How land reform can boost inclusive agricultural growth
Johann Kirsten, Wandile Sihlobo and Natalie van Reenen

Abstract
Land reform is not only politically important: it could be a key catalyst for inclusive growth and employment creation. But policymakers need to effect some fundamental reforms and targeted interventions to support emerging commercial farmers. The interventions range from better governance of the agricultural sector, to massive improvements in port and rail logistics, more effective veterinary practices, and easier access to finance for new farmers.

Introduction
The 2019 National Treasury paper on economic growth identifies the agricultural sector as key to stimulating labour-intensive growth. This article, based on a longer policy paper, builds on the Treasury paper and highlights several key interventions to maximise the sector's growth potential. Redistribution of farmland is a key catalyst for growth. But what reforms and interventions are necessary to accomplish this? The imperative for land reform from a social justice point of view and for a more equitable distribution of productive farmland, presents an important growth opportunity if executed appropriately. Enhanced private-sector participation in land redistribution, supported by enabling policies and incentives and monitoring mechanisms of the state, is a critical way to boost agricultural growth. In conjunction with a series of interventions in five specific areas of the agricultural sector, it is likely that the real agricultural gross-value added could increase substantially by 2030.

Why agricultural growth matters
Agricultural growth is crucial for job creation and poverty alleviation. Christiansen and Martin provide several reasons for investing in agriculture; all apply to South Africa:

1 Kirsten is Director of the Bureau for Economic Research (BER) at the University of Stellenbosch; Sihlobo is Chief Economist, Agricultural Business Chamber of SA; and van Reenen is an economist at National Treasury.


3 These ideas benefited from the Agriculture and Land Reform section of the ANC’s new policy paper. The policy papers are available here: https://www.anc1912.org.za/umrabulo-2/

• Growth in agriculture is in general two to three times more effective at reducing poverty than an equivalent amount of growth generated outside agriculture.
• The advantage of agriculture over non-agriculture in reducing poverty is largest for the poorest individuals in society and extends to other welfare outcomes, including food security and better nutrition.
• An important source of the poverty-reducing benefits of agricultural growth is the widespread adoption of innovations that increase producer returns and wage-labour opportunities and reduce consumer prices.
• Rising agricultural productivity not only reduces poverty by releasing agricultural labour to non-agricultural activities, but also by pulling surplus labour from less productive home production into commercial agriculture.

The provision of land alone (through land reform) is unlikely to achieve the growth anticipated. To improve agricultural growth the land reform process should be carried out by a central agency, and once the land is distributed, financial and technical support as well as off-take agreements or contracts should be provided to beneficiaries. There are, however, a few critical preconditions necessary to achieve agricultural transformation and growth in South Africa. These include:

- A stable and conducive policy and investment environment
- Comprehensive, sufficient, and well-maintained infrastructure including electricity, water, roads, rail and ports
- Well-functioning local municipalities with reliable service delivery
- Effective farmer support services and administrative support
- Well-functioning state services such as veterinary services, agricultural research, biosecurity measures, trade negotiations and support.

A strategy for land reform

Land reform is important in South Africa for two main reasons. Firstly, land has productive value and those from whom access has been unfairly removed are unable to enjoy the economic and income generation potential that such land can offer. Land reform has been a tool both to rectify the imbalance of economic opportunities and to restore ownership. It has been shown to reduce poverty, support sustained growth, and increase efficiency.\(^5\) Secondly, land and access to land has political resonance, representing dignity, heritage, belonging, and restorative justice. To date government initiatives on agriculture and land reform have been slow in achieving the required success. However, there is now additional evidence that the commercial agricultural industry and private individuals have made substantive progress on many of the targets set out in Chapter Six of the National Development Plan:

- In the case of land reform, if we consider the private transactions by black farmers, and government-led restitution and redistribution, the extent of land transferred away from white ownership is equivalent to 69% (16.07 million ha) of the 30% land reform target that is highlighted in ANC documents. This represents a higher figure than official statistics, according to estimates from the BER.\(^6\)
- Area expansion of several high-value labour-intensive crops far exceeds the NDP targets.

---

\(^5\) Gersbach and Siemers, 2010: *Land reforms and economic development*; Cambridge University Press. This study can be accessed here.

