



LAND EXPROPRIATION WITHOUT COMPENSATION

*Possible impact on the South African
agricultural economy*

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1. Introduction

Recently, in its policy conference held in Johannesburg, South Africa from 30 June to 05 July 2017, the African National Congress (ANC) once again put on the table the possibility of land expropriation without compensation. In his closing remarks on the last day of the conference, President Zuma stated that “where it is necessary and unavoidable land expropriation without compensation may be pursued.”

It was not the first time the idea of agricultural land expropriation without compensation was brought on the table. During the State of the Nation Address (SONA) in February 2017, President Zuma reiterated that land expropriation without compensation was under way, stating that there are weaknesses in South Africa’s current willing-buyer, willing-seller principle which has delayed land reform. According to President Zuma, expropriation without compensation was adopted as official policy at the ANC’s 2012 conference.

From a legal perspective, as long as section 25 of the South African Constitution remains firmly in place, expropriation without compensation is not possible.

To successfully allow expropriation without compensation, appropriate changes to the Constitution will have to be made, but that will have to go through all the necessary parliamentary processes. That is, a two-thirds majority in the National Assembly and six out of nine provinces would have to vote in favour of removing or amending section 25 of the Constitution. If that happens, expropriation without compensation may become a reality.

It is no a secret and even the ANC admits that land reform in South Africa has not effectively been carried out. The fact of the matter is that the South African government has in the past been focusing on the acquisition of land and neglected to provide support to those that benefited from the land reform program.

Hence, in many instances where land reform projects have been carried out on land that was previously used productively, today there is nothing left of it. Without providing both technical and financial support for production purposes, beneficiaries are from the beginning set up for failure.

Notwithstanding the ANC’s view that land reform is key for South Africa’s economic stability, if pursued, expropriation of agricultural land without compensation is likely to have huge knock-on effects on the agriculture sector as well as on the country’s economy.

Indeed, economic transformation and/or inclusive economic participation is needed in South Africa, however expropriating agricultural land without compensation could seriously damage the agricultural sector’s competitive advantage and compromise national food security and ultimately lead to poverty and unemployment.

2. Role of agriculture in the economy

Figure 1: The role of agriculture in the economy

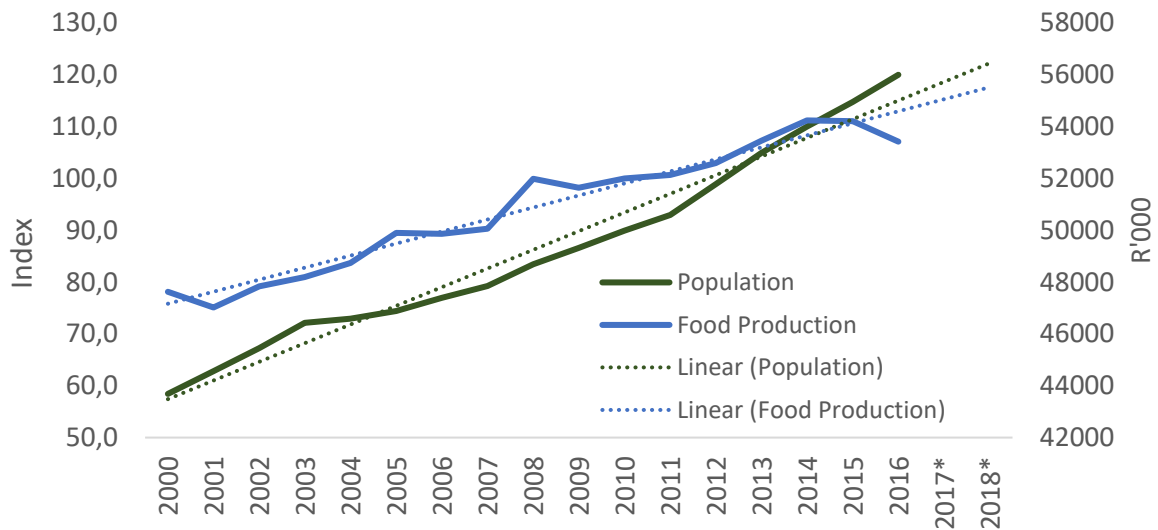


3. Impact on food production and farming units

South Africa's population has increased quite rapidly (by approximately 15.5%) in the past ten years. In 2035, South African population is estimated to reach more than 80 million. This means more food supply will be required to sustain the growing population.

