# FOREIGN DIRECT INVESTMENT IN SOUTH AFRICAN AGRICULTURE

by

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I would like to dedicate this dissertation to my late father, Clive Anthony Nicholson, who instilled in me a passion for agriculture in South Africa and the upliftment of its people. I carry this quote in my daily life which reminds me of him and his tremendous sense of humour: “I only have one culture, agriculture”.

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Richard John Nicholson
Pretoria
April 2014

# DECLARATION

I declare that

**“Foreign Direct Investment in South African agriculture”**

is my own work, that all the sources used or quoted have been indicated and acknowledged by means of complete reference, and that this thesis was not previously submitted by me for a degree at another University.

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R.J. Nicholson Date

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## Abbreviations

| Abbreviation | Meaning |
|---|---|
| ANC | African National Congress |
| BFAP | Bureau for Food and Agricultural Policy |
| BRICS | Brazil, Russia, India, China and South Africa |
| CBH | Country Bird Holdings |
| CPI | Investment Promotion Centre (Mozambique) |
| DBSA | Development Bank of South Africa |
| DFI | Direct Finance Institution |
| GDP | Gross Domestic Product |
| FAO | Food and Agricultural Organisation |
| FDI | Foreign Direct Investment |
| IFAD | International Fund for Agriculture |
| IMF | International Monetary Fund |
| JSE | Johannesburg Stock Exchange |
| LVG | Land Valuer-General |
| M&A | Mergers and Acquisitions |
| MNC | Multinational Corporation |
| NAMC | National Agricultural Marketing Council |
| NEPAD | New Partnership for Africa's Development |
| OECD | Organisation for Economic Cooperation and Development |
| PEFOL | Panel of Experts on Foreign Ownership of Land |
| SACU | Southern African Customs Union |
| SADC | Southern African Development Community |
| SAFEX | South Africa Futures Exchange |
| SARB | South African Reserve Bank |
| SOE | State Owned Enterprise |
| SSA | Sub-Saharan Africa |
| SWF | Sovereign Wealth Funds |
| UNCTAD | United Nations Conference on Trade and Development |
| UNDP | United Nations Development Programme |

# CHAPTER 1

# INTRODUCTION

## 1.1 BACKGROUND

The world population has increased to over 7 billion people and the United Nations forecast it will exceed 8.9 billion by the year 2050 (United Nations, 2004:4). The demand for food and the agricultural use of land and water is growing exponentially. The value of agricultural land is increasing all over the world as greater investment is made in agriculture, agro-processing and agribusiness. According to the United Nations Development Programme (UNDP) (2012), "to feed the world in 2050, some US$9.2 trillion in cumulative investments will be necessary worldwide. The population of Africa could by then have nearly doubled, and reach 2 billion. Sub-Saharan Africa alone would need US$940 billion of investment." While the global population continues to grow and land values increase, there is still plenty of room for agricultural growth in Africa. According to the Mckinsey Global Institute (2010), the African continent has 60 per cent of the world's uncultivated arable land, creating opportunities for investors to take advantage of relatively cheap land and expansion of the agricultural industry.

These issues of growing population and abundant agricultural land create the opportunity for significant investment and development of agribusinesses and supply chains in Africa. Cotula, Vermeulen, Leonard and Keeley (2009) add context to the trend of increasing foreign direct investment (FDI) flows to Africa by indicating that economic liberalisation, the globalisation of transport and communications, global demand for food, energy and commodities and expanding economic relations between Africa and the rest of the world, have also led to increased FDI flows to Africa, even in a time where global foreign direct investment fell. According to UNDP (2012), "global foreign direct investment inflows worldwide fell by an estimated 21% in 2008, FDI inflows to Africa grew by 15% to $61 billion in 2009."

The “high-level” issues presented above create the opportunity for increased investment in long-term assets such as land and agribusiness. Changes in the global environment have ensured that the era of public-sector-led agro-industrialisation in the agriculture sector has given way to private-sector-led agro-industrialisation. This has been accomplished through privatisation, divestiture and new private agribusinesses (UNDP, 2012). These changes have created an interesting new paradigm for investment in African and South African agriculture.

Over the past three decades, FDI in South African land and agriculture has changed. These changes are a result of the significant political, economic and social changes that started occurring in the 1980s. With the dawn of a fully democratic and inclusive government, trade liberalisation opened up the channels for increased FDI in South Africa. Before this significant event, FDI in South Africa was severely subdued. Reasons for this are given by Arvanitis (2005:65): “[it was] due to the political environment, the imposition of trade and financial sanctions in the mid 1980’s, the subsequent financial crisis, tightening of capital controls and the declaration of a moratorium on payments to external creditors which effectively cut South Africa off from the international capital markets.” Although there has been a significant improvement in perceptions of South Africa due to political and economic reforms in the 1990s, increases in FDI flows to South Africa have remained relatively low compared to other developing countries (Kransdorff, 2010:68–84).

