

https://dspace.org/

Addressing Constraints to South Africa's Agriculture Inclusiveness

Sihlobo, Wandile; Qobo, Mzukisi

2021-09
Southern Centre for Inequality Studies (SCIS)
https://hdl.handle.net/10539/33899

Downloaded from a DSpace repository. https://dspace.org/

BLACK ECONOMIC EMPOWERMENT PROJECT

SCIS Working Paper | Number 26

Addressing Constraints to South Africa's Agriculture Inclusiveness

Wandile Sihlobo and Mzukisi Qobo |
September 2021

UNIVERSITY OF THE WITWATERSRAND, JOHANNESBURG

SOUTHERN CENTRE FOR INEQUALITY STUDIES

Addressing Constraints to South Africa's Agriculture Inclusiveness[1]

Wandile Sihlobo[2] and Mzukisi Qobo[3]

[1] We are grateful to Professor Johann Kirsten and Dr Sifiso Ntombela for their input on this paper. This paper benefited from the material we have previously collaborated on.
[2] Agricultural Business Chamber of South Africa (Agbiz) and Wits School of Governance, University of the Witwatersrand
[3] Wits School of Governance, University of the Witwatersrand

Abstract

South Africa's agriculture remains dualistic, with large scale commercial farmers who are predominately white and small-scale and subsistence farmers that are mainly black. These disparities in fortunes result from the long history of segregation policies and apartheid. The efforts to build an inclusive agricultural sector through the upliftment of black farmers by the new democratic government since 1994 have failed. As such, black farmers in South Africa still constitute between 5 and 10 per cent of the overall commercial production. We explore the constraints to inclusive growth drive in the agricultural and agribusiness sector and offer recommendations for improvement. These include a need for increased efficiency at the local government for ensuring service delivery to farming towns, blended finance instruments for funding farmer development, and the prioritization of private-public-partnership approaches for farmer development and land reform projects. We frame the interventions for the post-COVID-19 dispensation, focusing on the potential role of agriculture in fostering inclusion and supporting rural economies and employment.

Keywords: Agricultural development, Land Reform, transformation, partnerships, post-Covid-19 agriculture

Introduction

The South African democratic government inherited a dual agricultural sector in 1994. On the one hand, there were well-resourced and predominantly white-owned commercial farms. On the other hand, there were poorly resourced small-scale and subsistence black-owned farms. The disparities in fortune between these groupings of farmers were caused by the enduring effects of segregation policies and systems from the previous colonial and apartheid governments. The most notable of these policies and institutional measures include the 1912 Land Bank[4]Act, 1913 Land Act[5], 1926 Agricultural Credit Act and 1968 Marketing Act[6]. At the dawn of democracy, there was an urge to reform and uplift the previously disadvantaged farmers and to integrate the South African agriculture sector with the global community.

One of the earliest efforts in this regard was the work of the Kassier Commission, which recommended the deregulation of the South African agricultural marketing system and the opening of a market-led agricultural environment.[7] This Commission's work became an important building block of the democratic government's agricultural policies and vision. What followed was South Africa signing the Marrakesh Agreement, subsequently joining the World Trade Organization (WTO) in 1995 and the promulgation of the 1996 Marketing of Agricultural Products (MAP) Act.[8] These reform efforts culminated in the white paper on agriculture of 1995[9], as well as the white paper on land policy of 1996[10]. Both these papers envisaged an agricultural sector that was inclusive, market-led and one that also redressed the skewed land ownership patterns caused by the 1913 Land Act and other segregation policies.

Since the promulgation of the post-apartheid policies, South Africa's agricultural output has nearly doubled between 1994 and 2018.[11] This growth has largely been driven by increased productivity that has been underpinned by technological innovation, as well as growth in traditional export markets and access to new ones. This growth has spanned all subsectors of agriculture (livestock, horticulture and field crops). While this positive growth is a compelling picture from a macro perspective, the duality that existed before 1994 has persisted to this day. This is evident in the 2017 Agricultural Census presented by Statistics South Africa, which shows that 40 122 commercial farmers produce more than 80% of the value of total agricultural output. Meanwhile, over 2 million small-scale and subsistence farmers produce less than 20% of the value of total national output.[12] In this output, black farmers' contributions remain negligible as they did before 1994.

Against this backdrop, this paper seeks to explore constraints to inclusive growth in the agricultural and agribusiness sector. We will offer a historical perspective on the evolution of the current structure of the agriculture sector, assess current patterns of uneven development, review the effectiveness of the current Agri-BEE in fostering transformation in the agribusiness, and analyse government programmes that were aimed at driving inclusive growth in agriculture by supporting mainly black smallholder farmers. These programmes include the Comprehensive Agricultural Support Programme (CASP) and Micro Agricultural Financial Institutions of South Africa (MAFISA), among others. We will also briefly explore constraints to lack of implementation of policy frameworks such as chapter six of the National Development Plan.

