



GROWTH AGENDA

Priorities for mass employment and inclusion

Agriculture, Land Reform and Jobs

Can South Africa
make this work?



About CDE

The Centre for Development and Enterprise (CDE), an independent policy research and advocacy organisation, is South Africa's leading development think tank. Since its establishment in 1995, CDE has been consulting widely, gathering evidence and generating innovative policy recommendations on issues critical to economic growth and democratic consolidation. By examining South African and international experience, CDE formulates practical policy proposals outlining ways in which South Africa can tackle major social and economic challenges. CDE has a special focus on the role of business and markets in development.

CDE disseminates its research and proposals to a national audience of policy-makers, opinion formers and the wider public through printed and digital publications, which receive wide media coverage. Our track record of successful engagement enables CDE to bring together experts and stakeholders to debate the policy implications of research findings.

Series Editor: Ann Bernstein

This publication is based on a roundtable convened on 20 June 2018. Special thanks to Annelize Crosby for her insightful assistance and inputs both before and after the roundtable. This publication was written by Professor Stefan Schirmer and Monique Atouguia.

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The Growth Agenda

Agriculture, Land Reform and Jobs: Can South Africa make this work?

The Land Reform Debate and CDE

In December 2017, the ruling party committed itself to expropriation without compensation (EWC) as a way to accelerate land reform in South Africa. Initially, it was not clear what the legal implications of this were, and after the ANC Land Summit, held in May 2018, there were indications that ANC leadership had resolved to avoid changing the Constitution if possible. However, in a move that surprised many, President Cyril Ramaphosa announced in July 2018 that the ANC would proceed with amending Section 25 of the Constitution.

There is a lot of uncertainty about the implications of these developments for current land owners and the economy as a whole. The President and Deputy President have argued that property rights and food production will not be affected by EWC. The President in particular, has pointed to the importance of property rights in providing opportunities and dignity for all South Africans. Nevertheless, the decision to amend a critical section of the Constitution, the likelihood that whatever strategy is chosen will be implemented badly, the feverish manner in which it is being debated, and the persistent lack of clarity on this issue have raised real concerns from many quarters. There are fears that the commitment to accelerate land reform through EWC is already undermining the security of property rights and encouraging land invasions. As representatives of the Banking Association of South Africa (BASA) told parliament, expropriation that moves outside the framework of the Constitution, could create systemic risk for the South African financial sector and the country alike. Mike Brown, chairman of BASA, put it bluntly: "any material impact to property prices would adversely affect confidence in the banking system and could trigger a classic banking crisis with significant negative knock-on effects on the economy."¹

Land reform in South Africa has three components: restitution, redistribution and tenure reform. It is vital that beneficiaries are permanently better off. Agriculture needs to transform while also attracting investment, generating export earnings and creating new job opportunities. For most South Africans the history of land is one of pain and injustice, and it remains critical that redress takes place. Any meaningful discussion of land reform has to start by acknowledging these realities.

At the same time, honest reflection is required on government's almost total inability to support land reform beneficiaries or finalise the enormous backlog

¹Kabelo Khumalo, "Banks and business say #LandExpropriation will hurt economy", IOL, 9 September 2018, <https://www.iol.co.za/business-report/economy/banks-and-business-say-landexpropriation-will-hurt-economy-16941669>

“For most South Africans the history of land is one of pain and injustice, and it remains critical that redress takes place. Any meaningful discussion of land reform has to start by acknowledging these realities.”

of conflicting, overlapping restitution claims. The fact is that over the past few years the state has become less competent and more corrupt. Any hope of achieving the complex, pressing and multiple aims of land reform has to depend, as CDE argued as far back as 2005, on utilising the resources and drawing in the participation of current agricultural producers and other private sector stake-holders. Their involvement in this process will be critical.

For a full list of CDE's work on land reform, see Appendix 1.

Jobs and Growth in Agriculture

The focus of this new CDE report is on the agricultural sector's ability to generate growth and jobs within the current political and economic context. In particular, the report focuses on the effect the current land reform debate has had on critical investments and job-generating initiatives in the agricultural sector as well as how it may impact on these in future. A crucial issue in this respect is whether the large-scale redistribution of land to small-scale farmers could generate transformation and additional forms of employment in the sector without significant reductions in food production. The report also considers what the private sector has done and could do to promote land reform and support beneficiaries to become sustainable and productive.

A fact-based focus on growth and jobs is disappearing from view as the land reform debate becomes increasingly emotive. This is happening despite the President's view of agriculture as a major contributor to job creation and growth.² The current recession, in which agricultural GDP dropped by almost 30 per cent from the first quarter of the year and dragged overall GDP numbers down into the negative, illustrates that, in an environment of low growth and economic crisis, the country cannot afford to neglect any sector if there is to be hope of growing the economy and creating the jobs we need.

In this context, CDE hosted a roundtable on agricultural growth, land reform and jobs in June 2018. We brought together the leading agricultural experts, senior representatives from organised agriculture, financiers, and people with direct experience of farming from various parts of the country. This report outlines the important insights that emerged from the discussion. We have organised them around core themes that emerged from the discussion and provided summaries of what these experts and those with direct agricultural experience said on these crucial issues.

The main themes of the roundtable were:

- The ability of existing producers to deliver growth, jobs and affordable food.
- The potential to expand sub-sectors, such as some field crops

² See President Cyril Ramaphosa full statement on the Economic Stimulus and Recovery Plan, 21 September 2018, via *the Presidency*, <http://www.thepresidency.gov.za/newsletters/statement-president-cyril-ramaphosa-economic-stimulus-and-recovery-plan> as well as the Job Summit Agreement via https://www.gov.za/sites/default/files/gcis_documents/Job_Summit_FrameWork_Agreement.pdf

“A fact-based focus on growth and jobs is disappearing from view as the land reform debate becomes increasingly emotive.”

and especially horticulture, where significant job creation opportunities are located.

- What can realistically be achieved through small-scale farming in terms of improved incomes and additional jobs in agriculture.
- The role of established farmers and other private-sector institutions in supporting land reform and promoting new producers.

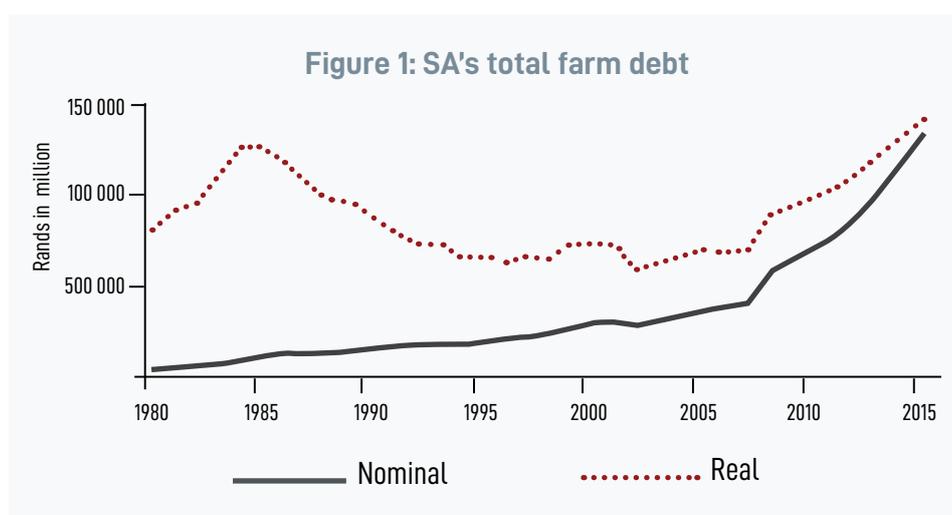
Agriculture, growth and jobs: achievements and challenges

Large-scale, South African commercial farmers have, on the whole, been remarkably successful at adapting to low levels of state support and highly competitive conditions. As a result, the sector is able to keep food prices lower than they would be if we were more dependent on imports, and it continues to contribute to earning foreign exchange and expanding the gross national product of the country. The sector is, however, under pressure. A point that was raised repeatedly in the workshop by economists and experts alike, was that new jobs cannot be created in agriculture unless investments that raise the productivity of the land are made, and such investments are unlikely to emerge in a context of policy uncertainty and weakening property rights.

Wandile Sihlobo, *Head of Agribusiness Research, Agricultural Business Chamber (Agbiz)*

On a typical farm, the land on its own is only 10 per cent of the actual value of the farm, with fixed (immoveable) and moveable assets, constituting the greatest value. The value of agricultural land, especially in South Africa, is measured by how productive it is, which requires high levels of investment in irrigation, machinery and inputs.

“Large-scale, South African commercial farmers have, on the whole, been remarkably successful at adapting to low levels of state support and highly competitive conditions.”



Source: Department of Agriculture, Forestry and Fisheries, Agbiz Research, CDE, 2018²

²Wandile Sihlobo and Tinashe Kapuya, "Why land 'expropriation without compensation' is a bad idea", CDE VIEWPOINTS, Volume 2, 2 July 2018. To read the full article, [click here](#).

