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The one million jobs question – will agricultural investment rise to the occasion?[1]

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Will the South African agricultural sector manage to generate a million jobs by 2030, against the backdrop of a stubbornly high and persistent (youth) unemployment problem? Who will invest in agriculture? Which product markets are to be considered for investment? When and where will such investment take place, and how should it be done to more effectively contribute to broad-based agricultural growth? How can such growth be defined – is it related to output or the value of production, or both? Under what conditions can investment grow meaningfully?

Land titling as an exclusionary factor

The lack of land titles in former homelands has, according to experts such as Andrew Makenete, effectively excluded rural economies from fully integrating into the mainstream commercial agricultural economy. Given this obstructive impediment, Makenete argues that the existing system has not worked for the overwhelming majority of the poor, and such a system is not sustainable in the long run. Given this anomaly, Makenete argued for new standards and norms that re-integrate rural economies in an inclusive manner. This entails the application of agribusiness models

[1] This article is based on a panel discussion on "agricultural Investment for growth", facilitated by Tinashe Kapuya of Agbiz, at the 55th Agricultural Economics Association of South Africa (AEASA) Conference held on the 16th September 2016 at the Misty Hills Resort in Mulderdsdrift. We thank all session participants and the panellists, namely: Russell Du Preez (Russell Stone Group); Andrew Makenete (Manama Hole Holdings); Cobus Oberholster (BKB) and Herman Marais (Agri Vie).

that over-look land titling, and focus on controlling the actual product beyond the farm-gate, instead of the means of production (i.e. land).

Critical for policy to create a competitive investment environment

Global capital tends to gravitate to places where it can grow profitably at lower risk. According to Russell Du Preez, the pressure is on the African continent to implement reforms that reduce risk – creating an environment that can attract more Foreign Direct Investment (FDI) relative to other regions in the world. Central to this debate is reforming agriculture in Africa by unlocking the value of land through title, and allowing finance to flow into the sector through land asset collateralisation. Russel Du Preez argued that the true test of economic empowerment lies in proffering full land use and ownership rights to rural communities, and providing them the economic freedom to allow for land to be traded in an open market. While this view tends to go against the agricultural system in much of rural Africa – which is characterised by communal ownership – Russel further argued that countries in which property rights are stronger also tend to be food secure. Global capital has shied away from African agriculture due to the pervasive state control on farmland, and the limits placed on land ownership by various legal frameworks across the continent.

Lack of infrastructure in rural communities critical

Critical to growing the investment potential of rural communities is the need for public commercial infrastructure (i.e. roads, power etc.), all of which link rural farming communities to markets. In South Africa, this thinking is being framed within the context of agri-parks, which are being designed to promote agricultural investment in rural farming communities. It has been argued that agri-parks investments should be led by private sector, with government playing the critical role of creating the necessary incentives and an environment that attracts and facilitates such investment.

Policy uncertainty the biggest factor militating against investment

Policy uncertainty is the single largest factor affecting investment decisions in agribusiness, and this has been aggravated by an avalanche of political and economic factors besetting South Africa. Broadly, there are two key sources of policy uncertainty in South Africa's agricultural investment environment: (i) the unresolved land question[2] – from which government has not provided a clear pragmatic policy direction over how broader land reform can be implemented in the future, and (ii) the Protection of Investment Act – which prescribes national treatment on foreign investors, while removing the option of recourse to international arbitration in the settlement of disputes. The former is being crafted to preclude foreign ownership of land and placing limits to land holdings, while the latter removes previous protection of foreign investments formerly enjoyed under Bilateral Investment Treaties (BITs). Overall, the two policies are generally viewed as an erosion of property rights, which creates risk and uncertainty to much needed FDI.

Different investors apply different investment models

Various investors apply different investment models. For instance, AgriVie places more emphasis on off-farm investments – more specifically, the agro-processing part of the value chain – where risks are lower and returns are higher. The AgriVie model also focuses on partnerships with institutional investors, and targets a niche market of small to medium sized agribusiness companies with reasonably strong balance sheets, engaged in activities that generate quicker returns and high turnover – and this also includes lucrative export-oriented production.

