

Reflections on SA's agricultural economy in the context of recent drought and land reform debate

Wandile Sihlobo

South African Reserve Bank, Pretoria

01 June 2018



Overview of the presentation

Grain production conditions

- International grain production and stocks
- Domestic (major) grain production and weather forecasts

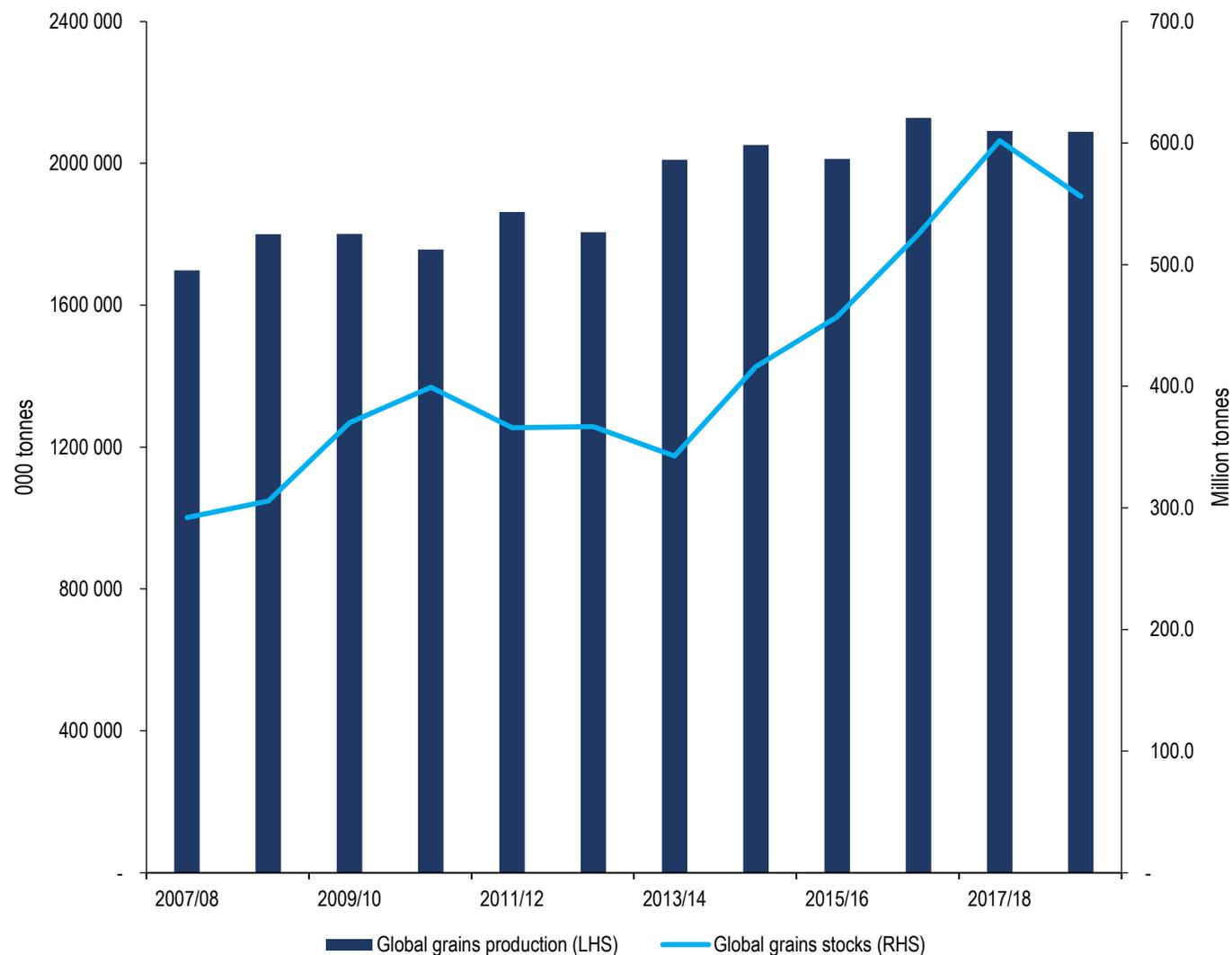
Land reform dynamics

- International experience of land reform
- Lay of the land and high productive areas
- South Africa land reform rationale
- Agribusiness confidence and investment in agriculture
- Expropriation without compensation scenarios

Concluding remarks

Grain production conditions...

Global grains situation



Key producers

- Argentina
- Brazil
- Australia
- Canada
- European Union
- Kazakhstan
- Russia
- Ukraine
- USA
- China
- India