Beyond this, most farms are in debt and farming operations run largely on credit – anything between 30 per cent and 50 per cent of the asset (land) value. In 2016 farm debt reached R145 billion, its highest level ever, and then increased to R160 billion in 2018 due to the previous season's drought. This begs the question of whether banks, the de facto owners of agricultural land through debt, would be compensated even if farm owners are not? If current discussions around EWC were to lead to banks being unable to recoup farm debts, there would be massive consequences across society.

There can, in fact, be no real EWC in a market economy because what government does not pay for will be paid for in the negative effects that beneficiaries experience, as well as ripple effects in the wider economy. The rest of the economy will pay for EWC through lost agricultural export revenues, lost job opportunities and the loss of confidence. This would lead to further flight of domestic and foreign direct investment from the sector and the economy at large.

EWC can also cause irreparable damage to the land market by effectively reducing the value of land and sunk investments and assets. The increased risks of future EWC means that there is likely no new capital that can be used to invest in the land. As a result, even though the cost of expropriating the land will fall, thereby assisting government to expedite land reform, such costs will be borne by land reform beneficiaries who will be subjected to falling land prices, low on-farm asset prices and higher costs of borrowing. The latter will by far outweigh the former.

Pierre Venter, *General Manager: Human Settlements, Banking Association of South Africa (BASA)*

Despite the fact that the agricultural sector in South Africa is currently experiencing major contractions, it has still managed to grow consistently at a rate of 2.5 per cent on average in real terms per year from 2006 to 2015. Furthermore, agriculture is 3.2 times better at reducing poverty than non-agricultural sectors and a mere 1 per cent of GDP growth in agriculture increases the income of the poorest by 6 per cent. Agriculture contributes 3 per cent to the South African GDP but a broader perspective, which considers linkages with the rest of the economy, brings its contribution to at least 7.5 per cent.

Despite the recent fall (immediately after the ANC's EWC announcement) in South Africa's property rights rankings, the country is still ranked 37th out of 125 countries globally, and second in Africa. The biggest challenge remains to provide security of tenure and increasing the tradability of property in the former homelands and other areas where the poor are concentrated.

“The cost of expropriating the land will be borne by land reform beneficiaries who will be subjected to falling land prices, low on-farm asset prices and higher costs of borrowing.”

To promote economic development that benefits the poor and addresses inequality, formal property rights are essential. Such rights can take on a number of forms but security of tenure and the tradability of such property is pivotal. In South Africa, immovable property alone constitutes R4.5 trillion of household net assets. The wealth creation attributes of property rights are therefore absolute. In the High Level Panel on Assessment of Key Legislation and Acceleration of Fundamental Change Report, it is astutely noted that there is a "fundamental correlation between vulnerable forms of tenure and the geography of spatial inequality and poverty that remains entrenched in South Africa".³ This is because without property rights, inter-generational wealth cannot be generated, access to finance is severely limited and in general, those without property rights are excluded from the formal economy.

Property rights are a social good and those without property rights are economically invisible. Conservative estimates place the number of South Africans who face tenure insecurity at 17 million, or 31 per cent of the population. They can be found in communal areas, townships and informal settlements. Without proper rights, they cannot fully participate or prosper in a market economy.

Across the globe, titled land has greater value, attracts greater levels of investment and allows its holders access to more credit than non-titled land. In other words, titled land produces better returns and a better standard of living on a larger scale. This can be seen quite clearly in Brazil where property rights were introduced in the form of title in the favelas and within a matter of months visibly led to increased prosperity.

To maintain and increase agricultural production levels, which is crucial for ensuring ongoing access to affordable food in South Africa, investment is critical. Well enforced property rights provide the framework within which investment can take place. Property rights are the very basis of exchange and the extension of ownership to capital goods, the basis of financial markets and therefore growth and development. Property rights are therefore key to long-term investor confidence and undermining them will have profoundly negative effects.

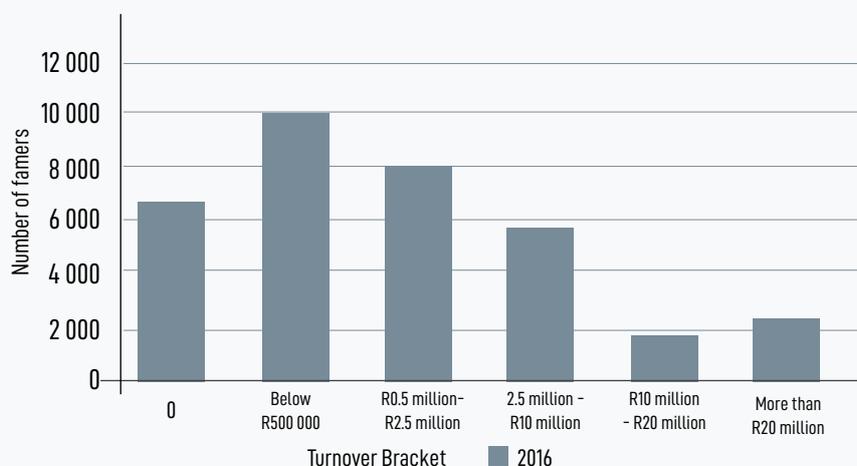
Legislation which dilutes property rights, with a resultant negative impact on property values, is not a holistic, sustainable solution for either owners, farm workers or the poor.

“Legislation which dilutes property rights, with a resultant negative impact on property values, is not a holistic, sustainable solution for either owners, farm workers or the poor.”

³ To read more, see "Forging a 'New Deal' for South Africa": The contribution of Parliament's High Level Panel Report", here

“While receiving only a fraction of the government support that other global competitors receive, South African farmers are confronted by a fiercely competitive and dynamic global economic and trade environment.”

Figure 2: Number of South African farmers registered with SARS in 2016



Source: The South African Revenue Service (SARS), CDE, 2018⁴

Christo van der Rheede, Deputy Executive Director, Agri SA

Between 2013 and 2016, the number of South African farmers has just about halved from 57 357 to 35 250, and nearly 60 per cent of those generate turnover of less than R500 000 a year. Of these, there are only 4 436 which make a turnover of between R5 and R20 million annually, and only 2 325 who make more than R20 million per year. This means that just under 7 000 South African commercial farmers (20 per cent of the total) are responsible for 80 per cent of South African agricultural output. These farmers are not just responsible for South Africa's food security but pay the bulk of AgriSETA skills levies, and other industry levies, and they play a critical role in generating foreign exchange, developing industry skills and expertise and providing a stable source of employment in rural areas.

While receiving only a fraction of the government support that other global competitors receive, South African farmers are confronted by a fiercely competitive and dynamic global economic and trade environment. South African farmers must adapt and comply with internal political challenges above and beyond land reform, including AgriBEE, minimum wages and other new labour legislation, property taxes, skill levies, uncertain water rights and access, a volatile exchange rate, and high transport and communication costs. South Africa's commercial farmers, while fairly successful and well adapted, are already financially overburdened and face many potential risks. If these farmers no longer believe they can make returns on their investment they will stop investing.

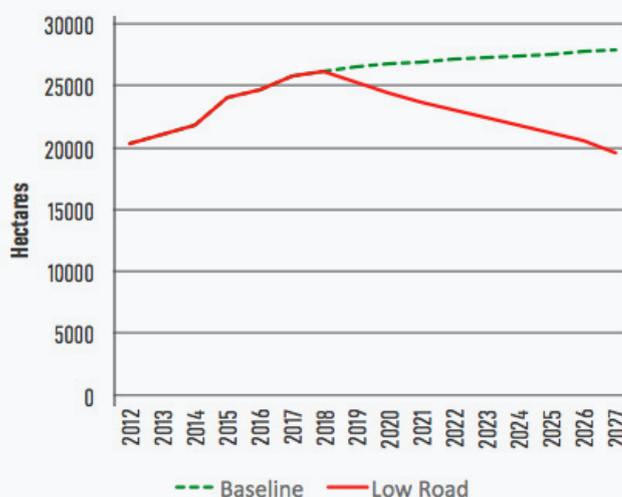
⁴ Christo van der Rheede's CDE Presentation, 2018, using SARS data, for the years 2013- 2016.

Ferdi Meyer, Director Bureau for Food and Agricultural Policy (BFAP);
Professor, University of Pretoria

The current policy and political uncertainty around EWC can be seen to have real and even immediate consequences. This threatens not only the commercial farming sector, but the cost of food and the economy at large. We calculate that inevitable investment losses will result in smaller harvests, about a 40 per cent decline in exports, and a 30 per cent drop in employment within five to six years. In the graph below this can be seen in the case of table grapes:

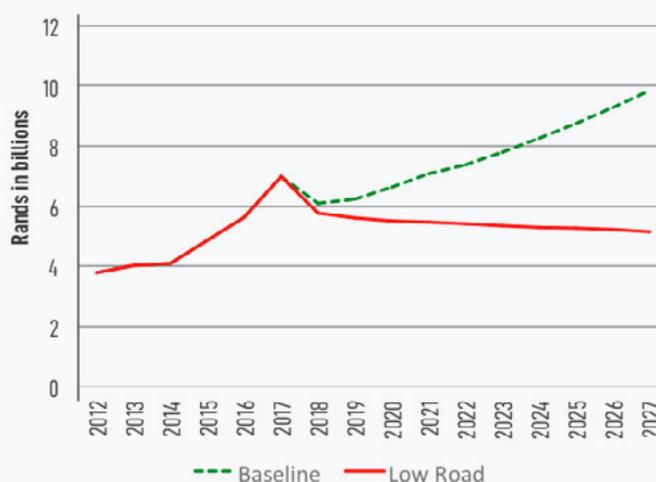
“The current policy and political uncertainty around expropriation without compensation can be seen to have real and even immediate consequences.”