---

[4] Land Bank Act was instrumental in financing white farmers. Available here: https://www.greengazette.co.za/acts/land-bank-act_1912-018
[5] Land Act provided access to white farmers. Available here: https://www.gov.za/1913-natives-land-act-centenary?gclid=CjwKCAjw57b3BRBlEiwA1ImytjXQZ8db9dQJEo2_60HVwx3RggMiYXyWSTVcK4j5jqc-RFjj7l9beRoCF6EQAvD_BwE
[6] Marketing Act created a single channel marketing system and guaranteed market access and prices for white farmers. Available here: https://www.greengazette.co.za/acts/marketing-act_1968-059
[7] Vink, N. 2012. *The long-term economic consequences of agricultural marketing legislation in South Africa.* South African Journal of Economics. Available: https://onlinelibrary.wiley.com/doi/abs/10.1111/j.1813-6982.2011.01302.x
[8] The 1996 Marketing of Agricultural Products Act is available here: https://www.gov.za/sites/default/files/gcis_document/201409/act47of1996.pdf
[9] The 1995 South African agriculture white paper can be found here: https://www.gov.za/sites/default/files/gcis_document/201411/white-paper-agriculture-1995.pdf
[10] The Land reform white paper can be found here: https://www.gov.za/sites/default/files/gcis_document/201411/whitepaperlandreform.pdf
[11] For detailed agricultural output data, see the Agricultural Abstract Statistics produced by the Department of Agriculture, Land Reform and Rural Development here: https://www.daff.gov.za/Daffweb3/Portals/0/Statistics%20and%20Economic%20Analysis/Statistical%20Information/Abstract%202019.pdf
[12] For more information, please see: http://www.statssa.gov.za/?p=13144

In the process, we will use the latest Census of Commercial Agriculture (2017) released in March 2020, which will help us unpack the size and structure of South Africa's commercial agriculture. We will also make use of government and various research institutions databases on land ownership patterns in the country, and ownership patterns of the agribusinesses.

The paper will conclude with recommendations on steps that could be undertaken to drive inclusive growth in the South African agricultural and agribusiness sectors. These recommendations are framed for the post-COVID-19 dispensation, focusing on the potential role of agriculture in fostering inclusion and supporting rural economies and employment.

Historical perspectives on land and agriculture in South Africa

Agriculture has always occupied an important space in the South African economy. Historically, it played a key role in advancing economic development of the marginalised Afrikaner groups in the aftermath of the formation of the Union Government in 1910. Although much focus on development strategies tends to be directed at gold and industrialisation, especially from the late 1920s, the support programmes for farmers were pivotal in ensuring balanced development. As we discuss the role of agriculture in economic empowerment, it is important that we draw on some lessons from history. This paper casts a close critical eye on the role of agriculture in development, the ways in which deregulation altered South Africa's development path and constraints to and opportunities for driving economic development through agriculture today.

At the end of the Anglo-Boer War in 1902, there was a surge in migration of poor white people from the countryside to the cities, a condition that was sparked by drought and declining productivity in the rural hinterland. Agricultural growth took off in a major way after the establishment of the Union Government in 1910. Government promulgated the Land Bank Act of 1912, which was followed by the Native Land Act in 1913, giving a lion's share of the land to white South Africans, and extending a variety of support measures to help them to develop agriculture on a commercial scale.

After the promulgation of the Native Land Act in 1913, white farmers would be among the largest landowners in the idyllic and most productive rural parts of the country, where they would engage in commercial agriculture with the State betting on their success, pumping them with subsidies, fetting them with financial assistance and creating market linkages for them. Black South Africans were neglected and marginalised to only being workers on the farms and in the mining industry. They could not even augment their wages as capital to open business in the lucrative urban centres as they were prevented from doing so by laws such as the Urban Areas Act. As Campbell (1943: 53) observes: "By 1913 five million natives were cramped into one-thirteenth of the area held by two million Europeans."

This scenario led to over-working and overgrazing of the land, producing outcomes that held African people up as bad farmers when the conditions did not avail themselves for productive agriculture (Campbell, 1943:53). This intensified the immiseration of Africans who were thus compelled to eke out a living in the mines. The areas where Africans were confined became labour reserves, guaranteeing cheap labour and high profit margins for the mines. Africans were forced to the city by poll tax and poverty. It was required that those who were 18 years and possessed land pay 18 shilling in poll tax every year for the rest of their lives. This two-tiered existence of the African created many social ills.

Government blamed the natives for having too many cows and thus limiting land for habitation and crop planting, whereas the reality was that the land was too small for the number of people confined in it as a result of the Native Land Act of 1913. The 1922 Stallard Commission had further regulated the movement of Africans between rural and urban areas. It established a principle that the only purpose for an African to be in town was to "minister to the needs of the white man and should depart therefrom when he ceases to minister" (Lipton, 1986: 19). The Native Urban Areas Act of 1923 was passed in order to give effect to this frame of thinking. Separate development was

advancing long before it would be confirmed by the formal apartheid laws that would be promulgated by the Nationalist Party government from 1948 onwards. Various other pieces of legislation such as the Vagrancy Act were also passed to reinforce these measures.

Support measures to white farmers

There was a panoply of public policy support measures that were put in place to propel commodities such as wool, sugar, hides and skins, maize and deciduous fruit (pears, grapes, peaches and plums) into export markets (Walker, 1963: 826). Government played a key role not only in financing support, but also in coordinating the agricultural markets for export purposes. It established a grading system through the Agricultural Products Grading Act of 1922.

