

A SOCIO-ECONOMIC IMPACT ASSESSMENT OF EXPROPRIATION WITHOUT COMPENSATION

1. AGRICULTURE AND FOOD SECURITY

By the FW de Klerk Foundation

Sakeliga recently published the government's woefully inadequate socio-economic impact assessment (SEIA) of the likely consequences of the Expropriation Bill. This begs the question of what the *actual* consequences of the Bill, the proposed amendment of the section 25 of the Constitution, and Expropriation without Compensation (EWC) would be.

In terms of section 25 (2)(a) property may be expropriated only for a public purpose or in the public interest. The concept of expropriation for a "public purpose" is already included in the present (1975) Expropriation Act is well defined and established - as including the need for land for the building or roads, dams etc.

However, the concept of the "public interest" is undefined and open-ended - except that in terms of section 25(4) it includes "the nation's commitment to land reform and to reforms to bring about equitable access to all South Africa's national resources."

The "public interest" is so crucial that its definition cannot be left solely in the hands of the government of the day. The "public interest" must rather be derived from the core purposes and foundational values in the Constitution. These include human dignity, equality, human rights, non-racialism, the supremacy of the constitution and the rule of law; and a genuine system of multiparty democracy.

The "public interest" also includes the national goals set out in the preamble to the Constitution, including –

- the belief that South Africa belongs to all who live in it, united their diversity;
- the need to heal the divisions of the past and establish a society based on democratic values, social justice and fundamental human rights;
- the laying of the foundations for a democratic and open society in which government is based on the will of the people and every citizen is equally protected by law;
- improving the quality of life of all citizens and freeing the potential of each person; and
- building a united and democratic South Africa able to take its rightful place as a sovereign state in the family of nations."

The assessment of any legislation or government initiative should be judged by the degree to which it will promote or detract from these constitutional criteria.

Within this framework, the FW de Klerk Foundation will, in a series of three articles, attempt to make a brief assessment of what the *actual* impact of EWC and the erosion of property rights will be on –

- agriculture and food security;
- investment, economic growth, job creation and the loss of critical skills; and
- human rights and freedoms, the overall quality of life, national unity and minorities.

THE IMPACT OF EWC ON AGRICULTURE AND FOOD SECURITY

When the ANC adopted its decision at NASREC in December 2017 to pursue expropriation without compensation it added that this goal should be pursued “without destabilising the agricultural sector, without endangering food security in our country and without undermining economic growth and job creation.”¹ It is evident from the following analysis that the Bill and EWC would, in fact, pose a deadly threat to both agriculture and the economy.

South Africa is not a rich agricultural country - with only 13% of its territory being suitable for arable production. The sector is changing rapidly: the average age of commercial farmers in 2017 was 62;² the number of commercial farmers dropped from 57 357 to 35 250 in just three years between 2013 and 2106 - and was expected by government to fall to fewer than 25 000 after 2020.³ The number of farms for sale increased from 13 254 in February 2015 to 19 280 in May 2016.⁴

Despite the smaller number of farms, income produced by the sector increased to R 332,8 billion⁵ - 2,6% of GDP - in 2017. Most of this was produced by large farms. 100 very large farms produced 25% of agricultural production. Some 2 200+ large farms (including the top 100 farms) - with a turnover of over R22,5 million - contributed 64,5% of the sector’s income in 2017. Medium-size farms contributed 7,7% and small and micro farms contributed 27,8%. *Collectively, commercial farmers produce 95% of South Africa’s locally grown food.* According to a 2015 WWF Report “although accurate data is slim, this suggests that the remaining 5% of food is produced by 220 000 emerging farmers and the 2 million subsistence farmers in the country”⁶.

South Africa’s commercial farmers - aging and rapidly diminishing in number - are widely regarded as among the best in the world. The imposition of demographic representivity on the agricultural sector would, over time, force them from the land. They would, in all likelihood, be replaced by hundreds of thousands of emerging tenant farmers on 10 - 20-hectare plots.

The government’s land reform model flies in the face of all current experience. Absence of property rights has been one of the main obstacles to the revival of agriculture in Zimbabwe. According to Patrick Imam of the IMF, the fundamental problem was that “the title system is broken.” Accordingly, land in Zimbabwe was “dead capital, as it cannot be collateralised”. “The first best solution to revive the sector would be to tackle the most binding constraint, which is property rights”.⁷

Successful agriculture requires capital, expertise, entrepreneurial skills, increasingly large-scale farming, a great deal of luck - and above all, secure property rights. There is no reason to suppose that the government’s new tenant-based land reform approach would be any more successful than its previous schemes - at least 70% of which have failed.

¹ Declaration of the 54th Conference - Report of the 54th National Conference, p.4

² Mail&Guardian, 18 June 2015

³ “Alternative Perspective on Land Reform Based on Sustainable Economic Growth and Nation-Building Principles”, p.42, Dan Kriek and Nick Serfontein

⁴ Jan Bezuidenhout, Landbou.com, 7 June 2016

⁵ Stats SA: Census of Commercial Agriculture Report, 2017, 24 March 2020

⁶ “Reconnecting South Africa’s Food Systems to its Ecosystems”, WWF Report, 2015

⁷ Zimbabwe independent BUSINESS DIGEST 6 – 12 March 2020



The difference between past and future land reform schemes is that the Expropriation Bill could have a devastating impact on the continuing ability of the remaining commercial farmers to produce the food on which South Africa depends. The Bill's first victims would probably be the 60% of commercial farmers with a turnover of less than R500 000⁸, who produce approximately 28% of our food and who are already finding it difficult to raise the operational loans that they need to plant their crops.

The expropriation of the first farms with compensation paid at levels substantially below market value would inevitably have a negative impact on land values. Many farmers might soon find that the value of their farms would be little more - or even less - than their outstanding mortgages. This could spell personal ruin for them and raise deep concerns among commercial banks over the viability of their R125 billion exposure to the sector.

Large farms - many of which are trusts and companies - would also experience greater problems in raising finance for their operations and for new investments. Their viability might also be negatively affected by increasing pressures to comply with BBBEE requirements - including divestment of shareholding to PDIs.

The present outflow of expertise and capital from the agricultural sector might become a flood. After all, why should commercial farmers remain on the land if they know that it will be only a question of time before they face expropriation and the loss of their livelihood and most of their wealth?

All of this could have a catastrophic impact on the agricultural sector; on its contribution to the economy; on the 808 000 people (5,5% of total jobs) it employs;⁹ - and on food security. South Africa has thus far been regarded as one of the few food secure countries in Africa and has made good progress in improving food availability. The number of people who were vulnerable to hunger declined from 29,3% in 2002 to (a still unacceptable) 11,1% in 2019¹⁰. Tragically, the percentage of vulnerable people would rise rapidly in the wake of the agricultural crisis that would be generated by the Bill, EWC and the government's RET policies.

⁸ Loc.cit: Kriek and Serfontein, p.41

⁹ Stats SA: Quarterly Labour Force Survey - Quarter 3 2020: The number of people employed in agriculture decreased by 80 000 since the 3rd quarter of 2019 - no doubt because of the impact of COVID

¹⁰ Stats SA: General Household Survey, 2019 p.60