Figure 3: Uncertainty related to land reform: table grape area



Source: Bureau for Food and Agricultural Policy (BFAP), CDE, 2018⁵

Figure 4: Uncertainty related to land reform: table grape export value



Source: Bureau for Food and Agricultural Policy (BFAP), CDE, 2018⁵

⁵ Ferdi Meyer's CDE Presentation, 2018, using BFAP data.

Existing agricultural producers, being the primary source of economic activity in rural areas, are critical to the development of rural economies and to maintaining food security, which does not simply mean that a country should produce all the food that its population consumes, but rather that domestic food demand is met by the best and most affordable supply. For many crops the best and dominant producers are local farmers, and a sudden drop in output will have serious consequences, particularly in the form of rising prices and food shortages.

South Africa is currently the only food secure country in sub-Saharan Africa. With the population of Africa expected to triple in the next 30 years, without the necessary accompanying economic expansion and mechanisation to support it, African demand for food will be half that of the global demand in the next 50 to 100 years. This has led many to conclude that the South African agricultural sector could significantly expand and grow to feed this demand.

The South African agricultural sector has significant multiplier effects due to its considerable linkages with the rest of the economy. In fact, the greatest creation of jobs is in long-integrated commercial chains, with the wine industry, being in the top 20 labour-intensive sectors in the economy, seen as the best example of this.

Higher investment rates would make South African agriculture more productive and also create the possibility of an increased demand for labour. The bottom line is that new jobs will not be created unless the productivity of the land is improved, and productivity will not improve unless investments into agriculture continue to increase.

To sum up this section: There was broad agreement amongst experts that, despite its current struggles, the agricultural sector has performed relatively well. Large, commercial farmers are making investments that are raising food output, but much more is needed in order to improve productivity and create additional jobs. Private investment does not happen without property rights, which have to be understood as credible protections against future expropriation. In the context of the uncertainty accompanying current land reform debates these protections are weakening, which, in turn, is almost certainly impacting negatively on the agricultural sector's ability to attract investment, deliver growth, jobs and affordable food.

Making agriculture more labour-intensive

According to the National Development Plan (NDP) the expansion of commercial agriculture has the potential to create an additional 250 000 direct jobs and a further 130 000 indirect jobs by "picking winning agricultural sub-sectors where the expansion in production and further value-adding processes are

"The bottom line is that new jobs will not be created unless the productivity of the land is improved, and productivity will not improve unless investments into agriculture continue to increase."

sustainable over the long term.”⁶ This expansion needs to be driven by higher levels of productivity and supported by foreign and domestic market demand. Discussions at the roundtable centred on identifying which sectors had the best chance of generating the additional jobs South Africa desperately needs, and what challenges are holding these sectors back.

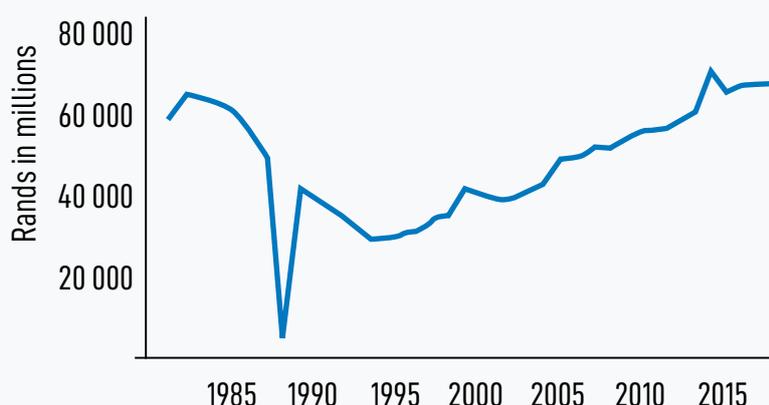
Wandile Sihlobo, Head of Agribusiness Research, Agricultural Business Chamber (Agbiz)

South Africa has an exceptionally small number of people employed in agriculture by international standards, which is both a reflection of history and geography, and an important reason to grow the agricultural sector as much as possible. Employment in agriculture has been in steady decline since the 1970s. One reason for this is that the nature of labour in agriculture has changed, with greater shifts towards seasonal, rather than regular or permanent labour. The main reason, though, is increasing mechanisation in the sector. There is clear evidence that the more farmers invest in agricultural machinery, implements, motor vehicles and tractors, the fewer workers they hire. This is particularly evident in the Grains industry, which even while it grows and expands, is employing fewer and fewer workers.

If job creation is the main policy focus, then South Africa needs to develop and extend its field crops – like cotton and sugar cane – and horticulture sectors, which are labour-intensive, and for which there is a growing global demand. Field crops and horticulture lead employment in agriculture, consistently employing more than 50 per cent of the agricultural workforce since 2008.

“South Africa needs to develop and extend its field crops and horticulture sectors.”

Figure 5: The value of South African agricultural machinery, implements, motor vehicles and tractors

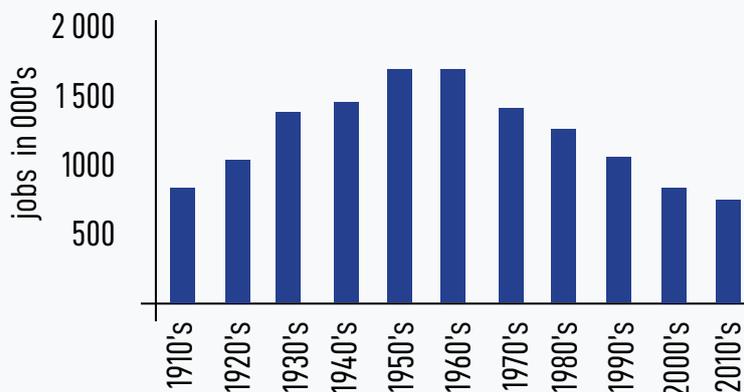


Source: Department of Agriculture, Forestry and Fisheries and Statistics South Africa, CDE, 2018⁷

⁶ South African Government, *The National Development Plan*, 2015, p.200.

⁷ Wandile Sihlobo's CDE Presentation, 2018, based on data from the Department of Agriculture, Forestry and Fisheries and Statistics South Africa

Figure 6: Wage labour in the South African agricultural sector

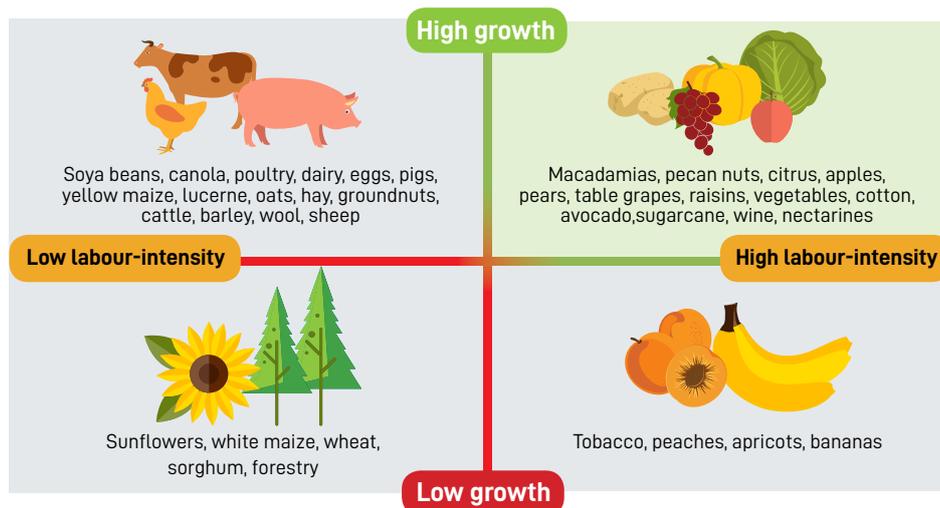


Source: Department of Agriculture, Forestry and Fisheries and Statistics South Africa, CDE, 2018⁸

The crops which have been identified as particularly labour-intensive include macadamias, pecan nuts, avocados, citrus, apples, pears, table grapes, raisins, cotton, nectarines, vegetables, sugar cane and wine. Of these, citrus, grapes, wine, apples and pears are South Africa's most competitive exports, with between 8 per cent and 2 per cent of world trade share. Because many of these crops are niche industries and demand very specific conditions and high quality output, mechanisation opportunities are generally restricted. Therefore, farmers are far less likely to replace labour with machinery. Hence these crops have high prospects for return and are highly labour-intensive.

