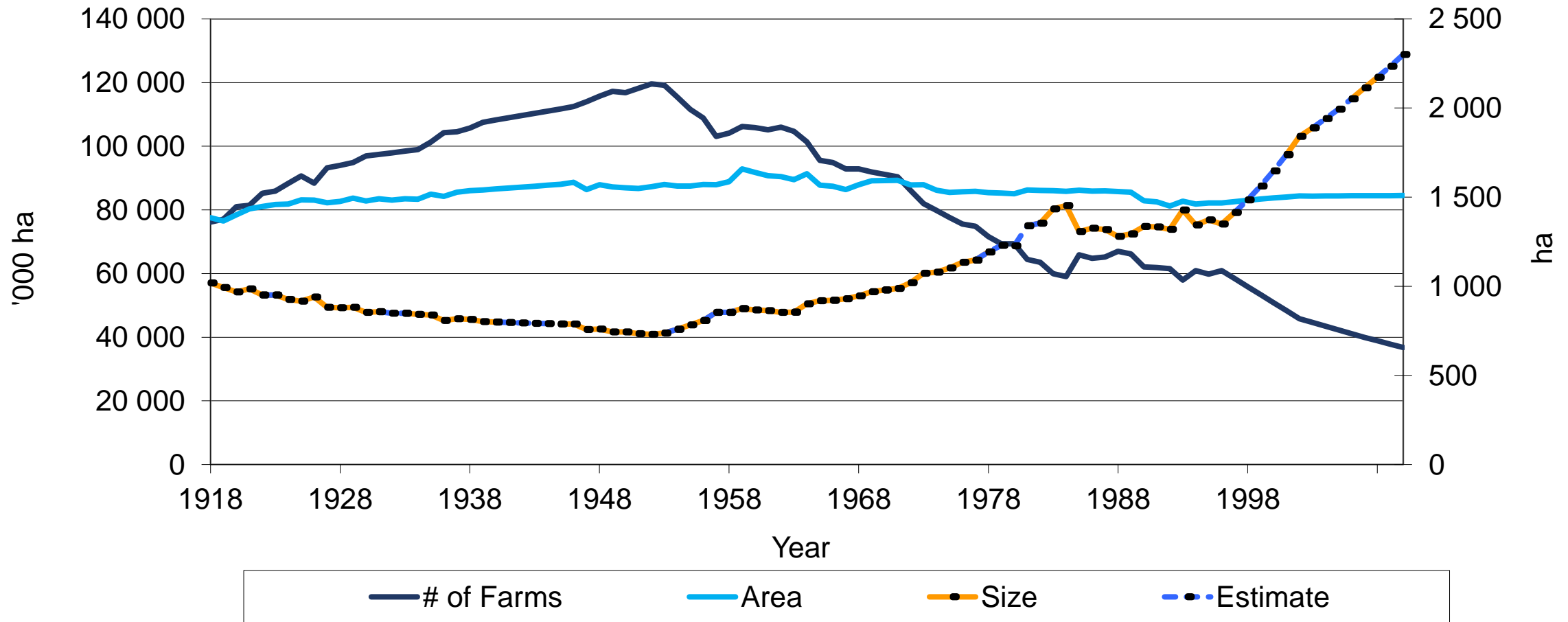


Evolution of farm sizes in SA: mechanisation has been key on this process

Area of farm land (hectares),
Number of farms

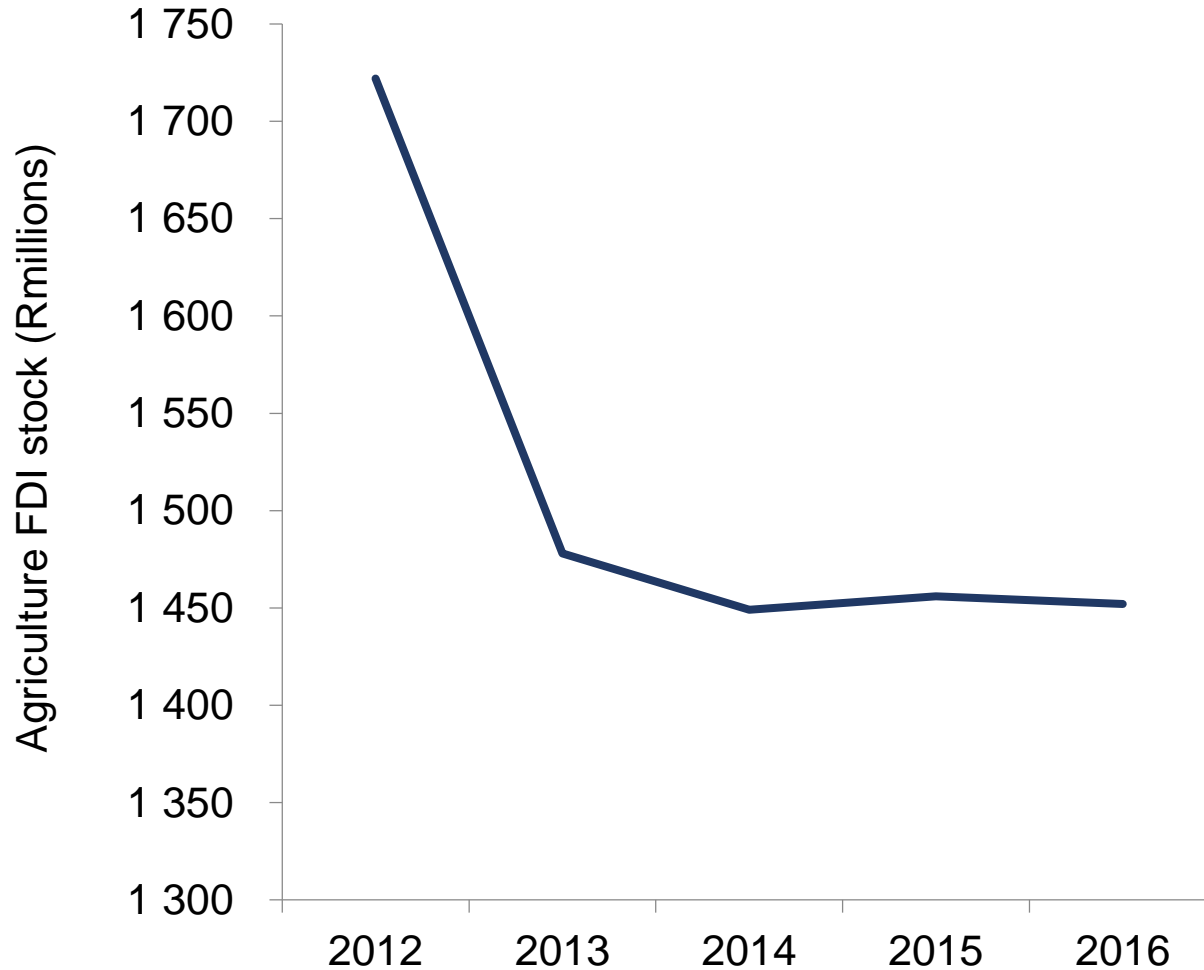
Farm size

Farming Units and Farming Area in South Africa

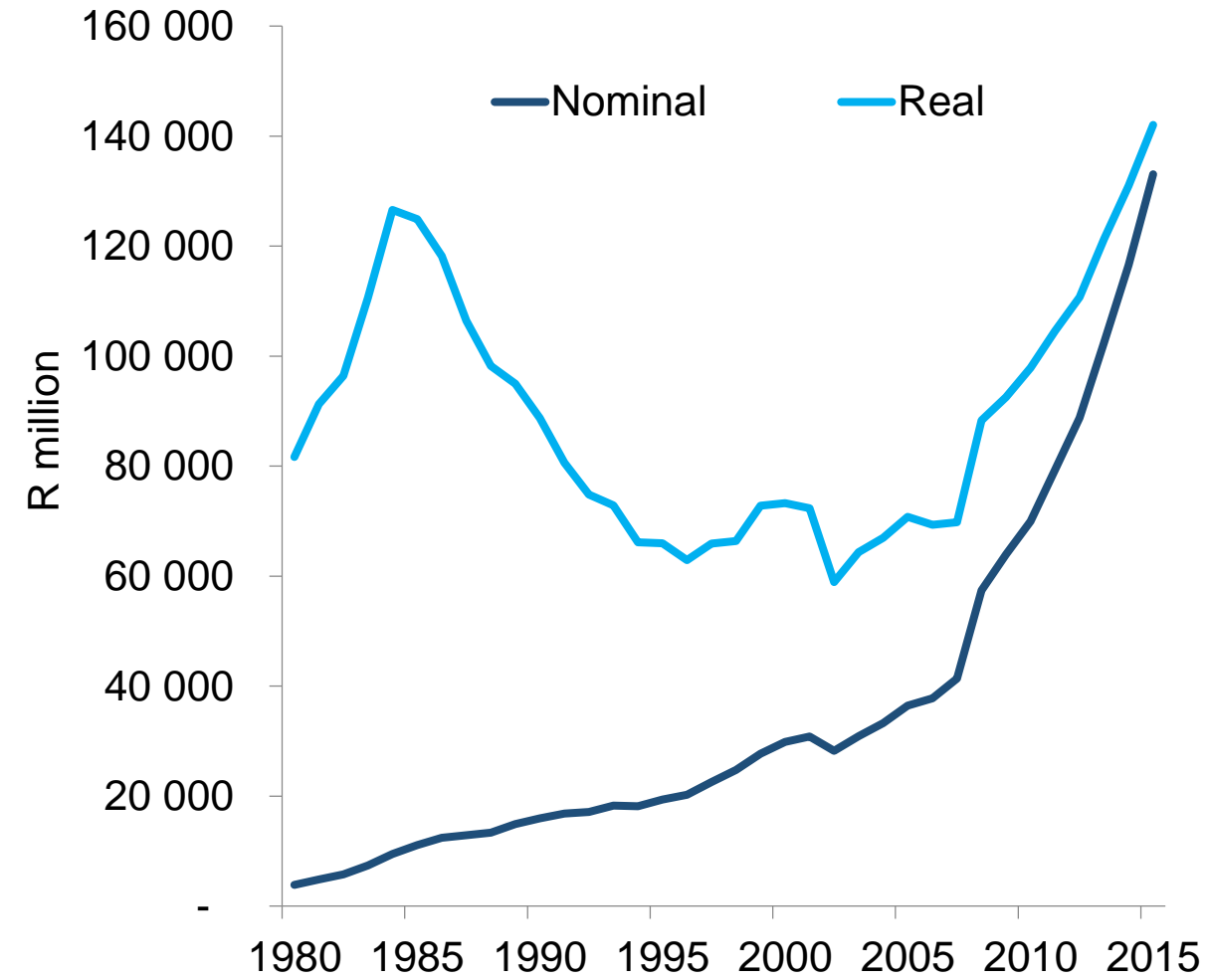


...but mechanisation has largely been funded by debt from local institutions

FDI in SA agriculture on a decline



SA farm debt growing



In all the policy discussions we've mentioned thus far, **land reform** has been the most dominant one in the recent past

Focus has been on EWC -- ANC Conference resolution on land redistribution

- “15. Expropriation of land without compensation **should be** among the key mechanisms available to government to give effect to land reform and redistribution.
- 16. In determining the mechanisms of implementation, we must ensure that we **do not undermine future investment in the economy, or damage agricultural production and food security**. Furthermore, our interventions **must not cause harm to other sectors of the economy**.
- 17. The ANC’s approach to land reform must be based on three elements:
 - increased security of tenure,
 - land restitution and
 - land redistribution.....
-These interventions should **focus on government-owned land** and should also be guided by the ANC’s Ready to Govern policy document which **prioritised the re-distribution of vacant, unused and under-utilised state land**, as well as **land held for speculation and hopelessly indebted land**” - *ANC 54th Conference Resolution Report*