Land is one critical factor for production in the sector and its ownership is critical for the sustainability of the sector. Since it is the responsibility of the agricultural sector to produce food, the sector's production capacity will need to be enhanced to avoid food demand surpassing domestic supply and to ensure that the sector remains adequately competitive. This can only be possible if commercial farmers remain on the farms. **Chart 1** shows the volume food production is South Africa relative to its population growth.

Chart 1: Food production vs population

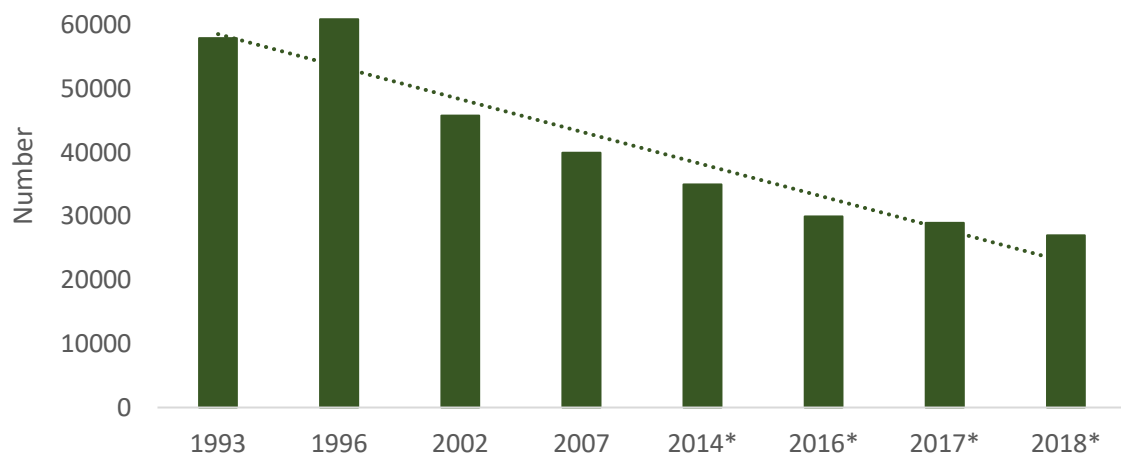


Source: DAFF and own calculations

As can be seen, population has and is still increasing substantially, while food production has also been increasing but at decreasing rate. Between 2014 and 2016 food production was hampered by the country-wide drought that cut down grain production by half. Food production in 2017 is expected to pick up vigorously owing to improved weather conditions experienced around major grain areas in the country. However, expropriation without compensation is undoubtedly posing a bigger threat to food production for the future production cycles than the recent drought. Without drastic improvements in food production, South Africa and the Southern African region will have to rely on food imports.

In addition, commercial farming units in South Africa have declined significantly in the past twenty years. According to the Department of Agriculture, Forestry and fisheries, the number of commercial farming units in South Africa has decreased from 57 980 in 1993, to 39 982 in 2007, a decrease of 45.07% (see Chart 2).

Chart 2: Number of farming units



Source: DAFF

On the other side, remaining commercial farmers have been placed in the precarious position of having to produce about 80% of food in the country, with less arable land at their disposal. The situation is worsened by the fact that many farms that were previously productive, are now laying fallow because of failed attempts by the state to adequately carry out land reform projects. It is estimated that about 70-90% of land reform projects have failed or are struggling with inadequate post-land support under which the lack of skills is one of the contributing factors to the failures.