• Agricultural sector's gross value-added expanded by 44% between 2010 and 2020.

These largely positive achievements have not fully translated into more participation by black farmers and their contribution to commercial output remains constrained. There are several reasons for this:

• Misalignment and lack of policy and programme implementation by national and provincial governments. This has been compounded by inefficiently designed programmes to support black farmers becoming part of the commercial sector.

• Slow adoption of the latest technology to increase productivity. This has been largely caused by the long backlogs and delays in getting new agricultural inputs approved by the Department of Agriculture, Land Reform and Rural Development (DALRRD).\(^7\)

• The fractious nature of organised agriculture. Many farmer associations in South Africa are still formed along racial lines resulting in unnecessary duplication. This entrenches the divide.

• Collaboration between the government and the private sector (commodity organisations, agribusinesses, farmer organisations, etc) is not optimal. This results in slow implementation of farmer development plans.

• Inefficiency of many of the provincial departments of agriculture, resulting in poor and non-delivery of critical programmes to support farmers. This situation is aggravated by a lack of coordination with Water Affairs, Environmental Affairs, provincial roads, and local municipalities.

• Slow delivery of critical large infrastructure projects especially related to water infrastructure and improvement in rural roads and rail networks.

• Failure of municipalities to deliver basic services such as water, electricity, and road maintenance. These failures have been among some of the major constraints to higher growth of agribusiness as they have increased transaction costs of moving agricultural products.

• Vandalism and lack of maintenance of critical support infrastructure for agricultural commercialisation: railway lines, ports, electricity supply.

• Criminality in rural communities – including stock theft, theft of machinery, equipment, electricity cables, water pumps, and inputs.

We need a holistic land reform strategy that takes cognizance of these nine basic aspects. This will ensure that the redistribution of productive farmland takes place in a responsible manner. Beneficiaries need to be immediately linked to the commercial farming network and included in a financial and market structure that will secure their future as commercial farmers.

**Creation of the Coordinating Agency for Land Reform and Agricultural Development**

The National Development Plan (Chapter Six)\(^8\), as well as the recent report by the Presidential Advisory Panel on Land Reform and Agriculture,\(^9\) presents a clear guide on how redistribution of agricultural land can be accelerated. It locates the responsibility of redistributive land reform with local (district or municipal level) land committees, which can design context-specific solutions center

---


ed on the dominant farming enterprises while considering community and social dynamics in particular areas. It will therefore take the task of land acquisition and redistribution out of the government sphere. There needs to be a national coordinating agency – a one-stop-shop - to leverage land and funds for land redistribution through local land and agriculture development projects. This concept of a "Land Reform Agency" was announced by the President in his SONA in February 2021. Ideally, its tasks should relate to facilitating land donations and creating recognition mechanisms for farmers who donate land; establishing and managing the Land Reform Fund, monitoring progress on land transactions; and prescribing the rules for the Land and Agricultural committees. The Agency can be established by the Minister of Agriculture, Land Reform and Rural Development in terms of the Land Bank Act of 2002. It will not require any additional fiscal outlays but will activate contributions from the private sector and will therefore only record land transactions and accept land for redistribution. This could be regarded as a land observatory whereby the true extent of land redistribution can be assessed through better statistics on land transferred and its productive status. Most importantly, the Agency will monitor progress in land reform and advise on partnerships between farmers and beneficiaries. In this way, confidence in the land reform process will be fostered. This should encourage the voluntary release of land (by mines, churches, municipalities, SOEs, government departments, or absentee landlords) directly to beneficiary households, communities, or the Agency. The Agency will keep a proper record of these land parcels and provide a certificate of recognition to the donor. This certificate will entitle the holder to certain benefits such as points on the B-BBEE score card, allowing the entity to qualify for procurement preferences or preferential financial arrangements.

**Development of the Land Reform and Agricultural Development Fund**

Coupled with the establishment of the Agency, we propose that a Land Reform and Agricultural Development Fund be set up. The Fund should be specifically for land beneficiaries and land donors, providing financial assistance to beneficiaries and encouraging large farmers to partner in the redistribution process. The sources of capital for the fund should include:

- Donations by companies and private individuals (for which they will receive B-BBEE recognition).
- International donors and development finance institutions such as the Development Bank of South Africa (DBSA).
- Joint venture financing models, particularly implemented by agribusinesses, large commercial farmers, property developers and the commercial banks, amongst others.
- Transfers from the relevant departmental budgets earmarked for land reform, farmer support programmes, and food security.