“Field crops and horticulture lead employment in agriculture, consistently employing more than 50 per cent of the agricultural workforce.”

Figure 7: A plotted spectrum of high growth potential, labour-intensive crops



Source: The Bureau for Food and Agricultural Policy (BFAP), CDE, 2018⁹

⁸ Wandile Sihlobo's CDE Presentation, 2018, based on data from the Department of Agriculture, Forestry and Fisheries and Statistics South Africa

⁹ Ferdi Meyer's CDE Presentation, 2018, based on BFAP data.

However, investment in these labour-intensive crops requires high levels of confidence.

The consequences of a lack of confidence can be seen in the banana industry where there is evidence of regressing production and South African farmers moving to neighbouring countries. This is a lost opportunity for South Africa, not only because of the lost GDP, but especially in terms of potential employment, as banana farming has a labour multiplier of two workers per hectare. Similar issues prevail in areas of the country where avocados are grown, which is a rapidly expanding and labour-intensive sector.

Hamlet Hlomendlini, *Chief Economist, Agri SA*

The most suitable areas for agricultural expansion are in the Eastern Cape, KwaZulu-Natal and Mpumalanga provinces, which are best suited for horticulture. Yet large swathes of these areas are those beset with a myriad of unresolved land claims, restitution delays and the strong influence of traditional authorities. Agriculture in South Africa will only thrive when government, businesses, policymakers, civil society and farmers (commercial and smallholder) stand together and put aside politics for the betterment and transformation of the sector. Agriculture must be approached from a business point of view, and not from a political standpoint.

“Investment in labour-intensive crops requires high levels of confidence.”

To sum up this section: Making the South African economy more labour-intensive has to be a central component of how the country tackles the inter-linked challenges of unemployment and poverty. There are ways in which labour-intensive agricultural sectors could make an increased contribution towards achieving this goal, but that requires creating a much more supportive environment in which the private sector would be encouraged to invest in sectors such as horticulture, grapes and deciduous fruit. Neither the way in which the land reform programme has been implemented to date – which has put large tracts of potentially productive land in limbo as unresolved restitution claims drag on for years and years – nor the discussions around expropriation without compensation – which have the potential to make the private sector increasingly wary of investing – have allowed agriculture to make the contribution to job creation that experts believe it could make.

The important debate on small-scale farming

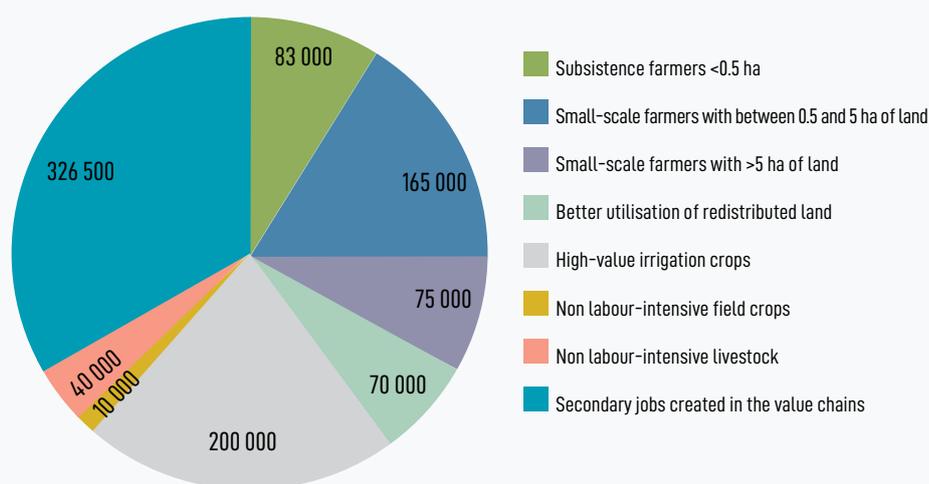
There is little doubt that small-scale farming is a crucial and often neglected element in South African agricultural development. There is broad consensus among experts around the need to find ways to support these farmers more effectively, as one way to make agricultural growth more inclusive and labour absorbing. However, the crucial issue is how much potential small farming has

in the context of South Africa's underlying agricultural and climatic conditions as well as current economic and political circumstances.

Ben Cousins, a long-standing advocate of small-scale farming, argued that, given adequate support and massive amounts of redistributed land, small-scale farmers could generate better livelihoods, additional jobs and bring about a general transformation of the agricultural sector. He was opposed in this view by historian William Beinart and agricultural economist Nick Vink, who argued that current challenges confronting small-scale farmers are unlikely to disappear, and that it is therefore very doubtful that small-scale farmers would contribute more than a small fraction of agricultural output under current conditions. CDE's executive director, Ann Bernstein, opposed Cousins' radical proposal to redistribute 80 per cent of privately held land while temporarily protecting the top 20 per cent of large-scale producers. Bernstein argued that this scheme would effectively end property rights as we know them. She agreed with Beinart that placing land reform beneficiaries on unserviced rural farmland, when there has been no evidence of government being able to support and service these areas in any way, is a recipe for expanding zones of poverty. Others pointed to the challenge small farmers face in accessing finance, while a farmer and then an agricultural expert pointed to both the existing contribution and the potential of medium sized farmers who are not part of the proposed protected 20 per cent and therefore subject to EWC under this proposal.

“The crucial issue is how much potential small farming has in the context of South Africa's underlying agricultural and climatic conditions as well as current economic and political circumstances.”

Figure 8: NDP vision - the potential employment breakdown



Source: The NDP, CDE, 2018.⁹

⁹ Ferdi Meyer's CDE Presentation, 2018, using NDP data.

Ben Cousins, *Emeritus Professor, DST/NRF Research Chair, Poverty, Land and Agrarian Studies (PLAAS), University of the Western Cape*

The South African environment remains largely unfavourable to small-scale farmers who face constrained access to inputs, finance, irrigation and water infrastructure, relevant research, extension advice, transport and markets. The dominant thinking on agriculture is one-sided and biased towards the large-scale commercial model. In practice (if not rhetoric) it suggests that 'one size fits all'. This bias in policy, planning and implementation is one key reason for the high failure rate in land reform, and in post-settlement support in particular.

Numbers matter. Simply de-racialising the large-scale commercial sector will make little contribution to employment or reductions in poverty and inequality. Policies and programmes to support market-oriented smallholders are urgently required (along with support for black commercial farmers and subsistence-oriented smallholders).

Smallholders must be thought of as small-scale farmers who use farm produce for home consumption to significant degree, and use family labour within farming operations to a similar degree. Smallholders are distinct from small-scale commercial farmers, for whom home consumption and family labour are negligible, and for whom profit is the overriding objective.

Stats SA suggests that about 200,000 market-orientated smallholders supply informal agricultural markets at present. These smallholders are particularly competitive in relation to two sub-sectors: fresh produce and livestock. Goat livestock farming and the informal bakkie trade are two important examples of this. The value of livestock holdings in Msinga district is, for example, valued at an estimated R998 million in assets. The major constraint here is not the market, but productivity, and problems of nutrition and disease. However, unlike horticulture, small livestock farming can expand across dry areas of the country and increase output. Livestock, particularly smaller livestock are also more egalitarian in distribution and easier for women-headed households to access.

The 'informal' food retail sector is poorly understood but is probably an important conduit for the distribution of food in South Africa due to the low purchasing power, high transport costs and remote location of many rural communities. There is also evidence that some smallholders supply rural supermarkets, even though formal markets can be very difficult for smallholders to access.

These industries are important because they promote accumulation from the bottom up and unlike commercial farming, create spill-overs into local, non-agricultural employment. Government must improve support for small and emerging farmers, where they are and with what they need.

“Policies and programmes to support market-oriented smallholders are urgently required.”

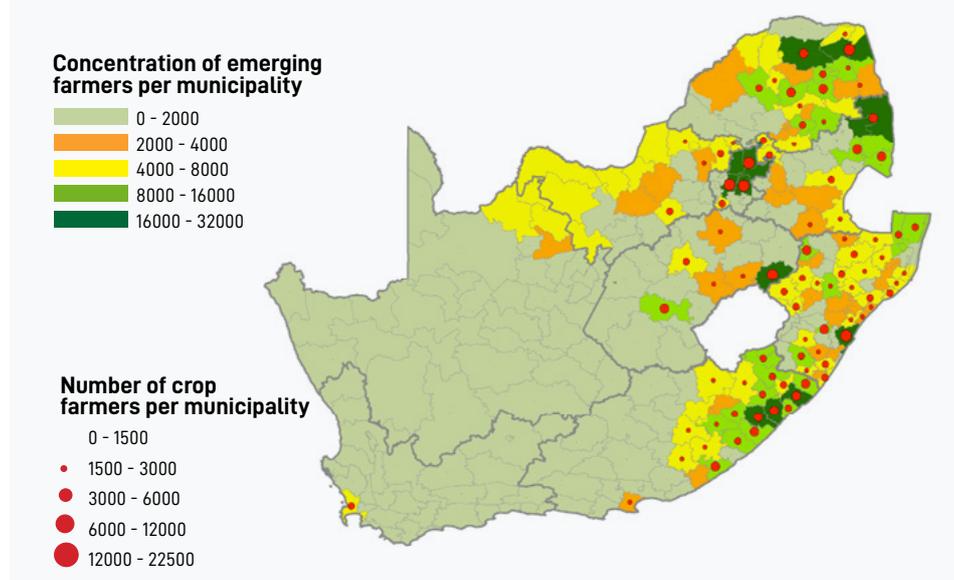
Land acquisition should be spatially targeted and combined with infra-structural development and improved support services. Extension services and the technologies they recommend must be reoriented to servicing the farming systems practised by smallholders, and supported by appropriate research. Veterinary services need to be offered to communal area herds. Support services offered by NGOs and commodity associations must be drawn in, too. Agriculture, as a key employment generating sector, needs more state support, but this should be mainly in the interests of black farmers and 'accumulation from below', not successful large-scale farmers.

