

Agriculture, Land Reform and Jobs

Can South Africa make this work?



SUMMARY REPORT

November 2018

Introduction

In December 2017, the ruling party committed itself to expropriation without compensation (EWC) as a way to accelerate land reform in South Africa. Parliament is now investigating whether the Constitution should be amended to make it easier to expropriate land. The president has come out in favour of a constitutional amendment while at the same time insisting that the changes that will result from this should not disrupt food production or have a negative effect on the economy. There is a lot of uncertainty about the implications of these developments and signs that property rights are weakening as South Africa slips down the world competitiveness rankings.

For most South Africans the history of land is one of pain and injustice, and it remains critical that redress takes place. At the same time, honest reflection is required on government's almost complete inability to support land reform beneficiaries or finalise the enormous backlog of conflicting, overlapping, sometimes unfounded restitution claims. As CDE argued as far back as 2005, any hope of achieving the complex, urgent and multiple aims of land reform has to depend on utilising the resources and drawing in the participation of the private sector. This is even more true today than it was then.

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. It draws on the discussions and materials presented at a CDE expert roundtable on agricultural growth, land reform and jobs, held in June 2018. For the full report, including the list of participants, [click here](#).

This summary is organised around the following themes:

- The ability of existing producers to deliver growth, jobs and affordable food.
- The potential to expand sub-sectors, such as some field crops 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 creating additional jobs.
- The role of established farmers and other private-sector institutions in supporting land reform and new black farmers.

The report concludes by reflecting on key insights and offers five recommendations that must urgently be tackled if South Africa is to have a growing agricultural sector that generates more employment while also redistributing land to successful black farmers.

Growth and jobs in agriculture

Despite current political uncertainties, South Africa's agricultural sector had, until recently, performed relatively well. It managed to grow consistently at a rate of 2.5 per cent on average in real terms per year from 2006 to 2015, about the same pace as the economy as a whole. However, in the second quarter of 2018 agricultural GDP dropped by almost 30 per cent and in 2016 farm debt reached R145 billion, its highest level ever, before increasing to R160 billion in 2018. It is worth noting that between 2013 and 2016, the number of South African commercial farmers dropped from 57 357 to 35 250 with nearly 60 per cent of these farms generating turnover of less than R500 000 a year.

In the context of the uncertainty accompanying current land reform debates, property rights are weakening. Immediately after the ANC's December 2017 EWC announcement South Africa's property rights rankings slipped from 26th place to 37th out of 125 countries globally, and from 1st to 2nd in Africa. The Bureau for Food and Agricultural Policy calculates that if property rights continue to weaken lower levels of investment 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.

Higher investment rates are what is required, as they would make land more productive, and 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. Government cannot generate such investments, so growth and jobs in agriculture can only be produced by the private sector.

Making agriculture more labour-intensive

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.

On most commercial farms, especially those concentrated in the grains industry (namely maize and wheat), increasing mechanisation has meant fewer jobs per hectare. Thus, in these sectors, even when investment leads to growth and expansion, fewer and fewer workers are employed. By contrast, some sectors are not susceptible to mechanisation and are naturally labour-intensive. Investments in field crops (eg cotton, sugar cane) and in horticulture sectors (eg avocados, macadamia nuts), for which there is a growing global demand, could, as claimed in the National Development Plan, create as many as 380 000 new jobs over the next ten years.¹

Encouraging this kind of investment requires, first and foremost, a much more supportive environment. Agriculture cannot make the contribution to job creation that experts believe it could because of the way in which the land reform programme has been implemented to date. The biggest challenge is the way in which the restitution programme has put large tracts of potentially productive land in limbo and discouraged long term investments, as unresolved claims drag on for years and years. The 2017 High-level Panel report to Parliament chaired by former president Kgalema Motlanthe claims there are still more than 7,000 unsettled, and more than 19,000 unfinalised, "old-order" claims (lodged pre-1999).² Since then thousands of additional claims have been lodged, all of which remain unresolved. These challenges are

¹South African Government, *The National Development Plan*, 2015, p. 200.

²South African Government, *The Report of the High Level Panel on the Assessment of Key Legislation and the Acceleration of Fundamental Change*, p. 233.

exacerbated by discussions around EWC, which make the private sector (farmers, banks, agri-business) increasingly wary of investing.

Harnessing the private sector for successful land reform

South Africa's private sector has a wealth of experience and expertise in 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 weak capacity and capability of the relevant public institutions, these contributions are often all there is for new farmers.

Private sector led initiatives to support land reform and new black farmers are evident across agricultural sub-sectors. These are not once off projects but emerge out of what is now a long history of partnerships between these organisations, communities and, to a lesser extent, government. The past ten to fifteen years have made clear that there is real determination by very many organisations and individuals in commercial agriculture and supporting institutions to make these land reform interventions work. If properly supported by government policy, attitudes and institutions, these partnerships could enhance the capacity of new farmers and generate real potential for growth.