Therefore it is in relation to the phenomenon of increasing FDI to Africa that the question is raised: what is the current status of FDI in South African land and agriculture? Current South African FDI inflows are not as high as in other emerging markets, but as foreign investors start targeting agribusinesses and arable land in Africa, South Africa is coming increasingly under the spotlight. This may be due to the determinants that encourage greater FDI. These determinants were stated by Asiedu (2006:63–77) and include natural resources, good infrastructure, an educated labour force, macroeconomic stability, openness to FDI, an efficient legal system, reduced corruption and political stability. Of the above determinants, South Africa definitely has the lion’s share, which should encourage greater FDI.

However only recently have researchers started to investigate the nature and status of FDI in agriculture and ownership of agricultural land by foreigners in South Africa. One of the reasons for this is the recent political arguments and debates regarding the ownership of South Africa's natural resources. This included many unreliable statements regarding the magnitude of foreign ownership of land and agriculture in South Africa.

The South African Department of Agriculture and Land Affairs began investigating foreign ownership of land in 2004. A panel of experts was appointed by the former Minister of Agriculture and Land Affairs, the Hon. Thoko Didiza, in August 2004. This panel was tasked to investigate the nature, extent, trends and impact of the acquisition, use and investment in land in South Africa by foreigners. Also investigated was the lack of policy or a regulatory framework in place to manage, monitor or intervene in foreign ownership of agricultural land. The final report and recommendations regarding the development of policy regarding land ownership by foreigners in South Africa was presented to the then minister of Agriculture and Land Affairs, the Hon. Lulu Xingwana, in 2007. This report created the initial impetus for further investigation of the topic of foreign ownership of South African land and agriculture (Department of Agriculture and Land Affairs, 2007:5).

## 1.2 PROBLEM STATEMENT

FDI is very important for South Africa as a developing country. The South African government post-1994 has realised that FDI is a crucial aspect of developing the dualistic economy inherited from the previous regime. Not only is it recognised that increasing direct investment from foreign-based companies is vital to the government's development objectives, but South Africa's low domestic savings rate creates a need for FDI to fill the gap for much-needed investment capital. It has been well documented by a number of authors that FDI not only provides capital but also creates spill-over effects in the host economy, such as the dissemination of new technologies and management practices, along with enhancing the country's growth rate (Kransdorff, 2010:68–84).

FDI flows in South Africa have been relatively diversified. Being a country with significant mineral reserves, the mining sector attracts a significant share of FDI in-flows. However other sectors such as manufacturing, finances and services, trade and accommodation and transport and communication also form part of the majority FDI inflow (Arvanitis, 2005). Lately, Africa has been targeted for its natural resources and for its so-called vast unused agricultural land. Although South Africa is one of the most developed economies in Africa, foreign investment in the agricultural land and overall sector has not yet been thoroughly analysed. The current significance and effect of FDI is also relatively unknown in the South African agricultural sector.

This need has been brought about by the phenomena, discussed above, of an increasing global population, rising food prices and of Africa being the final frontier of relatively cheap agricultural land. Also included in this mix are the South African government's own ambitions of land restitution and reform, which are driven by policy aimed at returning or transferring land to the previously disadvantaged and landless. Some opinions have been raised that foreign ownership of land is detrimental to the land restitution and reform process (Department of Agriculture and Land Affairs, 2006).

Therefore data on FDI in agriculture and foreign land ownership needs to be analysed, presented and discussed to fully understand the current South African situation. This is crucial to enable policy makers to find the balance between the growth and development objectives that aim to redeem past injustices.

## 1.3 PURPOSE STATEMENT

The purpose of this study is to quantify, analyse and present in an appropriate format the most accurate available data on the current status and trends of FDI in the South African agricultural sector. Although recent data on land ownership and FDI has become available, it is presented as a single data point in time. For full analysis of the changes over time one requires a data set covering a number of years. The data collected from the relevant sources allows the necessary insight into the current status of FDI in South African agriculture.

This study not only investigates the present status of foreign agricultural land ownership, but also foreign investment and/or ownership trends in South African agribusinesses. Policy and regulatory frameworks are reviewed in the literature review of this study. This research is based on a similar study done in Australia entitled "*Foreign investment and Australian agriculture",* and looks to add to the information-gathering and debate on foreign land and agribusiness ownership. By investigating and scrutinising the available data on the current status of foreign investment in South African agriculture and agribusiness, one can gain the necessary understanding of the actual effects and dispersion of FDI flows in the South African agriculture sector (Moir, 2011).

## 1.4 RESEARCH OBJECTIVES

The following specific objectives guide the study:

- Identify and review the current regulatory and policy environment relating to foreign investment in South African agriculture.
- Identify and review frameworks for monitoring and regulating foreign investment in agricultural land in other selected countries.
- Investigate and present data pertaining to Foreign Direct Investment stocks and flows in the South African agricultural sector.
- Investigate and present data pertaining to foreign ownership of South African agricultural land.
- Investigate and present data on the current status of foreign ownership of South African agribusinesses.
- Analyse and discuss the identified trends for South Africa's balanced economic, social and political trajectory.

## 1.5 ACADEMIC VALUE AND CONTRIBUTION OF THE PROPOSED STUDY

The ownership of land and agribusinesses currently forms an integral part of the South African government's policy to correct the injustices of the past and include previously disadvantaged people in the formal economy. As foreign interest in African agriculture, processing and supply chains increases, so does the demand for the limited available agricultural land. The South African government not only needs to find the balance between its citizens' constitutional right to own property and the land reform process, but also the balance between land, processors and supply chains owned domestically or by foreigners.