Training of officials and extension staff within a revitalised bureaucracy is urgently needed. But all these different aspects of state capacity have to be addressed, or any kind of agrarian reform is utopian.

To realise their potential, small-scale farmers need access to land and water, which is why I have made the proposal for large-scale redistribution of both land and water to a nascent class of small market oriented farmers who are able to engage in 'agricultural accumulation from below'. The most productive core of large-scale commercial agriculture, comprising the top 20 per cent of farming operations, should not be targeted for land redistribution in the short to medium term. Other than the largest 20 per cent, many white farmers are relatively marginal farmers and their land could be acquired relatively easily and cheaply. The more irrigated land that can be made available to smallholders, the better for job creation and poverty reduction. If the NDP is correct that the market for vegetables could grow by 60 per cent over the next ten years, this represents a major opportunity for agrarian reform.

“The more irrigated land that can be made available to smallholders, the better for job creation and poverty reduction.”

Figure 9: Concentration of emerging farmers



Source: Integrated Value Information System (IVIS), CDE, 2018¹⁰

¹⁰ Ferdi Meyer's CDE Presentation, 2018, using IVIS data.

William Beinart, *Emeritus Professor, Oxford University*

Besides a few 'pockets of dynamism', evidence points to an overall decline in small-scale farming output over the last few decades. The major reason for this has been a widespread withdrawal from arable production in fields. Smaller gardens, adjacent to homesteads, thrive in some areas (where vegetables are increasingly important) but these do not adequately replace arable fields. Livestock numbers may also have declined partly because of diseases.

The key priority should be supporting those farmers who have already received land via the land reform programme. However, this will entail a major commitment by the state, namely expanding its extension and veterinary services. This will, at best, happen gradually, and benefit a relatively small number of rural producers. Fast tracking land reform which places beneficiaries on un-serviced rural farmland, when there has been no evidence of government being able to support and service these areas in any way, is a recipe for expanding zones of poverty.

It is crucial not to exclude or underestimate the role the private sector can play in supporting small-scale farming, especially given the synergies which can be gained and the expertise which can be shared. The oft cited example of the National Wool Growers Association shows how fruitful and successful these initiatives can be. Higher government expenditure on partnerships and agricultural schemes should therefore support bold pilot schemes.

Rapid, large-scale and possibly top down schemes that have not been tested are not a good idea. The evidence suggests that fast-tracked land transfer from commercial farmers to smallholders, even the more market-orientated smallholders, would result in a significant loss in overall output. A kind of mass redistribution of land in which only the top 20 per cent of farmers are protected fails to understand what kind of property rights environment farmers require if they are expected to continue investing or even participating in the agricultural sector. Smallholders should certainly be beneficiaries of land reform but as part of a gradual programme, with incrementally growing support, remembering that settlements have to include schools, clinics and services, as well as agricultural extension.

Nick Vink, *Professor Agricultural Economics, Stellenbosch University*

Whether in large or small-scale farming, employment can only increase if the productivity of the land increases at a rate faster than the increase in the productivity of labour. The only way to do this without reducing labour input is to expand production onto unused land, or to invest in land saving technologies such as fertilisers or to expand irrigation. For example, although the National Wool Growers Association has been a great success story, it has not employed more people. This reduction in labour input can be seen across the country

“Rapid, large-scale and possibly top down schemes that have not been tested are not a good idea.”

not only on large farms but also in small-scale production. Once land productivity is stable, then investment in labour-saving technology increases and employment usually declines. So land productivity needs to increase in a way that will require more labour without an increase in labour-replacing technologies such as tractors, mechanical harvesters, etc. This is the NDP's vision and it is difficult to achieve across all farm sizes.

Small-scale farming is important but not to the exclusion of other farming systems and especially not to the exclusion of the creation and development of value chains. Integrated value chains are essential for stimulating labour-intensive growth. What is significant in value chains is the factors which integrate them: big data, logistical systems, value chain finance (not for elements of the chain but for the whole value chain to work efficiently) and trust. Small, under-capitalised farmers have not had and will not for the foreseeable future, have the capacity to invest in and manage such complex value chains.

Lastly, support for small-scale farmers is an essential issue and while finance is key, credit is not. Equity finance and government grants are crucial but access to commercial finance and credit is likely only to result in greater debt and poverty. This is a critical point because wealth and likewise debt, is multi-generational.

“Small, under-capitalised farmers have not had and will not for the foreseeable future, have the capacity to invest in and manage such complex value chains.”

The National Wool Growers Association

The NWGA describes itself as a well-established, countrywide commodity structure, with a membership of more than 4 500 commercial and 20 000 communal members.

Besides being a platform for information sharing, the NWGA organises and provides training and mentorship to small-scale and emergent sheep and wool farmers. This service is provided on contract with Cape Wools and funded from the proceeds of the Wool Trust as well as through partnerships (such as national, provincial and local government institutions, AgriSETA, financial institutions, foreign donors, input suppliers and private companies).

According to Agri SA's 2017 Transformation Report, since the inception of the NWGA programme there has been a significant increase in production and income. A study of NWGA's projects found that within relevant communities the number of households with savings accounts has increased from 49 per cent in 2004 to 84 per cent in 2015 and the number of households that could afford school fees increased from 23 per cent in 2005 to 52 per cent in 2015.

CDE, 2018¹¹

¹¹This information was sourced from the National Wool Growers Association website, <https://www.nwga.co.za/>, Agri SA's 2017 Transformation Report and De Beer, L. and Terblanché, S. "Improving the livelihoods of wool producers in a sustainable manner by optimizing the woolled sheep production systems within the communal farming area of the Eastern Cape. 'A vision that is future directed'". *Landbouvoort./S. Afr. J. Agric. Ext.*, 43 (2), 2015, pp. 105–122.

Vuyo Mahlali, *President, African Farmers Association South Africa (AFASA)*

Part of the success of small-scale farming in the rest of sub-Saharan Africa is microfinance. South African small-scale agriculture has no access to microfinance. Even where there is access to finance or technology, this access is gendered and the capabilities of many of these institutions are limited.

Family labour can no longer be considered a prominent characteristic of small-scale farming. New forms of labour have had to emerge, even in small-scale farming, to adapt to rural demographic shifts. This is at the centre of poor productivity and the issue of job creation versus income generation. To return to the example of the National Wool Growers Association, much of its success depended on government financial support. It is important to note that while income has increased, employment has not.

Eric Johnson, *Farm Owner, Verlorenkloof Estate, Mpumalanga*

While large commercial farmers are important, medium-scale farmers play as important a role in many parts of the country and proposals that seek to expropriate everyone who is not one of the top 20 per cent of producers could inflict irreparable damage. Verlorenkloof is a mixed farming and share-block development with about 30 to 40 medium-scale farmers in a valley along the eastern escarpment of Mpumalanga, east of Dullstroom. Here the existing medium sized farmers have been successful in working together to keep the valley functioning, providing and maintaining infrastructure, maintaining and investing in schools and even providing some of the municipal services for the region. Together they are able to achieve for their valley what larger commercial farmers, like ZZ2, have achieved by themselves, with communities around Tzaneen. Any policy which advocates for the elimination of these kinds of farmers will have serious consequences for the continued vitality of many rural areas where some employment, schooling and other opportunities are still on offer.

Mike de Klerk, *Associate, Impact Economix*

A trend worth mentioning, in East Africa and beyond, is the rapid expansion of medium-scale farms. This is being driven by urbanisation, by people who are educated and live in cities and who subsequently reinvest in rural areas. These people are generating real benefits from their investments and driving agricultural development in many countries.

What is clear is that industrial, large-scale farming faces many challenges before it can become workable and acceptable in the rest of Africa. Likewise, expanding production in South Africa's communal areas is not going to take-off via the introduction of large, industrial model farms into these areas. Instead, South Africa should encourage medium size farmers as well as allowing

“Expanding production in South Africa's communal areas is not going to take-off via the introduction of large, industrial model farms into these areas.”

smallholders to work with large, commercial farmers on a contract farming or out-grower basis. This is how the rest of Africa is developing. Following this model rather than the purely large-scale model will probably also generate more jobs, although probably not additional production. However, for these processes to work properly we have to strengthen, not weaken, the security of tenure of all farmers.