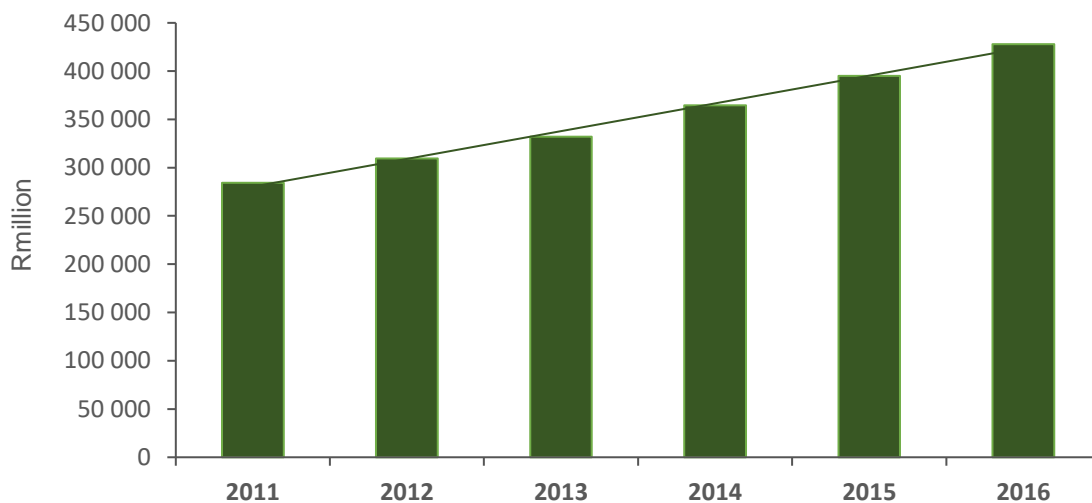
Although productivity in the agricultural sector has been increasing in comparison to the declining farming units, this can be attributed to the fact that farmers are investing in new technology and farming methods. At the back of expropriation without compensation, such investments will be held back. Ultimately, that will lead to the collapse of land values.

Land ownership is a critical factor to ensure financial stability as well as the development of the farm. Notwithstanding the fact that agriculture is regarded as highly risky owing to uncontrollable factors like climate change, most of those that invest in the sector use the land value as assurance for their investment. Particularly, financial institutions, regard land as collateral when providing finance to farmers. Given that farmers rely on financing from financial institutions like banks, without guaranteed ownership of land, securing finance from banks will become nearly impossible for farmers.

4. Impact on capital investment in agriculture

To ensure productivity and sustainability in the sector, capital investment is required. Capital assets and investment in the sector has been on the steady increase for the past five years (see Chart 3).

Chart 3: Capital Investment (Rmillion)



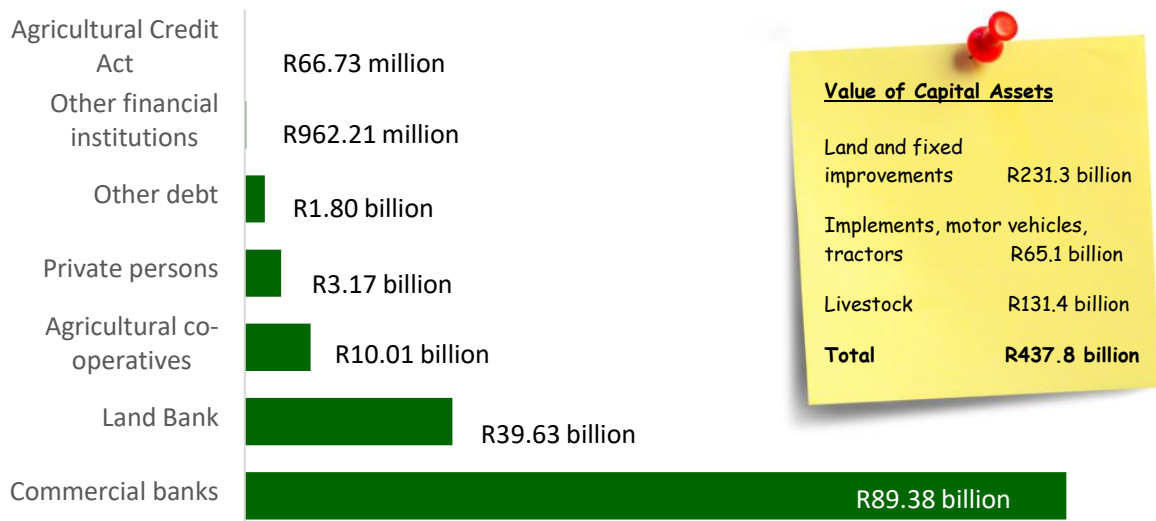
Source: DAFF

In 2016, the value of capital investment in the agricultural sector was recorded at R427 790 million, in which land and fixed improvements constituted 54.1%. Expropriation without compensation is likely to change this trend, leading to large disinvestment in the sector. Without investment, the sector will regress, productivity will be compromised and job losses will then ensue— and this may wellthrow the country deeper into recession in the coming years.