Bottom line

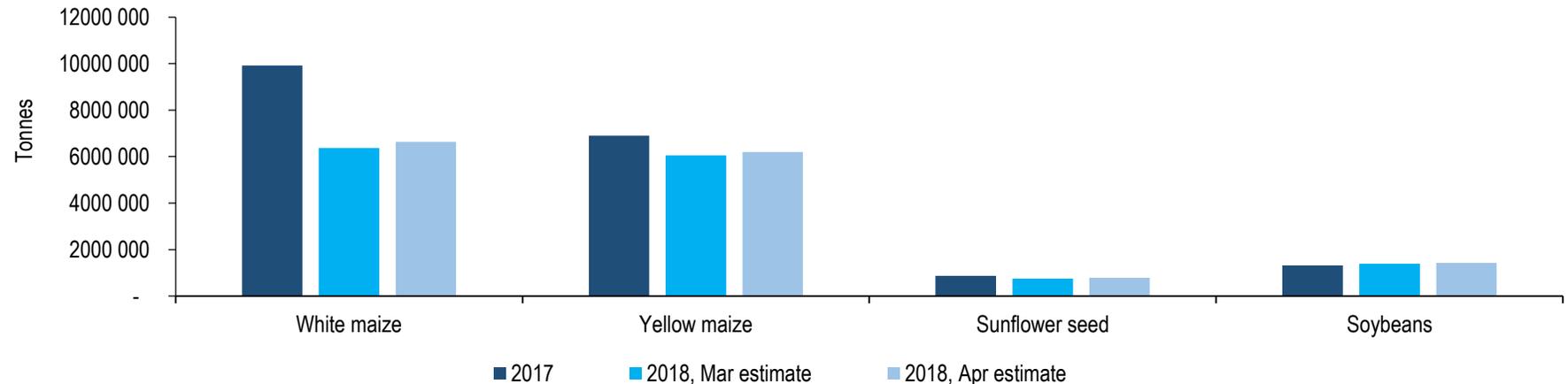
A marginal decline in world total grains production is envisaged in 2018/19, but overall supplies are seen down 1% due to tighter opening stocks.

South Africa's major grains production

Key points

- South Africa's summer grain and oilseed harvest could reach 15.2 million tonnes, down by 21% from the previous season, but better than market expectations at the start of the year.
- Also worth noting is that there are large stocks/inventories from the previous marketing year which will boost supplies in 2018/19 marketing year.
- South Africa's domestic wheat production could slightly recover this production season. This is mainly underpinned by expectations of higher yields which in turn could be boosted by favourable weather conditions.
- While the past few days have been dry and warm in most areas of the Western Cape, the weather forecasts promise above-normal rainfall between June and August 2018.
- South Africa's National Crop Estimates Committee (CEC), will only release their first production estimate for winter wheat at the end of August 2018.

South Africa's 2017/18 grain production is in good shape, albeit being lower than the previous season's bumper harvest....



....the winter wheat could also recover this season

Marketing year	Area (hectares)	Production (1 000 tonnes)
2016/17 (actual)	508 365	1,91
2017/18 (actual)	491 600	1,52
2018/19 (projection)	480 000	1,65

Weather forecasts for the next three months

- There is a possibility of above-normal rainfall in parts of the Western Cape province, which bodes well with the winter crop production season.
- The International Research Institute for Climate and Society's view is somewhat in line with the South African Weather Service's forecasts.