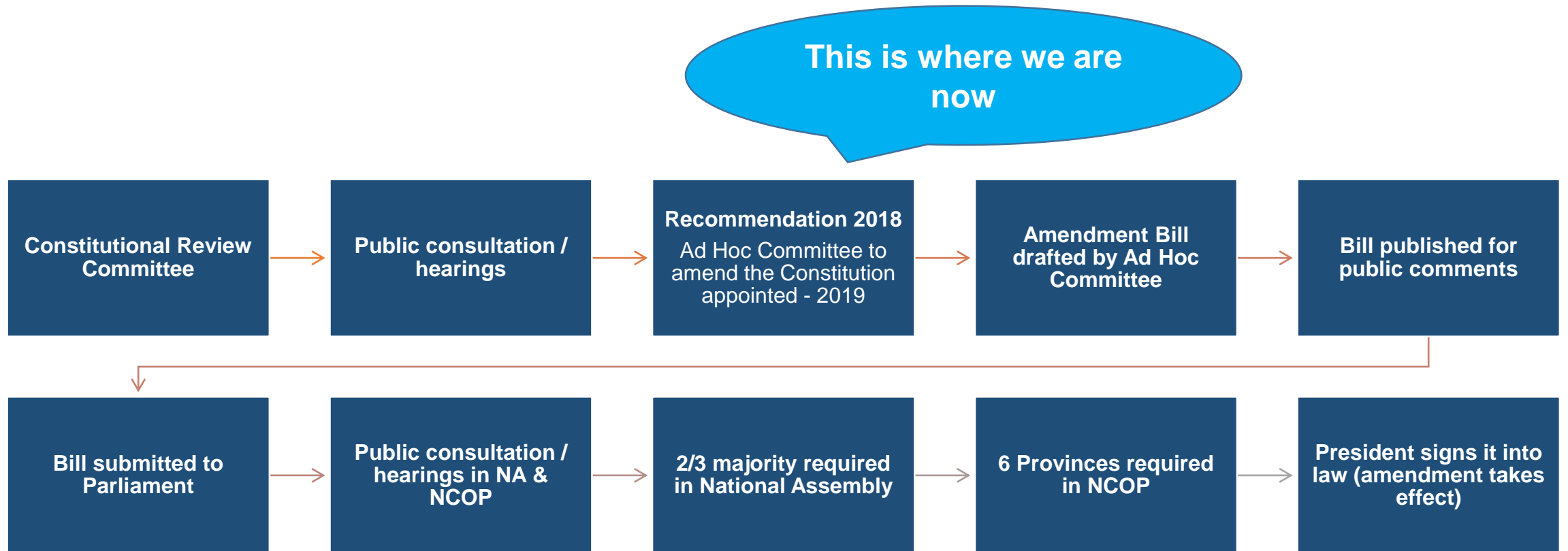
Key takeaway from the ANC resolution

- Land reform must be done in an **orderly manner**
- Must be guided by **sound legal and economic principles**
- Must contribute to **job creation and investment objectives**
- Effective **support measures** for beneficiaries
- Accelerate the rolling out of **title deeds to black South Africans** in order to guarantee their security of tenure and to provide them with instruments of financial collateral

Motion of parliament on “expropriation without compensation”

- In its motion, the EFF moved that the National Assembly establish an ad hoc committee to review and amend section 25 of the Constitution to make it possible for the State to expropriate land in the public interest without compensation.
- The ANC amended parts of the motion to read as such:
- “With the concurrence of the National Council of Provinces (NCOP) instruct the Constitutional Review Committee to review section 25 of the Constitution and other clauses where necessary to make it possible for the state to expropriate land in the public interest without compensation.”

Where is the discussion now -- there is still a long way ahead



Recap: what does the Constitution currently say about expropriation?

Section 25:

“(2) Property may be expropriated only in terms of a law of general application-

- (a) for a public purpose or in the public interest; and
- (b) subject to compensation, the amount of which and the time and manner of payment of which have either been agreed to by those affected or decided or approved by a court.

(3) The amount of Compensation and the time and manner of payment must be just and equitable, reflecting an equitable balance between the public interest and the interests of those affected, having due regard to all relevant circumstances, including -

- (a) the current use of the property;
- (b) the history of the acquisition and the use of the property;
- (c) the market value of the property;
- (d) the extent of direct state investment and subsidy in the acquisition and beneficial capital improvement of the property; and
- (e) the purpose of the expropriation.”

Current state of South Africa's land reform thinking

- Two parallel processes underway
 1. Parliamentary process focused on the amendments of Section 25 of the Constitution
 - 2. Presidential Advisory Panel on Land Reform and Agriculture**
- Advisory panel's mandate:
 - Review existing legal, policy, and institutional approach to land reform
 - Advise the Presidency on the way forward on land reform, and agricultural development in South Africa
- Current proposals/focus of the panel
 - Beneficiary selection and acquisition of land by the state, including expropriation and compensation
 - Private sector's role in land identification and acquisition (land donations)
 - Land administration should be prioritized, and also social aspects of climate change and their implications
 - Rural and urban land tenure models
 - Establishment of a land reform fund to support agricultural land reform

Land reform fund could be supported by other land acquisition measures

Land Donations

- Entities and individuals to voluntarily contribute land for redistribution given several enablers
- Drawing on existing know-how and time

Four “big tickets” to activate the voluntary contribution

1. Recognition register
2. Speedy transfer (decentralised)
3. Allocation of new water rights
4. Restructuring of the Land Bank

Land Depository

- The administrative arm
- Holder of donated land
- Maintaining of land records and transactions
- Working in conjunction with government and private sector

Land Reform Fund

What will this achieve?

- Financing of open market transactions
- De-risking and enabling blended financing
- Crowding-in of private sector financing

How will this be funded?

- Land Reform Bonds
- Capital donations
- Joint-venture funding

Enablers

- Capital (preferential terms for contributors and beneficiaries)
- Real land rights with tenure security
- Water rights
- Preferential market access contracts
- Reduced reliance on government
- Incubators for aspirant farmers

Handing over the report to the Presidency: 11 June 2019, Pretoria



Closing remarks -- policy direction for way ahead

- Pursue inclusive growth and jobs creation programmes
- Careful and effective implementation of land reform
- Climate change
- Water rights regulations and infrastructure
- Infrastructure constraints in some farming areas, particularly former homelands
- Shipping ports infrastructure
- International trade matters (non-tariff barriers and expansion to new markets)

Thank you for your attention.

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