Peter Delius, *Emeritus Professor, University of Witwatersrand*

There are a number of ways to make land reform, transformation and the promotion of small-scale farmers more effective. What strikes me most at the moment is how utterly disconnected the discourses around land reform are. There seems to be no point of connection between agri-business, academia and government.

Much of this is underpinned by the absolute failure of information loops within the state. There is no feedback from the experience of people on the ground that feeds into policy formation and implementation. They just get endless orders that are sent down to them and none of their experience feeds back in the system. These systems of communication, which allow for effective monitoring and evaluation, need to be built in to avoid reinforcing hopelessly failing policies. Individualised and secure tenure could also substantially reduce a number of issues, including that of intercommunity conflict.

If we start moving in these directions, there is scope for increasing the numbers of black small farmers. But we cannot afford to underestimate the support, training and resources that are required to give the relatively small numbers who wish to farm a fighting chance of success.

To sum up this section: While different perspectives emerged about its potential scale, there was a general consensus around the importance of supporting and expanding sustainable small-scale farming. The pursuit of this ideal should not, however, compromise the larger, more established agricultural sector and that of agricultural value chains. Serious concerns were expressed about providing short-term protection to 20 per cent of farm owners while putting the land of the other 80 per cent up for grabs, and the effect this would have on property rights. To undertake the massive task of matching expropriated or redistributed land with farmers who have potential, is likely to disrupt and make insecure the entire sector. The redistribution of land will not by itself reduce poverty. This will only happen if people who receive agricultural land are able to become more effective producers. Furthermore, no form of land reform will accomplish this unless state capacity and support for small-scale farmers is considerably consolidated and strengthened. It is evident, again, that at every level of farming, secure property rights remain crucial for success.

“We cannot afford to underestimate the support, training and resources that are required to give the relatively small numbers who wish to farm a fighting chance of success.”

Harnessing the private sector for successful land reform

In many rural areas, private, successful agricultural producers and large commercial farmers are the centre of economic activity, services and infrastructure, and they have generated a number of achievements with respect to making land reform beneficiaries better off. This issue is receiving renewed attention at the highest levels, but more research is required into both the achievements and the challenges that emerge from attempts by the private sector to promote land reform, small black farming and the transformation of agriculture.

Representatives from important sectors – forestry, sugar, tomato production, as well as those acting across a range of sectors – shared their experiences. There are other initiatives in other sectors of the agricultural economy not represented here. What emerged from these presentations was a determination to make these interventions work, but also a catalogue of serious challenges that will be difficult to overcome in the near future.

Anwhar Madhanpall, *General Manager, South African Sugar Association (SASA)*

The South African Sugar Association (SASA) has a long history of pioneering partnerships with black agricultural producers and with initiating private led land transfers. In the early 1990's the industry redistributed about 20 000 hectares and facilitated a loan finance model. Combined with the Land Redistribution for Agricultural Development (LRAD) programme in early 2000, this was a mixed model of grant and loan financing.

Inkezo was set up by SASA as a vehicle to facilitate further redistribution, with willing seller landowners and prospective buyers. It also drew up business plans, liaised with formal financial institutions, secured necessary financial assistance and assisted with administrative and legal aspects. In other words, it provided the due diligence, financial assistance and support services required to turn land transfers into successful ventures.

The state brought this to a halt by moving away from LRAD, which placed a greater emphasis on individual titles and the capacity of recipients to use land productively, towards prioritising the restitution programme which seeks to benefit whole 'communities'. As a result, Inkezo was dissolved and currently 40 per cent of SASA commercial land has been gazetted, or officially marked for state acquisition. This is a real challenge and is leading to disinvestment. However, the Department of Rural Development and Land Reform have recently asked the industry to facilitate a commodity meeting with the aim of establishing a commodity driven model around land redistribution together with the provision of post-settlement support.

“The South African Sugar Association (SASA) has a long history of pioneering partnerships with black agricultural producers and with initiating private led land transfers.”

Antonie van Staden, Senior Manager in Corporate Services, ZZZ

ZZZ is an iconic agricultural enterprise in South Africa, older than a century, with farms in five out of the nine provinces and responsible for producing a multitude of produce. Most prominently ZZZ is known as the largest tomato producer in the Southern Hemisphere and Africa with 190 000 tons produced annually. Land restitution surrounds ZZZ operations across the country but most acutely in key farming areas: Limpopo and the Western Cape. ZZZ has voluntarily initiated and implemented a number of partnerships, with a 50 per cent success rate. This impetus came from failed, delayed and ineffectual state-led land reform, which impacted negatively on communities but also on the businesses who are based in and operate in those areas.

ZZZ plays the role of corporate governance for land reform properties, their transfer, lease agreements and project management. The most successful models have been those where, even after post-settlement support, ZZZ remains a partner or shareholder. Not only does this give land beneficiaries access to a wealth of expertise, ZZZ acts as assurance for credit and enables access to capital that small or emergent farmers would otherwise not have.

Each model has had an escape clause in which either party can buy out the other party (although ZZZ can only buy shares and not buy back the land). In the Langkloof Valley in the Eastern Cape, land beneficiaries had enough money to buy out ZZZ's shares in their farm, however, their land is in a Communal Property Association (CPA) and so they have ongoing financial difficulties getting loans based on the value of the land. Moreover, they have very little farming expertise and hence have not made optimal productive use of their land or labour.

Another challenge with restitution and land reform which awards land to groups or communities is the difficulty in defining a community or group. There are many examples of dissenting or 'excluded' members of a community which have organised and derailed or even destroyed projects. In one case an excluded group broke down fences and destroyed an avocado crop worth over R1 million.

Overall, the involvement of private companies in these projects, if properly run, can massively enhance the capacity of new, small farmers and can then unleash immense potential for growth, benefitting both land beneficiaries and the local economies in which they reside.

“There are many examples of dissenting or ‘excluded’ members of a community which have organised and derailed or even destroyed projects.”

“The Emerging Farmers Programme seeks to recruit and train new black farmers and then help them access supply opportunities within Sernick’s value chain.”

The Sernick Emerging Farmers Programme

Sernick Group describes themselves as a diversified cattle and beef organization active across a range of activities in the value chain, including retail outlets. The organisation is based in Kroonstad in the Free State. In 2016 the organisation established the Serlaff Cooperative as part of their Emerging Farmers Programme. The initiative seeks to recruit and train new black farmers and then help them access supply opportunities within Sernick’s value chain.

The original cooperative consisted of 59 emerging black farmers. These farmers now supply between 40 and 60 weaners to Sernick annually. “These farmers are our future. One day they will be our clients and we would like to do everything in our power to assist them and help them succeed. Their success is our success,” says Nick Serfontein, Chairman of the Sernick Group.

The co-op was assisted with a R25 million loan from the Land Bank to kick-start the programme (which was paid back within a year) and the model is based on custom feeding from the Sernick feedlot. Since then, the Jobs Fund recently partnered with Sernick to extend their Emerging Farmers pilot programme to assist 660 farmers, who will be supported to eventually own and run their own feedlots, receive valuable training and given an option to exchange their old stock with cattle that fetch higher prices on the market. The farmers can also acquire shares in Sernick Wholesale, a new company that will be established to consolidate the group’s wholesaling operations. The R502.6m project, to be implemented in the Free State, is comprised of R165m Jobs Fund grant funding, R237.6m in matched funding contribution by Sernick and R100m that will be provided as a loan by other funding partners.

CDE, 2018¹²

¹² This information was sourced from Sernick Group’s website, <http://www.sernick.co.za/news/serlaff-success-story/>, as well as from various news sources including an article by Wandile Sihlobo in *Business Day* on the 6th of April 2018, <https://www.businesslive.co.za/bd/business-and-economy/2018-04-06-jobs-fund-and-sernick-link-up-to-support-black-farmers/>, and the official press release as accessed from *AgriOrbit* on the 4th of April 2018, <https://www.agriorbit.com/jobs-fund-and-sernick-group-partners-to-support-emerging-farmers/>

Maurice Makhathini, *Advisor and former Head of Land Unit, Mondi Limited South Africa*

Ten years ago, approximately 45 per cent of Mondi land was under restitution claims. Mondi thus set up a division within the company to settle these claims and to deal with other community related issues. We developed a model to settle restitution claims. The model consists of government purchasing the land as well as forestry from Mondi and the company then leasing the land for two rotations, or for 20 years. In the 11th year the community begins to take over the forestry operation incrementally so that by the 20th year the land beneficiaries will have taken over operations completely and become full owners of the land. The rental is 7 per cent of the value of planted land and 2 per cent of unplanted land and the beneficiaries are able to derive additional income from agricultural activities on intervening, unplanted land. All jobs and contracting opportunities within the operation are first offered to members of the claimant community. In limited cases Mondi has sold both the land and trees to government for acquisition on behalf of communities. In these cases, the bill is underpinned by a timber supply agreement to the Mondi paper mills. Through these models 21 claims have been settled and about 38 000 hectares have been transferred.