Seasonal Climate Watch June to October 2018

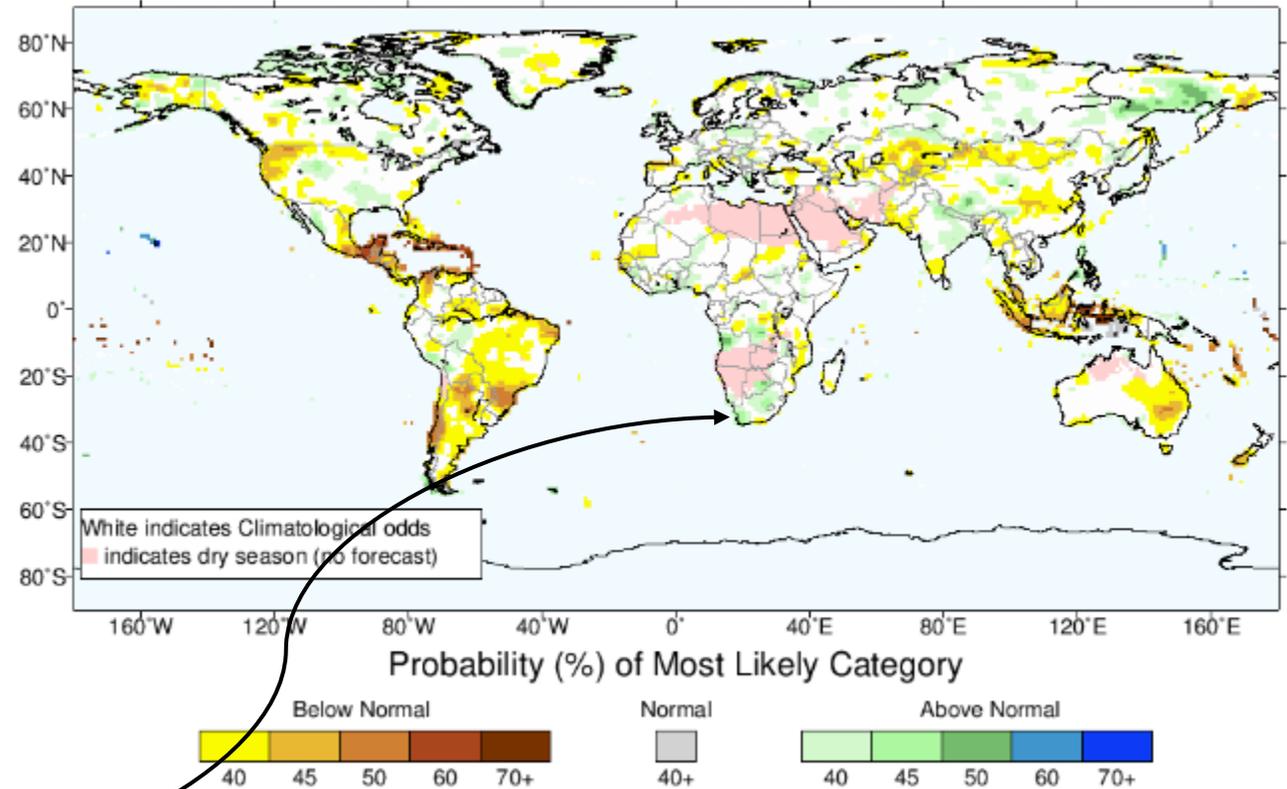
Date issued: May 28, 2018

I. Overview

The El Niño-Southern Oscillation (ENSO) has now moved into the neutral phase and is expected to rise towards an El Niño phase through winter and spring. At this stage there is a high likelihood of an El Niño developing, however it is still too early to predict its exact outcome during the next summer season. It is advised that this system be monitored in the next few months leading up to spring and summer to determine its impact on the summer rainfall areas.

Even though there is a higher likelihood for above-normal rainfall for the mid- (Jun-Jul-Aug) and late-winter (Jul-Aug-Sep) seasons, there is a distinct lack of confidence in these forecasts. Thus, as last month, there is uncertainty in the rainfall conditions for mid- and late winter. The same level of uncertainty is evident on the prediction of rainfall days within the mid- and late-winter seasons.

Generally warmer temperatures are expected across the country during mid- and late-winter, however like the rainfall forecasts there is a distinct lack of confidence in these forecasts and thus temperature conditions for the rest of winter remain uncertain.



Land reform dynamics...

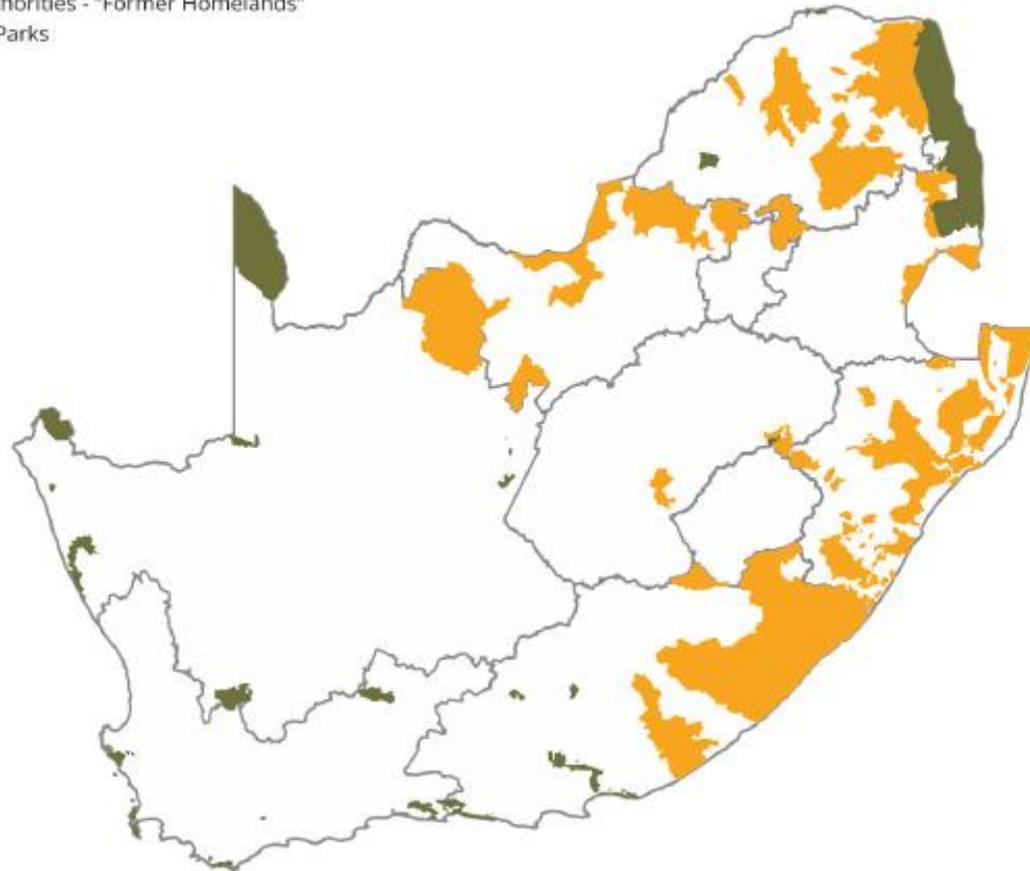
International experience of land reform

- Asia (Taiwan, South Korea and Japan)
 - Purpose = establish small scale farmers – generally viewed as successful
- Latin America (Brazil, Venezuela, etc.)
 - Purpose = break pattern of rent-seeking by powerful landlords – generally viewed as successful
- Africa (Namibia and Zimbabwe)
 - Purpose = redress for racially discriminatory past – contrasting outcomes
- **Key lessons**
 - Need to be fast-paced otherwise, excessive bureaucracy, centralisation and legal challenge will happen
 - Careful assessment of livelihood options
 - Consensus across the political spectrum needed
 - Programmes that relied only on the State and the public sector failed
 - Land reform only one part of a comprehensive programme of economic reconstruction
 - Market assisted programmes tend to perform better
- South Africa's policy design and updates stages considered these examples