For example, the South African Sugar Association (SASA) has a long history of pioneering partnerships with black agricultural producers and with initiating and supporting land transfers. Since the early 1990's the industry claims to have redistributed about 20,000 hectares and facilitated a loan finance model. SASA set up a company, Inkezo, to further facilitate redistribution, with willing seller landowners and prospective buyers, and provided the due diligence, financial assistance and support services required to turn land transfers into successful ventures. This important initiative fell away when government policy changed, away from a push towards individual ownership to prioritising restitution that sought to benefit entire communities. As a result, Inkezo was dissolved and, according to SASA, some 40 per cent of their land has now been gazetted, or officially marked for state acquisition. This is leading to disinvestment and reduced involvement in transformation within this industry.

ZZ2 and Mondi are two large businesses, one in agriculture and the other in forestry, which have voluntarily initiated, invested in and implemented a number of land reform partnerships. Despite ongoing challenges, often related to conflicts and inadequate governance structures within communities, the organisations maintain that their initiatives have benefitted a large number of people. There are many other examples across the country covering the Western Cape wine sector, cattle farming in the Free State, the wool sector, and a number of initiatives that cut across many sub-sectors.

It is difficult to assess exactly how much impact these scattered and largely unmonitored private sector initiatives have had. It is also clear that some interventions have not been successful, and that the challenges are considerable. The government's land reform policy and its implementation needs more coherence, state institutions from national to local government need greater capacity and less corruption. In addition, the promotion of individualised and secure tenure for land reform beneficiaries would significantly improve the prospects for success and reduce the likelihood of community conflicts and unworkable communal governance structures that frequently undermine these partnerships.

The debate on small-scale farming

There is undoubtedly scope for increasing the number of black small farmers through land reform. However, we should not underestimate the support, training and resources that are required to give the relatively small numbers who wish to farm a fighting chance of success. The claims that 200,000 black small farmers producing for markets are ready to succeed on large tracts of expropriated land need to be tempered by a sober assessment of reality and the potential of these smallholders to expand their endeavours.

Apart from some pockets of dynamism, research 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. By many accounts, large areas in the former homelands lie fallow as the majority in these areas have neither the inclination nor the means to put additional land to use. It is true that some of this underutilisation may be a consequence of weak and unwieldy property rights, which could make it difficult to transfer land to more efficient farmers and reduce incentives to invest. Fixing these tenure issues is a complex and difficult to achieve challenge, but could be an important step forward in terms of encouraging better land utilisation in these areas. Nevertheless, there is no compelling evidence to suggest that a shortage of land is the major constraint for the majority of successful small-scale farmers. (For a fuller discussion of these issues, see recent CDE publication, *VIEWPOINTS, Smallholders and land reform: A realistic view*, by William Beinart and Peter Delius, [here](#))

A key priority should be supporting those farmers who have already received land via the land reform programme and those actually using land in the former bantustans. However, this will entail a major extension of state support, which can, at best, only happen gradually, and benefit a relatively small number of rural producers.

Fast tracking land reform and placing 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. Rapid, large-scale and centrally coordinated schemes implemented by a government with very little capacity are not a good idea.

Any notion that mass redistribution of commercial agricultural land (60 per cent or 80 per cent of farmers) could take place while only the most productive farmers are protected will confront numerous and dangerous challenges. Among other things, this proposal fails to understand what kind of property rights environment commercial farmers and banks require if they are to continue investing (or even participating in) the agricultural sector. The likely collapse in overall investment that would result from such a scheme, even if the beneficiaries were productive and market-orientated in some way, would result in a significant loss in overall output

It is also quite clear that government does not have the capacity to manage such a large-scale redistribution of land. Nor could it come close to providing sufficient support services to the farmers benefitting from this mass redistribution plan. All experts, in fact, agree that without such support new small-scale farmers will have very little chance of succeeding on new land.

The vital importance of property rights

It is these kinds of proposals in which large tracts of land and many commercial farmers appear to be up for grabs that raise the levels of concern, and lead farmers to believe that property rights are in jeopardy. Insecure property rights make it impossible for farmers to invest because they cannot be certain that they will reap the rewards for the risks they take and the work they do. Without secure and individual property rights, the private sector will withdraw from production and investment. There is also the threat that the malaise will spill over into the rest of economy. The first signs of trouble might be reflected in banks' balance sheets as they are forced to make provision for larger prospective defaults on loans to farmers. They may also become increasingly reluctant to lend to firms and households against collateral of land and property. 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 and CEO of Nedbank, 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."³

There is therefore an urgent need for the state to create market certainty through clear policy frameworks that emerge out of effective consultation with the private sector and which are effectively communicated.

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.

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.

³Kabelo 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>

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 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.

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 is unnecessary and threatens property rights for no good reason. 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.
- 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 especially 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 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.

This summary report is based on the CDE roundtable report **Agriculture, Land Reform and Jobs: Can South Africa make this work?**. It draws on the discussions and materials presented at a CDE expert roundtable on agricultural growth, land reform and jobs, held in June 2018. The roundtable 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. The CDE roundtable report outlines the important insights, facts and debates that emerged from the discussion on agriculture's ability to generate jobs and growth in the context of land reform.



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