Donors, National Treasury, and members of the Agency shall be trustees of the fund. Through this process many more people could afford to develop allocated land for farming purposes and access bridging and seasonal finance at affordable rates of around 2.5%, given that the cost of capital would only be around 1.1% or lower. In this process, opportunities will be created for other investors, such as in the financial services, mining, and manufacturing sectors, to contribute to restoring social justice, equitable land ownership, decent housing, and better economic opportunities on a voluntary basis.

**A land redistribution strategy that harnesses under-utilised and unproductive land**

In addition to the initial endowment of state-owned land, government has also, over the
past decade, acquired a total of 2.46 million hectares of productive farmland through the Pro-Active Land Acquisition (PLAS) programme for redistribution to beneficiaries. Due to bureaucratic red tape, patronage, and other problems, few, if any, of these farms have been redistributed to land reform beneficiaries. These farms are rented out to specific farmers only on short-term contracts and as a result many are unproductive or producing sub-optimally. The inability to access finance due to insecurity of tenure is a primary reason for this.

One option is to transfer the state land holding to the Land Bank as a mechanism to capitalise it. The bank could then select bona-fide farmers and transfer title deeds to carefully selected beneficiaries. It could then provide start-up capital to these farmers with the land as collateral. This is a no-brainer and will help fill the gap in the market to empower farmers. So now one has the fund plus the land to help the Land Bank achieve its developmental mandate.

Anecdotal evidence suggests that if the recommendations are implemented, there should be dramatic expansion of production (especially by black farmers) in three sub-sectors of agriculture: grains, beef, and poultry.

For this to happen, there needs to be three critical steps:

1. Land ownership (title deeds) should be transferred to qualifying beneficiaries who are selected according to the approved beneficiary selection policy. Strict selection based on merit and a skills and means test should be applied.
2. Production finance (via the Land Reform Fund and the Land Bank at beneficial rates) is secured by the title deed. Funding from the Department’s Comprehensive Agricultural Support Programme (CASP) should be targeted to improvements in immovable assets and farm infrastructure.
3. Links must be established with commercial value chains, agribusinesses and government procurement schemes.

Amendments to the beneficiary selection process

A transparent beneficiary selection process is critical. Following the suggestion of the Presidential Advisory Committee, the DALRRD developed a draft policy for beneficiary selection and land allocation in 2019, but this not progressed further. It now needs to be expedited, taking the following into consideration.

- The draft policy suggests that an independent selection panel should be established for land allocation at both a provincial and a national level. The panel will be a non-statutory, multi-disciplinary group consisting of representatives from relevant stakeholders. We suggest it also includes private-sector individuals to increase transparency and provide a signal of private-public cooperation.
- It also suggests that applicants be subject to a skills audit to determine training needs and programmes required before they take ownership of the land. We suggest a skills audit be conducted on new applicants as well as existing beneficiaries to ensure they have the necessary expertise to manage a farming operation, including those prioritized in the land distribution process such as women and people with disabilities.
- It says monitoring and evaluation should take place through the Monitoring and Evaluation Department. We suggest evaluations take place annually and that extension officers be included as evaluators. A database containing the details of each land recipient should be created for monitoring purposes. This will also deter the allocation of land to unqualified individuals or those with political connections.
Critical interventions to boost agricultural growth

The Agriculture and Agro-Processing Master Plan (AAMP) aims to support continued agricultural growth while simultaneously promoting the participation of black farmers in commercial value chains. The AAMP comprises six main pillars, namely: 1) resolving policy ambiguity and creating an investment-friendly climate; 2) creating enabling infrastructure; 3) providing comprehensive farmer support, development finance, research and development, and extension services; 4) ensuring food security, expanded production and employment creation, and inclusivity; 5) enabling market expansion and improving market access; and 6) developing localised food, import replacement, and expanded agro-processing exports.