Lay of the land: South African land pre -1994

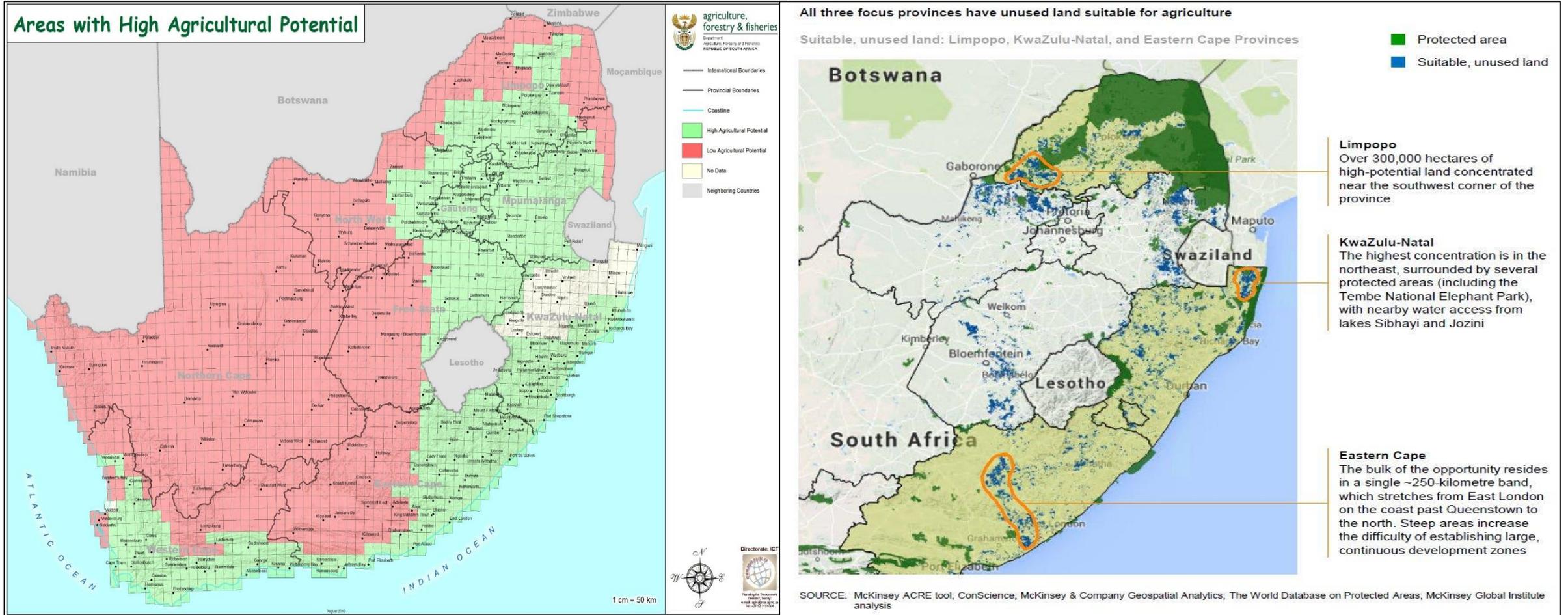
National Parks and Tribal Authorities

Orange Tribal Authorities - "Former Homelands"
Green National Parks



South Africa total (AREA IN HECTARES)	121 973 200	Share of total area
National Parks, urban, roads	6 875 725	6%
Former Bantustans	16 035 593	13%
State owned land	17 061 882	14%

Lay of the land: South Africa's high agricultural potential areas



South Africa land reform rationale

Rationale: not just economic considerations (i.e. agrarian reform) – it is a historical legacy.

- Method:
 - **Restitution** - claim back land that was dispossessed
 - **Redistribution** - broaden access to ownership
 - **Tenure reform** - provide legally secure rights to land in former 'homelands'
- Timeline:
 - 1994 – 2007
 - Relatively little market disturbance – state buys from willing sellers at market value (often inflated).
 - Poor implementation = very slow pace and little progress. Figures disputed – ranging from 9% to over 30%.
 - Majority of the land acquired by state – ownership not transferred to beneficiaries but only leased on short term basis.
 - 2007 - 2011
 - 2007 ANC policy conference resolved that 'willing-buyer, willing-seller' should be abandoned in favour of expropriation.
 - Constitution allows for expropriation WITH 'just and equitable' compensation.
 - Decision made, but never followed through – expropriation never used since Expropriation Act (1975) was outdated.
 - New Bill in process from 2008 to date.
 - 2011 – present
 - Green paper on land reform;
 - Frustration at slow pace of reform

Land reform story in numbers....