In addition, for sustainability and development of their farms, most farmers rely on creditors such as the commercial banks, the Land Bank, and agricultural cooperatives. In 2016, finance sourced from commercial banks, the Land Bank, agricultural cooperatives, and other lenders amounted to nearly R145 billion mostly for financing capital assets of which land and fixed improvements constitute more than 50% (See Chart 4).

Chart 4: Who Farmers owe money to

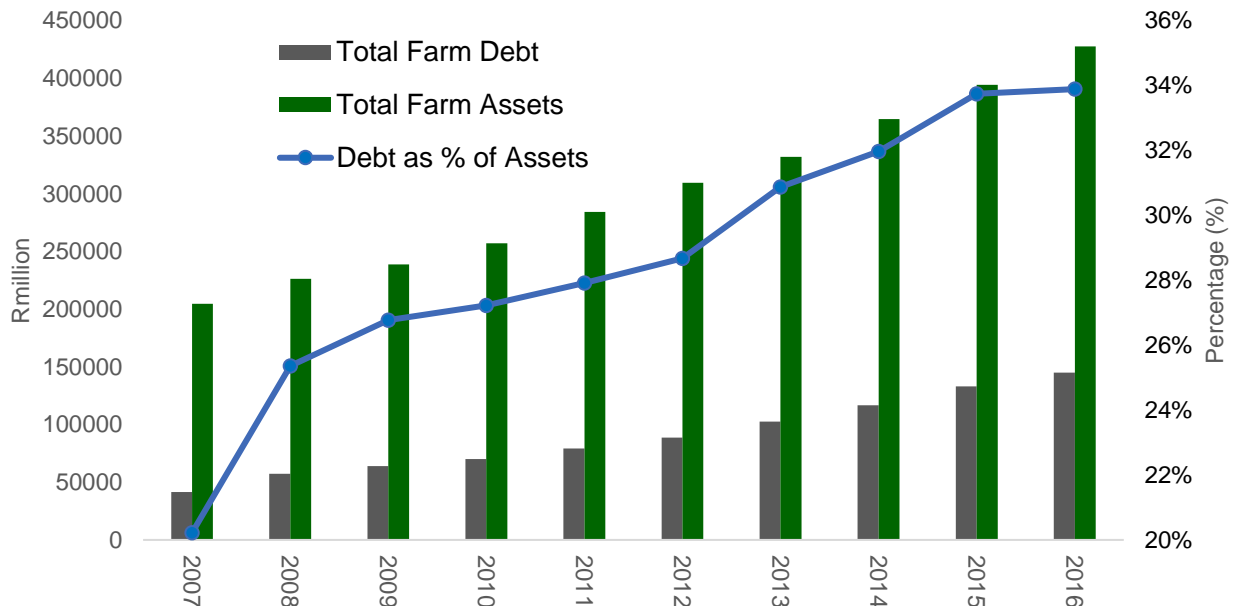
Farming debt in 2016 - R145 billion



Source: DAFF

The value of asset increased from R394.4 billion in 2015 to R437.8 billion in 2016. Debt as percentage of assets stood at 34% in 2016 (see Chart 5).

Chart 5: Agricultural debt, farm assets and debt as % of assets



Source: DAFF

What this shows is that, whenever there is an increase in farming assets, farming debt as well as debt to assets ratio increases. This is an indication that if land expropriated without compensation were to be implemented in South Africa, farmers will be left with a massive debt that they cannot repay.