Further, all exporters were required to pay a levy for financing a Fruit Growers Cooperative Exchange that was established through the Cooperative Societies Act of 1922. The Control Board acted as a monopoly for the shipment of fruit. Maize was also a fast-growing commodity that satisfied the needs of the mining boom in the Witwatersrand area, and was also slated for export markets.

In 1912, government adopted the Land and Settlement Act which gave powers to Land Boards in each province to advise on the value of land and select beneficiaries, as well as advise on the granting of financial support for land beneficiaries (Walker, 1963: 828). The difficulties of selecting beneficiaries have come back to occupying public policy in the 2020s. As it was back then, this remains a politically contentious issue today. According to Walker (1963: 828): "Between 1910 and 1927 over 12 500 settlers were allotted land, 26 million acres in area and 9 million British Sterling in value, under various Government Acts in force." The land bank advanced capital to farmers for the first mortgages of their land, and many of these farmers were part of cooperative societies. One of the key lessons here is that government and its financing arm played an active role in catapulting white farmers and enabling them to grow as commercial farmers through cooperatives.

The various provincial land banks were incorporated into the Land and Agricultural Banks of South Africa when this was founded by the Union Government in 1912, and seeded with 3 million British Sterling capital (Walker, 1963: 828). In five years, this capital had been increased to just over 10 million British Sterling. In 1926 the Agricultural Credit Act authorised the Land Bank to issue loans to farmers, with their produce and personal security accepted as collateral. Between 1912 and 1942, the Land Bank spent 20 000 000 in advances to white farmers that were affected by drought or suffered cattle and crop diseases; with further subsidies amounting to 7 000 000 paid out by government in one year between 1939 and 1940 (Campbell, 1943: 83).

Government was implementing a thinly veiled restitution programme, underpinned by robust support. These resources were generated on the back of a booming mining industry through various forms of tax: so with one hand government took from the English mining interests and, with another, gave to the Afrikaner farmers. During this period, the mining industry was paying to the state 19 000 000 Pounds in taxes, which helped to boost the fiscus and which gave the state latitude to support Afrikaner farmers.

The support to farmers was delivered through financial intermediation undertaken by regional loan companies and rural credit societies. Today such intermediation is done by large agribusiness companies. Regional irrigation boards were established and these schemes were financed by rates that were levied on the land where irrigation was constructed. Loans would then be advanced against future rate flows. One example of this is the Hartbeespoort dam near Pretoria. This was established as an irrigation scheme in 1928, at a cost of 1.6m British Sterling to service an area of 40 000 acres. Since the rates were insufficient to finance the large capital outlays associated with the irrigation schemes and railways, these would then be debt financed.

The system of farm subsidy that was initiated after the establishment of Union Government lasted until South Africa deregulated agriculture as part of its accession to the General Agreement on Trade and Tariffs in the Uruguay Round in the early 1990s. As part of its support measures, government artificially raised prices in the mid-1920s, to

help increase production and bring these commodities to vigour (Campbell, 1943: 84). The domestic consumers had to pay higher prices than international consumers, something that was tantamount to dumping South Africa's oversupply. The South African government at the time had safeguard measures against imports it deemed as an exercise in dumping (Campbell, 1943: 84-85). In 1926, government introduced protective measures for sugar in order to raise its prices, inducing the same effect as seen in the wine industry where acreage planted expanded, a glut in supply built up, and there was dumping in international markets. In some instances this dumping took the form of shipping sugar from Durban to London, and then shipping it back at host to East London (Campbell, 1943: 85). The domestic prices for sugar were extremely high which made it profitable for international buyers to purchase South African sugar and sell it back at a high price in South Africa.

From the 1930s onwards the Union Government was able to maintain "a standard of living (for white [people]) which has no parallel outside the United States" (Campbell, 1943: 31). A second wave of state intervention to support white farmers and rural communities took off at the beginning of the Great Depression in the 1930s with the establishment of statutory marketing boards that would facilitate off-takes from farmers, with guaranteed prices. Essentially, this ensured that the white South African farmers never failed or fell back into destitution again as was the case in the aftermath of the Anglo-Boer war. The effect of the depression in South Africa was the change in prices of some of the leading commodities, including wool, maize, wine, sugar and tobacco.

In the early years of the Great Depression, 1929 – 1933, agricultural prices faced a slump. Government ramped up subsidies and extended these to wheat, dairy products, maize and livestock (Campbell, 1943: 85). The price guarantees were welcomed by industry. There were control boards for every commodity group, anchored by the Marketing Council which was formed in 1938. The Maize Board was the most looked after by government after it was established. It would obtain a subsidy of 1 000 000 Pound every year. Wool prices were also subsidised by the state in the mid-1930s in order to stabilise domestic prices above international prices.

According to Wilson and Thompson (1975: 139), in 1937 the subsidisation was to the value of 1 000 000 Pound Sterling. The Meat Board was established in 1933 and was given power to determine the quantity of animals that went through abattoirs as well as the price ceiling for the animal (Wilson & Thompson, 1975: 139). The depression years had caused international prices for commodities to fall and, in response to this, government put in place subsidies to keep prices up, while also enabling farmers to compete artificially in international markets. The 1937 Marketing Act was promulgated to offer succour to farmers and ensure that their standard of living was not below that of the urbanites. These measures produced mixed outcomes, with commodities such as maize, wheat and sugar performing well as a result of subsidies whereas others such as wool, beef, potatoes and dairy products did not perform as well (Wilson & Thompson, 1975: 140).