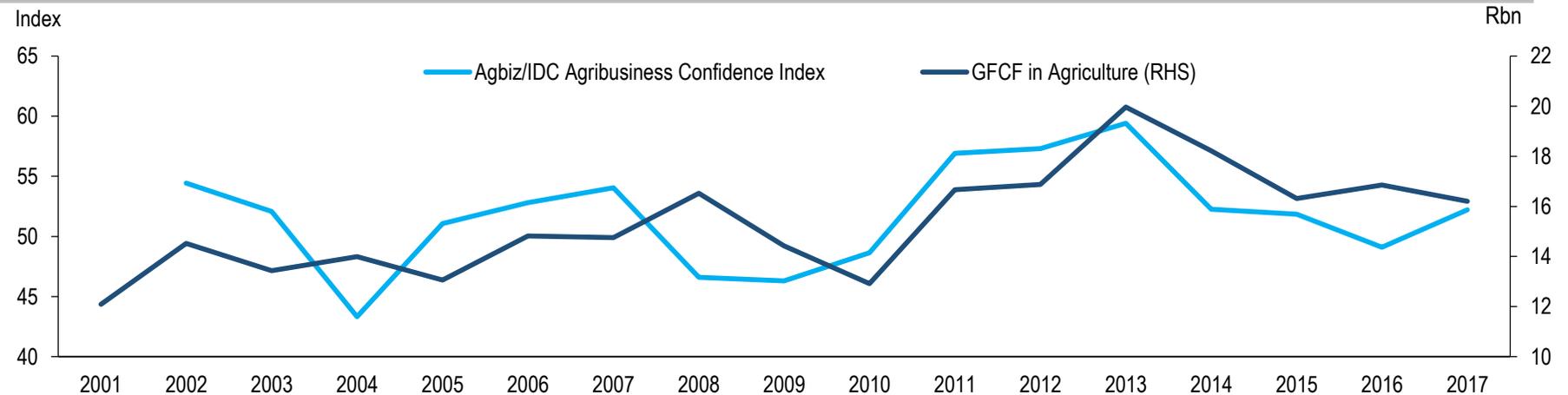
South Africa total	121 973 200	
National Parks, urban, roads	6 875 725	6%
Former Bantustans	16 035 593	13%
State owned land	17 061 882	14%
Farm Land in free hold (private land tenure - 1993)	82 759 302	68%
Agricultural land owned by the State		4 027 051,00
Redistribution		4 850 100,00
Restitution (ha's restored)		3 389 727,00
Restitution through <u>financial compensation</u>		2 772 457,00
Guestimate on private transactions (black willing buyers buying from white willing sellers)		2 500 000,00
Total farm land not owned by whites since 1994		<u>17 539 335,00</u>
Share of <u>farm land</u> redistributed (state and private)		16,3%
If we consider the 4 million ha state owned farm land as also in "black hands"		21,2%

Agribusiness confidence and investment in agriculture

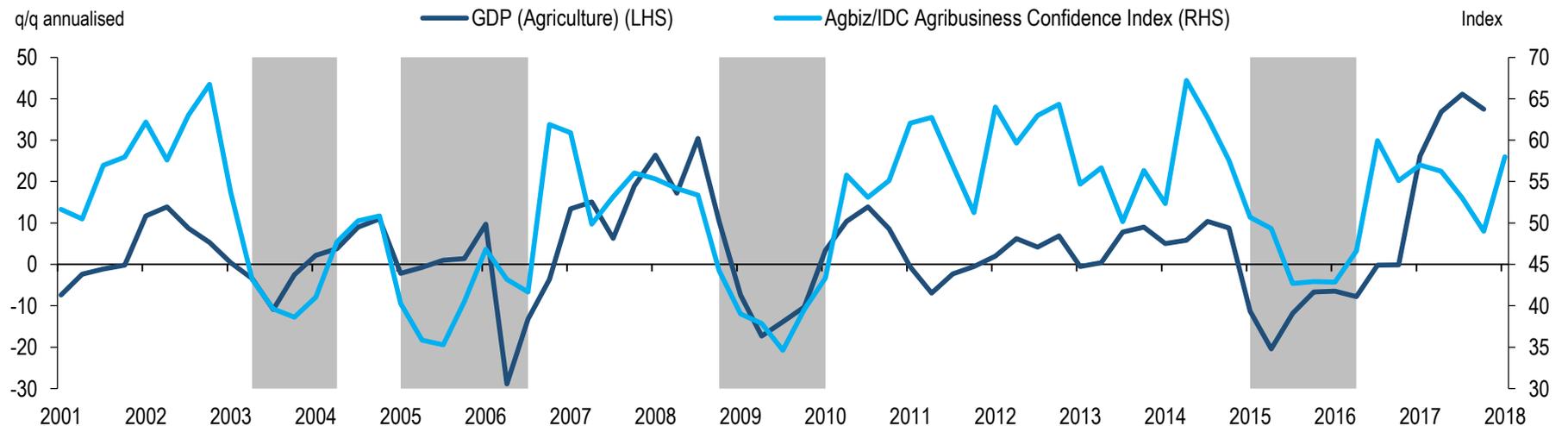
Key points

- There's fairly good correlation between Agbiz/IDC agribusiness confidence and investment in the sector.
- Agriculture is the third biggest mechanised after mining and energy – therefore, it needs investment to continue driving growth.
- The Agbiz/IDC Agribusiness Confidence Index improved by 9 points to 58 in the first quarter of 2018 (survey was conducted 21 February and 01 March 2018).
- Pre-parliament's expropriation announcement, **Agbiz/IDC Agribusiness Confidence is 64.** (60% of the respondents).
- Post-parliament's expropriation announcement, **Agbiz/IDC Agribusiness Confidence is 45.** (40% of the respondents)

Agbiz/IDC agribusinesses confidence and Investment....