“The substantial delays and lack of accountability for which South African land reform is known, has resulted in an erosion of trust between all parties.”

In 2009 Mondi established the first Agri-Village in Mkhondo Municipality in Mpumalanga. This was a multi-stakeholder partnership. The village agglomerated formerly scattered settlements (of which there were five), provided access to land and secure tenure, developed utilities and social services, and unlocked significant economic opportunities.

However, the obstacles are numerous. Mondi has had to deal with many and serious internal community conflicts and it has often proved almost impossible to sort out the financial aspects. The greatest obstacle is trust. The substantial delays and lack of accountability for which South African land reform is known, has resulted in an erosion of trust between all parties.

Further, community restitution claims need to be better vetted so that land is fairly and transparently distributed. Likewise, the CPAs and Trusts set up in terms of the model favoured by the government's restitution programme repeatedly struggle to create clarity and certainty, thereby encouraging conflict over who qualifies for benefits and what is the best way forward. These challenges are exacerbated by government's approach which is beset by a lack of post-settlement support and an inability of the various departments who have land reform mandates to work together.

Community dynamics can therefore be difficult, if not impossible, for the private sector to manage, especially post-settlement when internal conflicts frequently explode into the open. This is exacerbated by the limited and ineffectual capacity of national, regional and local governments.

“The Witzenberg PALS was established to implement innovative and sustainable land reform projects, grow the economy and generate jobs.”

The Witzenberg Partners in Agri Land Solutions (PALS)

The Witzenberg PALS describes itself as a non-profit company established in 2015 in order to implement innovative and sustainable land reform projects, grow the economy and generate jobs.

The Witzenberg PALS was launched following engagements between commercial producers and emerging farmers, in partnership with the Witzenberg Municipality (in the Cape Winelands District of the Western Cape), the local community and later national government. The founding ideology of the Witzenberg PALS is that of the NDP and makes use of the lessons learnt from previous successful models. There are more than 100 agri-business members who have invested more than R100 million to purchase and develop land for the PALS projects.

The PALS has more than 100 listed projects, ranging from land reform and value chains to socio-development projects. To date, 11 projects have been implemented that entailed the transfer of ownership to co-owned PALS companies; 13 are in the process of being implemented, which should take 6 to 12 months; and an additional 16 are in discussion. The PALS projects focus on establishing successful individual black farmers with the participating commercial farmer donating a minimum of 30 per cent of shares in a new project to a beneficiary farmer. These farmers and agri-businesses provide security for the financing of newly established farming ventures at a substantial risk to themselves. Beyond this, the PALS includes opportunities for black entrepreneurs in agricultural value chains, such as packhouses, cold storage and marketing. Support functions include negotiations with government and financial institutions, as well as training and mentorship programmes.

These projects rely on government enablers, including: the subdivision of land to create new agricultural units; the issuing of water permits to expand water-storage capacity; capital gains tax exemptions; approval of expansions of the electricity network and the deposit of 'green power' into the existing network; and BEE recognition.

The Witzenberg PALS Centre in Ceres is the primary platform from where all the PALS projects are implemented and co-ordinated. However, the initiative has expanded to other regions, with projects registered in Piketberg, Porterville, Robertson and Riviersonderend, and interest has been generated for projects in other provinces, such as Mpumalanga, Limpopo and the Eastern Cape.

CDE, 2018¹³

¹³ This information was sourced from the Witzenberg PALS website, <http://wpals.co.za/>, Dutoit Agri's website, <http://www.dutoitagri.co.za/news/2017/07/31/witzenberg-pals>, and a particularly insightful interview from *Farmer's Weekly* on the 19th of March 2018, <https://www.farmersweekly.co.za/agri-business/empowerment/witzenberg-pals-serious-land-reform/>

“It is not the Constitution that is failing the people, it is a bureaucratic, inefficient, highly fragmented and unaccountable government system.”

Brian Whittaker, Director, Vumelana Advisory Fund

The Vumelana Advisory Fund was established six years ago in order to establish partnerships between commercial investors and beneficiaries in the land reform programme. We were driven by the failure of many land reform beneficiaries to derive real material benefits from the land they received. Many of those who were dispossessed of their land subsequently also lost access to capital, networks and skills, and as such, as beneficiaries they are unable to use the land effectively. Vumelana Advisory Fund therefore partners with investors and communities as an effective way to mobilise resources and expertise to turn land into a useful asset.

However, partnerships pose risks and a great amount of distrust exists between all parties. This is why partnerships do not form spontaneously. Vumelana Advisory Fund seeks to lower the risk by structuring and administering these partnerships with a team of professional transaction advisors, community facilitators and property institution administrators. All parties can walk away at any time during the negotiations. If an agreement is reached, the transaction advisory fees must be reimbursed to Vumelana.

Since its establishment, the Vumelana Advisory Fund has had about 300 inquiries. Of those we were able to conclude 18 deals with the potential to raise close on R900m investment, create about 1 500 jobs and benefit some 14 000 households. The projects vary: from tourism, to timber and fruit as well as hybrid models. These projects have been successful because they mobilise private investment and allow beneficiaries to be active participants in land reform, yet they represent a small proportion of land beneficiaries in the country.

While land reform is a public programme, it cannot succeed without private sector participation. There is much more potential to draw on private finance and support through properly structured partnerships than is currently being realised.

Annelize Crosby, Parliamentary Liaison and Head of Land Affairs, Agri SA

Land reform is a very emotive subject tied to personal identity and history. However, economic realities have to underpin any land reform programme if it is to be sustainable. To ensure that meaningful land reform is carried out which corrects the past but does not jeopardise the future, we must create legal and policy certainty to ensure we balance the demands of redress and restorative justice with economic demands and realities. The fact is, it is not the Constitution that is failing the people, it is a bureaucratic, inefficient, highly fragmented and unaccountable government system.

The challenge of state capacity

According to Johann Kirsten and Wandile Sihlobo, land reform to date can be described as a failure of government to deliver on a promise whose effort and resource requirements it clearly seems to have underestimated. Failure to deliver real land reform is not due to a scarcity of available land but due to the duplication of duties, as well as bureaucratic inefficiencies and human capital challenges within the state. This has been echoed in detail in the High Level Panel on Assessment of Key Legislation and Acceleration of Fundamental Change Report.¹⁴

For example, according to the state land lease and disposal policy, land acquired via land reform mechanisms would be leased to a beneficiary for a period of between 5 and 30 years, followed by the option to transfer ownership. In reality however, the beneficiaries only received short-term leases ranging from one to five years.

This makes sustainable farming almost impossible. In addition, the process entails a roughly three-to four-year waiting period, during which time there is the risk that more than one applicant can express interest in a specific piece of land. After application, beneficiaries need to have a fundable business plan to be eligible for the government's post-transfer support. The business plan also has to follow a tedious screening process. Many officials dealing with these applications lack the agricultural proficiency to expedite applications, causing further delays.

After this convoluted process, if an applicant finally gets access to farmland, they are placed on probation for about five years to assess whether they can farm successfully. This is largely where the problem arises, because at this juncture, beneficiaries have no title deeds to use as collateral. Therefore, the running of the business, including all input costs, depends largely on one source — the post-settlement support system. Its effectiveness therefore has a huge bearing on the programme's success.

Initially, support was vested in different departments. The Department of Rural Development and Land Reform was initially responsible for delivering the land in question, after which beneficiaries could approach the Department of Water and Sanitation to obtain water rights, the Department of Agriculture, Forestry and Fisheries to obtain agricultural inputs, and the Department of Trade and

“Land reform to date can be described as a failure of government to deliver on a promise whose requirements it seems to have underestimated.”

¹⁴ To read more, see, “Forging a ‘New Deal’ for South Africa”: The contribution of Parliament's High Level Panel Report”, here

Industry to obtain implements. This fragmented approach resulted in a misalignment between the land and associated services, which often set the beneficiaries up for almost certain failure.

Instead of improving alignment between the different departments responsible for the various support services, the Department of Rural Development and Land Reform then took over post-settlement support, something the department had no experience with or capacity to deliver. This has the appearance of papering over the cracks rather than identifying the root causes of failure.

CDE, 2018¹⁴

“Meaningful land reform cannot take place if it effectively serves to bring down the economy, the production of affordable food or the economic opportunities available in the country.”

To sum up this section: the private sector has a wealth of experience and expertise in different levels of agri-business and processing, and increasingly, in making land reform work. In many rural areas, large commercial farmers are the centre of economic activity, services and infrastructure, and given the notoriously weak capacity and capability of local government, these contributions are often all there is for new farmers. Beyond this, we need to learn more about private sector led land transfers and support for land reform beneficiaries. The most successful schemes have been those that transfer inputs and skills and provide marketing channels. However there are serious challenges that serve to undermine the effectiveness of many efforts. Some of these could be solved if the state provided more unambiguous support and better monitoring of these partnerships. Individualised tenure could substantially reduce internal community conflicts and prevent internal delays. That, of course, would, in turn, require the state to develop much more capacity and display a greater willingness to lead in making land reform a success.