There were inequalities in the production structure, with 7% of the farmers accounting for 50% of the output, and 93% for the remainder (Campbell, 1943: 87). In total, there were 60 000 producers at the time, a number that would rise to 100 000 in the late 1980s before deregulation set in. The bulk of the farmers working on small plots were inefficient. They were aided by government through loans, using government land and ploughing with government oxen.

To keep these farmers floating, consumers would absorb artificially high prices. This also made the feed for beef very expensive, thereby limiting the expansion of the beef industry in the 1930s and the 1940s. Prices were particularly punitive, especially for Africans for whom maize was a staple food. Government's key preoccupation was to grow exports, at a loss, with subsidies covering the price and pushing up the price of food domestically. History does not offer a magic bullet on how the sector should be developed today. This is especially because the support measures promoted inefficiencies, consumers had to be saddled with high prices, and the international environment was more propitious for promoting export of glut production domestically. This is no longer the case as the global trading environment has been altered significantly.

Agriculture at the turn of the 1990s: international trade and domestic constraints

The late 1980s and early 1990s heralded a period of discontinuation of farm subsidies offered by government to white farmers. South Africa's accession negotiations to the General Agreement on Trade and Tariffs (GATT) during the Uruguay Round put paid to the existing practice of farm subsidies. Agriculture was a key sector that was targeted for liberalisation during the Uruguay Round of multilateral trade negotiations that lasted between 1986 and 1994. The GATT Agreement on Agriculture in 1994 was aimed at removing protective measures, including tariffs and export subsidies, which were covered by exemptions under the international trading system.

Although the Agreement on Agriculture brought agriculture into international trade negotiations, it also made provisions for the continuation of subsidies by developed countries, with a provision for gradual erosion of these in the future, while developing countries that had no such subsidies in the first place could not introduce them to shore up their agricultural sectors (Soko, 2005: 275). Without such subsidies – which are subject to trade-offs in the fiscus – it is impossible to drive large-scale agriculture development in developing countries through government support. Developing countries, such as South Africa, that were acceding to the GATT had to dismantle their subsidies, thereby reinforcing existing distortions in international trade, according to which developed countries continued to offer subsidisation to their farmers. Josling and Hathaway (2004: 2) note, for example, that "The special agricultural safeguard has protected developed-country farmers from import surges but has not been widely available to developing countrie".

Agriculture continues to be a contentious theme in the multilateral trading system, with reversion to subsidisation for the purpose of empowering marginalised farmers. Developing countries that in future may want to offer subsidies to their farmers would only be permitted within a set threshold (*de minimis* percentage) of 10% of the value of current production, and this has limits for using subsidies as a developmental tool.

Developed countries, on the other hand, are less encumbered by such requirements. Many of these countries inflated their reports on values of their domestic support, allowing them more space to maintain up to 80% of their domestic support, thereby creating an imbalance in the system (UNCTAD, 1999). Similarly, with export subsidies, those countries that reported large export subsidies – and these are to be found mostly among the OECD members – were allowed greater latitude, but countries that reported zero-subsidies – mostly developing countries – had a limited scope for manoeuvre.

A quarter of a century since the conclusion of the Uruguay Round of multilateral trade negotiations, advanced industrial economies in the US, Canada and Europe still offer subsidies to their domestic farmers. The US federal government spends more than $20 billion a year on subsidies for farmers, with the bulk of these going to producers of corn, soybeans, wheat, cotton and rice (Edwards, 2018). This flies against US profession of free markets and commitment to liberal trade. This is an international environment within which countries like South Africa have to formulate their developmental strategies to support black farmers.

It is worth noting that the agricultural sector in South Africa has, since the late 1990s, started consolidating to deregulate the sector. As part of its accession negotiations, South Africa offered deep liberalisation of its agriculture sector. This meant that the previous state-sponsored support measures (subsidies and marketing boards) for farmers were to be abolished. By 1997, the agriculture sector was fully deregulated. The farming units shrank by nearly 60% to 40 000 in the absence of state support. The farming units are currently under 30 000 – half of what they were in the 1930s at the height of government support. Various cooperatives that were formed in the 1920s with the Land Bank support were also privatised. The inability to compete in the absence of subsidies demonstrates how inefficient many of the farmers were, but also that international trade on agriculture is uneven, with some countries having latitude to use subsidies, and others not permitted to do so.

Groups such as Afgri SA, Senwes, BKV Cooperative and Kaap Agri grew through consolidation to dominate the value chain from production to storage to processing and marketing. This consolidation, which has led to market dominance, has made it even more difficult for small-scale farmers, many of whom are black, to participate in the agriculture value chains, especially without the requisite state support. Financing instruments such as the Land Bank

have had their financing weighted heavily in favour of large commercial groups, with financial intermediation for small scale farmers undertaken through the same agribusiness groups. Part of the value chain transformation should entail a serious attempt to empower black financial intermediary businesses that are likely to be more familiar with the unique challenges faced by black farmers, including those in the former homelands. This is important since Land Bank loans through financial intermediaries are often bundled with non-financial support, such as training, mentorship and other extension services.