However, many proposals in the AAMP will likely be contested as there will be competition for scarce resources. Hence the focus should be limited to a small set of key interventions aligned with the AAMP that will create maximum impact on boosting agricultural growth through the land-reform process. The interventions have both budgetary and non-budgetary dimensions. Broadly, the reforms encompass improved access to agricultural finance, provision and protection of water supplies, animal health, market access and exporting capabilities, and productivity.

Access to finance

Agriculture finance is a key aspect for any commercial farming operation, large or small. As a result, the success of the agricultural sector depends to a large extent on the efficacy of its financial support. The Land Reform and Agricultural Development Fund is one source of support, but it may not be available to all in the agricultural sector.

Financial needs can broadly be classified into the following:

- Mortgage finance for land purchases
- Fixed improvements (immovable assets) such as irrigation systems, orchards, silos, sheds, packaging plants, milking parlours, farmworker houses, feedlots, poultry houses, etc.
- Movable assets such as machinery, tractors, animals
- Input finance for fertiliser, seeds, chemicals, fuel, consumables, wages, feed, veterinary medicine

There are specific financial products for each of these needs, provided by, among others, the Land Bank, commercial banks, agribusiness (cooperatives), and input suppliers.

To transform the agricultural sector and establish black commercial farmers in South Africa, they need access to finance at affordable rates. The limited financial assistance to black farmers is partly to blame for their negligible share contribution to South Africa's agricultural output. The Land Bank accounted for 28% of the 2020 commercial agricultural debt, while commercial banks accounted for 33%. The composition of loans to black-owned farm businesses in the total loan book of the Land Bank has increased from 6% in 2016 to 21% in 2020.10

A well-functioning Land Bank would be well-positioned to finance black farmers. However, the current funding model of the Bank is highly dependent on debt finance raised on the capital markets and borrowed, mainly, at commercial rates. This has contributed to the Bank’s current liquidity constraints. The Land Bank is critical for development and transformation of the agricultural sector and the funding model should be changed drastically. As in the apartheid era when the Land Bank provided finance at beneficial terms to commercial white farmers, such practice is again essential for building the new crop of commercial black farmers. Therefore, the agricultural development funds and grants housed in various government departments should be

10 World Bank, 2020
consolidated and used as the capital base for a new and sustainable Land Bank.

*Animal biosecurity*

Animals and animal products (beef, lamb, wool, poultry, goats, pork, ostrich, dairy, mohair) represent more than half of agricultural gross value-added in South Africa and provide the largest source of protein to the diets of South Africans. Moreover, animals are a major source of wealth and livelihoods for most South Africans in the former homelands, as well as the peri-urban agricultural sector. The productivity of these farming operations is very low with animal diseases, poor genetics, and poor herd composition – especially the low share of female animals - all contributing to poor off-take rates, thus confining these farmers to subsistence production. Consequently, the efficient management of animal disease prevention and health is critical to support inclusive growth and employment creation in the sector. Government cannot, and should not, compromise its role in this field.

Due to the prevalence of animal disease in the country, commercial farmers are not able to export their products to most markets (bar a few such as China, India, Bangladesh, and the Middle East). Many governments have introduced restrictions because of poor control of notifiable diseases such as African swine fever, avian influenza, and foot-and-mouth disease. The recent disease outbreaks and South Africa's inability to control the spread, points to a massive failure in our veterinary services and related support services (laboratories, vaccine production). Not only is South Africa losing valuable export revenue, but commercial output is substantially reduced due to the need to cull livestock, often without compensation.

The following interventions should be implemented as a matter of urgency:

1. **DALRRD and provincial departments of agriculture should earmark a share of their annual budgets for emergency purposes to deal with animal disease outbreaks.** These funds should be utilised under strict rules and in concurrence with the Treasury only in the case of notifiable animal disease outbreaks. This is necessary to control animal movements, buy vaccines, employ additional staff, and compensate producers when animals must be culled, according to the World Organisation for Animal Health (OIE) guidelines. Veterinarians and animal health technicians are critical for continued surveillance, monitoring, and advice to farmers. The process of authorising veterinarians in the private sector to deliver services on behalf of the State needs to be improved and simplified.