Meanwhile, Russell Stone is set on a more integrated approach, focusing on both on-farm and off-farm investments. Their value chain approach focuses on (i) primary production (i.e. crops which include maize, soybean, wheat, potatoes etc., and livestock comprising a herd of 600 beef cattle), (ii) commodity trading (i.e. beans, maize and chop, wheat, sunflowers, soybean including oil cake, fresh fruit and vegetables[3]) and (iii) agroprocessing (i.e. maize milling, soybean and sunflower seed crushing, oil refining and bottling).

Meanwhile, BKB apply inclusive value chain models, which in their case, is focused on mohair – sourcing from more than 3 000 small scale farmers. Unlike other sectors

[2] Uncertainty brought by land reform has entailed several of its elements that include (i) restitution – the opening of new claims which has added to the uncertainty of farmland (ii) Extension of Security of Tenure Act (ESTA) – likely to aggravate institutional duplication and inconsistency in the definition of tenure rights and procedures to respect, protect, promote and fulfil tenure rights. (iii) the Proactive Land Acquisition Strategy (PLAS) – land purchased by government to beneficiaries does not transfer ownership, with land remaining under government control to be leased for 30 years.

[3] Apples, citrus, grapes as well as potatoes, onions and butternuts.

such as poultry in which contract farmers and spot markets are subject to a significant price differential, the BKB model applies a parity pricing model that accords small scale farmers and large scale contract farmers equivalent prices. Cobus Oberholster argued that the price parity across various production scales offers a fair and efficient price discovery system, which he argued to be a sound basis for smallholder development.

Summary and Conclusions

Attracting investment into agriculture that is sufficient to generate growth levels that can add a million jobs is a formidable but surmountable task. The debate answered a number of questions:

(i) Who will invest in agriculture? Agricultural investment will come from various role players, who include (but not restricted to) institutional investors and agribusinesses – both domestic and foreign. Given the need to attract (domestic and) foreign capital, it is essential for government to create and sustain a globally competitive investment climate.

(ii) Which product markets are to be considered for investment? A number of examples were cited from the various agribusiness models. This included grain and oilseeds, fruits and vegetables – where investments target primary, trading and agroprocessing segments of the value chain. Others focus on agro-processing, while others adopt integrated value chain approaches. An important point, however, is that in a globalised agro-food system, competition does not necessarily happen in product markets alone, but rather, along supply chains. Ultimately, the most efficient supply chain is one that survives competition, and thereby drawing more investment. As such, investment decisions are best made if food markets are viewed from a holistic perspective (i.e. look at the entire supply chain).

(iii) How can agricultural growth be defined – is it related to volume of output or the value of production, or both? While growth of niche markets focuses more on the value of production, agricultural growth will generally entail both the volume and value of production. From an investment perspective, this means that both the quantity and quality of investments are considered as critical. Investments in public commercial infrastructure is as important as private investments in growing the volume and value of agro-food value chains, particularly in marginal areas, to ensure effective integration of rural farming communities.

(iv) Under what conditions can investment grow meaningfully? An improvement in the investment conditions is in order. The prevailing policy uncertainty will need to be resolved, and this entails a commitment from government to chart a feasible and sustainable land reform programme, and assuming a policy trajectory that strengthens property rights (for both South African nationals and foreign nationals), which will send a clear signal to the market that the government is prepared to reduce investment risks. Overall, the government will inspire much needed confidence if it can reaffirm its commitment to the principles outlined in the National Development Plan (NDP).

(v) How can investments more effectively contribute to broad-based agricultural growth? Government will significantly increase the chances of attaining broad-based growth if it can craft reforms that award land titles to rural communities in the former homelands. The creation of land markets can attract much needed capital into marginalised rural economies, and spur a wave of rural agricultural industrialisation that will significantly increase job and income opportunities for the rural poor. The titling of land can also significantly boost the impact of agri-parks, which can also become the platform for private-public partnerships in rural infrastructural development. Nonetheless, commercial infrastructure will be spearheaded by private sector, which will expectedly re-integrate smallholder farmers into commercially viable value chains.

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