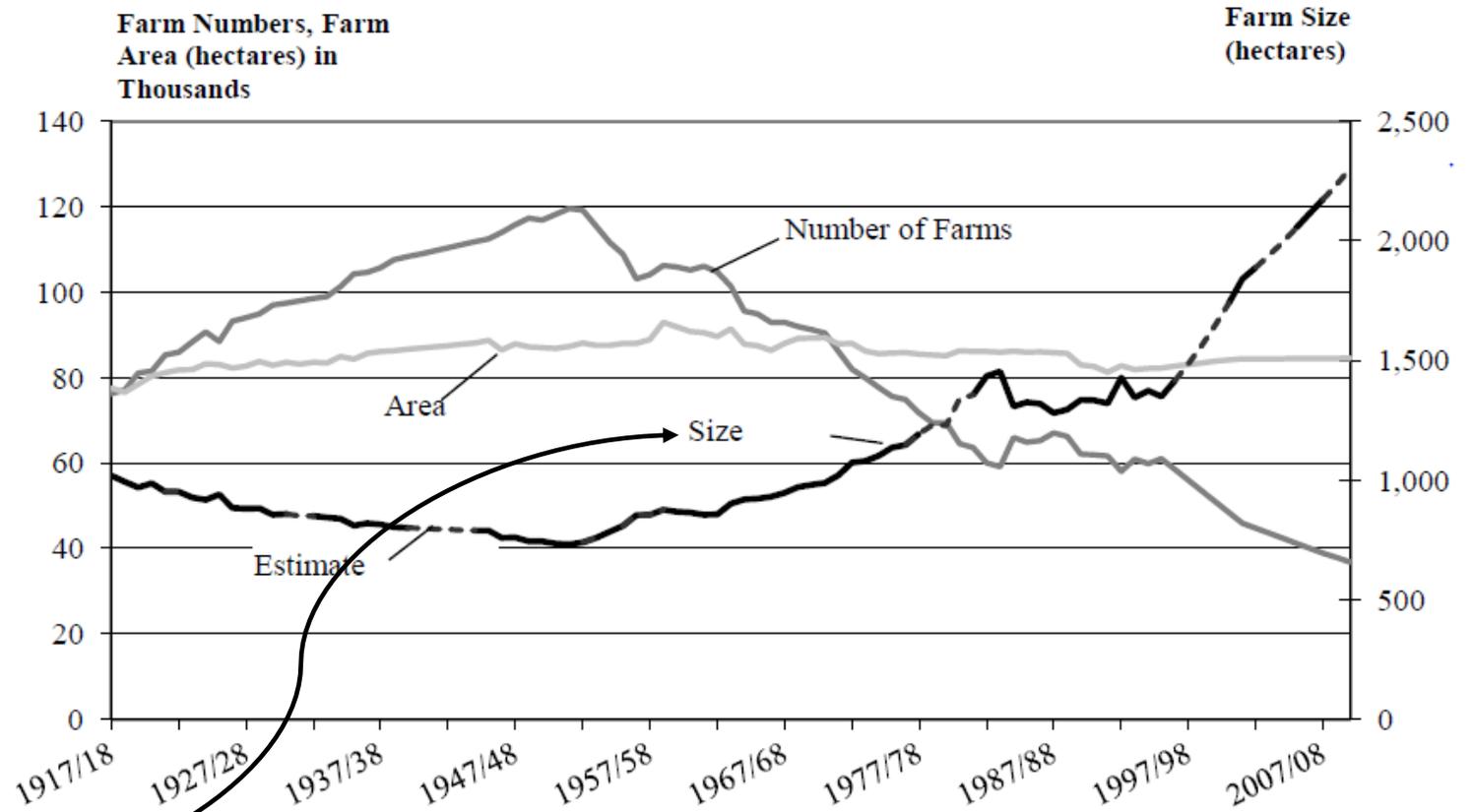
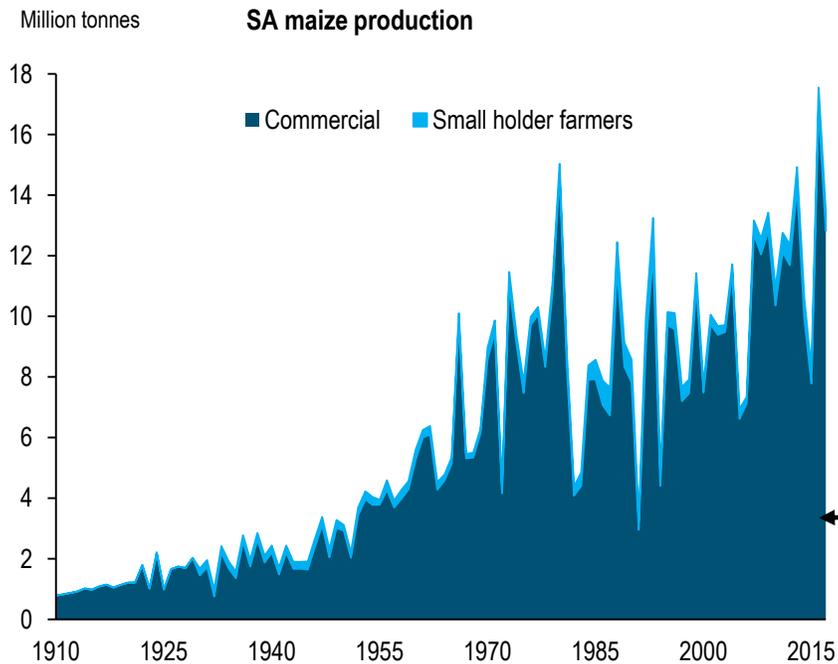