There is a need for government today to position the agriculture sector as an important economic activity that could contribute to economic growth and employment. This is more so against the backdrop of the COVID-19 pandemic which has affected the performance of various economic sectors in South Africa and has intensified job losses.

South Africa's agricultural land landscape today

South Africa's unemployment crisis and longstanding low-growth trap, which have been significantly exacerbated by the COVID-19 pandemic, require that the government explores a growth strategy looking into all sectors of the economy that could contribute towards long-term progress (The Presidency, 2020). The agriculture and agribusiness are some of the sectors which could help create jobs and bring economic vibrancy in rural communities of South Africa. But the development approach will need to be more cognisant of the low levels of transformation and inclusion that exists as of 2020.

In 25 years since democracy, South Africa's agricultural sector has not shown increased levels of transformation. The sector's output is still dominated by white farmers. Aside from wool, mohair and cattle farming, the contribution of black farmers to major agricultural commodities' output averaged 5% in 2019 (NAMC, 2019). By extension, the agribusiness industry mirrors the same pattern, more so as the agribusiness sector is dominated by the former agricultural co-operatives, which converted to companies from 1993 (Sikuka, 2010).

Part of the challenge of the untransformed agricultural sector is that the South African democratic government inherited a dual agricultural sector in 1994. On the one hand, there were well-resourced and predominantly white-owned commercial farms that had expanded on the back of consolidation of the cooperatives, created after the Land Bank Act of 19 was promulgated. On the other hand, there were poorly resourced small-scale and subsistence black-owned farms that did not benefit from government support, had to pull themselves up by their own bootstraps and confronted structural challenges related to infrastructure and weak market linkages (OECD, 2006). The disparities in fortune among these groupings of farmers were caused by the enduring effects of segregation policies and systems from the previous colonial and apartheid governments and have persisted, even in the democratic era, as we have seen in the earlier section. The most notable of these past policies include the 1912 Land Bank Act, 1913 Land Act and 1968 Marketing Act.

This dualism exists to a certain degree in other Southern African countries, but obviously without the stark differentiation between black and white that is found here. It was built up over generations and was meant to disappear after 1994, yet it is still part of the reality of South Africa's agricultural sector. The persistence of these inequalities has led to radicalisation among black sections of the society who feel excluded from meaningful participation in the agricultural economy. From an agricultural output perspective, black farmers' contributions remain negligible as illustrated in selected commodities in Table 1.

Table 1: Black Farmer's contribution to agricultural output

Commodities	Average: 2019-2015		
	Employment	Production Value R'000	Black Farmer Share in Output
Maize	29,289	27,038,097	4.7%
Soybean	7,654	5,698,270	3.1%
Wheat	2,912	5,805,830	1.3%
Cotton	3,876	1,967,187	2.4%
Citrus	128,219	15,046,134	12%
Deciduous	79,443	15,660,627	10%
Viticulture	163,441	7,057,260	1.6%
Potato	42,158	6,972,320	1.0%
Tomato	9,764	2,364,149	8.6%
Wool	23,976	3,397,506	11.0%
Mohair	6,765	554,582	12.8%
Cattle	89,752	31,992,265	34.0%
Poultry	52,836	47,863,345	4.2%

Source: National Agricultural Marketing Council, Statutory Measures Survey, 2019

Causes of slow pace of transformation in agriculture and agro-processing sectors in South Africa

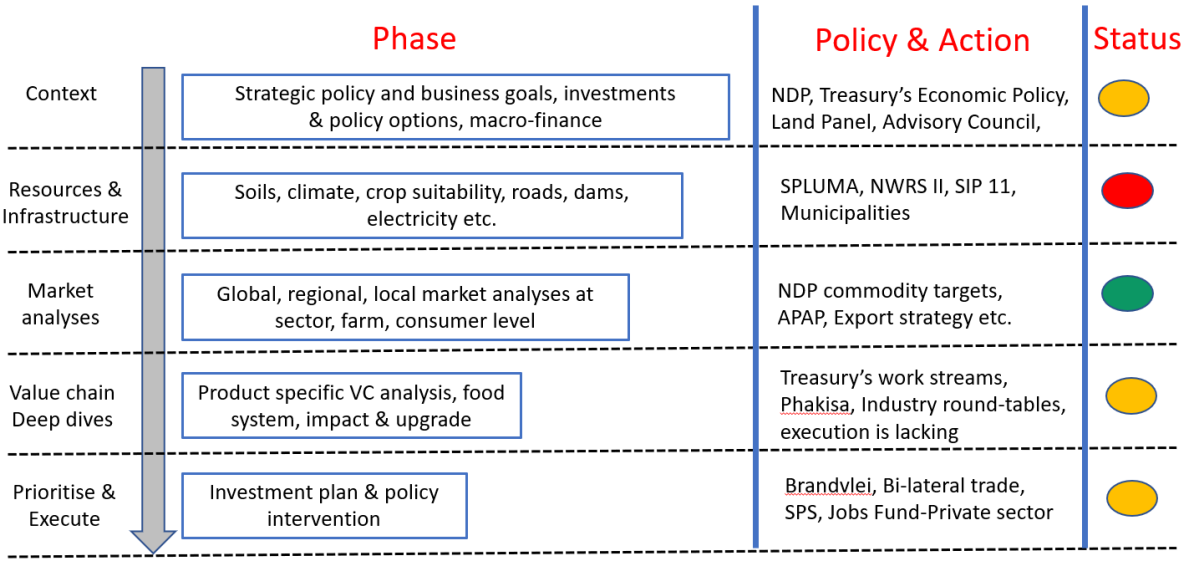
Against this backdrop, the primary question that policymakers seek to answer is how to continue to grow South Africa's agricultural sector, while at the same time increasing the share of contribution from black farmers and black-owned agribusinesses. The last quarter of a century clearly shows that this cannot be achieved without deliberate policy interventions (The Presidency, 2019). Therefore, in answering this question, the first point of departure should be the policy environment. To this end, a scan of the current policy space shows that there is already a strong policy framework foundation for achieving this policy objective, contained in policy documents such as the Recapitalisation and Development Programme, National Development Plan and the Presidential Advisory Panel on Land Reform and Agriculture report. There is also specific legislation, such as the previously mentioned Agricultural Marketing Act of 1996 and the Land and Agricultural Development Bank Act of 2002, which have developmental mandates embedded in their objectives.

