

Land Ceiling Policy and Legislation: Implications for the Agricultural Economy

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OUTLINE

- Introduction;
- Outcomes of land ceiling legislation: an international perspective;
- Factors affecting changes in farm size;
- Potential impact of land ceiling legislation in South Africa;
- Conclusions and recommendations.

INTRODUCTION

Farming structure	Unit	1960s	1970s	1980s	1990s	2000-2007	2008-2011
Farm number	number	99114	79842	64540	59289	44575	39966
Total area	1000 ha	89256	86814	85862	82404	83701	94545
Average farm size	ha	901	1087	1330	1390	1878	2366
Economic contribution							
Agricultural GDP*	R million	25508	37594	35877	30201	31217	50956
Contribution to GDP	Percent	9.9	6.8	5.0	3.7	3.0	2.4
Labour							
Economically active in agriculture	000	1635	2483	1181	1213	1406	1100
Agricultural share of total	Percent	29	31	14	10	12	6
Farm employees	000	968	1639	1235	1185	835	969
Value of production							
Field crops*	R million	20267	26524	23658	15677	16722	28457
Horticulture*	R million	7659	9526	10323	11392	14493	26407
Livestock *	R million	20531	21760	24775	20518	24352	49505
Total*	R million	48457	57810	58756	47587	55567	104369
Share of production value							
Field crops	Percent	42	46	40	33	30	27
Horticulture	Percent	16	16	18	24	26	25
Livestock	Percent	42	38	42	43	44	47

Introduction cont...

- 32nd largest producer of agricultural products
 - 39,000 commercial and 240,000 emerging and small-scale farmers;
 - Emerging /small-scale farmers contributes < 5% to Agricultural GDP;
 - 51% of all farmers earn less than R300k per annum – struggle to sustain livelihoods;
 - SA food security status = national food secure, however large levels of food insecurity at household level due to poverty and unemployment;
- Compared to international peers, SA is relatively poorly resourced, however, given overall food balance & increases in productivity the sector is performing well;
- Technology adoption and knowledge intensive systems key to performance;

Introduction cont...

- Overall growth in production was a result of productivity gains- farms sizes grew as the overall number of farms declined;
- At the same time; farmers face cost price squeeze and low profitability which is shielded by the increase in farm sizes (economies of scale);
- Using net agricultural trade of goods as proxy for land = **shows SA does not have sufficient or adequate crop land at all times to meet its own domestic demand;**
- Destabilisation of land market (structure of land holdings) may lead to underutilisation and/or lack of investment further aggravate a sensitive balance;
- In addition, link to land ceilings- determining the size of a economic unit will be challenging.

LAND CEILING LEGISLATION: AN INTERNATIONAL PERSPECTIVE

- **Expected outcomes :**

- Expected to benefit tenants who work on the land i.e. fuller utilization of land and labour;
- Improved productivity;
- Re-aggregation of land concentration;
- Improved land distribution;
- Enhanced equity and efficiency;
- Equitable income distribution;
- Poverty alleviation;



- **Outcomes:**

- Fragmentation of agricultural land;
- Affect productivity adversely;
- Contribute towards agricultural being a low-profit venture in several parts of the world;
- Neutral or negative effects on poverty;
- Unsatisfied levels of equity and efficiency;
- To large extent; failed to change agrarian structures- large inequalities continue to exist;
- Negative impact on functional land rental markets;
- Costly and difficult to administrate;
- Characterised by circumvention, contestation, corruption and litigation;
- Poorly crafted legislation;
- Tenure insecurity;
- Discourage land-related investment;

FACTORS AFFECTING CHANGES IN FARM SIZE

- Results from structural changes within the agricultural sectors of regions including amongst other the EU, USA, Australia and Brazil suggest that the following contributed towards farms getting bigger:
 - Economies of scale,;
 - Farm size and efficiency;
 - Large farms' superior ability to deal with imperfections in markets for finance and insurance;
 - Change in technology that makes the management of the production of bulk commodities possible;
 - Ability of large operations to reap the benefits from horizontal as well as vertical integration;
 - Standards and associated requirements for certification and traceability that favour large operations
 - Etc.

POTENTIAL IMPACT

Area	Possible impact
Employment	29.3 employment/ jobs opportunity lost for every R1 million decline in production
Terms of Trade and Productivity	Pressure on income and cash flow due to negative terms of trade and limited affordability of new technologies; Smaller farmers not able to compete in the current economic environment- negative impact on production;

Potential impact cont....

Area	Possible impact
Economic impact on decisions of entrepreneurs	<p>Discourage the economic development of land for large-scale commercial and other productive uses;</p> <p>Affect foreign direct investment into South African agriculture and will also adversely affect South Africa's comparative global rankings for economic freedom;</p> <p>Farmers and companies who have the ability to farm on large pieces of land will find the new legislation a disincentive to invest and will look for other opportunities notably in the rest of Africa and Southern America;</p> <p>Land rental markets are likely to collapse if the legislation also imposes restrictions on how many hectares one can work without owning the land</p>

Potential impact cont....

Area	Possible impact
Farm Debt	<p>Add to the economic pressure that is already experienced by farmers i.e. farmers will not be able to expand operations which will negatively impact on economies of scale and limit the extent of technology adoption;</p> <p>Farms which are not viable under the ceiling legislation are likely to go bankrupt;</p> <p>Farms may prove to be financially viable by restructuring their debt or shedding assets over the short run; these farms are likely to become uneconomical over the longer-run.</p>

Potential impact cont....

Area	Possible impact
Land redistribution	<p>The new farm units would be extremely difficult to establish since the land to be released is neither uniform or in one area which can be equally subdivided;</p> <p>The process of assessing the feasibility of a land unit is likely not only to be practically impossible to execute but fraught with all manner of legal challenges and complexities;</p> <p>Putting together coherent pieces of land in itself is extremely challenging and time consuming, and would require a substantial technical knowhow and expertise,</p>

Potential impact cont....

Area	Possible impact
Food Security	<p>If the imposition of land ceilings leads to further job losses then it will have a negative effect on the economy and to food security;</p> <p>Losses in production and deterioration of the natural resource will lead to food insecurity;</p>
Social security	<p>New legislations could undermined productivity due to potential impact on private sector and foreign investment;</p> <p>Beneficiaries of the land who would need further support from the state would in effect be recipients of disproportionate state aid and support</p>

Potential impact cont....

Area	Possible impact
Security of tenure	<p>Investment in agriculture is largely driven or underpinned by secure tenure arrangements;</p> <p>Security for credit is undermined due to reduced collateral and or the inability to service debt.</p>
Agricultural and food trade	<p>Inefficient land ceiling program in the crop sector may lead to a decline of four percent in the trade balance;</p> <p>Based on its agricultural trade structure, SA is a net importer of land. An inefficient land ceiling program will worsen this balance against the background of a rising demand for farmland globally to feed the growing world population.</p>

Conclusions

- The outcome of land ceilings in other parts of the world as well as the potential impact locally argues against any optimistic expectations;
- Need to consider alternatives strategies like:
 - BEE within agriculture;
 - Equity sharing models;
 - Models to improve the success of delivery:
 - Access to markets;
 - Institutional requirements;
 - Research and development to create more efficient small-scale farmers