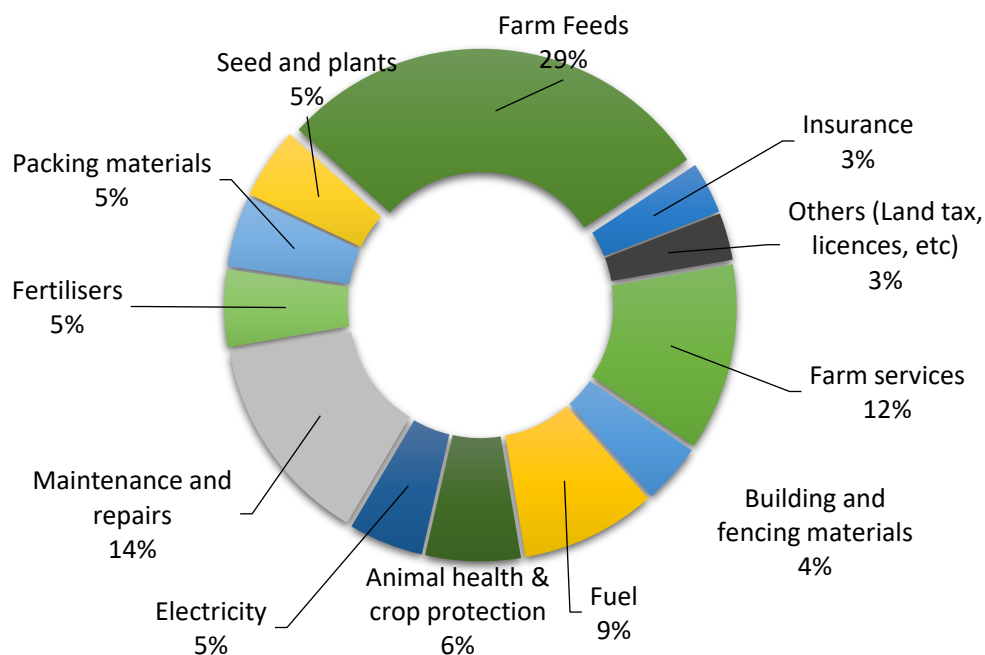
5. Impact on the rest of the economy

In recent time, South African economy has been facing some challenges: slow economic growth, high unemployment as well as the recent downgrades to sub-investment by two rating agencies. The political instabilities pose a big threat to our economy, and the taking of land without compensation or expropriation at low levels of compensation will also affect the already struggling economy.

The National Development Plan (NDP), identified agriculture as one of the critical sector for economic development with a potential to create about 1 million jobs by 2030 but with the current uncertainty around land, this target might not be reached.

In addition, agriculture is critical to the development of the economy as the sector that has strong backward and forward linkages with the rest of the economy. Through backward linkages, agriculture purchases goods such as fertilizers, chemicals and implements from the manufacturing sector. On the forward linkages side, agriculture supply raw materials to industry and the food supply chain in general. Approximately 70% of agricultural output is used as intermediary products in other sectors, particularly the agro-processing sector which contributes almost 20% to employment in the manufacturing sector (see Chart 6).

Chart 6: Agricultural expenditure on intermediary products



Source: DAFF

What this suggests is that, any distress in the agricultural sector will lead to distress in the rest of the economy. Unemployment which is currently on a record high (27%) will increase further, more and more people will be excluded from participating in economic activities and the ultimate result of that will further slowing of economic growth, weakening currency, and higher inflation to mention the a few.

6. Conclusion

Given the importance of the agricultural sector in the economy, there is a great need to speed up transformation in the sector. This however, should be done with the aim to better position the sector to effectively and sufficiently deliver on its triple objectives of ensuring that the nation is food secured, employment creation and contributing to the GDP growth.

The suggestion that land expropriation without compensation will fast-track land transfer to previously disadvantaged people may be true, but it will also seriously damage the agricultural sector and lead to economic collapse of the South African economy, similar to what happened in Zimbabwe.

According to the 2015 land audit, the state owns more than 4 000 farms, which equate to more than 4 million hectares. In addition, all the communal land in South Africa is owned by the state. Instead of the political push to acquire more farm land, government should bring into production the 4 million hectares that is currently not being used or underutilised. The focus of government should be on increasing the sector's capacity with regards to its competitiveness, productivity and most importantly keeping the farmer on the farm wherever as possible.

In this way government will be applauded for taking huge steps towards increasing the production capacity of the agricultural sector.

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