The matrix and flow of these agricultural policies and programmes is conceptualised in Table 2. The major challenge has been the lack of implementation, as well as coordination within government and between government and existing agribusiness in identifying concrete areas of intervention to drive transformation in the sector.

What has been lacking over the past two decades is the practical implementation of government policy frameworks and legislation In turn, this has reinforced the lack of access among black farmers, and limited opportunities within the input supply and agro-processing sectors. The underlying factors behind this lack of implementation can be categorised into three broad streams:

- First, limited government capacity to execute government programmes together with a misalignment of functions and priorities between the three spheres of government;
- Second, the misallocation of the budget by national and provincial governments;
- Third, the poor and uncoordinated transformation programmes between government, private sector and civil society.

Table 2: Agricultural policy formulation in South Africa



Source: The Bureau for Food and Agricultural Policy (BFAP), 2020

Addressing the constraints

The potential of agriculture in South Africa to provide job creation and economic growth remains largely underdeveloped, as explained above. South Africa can unlock the potential of the sector by removing constraints to accessing land, finance, markets, water and improving safety in our rural areas as well as service delivery by our provincial and local governments.

1. One of the fundamental constraints to agricultural development and transformation is limited government capacity at national, provincial and municipal levels. Starting at the grass-roots level, which is the municipality, its basic function is to provide public services, such as reliable electricity, water, maintenance of roads, among other essential services that are critical for farming and agribusiness communities.

    - Part of the reason for private investment outflows from certain municipalities in South Africa is the deterioration of the aforementioned functions. Addressing these challenges could take time because of entrenched political interests. A plausible near-term intervention could be partnering with private players in delivering services such as electricity and water. This could be done through learning from a rebate system, which European countries are implementing through their Common Agricultural Policy (CAP). However, it is important to note that municipalities remain a critical interface of the government with communities and businesses and that perceptions around service delivery are typically shaped by the performance of municipalities. Therefore, the longer-term goal should be to properly capacitate municipalities with the right skills to improve the delivery of key services.
    - There tend to be disparities in the understanding and prioritisation of agriculture development between the national and provincial government, and between government and private sector players. A better alignment here would improve the services offered to uplift black farmers. This could be addressed by re-establishing and ring-fencing budgets for structures such as the CEO Forum at the Department of Agriculture, Land Reform and Rural Development. However, these processes need to include black farmers' leaders, civil society members and traditional authorities. This structure will mainly help in the prioritisation of development programmes.

2. Another important aspect of farmer development relates to budgeting aspects. South Africa has, over the past decade, gradually decreased the share allocation for agricultural activities, in favour of mainly land reform and rural development programmes. This is partly the reason various land reform farms have failed – post-settlement support for farmers has been poor.

- Given the constrained fiscal space, which will imply limited ability to provide direct financial support for farmers, land reform farms and settled farms should be given adequate and tradeable tenure security leases of over 60 years or title deeds to attract private investment and farmer partnership approaches.
- The government should explore funding partnership approaches from the private sector through the Department of Agriculture, Land Reform and Rural Development, particularly through blended finance programmes.
- Align the statutory funds such as the Agricultural Trusts and Levies with government grants to persuade the private sector to partner with transformation projects that will be prioritised by the social partners.
- Work through the Land Bank in improving technical (extension services) capabilities at the provincial and local level to enhance the prospects of success for black farmers.

3. There is evidence that partnerships between the private sector and government have, in some cases, piloted successful programmes to drive transformation. Some of these include Sernick Group, the Humansdorp Co-op, and the Mohair Trust. The commonalities in these programmes comprise three critical pathways: (1) public-private-partnership structured finance that subscribes to Environmental, Social and Governance principles, (2) market linkages and (3) farmer training and technologies. The task ahead should be that of upscaling and replicating these strategic partnerships in various value chains across the country. Essentially, these partnerships or joint ventures should be attempts to bring together smallholder farmers and aspiring agribusiness entrepreneurs who have access to the land, with commercial producers or managers who have production, management and marketing skills.[13]