2. **National Treasury procurement rules prevent emergency procurement of vaccines, and key inputs for laboratories where only one or two suppliers globally exist.** The delays incurred through processes in terms of the Public Finance Management Act (PFMA) and slow decision-making at provincial level makes it difficult to curtail the spread of highly contagious diseases. South Africa's lessons in dealing with the Covid-19 pandemic should be used here to reform the funding of animal disease control.

3. **Coordination of government veterinary services is clearly problematic – partly caused by Schedule 4 and 5 of the Constitution, which deals with national and provincial competencies.** The Minister urgently needs to restore the national chain of command for all aspects of the Veterinary Service. Dividing responsibilities and functions between national and provincial authorities inevitably leads to loss of information, an inability to react promptly, and inconsistency in the implementation of veterinary activities.

4. **The current matrix organisation in some provinces whereby animal health technicians are employed by municipalities should be stopped.** The existing arrangement creates poor outcomes and a lack of disease control at ground level where it matters most. Rather, provinces should employ them.
5. The uncontrolled movement of animals and animal products from disease-control areas have in almost all recent serious outbreaks of diseases caused their spread to areas in the country where they have never occurred before. Veterinary services at the provincial level should thus be accompanied by effective livestock movement control functions.

6. Urgent attention should be paid to the repair and maintenance of international fences which, in their current state of disrepair, fail to keep wild animals and infected animals from neighbouring countries out of South Africa. Collaboration between Public Works, Treasury, and Defence is critical. For almost 50 years this function was successfully conducted by dedicated maintenance teams of veterinary services with minimum disease outbreaks across the borders. Since maintenance was stopped, several disease incursions (especially Foot and Mouth Disease) occur every year.

7. The spread of Foot and Mouth Disease to non-infected areas is supposed to be controlled through a red-line fence and control gates in Limpopo, Mpumalanga, and KwaZulu-Natal. These are unfortunately in total disrepair with unmanned gates resulting in the illegal movement of ‘infected’ animals from the control zone to the rest of South Africa. This is partly why South Africa is unable to meet the requirements of the World Organisation for Animal Health, thus making it ineligible for red-meat exports to high-value markets, unless under fragile bilateral agreements.

Most interventions require only better management, reinstatement of the chain of command, better coordination, some restructuring of the various departments, and investment in fencing and new laboratory equipment and vaccine production. These interventions could boost animal production by an estimated R20 billion per annum.\(^{11}\)

**Improved productivity**

If veterinary services are improved, genetic improvements made, and improved feed nutrition provided, South Africa could unlock a large untapped resource for growth, particularly for black farmers, and at the same time reduce poverty and unemployment. In the case of grain, significant yield gains amongst smaller producers can be achieved if they follow the principles applied in existing support programmes. Grain yields can be boosted from a low of one tonne of maize per hectare to almost 4.5 tonnes, which is closer to the average of commercial maize production across the country.

Productivity is usually also boosted when farmers are linked to market opportunities. For many deep rural farmers, distance to markets is a significant constraint and a disincentive. Government can play a major role by implementing procurement programmes for use by schools, hospitals, prisons and other large government entities. Due to the very small nature of these farms and the cash nature of the transactions, one cannot expect government entities to follow PFMA rules and tender processes – there needs to be another way for government to buy small volumes from these farmers.

Another source of productivity gains is through research into varietal improvements in the major grains. This is especially visible in the soybean industry where South Africa is constantly experiencing yield gains through the release of new, improved varieties already available internationally. The adoption of these new varieties will help South Africa be self-sufficient in its soya cake and soya oil needs and reduce the import requirement rapidly. These varieties should be made available to emerging farmers.

A final source of productivity gains is in new agricultural inputs (chemicals, plant nutrition, animal medicine, vaccines, fertilisers). The release for commercial use in the

---

agricultural sector is controlled by the departmental Registrar. But South Africa is lagging its competitors due to delays in the Registrar’s office resulting in key productivity-enhancing inputs not being released to the agricultural industry. These delays need to be urgently addressed.