...confidence drives agricultural production (in addition to weather dynamics)



Evolution of farm sizes in South Africa

- For starts, the total area farmed in South Africa grew from 77.8 million hectares in 1918 to a peak of 91.8 million hectares in 1960, and declined to 82.2 million hectares in 1996, and has somewhat stabilised since then.
- Over this period, the average farm sizes in South Africa increased to about 2 113 hectares per farm in 2007



Resolution on land redistribution adopted at the 54th ANC Conference in December 2017

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

Key takeaway from the ANC resolution

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

Motion of parliament on “expropriation without compensation”

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

If the Review Committee consultations are anything to go by – we still have a long way to go...

This is where we are now



What is expropriation?

Section 25:

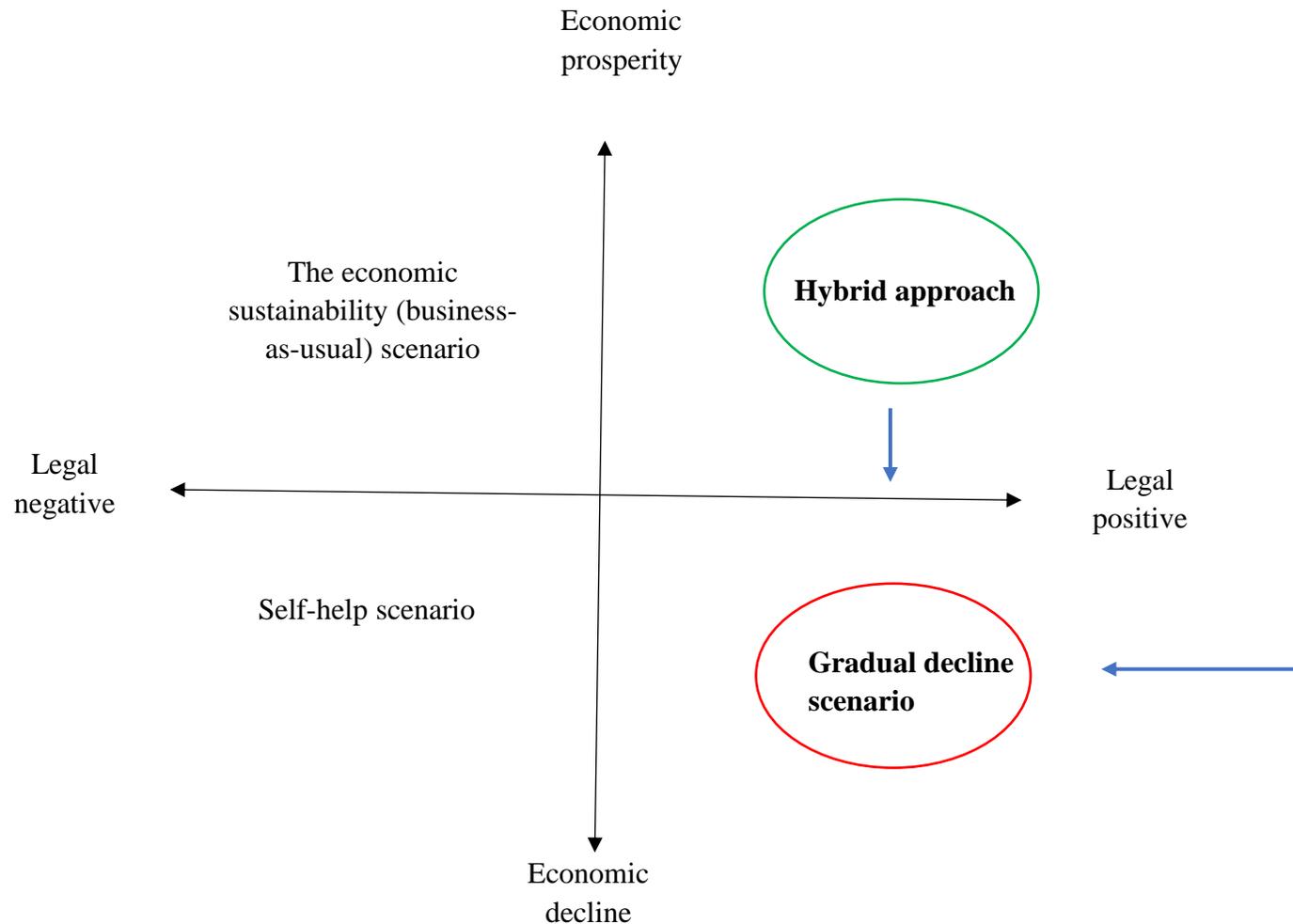
“(2) Property may be expropriated only in terms of a law of general application-