    - This should be the nucleus of the Agricultural Master Plans (which includes stakeholders roles identified with timelines and clear goals) currently being drafted by the Department of Agriculture, Land Reform and Rural Development. In so doing, the Master Plan should prioritise the areas that still have large untapped potential and underused land. These include Eastern Cape, KwaZulu-Natal, Limpopo and parts of Mpumalanga. The climatic conditions in these provinces allow for the production of export-competitive products, which are also key to food security. These are mainly horticulture (fruit and vegetables), and also livestock and other field crops in some areas. This is a detail that the Master Plan should have in demarcating the land, water and its use.
    - With regards to market access, the government should investigate the possibility of a State Procurement programme (depots) where the produce from these farmers can be procured, assembled and distributed to state institutions.
    - Agricultural Business Incubators can leverage technical knowledge and business skills from the private sector, commercial farmers and agribusinesses and link new farmers to existing and new supply chains through joint venture arrangements, while providing training.

4. The model that seems to have yielded the most impact in the developed world, such as in the US and the EU, entails the establishment of agribusinesses (formerly farmer cooperatives), that have transformed the food system. In the South African context, the likes of Afgri, Senwes, Suidwes, NWK, Kaap Agri and BKB were founded from former cooperatives that have become world-class agribusiness corporates. However, these firms have been dominated and continue to mainly support white commercial agriculture. To close the "dual" gap, a new and distinct class of state-of-art, competitive black-owned and black-managed agribusiness firms should emerge, targeting current smallholder and black farmers. The model would entail shareholding by black farmers – through various farmer groups – as well as private equity, international capital and state funding. This model is not equivalent to the Broad-Based Black Economic Empowerment (BBBEE) programme, but rather a

[13] Other examples of successful partnerships which could be studies as a way to foster transformation are the (1) Sugar outgrower joint venture scheme, spearheaded by the South African Sugar Association; (2) National Woolgrowers Association joint venture scheme, which is working largely with existing landholders in the customary areas of the Eastern Cape and (3) Forestry joint venture scheme, among others.

sustainable and robust initiative of integrating black farmers into the mainstream commercial value chains. The setting up of these agribusiness firms could proceed as follows:

- The process of establishing the firms would take a cure from historical experience, both international and domestic, the latter of which can draw from how the current agricultural cooperatives were established. In this respect, dedicated support from government would be required, and this could entail rationalisation of existing support through the Land Bank and the Industrial Development Corporation, and mobilising these in a blended form with private capital to promote black-owned and black-managed agribusiness firms.
- A specific Act of Parliament should be promulgated to enable the establishment and functioning of this class of agribusinesses, including specific developmental objectives. The Act would also exempt the firms from Competition Authorities, to allow them to execute their developmental mandates.
- These agribusinesses should be given enough autonomy to be self-sustaining businesses, without an over-reliance on the fiscus. The funding model can be determined by a specific set of principles that serves to ensure world-class management and good corporate governance.

Land reform

Similar to the problems in the agricultural space, South Africa's land reform programme continues to be marred by poor and slow implementation, corruption and many failed farms, as highlighted in the recent report by the Presidential Advisory Panel on Land Reform and Agriculture (The Presidency, 2019). The continued and continual redesign of programmes and plans is often considered the solution to these failures, but has unfortunately just exacerbated the fundamental problem of slow and poor execution. The idea of an accelerated land reform programme has therefore never materialised, largely as a result of bureaucratic red tape. The future success of the land reform programme relies on not only improving the delivery aspects but also stability and certainty in land reform policies with protection of property rights and security as new owners gain access to land. This is the only way we will secure a transformed and equitable agricultural sector.

The failure of transferring land to the majority over the last 26 years can also be ascribed to the unwillingness of the State to engage the private sector, agribusiness and existing landowners to be part of the solution. There are many examples of successful land reform initiatives implemented by agribusinesses and large-scale famers without engagement by the State. The financial sustainability of these newly established farmers can be ascribed to the fact that the newly established farmers are linked to markets, finance and an effective network of support services. It confirms the well-established notion that land reform for agricultural purposes will fail if it is not done with commercial intent and by ensuring the link with the agricultural value chain.

It is therefore clear that faster and more successful land reform can be achieved if these initiatives can be up-scaled. It will, however, be necessary to leverage and unlock the 'latent' willingness of existing commercial farmers and agribusinesses to make a contribution to land reform. This can be done by creating sufficient incentives (which could be non-monetary).

These incentives could in simple terms be some form of *quid pro quo* or, alternatively, a list of enablers that will entice participation. A potential list of enablers includes:

- capital (to be accessed at preferential terms for contributors and beneficiaries),
- real land rights with tenure security,
- water rights,
- preferential market access contracts (e.g. in the form of export permits),
- reduced reliance on bureaucracy and red tape in approval and implementation processes.