Key insights

It is important not to confuse land reform with rural development. It is undeniable that land was key to the great historical injustice to black South Africans perpetrated by colonial and apartheid states in the 19th and 20th centuries, with negative consequences to this day. However, how we deal with redress and build a better future for millions of people has to be more and more focussed on cities and 21st century realities. The vast majority of new opportunities of the future will be generated in cities, not rural areas. Addressing injustices by resorting to a logic that made sense in previous centuries but is no longer relevant to the 21st, will set the country back, and will fail to make rural South Africans better off.

¹⁴ Wandile Sihlobo and Johann Kirsten, "Land reform policy itself a stumbling block to successful redistribution", *Business Day*, 11 June 2018, <https://www.businesslive.co.za/bd/opinion/2018-06-11-land-reform-policy-itself-a-stumbling-block-to-successful-redistribution/>

That said, the debate on land reform in South Africa must take into account evidence-based perspectives and economic realities. This is, unfortunately, currently rarely the case.

An important reality to start with is that, while commercial agriculture has adapted well to low levels of state support, a highly competitive global economy and internal regulatory challenges, it is a sector under serious pressure. The majority of farmers make low returns and many commercial farmers have decided that they can no longer make a living from the land and have left the sector. At the same time, in many rural areas and for many current and future black farmers, established commercial producers of various sizes are the only hope for maintaining a stable and expanding economic and employment environment, while providing crucial farmer support and, in some cases, even the provision of essential services.

Any discussion with respect to agriculture needs to be built upon what should be South Africa's national priorities: increased investment, faster economic and employment growth, and transformation through the emergence of large numbers of successful black farmers. To state the obvious, a land reform regime that freezes economic activity or tips the banks into crisis will be a disaster for many more people than the tiny fraction of the population who might get commercially viable farms and be able to use them.

Two issues are of critical importance if agriculture is to contribute to creating jobs and raising the growth rate:

- Resolving the uncertainty around EWC. There is currently very little sense what the rules for this will be and how they will be implemented. That makes farmers fearful about the future and makes them reluctant to invest. Without investment, agriculture will decline or stagnate rather than grow – and new jobs cannot be created.
- Finding a workable solution to the vast pile of unresolved restitution claims. This process has decayed as a result of poor design exacerbated by corruption, poor institutional capacity, legal and policy confusion, and endless delays. In some parts of Mpumalanga and Limpopo provinces where investments in labour-intensive, exportable crops could create many thousands of jobs, vast tracts of land are under claim, with numerous claims going back years and years. As a result, farmers, uncertain about their futures, are reluctant to invest.

Providing support and, in some cases, additional land to smaller black farmers with the potential to grow, is an important way to promote transformation and labour-intensity in agriculture. Some of these farmers may still rely on family labour, while others are seeking to operate at a more commercial scale. However, measured in terms of output and employment, this is likely to

“Growth and job creation in agriculture depends on raising the investment rate, which will only happen within the context of a favourable political and economic environment.”

produce fairly limited results in the short to medium term as government capacity to support these farmers is very limited, and current trends in an extremely competitive and tough environment are moving towards increasingly larger and capital-intensive farming modalities.

Getting land reform right requires balancing the need for visible redress against a realistic assessment of what is possible. Real progress will only emerge once government capacity is strengthened and a proper assessment emerges of the economic potential of agriculture in different parts of the country. In the immediate term, many of these challenges could be mitigated if government worked more closely with the private sector in support of initiatives designed to accelerate land reform and support new black farmers.

All farmers need property rights to thrive. In the heated context of demands for EWC and accelerated land reform, property rights are becoming less secure. If these trends culminate in ending the constraints on when and how the state can deprive someone of her possessions, economic stagnation or collapse will follow, and everyone, especially the poor, will bear the consequences. The right way to do land reform is therefore to provide clarity about and a rationale for defined, rule-bound processes of redistribution.

There is no compelling evidence to show that the challenges the country experiences with land reform have anything at all to do with constitutional impediments. Constitutional changes that increase the insecurity of property holders will therefore unnecessarily threaten the entire economy. They will also destabilise the only capacity South Africa has to implement effective land reform, that is, the myriad actors in commercial agriculture, banks and other supporting institutions.

“Changing the constitution to accelerate land reform constitutes an unnecessary threat to property rights.”

Recommendations

CDE's opposition to changing the Constitution should not be confused with opposition to land reform. We strongly support a version of accelerated land reform that boosts rather than threatens agricultural growth and jobs, that draws on the strengths of the private sector and that secures and expands property rights. Such a programme must be implemented to serve social justice and must ensure that millions of South Africans can access the opportunities generated by a growing, urbanising economy. CDE has advocated this vision for the past 15 years.

In present circumstances, our recommendations are:

- 1. Do not change the Constitution:** Changing the Constitution to accelerate land reform constitutes an unnecessary threat to property rights. Property rights are essential for investment and growth across the economy. In addition, all farmers, including the beneficiaries of land reform and the millions of South Africans who live under badly defined rights in old homeland areas, need clearer, transferable property rights to thrive.

“The best place to create opportunities for millions of poor and unemployed people will be in well managed, enterprise friendly cities that move away from apartheid spatial segregation as fast as possible.”

- 2. Create more jobs in agriculture:** Making the economy more labour-intensive is critical for South Africa's future. The agricultural sector could make a valuable contribution towards this goal if restitution claims that hold back investments into labour-intensive forms of production in provinces like Mpumalanga and Limpopo could be resolved.
- 3. Make land reform workable:** South Africa needs an accelerated but realistic and effective approach to restitution, redistribution and security of tenure, and most importantly urban land reform that does not extend the apartheid city with all its disadvantages for the poor. It is vital that land reform is both sufficiently large as to genuinely transform the sector and that it is sufficiently well-designed and-resourced so that its beneficiaries are better off afterwards. Critically, it should not transfer risks to other parts of the economy, notably the banks (in the form of impaired loans) or households (in the form of higher food prices).
- 4. Draw on the strengths of the private sector:** Across the agricultural sector large producers, voluntary organisations and other private sector actors have initiated schemes to provide resources, access to finance and shared knowhow for new black farmers. These initiatives, if properly supported, could enhance the capacity of new farmers and unleash real potential for growth, to the advantage of land reform beneficiaries and their local economies.
- 5. Formulate a rural development strategy:** South Africa has never had a properly conceived rural development strategy. Such a strategy must recognise that the country is nearly 70 per cent urbanised and that what most people need is a secure place to stay. Those who are willing and able to farm should as much as possible, be provided with chances to do so. However, the best place to create opportunities for millions of poor and unemployed people will be in well managed, enterprise friendly cities that move away from apartheid spatial segregation as fast as possible.

¹⁵ To read more on the crisis of the restitution programme and how it has become unworkable, The Looming Land Restitution Crisis, CDE, 2018, [click here](#).

Appendix 1

CDE Land Reform Publications

The Looming Land Restitution Crisis, 23 May 2018

[The Full Report](#)

Forging a “New Deal” for South Africa? The contribution of Parliament's High Level Panel Report, 9 May 2018

[The Full Report](#)

CDE, Business and Land Reform, 4 May 2018,

[The Full Report](#)

Land Reform in South Africa: Getting back on track, 7 May 2008

[The Executive Summary](#)

[The Abridged Report](#)

[The Full Report](#)

Farmers' Voices: Practical perspectives on land reform and agricultural development, 7 February 2008

[The Full Report](#)

Land Reform in South Africa: A 21st century perspective, 12 May 2005

[The Abridged Report](#)

CDE's presentation to Parliament's Joint Constitutional Review Committee on Section 25 of the Constitution

Ann Berntein's oral presentation, 26 October 2018

Media Statement on CDE's presentation, 31 October 2018

CDE Land Reform Op-eds

Huge Number of Land Claims and Chaos of Overlaps Must be Resolved, 15 June 2018, Business Day

Land Reform Plan Has Been Drawn-up - It Just Needs Willing Leaders, 24 April 2018, Business Day

State Bungling Threatens to Turn Land Reform into a National Crisis, 25 May 2008, Sunday Times

Land: The Real Obstacles, 7 May 2008, The Witness

Why Land Reform is Stuck, 7 May 2008, Mail and Guardian

Change Course on Land or Face Grave Consequences, 7 May 2008, Business Day

Grim Harvest for SA Unless Problems are Met Urgently, 7 Feb 2008, Business Day

Private Contribution to Land Reform Significant, 12 May 2005

CDE VIEWPOINTS

Volume 2: Why Land 'Expropriation Without Compensation' is a Bad Idea, Wandile Sihlobo and Tinashe Kapuya, 2 July 2018

Volume 5: Smallholders and Land Reform, William Beinart and Peter Delius, 25 October 2018



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