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Land expropriation without compensation will impact the ordinary citizen

As we move closer and closer to the elective conference of the ruling party in December, South Africa's focus is firmly set on who will emerge as the new leader of the ruling political party. Whilst the leadership race has certainly stolen the lime light, and understandably so, one should not neglect the central policy issues postponed in July that are due to be decided at this conference. Chief amongst these issues is the land debate and whether to amend the Constitution to allow for expropriation without compensation. Ironically, this 'side show' may well have the most direct impact as ordinary citizens will feel the crunch where it hurts the most, in their wallet.

South African agriculture is competing in a tough environment against global competitors who receive considerable support from their governments in the form of subsidies and non-tariff measures. In addition, the sector has to import many of its inputs which places our producers at a disadvantage due to the fluctuating exchange rate. As a result, the sector has become very reliant on credit which usually takes the form of bond financing. It was recently estimated that South African farmers are indebted to the tune of roughly R160 billion. This debt is shared between the Land Bank (25%), development finance institutions and agribusinesses (former cooperatives), but the lion's share (70%) is held by commercial banks.

In the risky environment of climate change and policy uncertainty, banks regularly register mortgage bonds to secure their loans. Stated differently, to reduce the risk in the event that a farmer cannot repay his loan, banks couple the loan to the value of the land by registering a bond that allows them to sell the land as a last resort to recover their losses if the farmer is unable to pay back the loan.

If one were to amend the Constitution to allow expropriation without compensation, it could endanger the faith banks place in the land as security and set into motion a chain-reaction that eventually leads to the ordinary consumer losing out. One can be forgiven for asking how it will affect ordinary citizens if the banks make a loss, especially for something like land reform that is in the public interest - The answer is actually quite simple; banks use savings that the man on the street deposits in a bank account - and if expropriation without compensation takes place on widespread basis, it could be lost if we go this route as a country.

Let me explain: Banks raise the funds they need by using the money that ordinary people from all walks of life deposit into their bank accounts. People do so as banks keep their money safe, but also because banks pay them interest on their deposits to counter act the effect of inflation. Banks generate the funds used to pay interest by lending out depositor's money and charging an interest rate on the loan. In order to minimise the chances of losing their depositor's money they regularly require security, which in this case is the land and the trust placed in the integrity of the land market. If the state can take land without paying for it, then the integrity of the land market will be compromised and banks will not be able to recover depositor's money that was loaned to farmers.

What makes matters worse, is that we are not talking about a trivial amount of money. Agricultural debt may only make up a portion of the commercial bank's portfolios but if the effects are felt acutely, it can endanger the lender itself. In such a situation, one cannot discount the possibility that such a loss can lead to a run on the banks. No bank has sufficient liquid assets to pay out all of their depositors' money in one go as funds are locked up in long term investments. In a bank run, depositors learn of large-scale losses and look to withdraw all of their funds at once out of fear. But since banks are not able to liquidise all of their assets at once, not all debtors can be satisfied and the bank may even collapse under the strain. Such an outcome will be catastrophic for the economy and the man on the street.

Whilst expropriation without compensation may be thought of as something that will only affect farmers or the rural citizens in our country, it has the potential to snowball into a situation that will surely affect us all. One therefore trusts that the delegates that deliberate on this topic in December are fully aware of the dangers that lurk within this policy proposal and consider alternatives that result in greater land reform and transformation without the associated risks. Financial institutions have already developed co-financing mechanisms whereby private sector funds are accessed to speed up land reform via 'soft loans' with subsidised interest rates. Such a solution would speed up transformation as desired without endangering the basic pillars of property rights underpinning our economy.

ENQUIRIES:

Theo Boshoff
Agbiz Head: Legal Intelligence
theo@agbiz.co.za
012 807 6686