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the way to prosperity

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Agbiz Response to National Treasury's Economic Policy Discussion Paper

Introduction

We congratulate the National Treasury for drafting the economic policy discussion paper. We view it as a right step towards formulating policies that could lift South Africa's economic fortunes if implemented efficiently.

While the paper sets out a wide range of proposals which cover a number of sectors, our comments will be limited to our industry, which is the agricultural sector section of the paper.

Detail

- In our view, the broad theme of joint-venture approach in the development of South Africa's agricultural sector that the National Treasury advocates for is a good and solid approach. South Africa's agricultural sector remains dualistic – (1) highly skilled and well-resourced commercial farming and (2) poorly-resourced smallholder farming sector. Developing the agricultural sector means enhancing the productivity of both these sectors and where market conditions permit, ensure that there is convergence. But this can only happen if both established commercial farmers and smallholder farmers cooperate. To this end, the Presidential Advisory Panel on Land Reform and Agriculture proposed a set of incentives to encourage joint-venture approach in agricultural development, which we think the National Treasury should consider, in addition to what the paper has already proposed.

- We appreciate the inclusion of the need to enhance access to finance for agricultural development. We do, however, think the National Treasury document could benefit from the Presidential Advisory Panel Report which proposes the creation of a Land Reform Fund that would enhance access to developmental finance within the farming sector. In brief, the Fund would be housed at the Land Bank and managed jointly with the private sector. The fund could be capitalised through land reform bonds which would ideally be issued by the Land Bank, foreign donor funds and incentivised individual contributions from wealthy South Africans that are merged into one fund and which should be easily accessible by implementing agents and beneficiaries of land reform.[1] By combining the various sources of capital in one Fund the cost of capital is reduced which should allow the Fund to on-lend to smallholder and new-entrants to farming at far below-market interest rates.

- Moreover, showing examples of what is currently being done on the ground helps in getting broad societal buy-in and also extracting examples of what works. In the area of funding, we think the government should also encourage and support other innovative development funding instruments such as the Agricultural Business Chamber/Banking Association of SA Land Reform Funding methods, and the Agricultural Development Agency, amongst others.

- On the point of export markets - South Africa's agricultural sector has become more export-oriented. The country now exports roughly 49% of its produce in value terms[2], this means any development that happens will rely on an increase in exports. Therefore, we think the National Treasury should make reference to the recent signing of the Africa Continental Free Trade Agreement (AfCTA). This is not only important for agriculture but also other sectors of the economy.

- The need for improving the efficiency of transport systems and eliminating theft and damage to productive infrastructure and trucks, is also another point that is worth mentioning (interrogating?).

- We appreciate the recognition that South Africa's agricultural sector receives less funding support or subsidies than other countries, but we are wary of advocating for this approach given that government finances are constrained. What we would rather like to see is the easing up of the farming environment (conducive policies) so that the sector could attract more investment (and FDI). But this is unlikely in the near term because of lack of clarity on land reform policy, confused water policy and poor water-infrastructure, and now increasingly poor ports infrastructure and inefficiency. The Agbiz/IDC Agribusiness Confidence Index, which measures the sentiment in the

[1] For more details, please see Final Report of the Presidential Advisory Panel on Land Reform and Agriculture. Available at: https://www.gov.za/documents/final-report-presidential-advisory-panel-land-reform-and-agriculture-28-jul-2019-0000

[2] Agbiz calculations using Trade Map and DAFF (Agricultural Abstract Statistics) data

sector, has consistently been below 50-point mark for the past five quarters and goes to show that the sector might not attract notable investment unless confidence recovers.

- On land reform, the National Treasury is not explicit on the interventions for accelerating the pace of land reform and again might benefit from including certain sections of the aforementioned report by the Presidential Advisory Panel on Land Reform and Agriculture. Moreover, drawing from examples of what is happening on the ground in various farming entities could also be useful.

- The report by the Advisory Panel briefly refers to the introduction of a 'recognition mechanism', which we mentioned above, that could have a significant and sustainable impact on the land reform process without draining the fiscus. This is the root of a successful and sustainable land reform programme and suggests that the South African government should avoid lengthy design processes at all costs and focus on policy incentives that could efficiently bring about a sustainable land reform process and a growing agricultural sector. The panel's report recommends the implementation of the lessons from modern policy design which now makes use of behavioural insights to design policy instruments and programmes. In essence, the approach is to create effective incentive mechanisms.

- Most importantly, highlighting the importance of property rights in attracting investments is always a key signal that government should recognize, as private sector still harbours concerns, given the ongoing and polarized debate on land reform policy in the country.[3]

- Overall, what might also be useful is highlighting provinces which should be prioritised for agricultural development. In our view, the Eastern Cape, KwaZulu Natal and Limpopo should be priority, not only because of abundance of underutilised land, but also because these are provinces with higher unemployment and poverty. Most importantly, prioritising these provinces for agricultural development would be in line with the views expressed in Chapter six of the National Development Plan. In doing this, the focus should be on labour-intensive agricultural activities, such as horticulture. Fortunately, these are also products that are globally sought-after.

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[3] We are specifically refereeing to discussions regarding Expropriation Without Compensation. We recognize that the National Treasury is not responsible for effecting or drafting this policy work, but sending a signal of what is essential for attracting investment might be a good thing.