*Improving market access and export facilities*

The dramatic expansion in high-value export crops in the underutilised land of the Eastern Cape, KwaZulu-Natal and Limpopo\(^\text{12}\) will bring about much larger harvests for citrus, deciduous fruits, table grapes, berries, and other horticultural products. To ensure this expansion does not go to waste and prices remain sustainable, South Africa, which already exports about half of its current production in value terms, will have to secure additional export markets. In the case of fruit and the broader horticulture subsector, China, South Korea, Japan, the USA, Vietnam, Taiwan, India, Saudi Arabia, Mexico, the Philippines, and Bangladesh are key markets into which South Africa should expand. These countries have growing populations and generally better economic conditions that support the demand for high-value agriculture, food, and beverages products.

Expanded market access, though, means, the efficiency of South African ports and rail systems needs urgent attention. The criminality resulting in the destruction of Transnet infrastructure has exacerbated the challenge and poses risks to export-oriented sectors such as agriculture. The security and policing agencies should increase their focus on protecting rail infrastructure. More than 70% of South African grains and oilseeds are transported by road, and role players have long argued for a reduction in this volume through switching to rail. The challenge has been the reliability and cost of rail.

Importantly, South African ports rank poorly on the global ladder and are not cost-effective. This affects not only the agricultural sector, but also other export industries. Fostering collaboration between Transnet, private sector, and government in ports infrastructure investment will help modernise the ports and improve their efficiency.

*Access to water resources*

The expansion in the production of high-value crops is one of the key potential drivers for agricultural growth. But this requires access to water and secure property rights. A 2004 policy paper from the department of water and sanitation (DWS) committed to promote social and economic development through equitable water allocation. It promised to build capacity, provide technical and agricultural support, ensure that effective monitoring systems were in place and, if necessary, provide financial assistance through grants for the creation of new water infrastructure. The current distribution of water licenses is skewed towards white commercial farmers but this is primarily because these are the individuals who require and apply for such licenses. This can be rectified when emerging farmers apply for water licenses but it’s important that this process be as easy and efficient as possible. Water rights can also be reallocated for transformative purposes.

The process should ensure the equitable reallocation of water in catchment areas to benefit historically disadvantaged individuals. Drought and water security is a major threat to the agriculture sector: DWS should encourage the adoption of alternative water-saving practices and technology especially by new farmers. It can also facilitate land reform by granting water rights to existing farming operations that have partnerships

---

\(^{12}\) Sihlobo, W. 2018. These Provinces Have Unused Land Suitable For Agriculture. Agricultural Economics Today. Available at: [https://wandilesihlobo.com/2018/02/28/these-provinces-have-unused-land-suitable-for-agriculture/](https://wandilesihlobo.com/2018/02/28/these-provinces-have-unused-land-suitable-for-agriculture/)
and mentorship or learnership programmes with emerging black farmers.

**Conclusion: Growth impact of these reforms**

Simulations entered into the partial equilibrium model of the Bureau for Food and Agricultural Policy (BFAP) for the agricultural sector suggest that successful implementation of these policy levers and interventions could increase real agricultural gross-value added by 14% above baseline projections by 2030. Total gross production value from agriculture could increase by R32 billion in real terms, and the share of black farmer output could rise to more than 20% in sectors where transformation has been lagging.

Accelerated growth in livestock production will enable expansion of field crops, as animal feed is a key market off-take. Under baseline assumptions, including stable weather, further real growth in the value of field crops beyond 2021 is limited. Even for soybeans, one of the most dynamic sectors in recent years, growth could slow as the industry moves towards self-sufficiency. Although a major milestone, this introduces the need to compete sustainably at export parity levels. This can be enabled by introducing new seed technology and germplasm, coupled with a constant drive toward improved farming practices and investment in logistics.

Improving transport efficiency and port logistics will support the export-orientated agriculture sector, specifically the horticultural subsector. Export volumes could rise by roughly 50% by 2030. Furthermore, critical maintenance in irrigation scheme infrastructure has fallen behind, resulting in an approximate 30% water loss. While on-farm water use efficiency has improved with the rising prevalence of netting in the horticulture fields, expansion and maintenance of infrastructure in existing irrigation schemes will be critical for new entrants to enter the sector successfully.

Fostering growth and sustainability of inclusive food-value chains requires an integrated approach. Short-term growth is strongly influenced by external events such as the weather, global market prices, and exchange rate fluctuations. But the right environment and policy choices will determine long-term inclusive growth trajectories.

---