This list could potentially include more enablers but we argue that there could be, in essence, six '**big tickets'** to activate the voluntary contribution of land by commercial farmers and support the settlement of beneficiaries on this land in a private decentralised fashion:

1. An easy process and one-stop shop to submit the record of the transaction for recognition (we can call this the 'land reform rainbow register').
2. The recognition mechanism should bring about an important benefit to the former owner. This could be in the form of some 'empowerment' recognition level or financial or other inducement as explained above.
3. The speedy transfer of title deeds/long-term and tradable leases to beneficiaries of land reform, including those who occupy land already procured for land reform. The selection of the new beneficiaries should be through the Beneficiary Selection Criteria policy, which prioritises youth, women and people with disabilities.
4. The allocation of new water rights (or water released by existing farmers through efficiency gains) to the existing and new enterprises (owned by the beneficiary). This will again allow the existing farmer to dispose of land and, at the same time, ensure the successful establishment of smaller farms on irrigated land.
5. Access to the Agricultural Development Fund (discussed below) to be used to leverage the donation of land by existing owners. This capital (at preferential and subsidised terms) allows farmers to dispose of land for land reform purposes but at the same time provides them with finance to expand their existing business and employ more workers.
6. Adaptation to the process of subdividing land and a number of administrative processes.

An important mechanism and facility to support these land reform initiatives and the general transformation of the agricultural sector would be an Agricultural Development Fund that should be housed in the Industrial Development Corporation of South Africa[14] but managed by an independent team from the private sector and the contributors to the fund, which could include the private sector and donors. An important opportunity for eliminating duplication of support programmes among various governmental departments is also presented here. The funds allocated to the establishment and funding of cooperatives, infrastructure support programmes, CASP, MAFISA, IDC, AgriBEE fund, SEDA, Agro Processing, etc. are overlapping and uncoordinated. Often, the same individuals benefit from multiple programmes. By combining all these grant sources in the Agricultural Development Fund and ensuring that it is easy for farmers to access the fund without prejudice, it will be possible to reach more farmers, quicker and with positive impact.

This fund provides a unique opportunity for South Africans to build social and financial capital by creating an investment opportunity for individual and corporate capital market participants to make a meaningful contribution to land reform. This scenario decentralises the land reform process by leveraging private sector expertise and capital and stands in support of President Ramaphosa's intention to create jobs and boost investor confidence in the country.

White farmers were not the only beneficiaries of the old regime, and most of those who benefited from apartheid live in urban areas while still benefitting from the injustices of the past. Therefore, this also includes a call for voluntary financial donations from the financial services industry, the mining and manufacturing sectors and another non-agricultural sectors. This is specifically relevant to businesses that do not own any landed property.

The end game of this process is to unlock economic growth and employment opportunities and to create a vision of a dynamic and vibrant rural economy, to restore decent life and economic opportunities in the urban areas created through a better-serviced local community and much more integrated and improved spatial dispensation of urban areas.

[14] The Land and Development Bank of South Africa (Land Bank) would have ideally been a right institution to house the fund but the bank is currently in financial crisis and increasingly facing confidence crisis from investors.

It is envisaged that the "Agricultural Development Fund" will fund land acquisition and finance on-farm infrastructure, machinery and seasonal loans. With all government funds pooled with other contributions and managed by external parties, it would be possible to support an integrated and sustainable development support programme for farmers. This could facilitate a sustainable transformation of the sector without any patronage and wastage.

References

Bureau for Food and Agricultural Policy (BFAP). 2020. *Baseline: Agricultural Outlook 2020-2029*. Pretoria: Bureau for Food and Agricultural Policy.

Campbell, A., 1943. *Smuts and Swastika*. London: Victor Gollancz Publishers.

Department of Agriculture, Land Reform and Rural Development (DALRRD). 2020. *Abstract of Agricultural Statistics*. Pretoria: Department of Agriculture, Land Reform and Rural Development (DALRRD).

Edwards, C., 2018. Reforming Federal Farm Policies. *Tax and Budget Bulletin No. 82*. Cato Institute.

Josling, T. and Hathaway, D., 2004. This Far and No Farther? Nudging Agricultural Reform Forward. *International Economics Policy Brief*. Institute for International Economics, March 2004.

Lipton, Merle. 1986. *Capitalism and Apartheid*. London: Wildwood House.

National Agricultural Marketing Council (NAMC). 2019. *Status Report on Statutory Measures Implemented in terms of the Marketing of Agricultural Products Act (Act N .47 of 1996)*. Pretoria: National Agricultural Marketing Council (NAMC).

Organisation for Economic Co-operation and Development (OECD). 2006. *Review of Agricultural Policies - South Africa*. Paris: Organisation for Economic Co-operation and Development.

Sikuka, W., 2010. The Comparative Performance of Selected Agribusiness Companies and Cooperatives in the Western Cape, South Africa. Stellenbosch: Stellenbosch University (Unpublished MSc Thesis).

Soko, Mills. 2005. "The political economy of African trade in the Twenty-First Century", In Dominic Kelly and Wyn Grant (eds). *The Politics of International Trade in the Twenty-First Century*. Basingstoke: Palgrave.

ThePresidency, 2019. *Final Report of the Presidential Advisory Panel on Land Reform and Agriculture*. Pretoria: The Presidency, Republic of South Africa.

ThePresidency, 2020. *The South African economic Reconstruction and Recovery Plan*. Pretoria: The Presidency.

UNCTAD. 1999. *Preparing for Future Multilateral Trade Negotiations: Issues and Research Needs from a Development Perspective. Geneva: UNCTAD.*

Walker, Eric A. 1963. *The Cambridge History of the British Empire*. Cambridge: Cambridge University Press.

Wilson, Monica and Thompson, Leornard. 1975. *The Oxford History of South Africa*. Oxford: Oxford University Press.