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

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

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

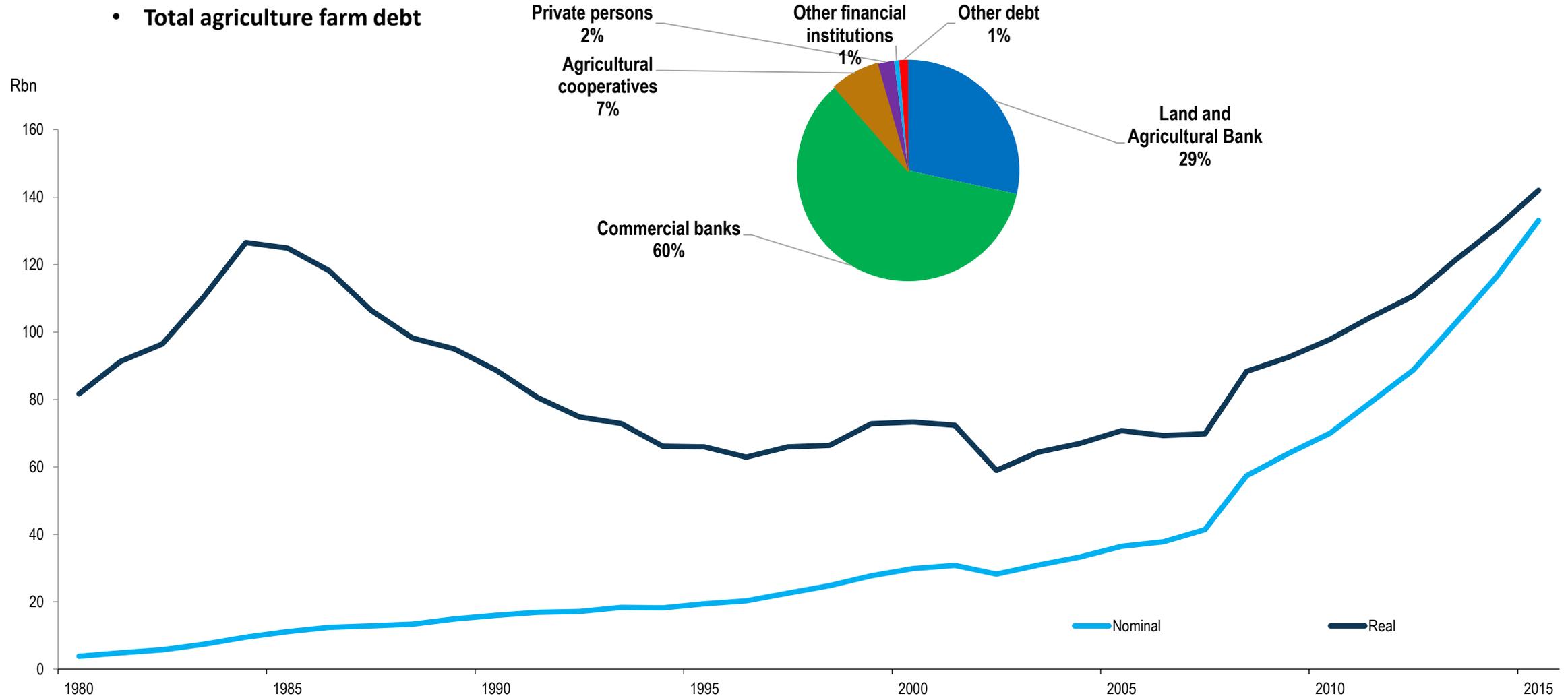
Expropriation without compensation: scenarios of current land reform dynamics



- Potential for hybrid approach if expropriation of selected properties takes place without amending section 25.
- But move to amend shows a move towards the gradual decline scenario

Risk to collateral, “expropriation without compensation”

- Total agriculture farm debt



Concluding remarks...

- While South Africa's 2017/18 grain harvest could decline marginally, there will still be sufficient supplies in the market due to large stocks from the previous season.
- South Africa is not the first country to go through land reform – some countries have succeeded, some have failed.
- Expropriation without compensation is not an ideal way to effect land reform – best approaches could include private-public partnerships, such as the proposed Agbiz/BASA model, NDP proposal, etc.
- Land reform needs to be fast-paced, otherwise, a combination of excessive bureaucracy, centralisation of the process and legal challenges are likely to render the programme ineffective.
- Land reform is only one part of a comprehensive programme of economic reconstruction. The redistribution of land is necessary, but not sufficient to bring about real economic empowerment and poverty alleviation.
- Additional services, including infrastructure, markets, social services, amongst others, have to be provided as part of a comprehensive reconstruction and development programme.
- One aspect completely missing from our land reform programme is the issue of tenure reform in the former homeland areas.

Thank you for your attention...

Contact details:

Wandile Sihlobo

Agribusiness Research, Agricultural Business Chamber (Agbiz)

Email: wandile@agbiz.co.za

Twitter: [@WandileSihlobo](https://twitter.com/WandileSihlobo)

www.agbiz.co.za

Disclaimer:

Everything has been done to ensure the accuracy of this information, however, Agbiz takes no responsibility for any losses or damage incurred due to the usage of this information.