Food security is a major factor that will need to be taken in account, as South Africa suffers from extreme weather conditions which could push the country and region into a food-insecure state (Development Bank of Southern Africa, 2009:5). Bearing the above issues in mind, and seeing that since 1994 there has been a perception that foreign land ownership has increased in South Africa, there is a growing need for South African policy makers to determine "who owns what" in South African agriculture (Department of Agriculture and Land Affairs, 2006). Foreign firms and countries are targeting African agricultural land to secure their own future food supply; therefore it is necessary for African governments to formulate the right policies to protect their land and food security.

It is therefore the aim of this study to compile and present the most comprehensive and precise data on the current state of FDI and the role that it plays in South African land and agriculture. By doing so it is hoped that greater debate will be encouraged in the academic, political and social hierarchies as to how best to tackle the issue of foreign ownership of South African land and agriculture. This study, based on the available literature, data and findings, creates greater impetus for further in-depth studies to be done on the topic and the way it affects South Africa's economic and social trajectory. Judging by the current political climate and attitude towards land and agriculture in South Africa, there is no time like the present to present the actual data, as incorrect perceptions can be devastating to an economy like South Africa's.

## 1.6 DELIMITATIONS

The aim of the study is to investigate, collate and analyse the most up-to-date data on foreign investment in South African land and agriculture; therefore a few delimitations must be clarified. Firstly, the empirical study is based on secondary data as it is a countrywide study, and therefore is extremely reliant on the accuracy of the data. This reliance on secondary data is a delimitation of the study.

Another delimitation of the study is the availability of data for analysis. This constraint cannot be ignored.. However, it is believed that the data sets that have been identified provide the author with the necessary information to collate and analyse the current status of foreign investment in South African land and agriculture. On initial inspection, the limiting data set would be that of agricultural land ownership by foreigners.

However there is enough data in the proposed data sets to allow the author to complete the proposed study at the required level. By putting together a well-articulated study based on the current data, it is intended that enough evidence is presented so that increased attention is paid to the need for coordinated efforts to collect relevant data on this topic.

## 1.7 DEFINITION OF FOREIGN DIRECT INVESTMENT

There are a number of definitions of FDI in the literature which explain the concept from differing viewpoints and on various levels. According to Pugel (1999:23), “FDI is the process whereby residents of one country (the home country) acquire ownership of foreign assets for the purpose of controlling the production, distribution and other activities of a firm in another country (the host country).”

The definition that fully encompasses all concepts of FDI is that of the Organisation for Economic Cooperation and Development in the OECD *Benchmark Definition of Foreign Direct Investment* (OECD, 1996:7):

> Foreign direct investment reflects the objective of obtaining a lasting interest by a resident entity in one economy ("direct investor") in an entity resident in an economy other than that of the investor ("direct investment enterprise"). The lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise and a significant degree of influence on the management of the enterprise. Direct investment involves both the initial transaction between the two entities and all subsequent capital transactions between them and among affiliated enterprises, both incorporated and unincorporated.

Duce (2003) goes on to define the "direct investment enterprise" as "an incorporated or unincorporated enterprise in which a foreign investor owns 10% or more of the ordinary shares or voting power of an incorporated enterprise or the equivalent of an unincorporated enterprise." This definition provides a necessary guideline for FDI in incorporated or unincorporated enterprises, without which the determinant for FDI in the enterprises would have to be specifically defined.

In addition to the definition above Duce (2003) goes onto to state, "a direct investor is a person or entity, incorporated or unincorporated, private, public or a government, which has shares in or owns a direct investment enterprise in a country other than the direct investor's country of residence".

# CHAPTER 2

# LITERATURE REVIEW

## 2.1 INTRODUCTION

The literature review is an analysis based on the most up-to-date and relevant sources in the literature which give insights into the current trend of foreign investments in African and South African agriculture. The review is different in a sense that it provides and develops the context of the foreign investment trend in Africa and is narrows it down to the literature describing and analysing FDI in South African agriculture. Finally South African policies that affect FDI are analysed as well as policies from the following countries are discussed to indicate how these countries deal with FDI in their agricultural sectors. The countries are New Zealand, United States, Canada, Brazil and Argentina. This breakdown of literature provides the context which is crucial for this study because it is based on a worldwide trend that has developed recently.

Although the study looks into FDI in South African agriculture it is very important to start with a review of the African situation to highlight the unique issues which are inherent in this recent trend. The South African economy is one of the largest in Africa and attracts a significant amount of FDI. However, due to South Africa's unique economic history, certain intricacies have developed and FDI in the agriculture sector is not as vibrant as one might expect. This is a key difference one is likely to encounter when comparing FDI in South African land and agriculture and land in the rest of Africa. It may also be due to the agricultural sector's structure, which has developed due to the past colonial and apartheid policies. Analysing the most recent literature regarding FDI into Africa as well as South Africa provides an understanding of the unique situation pertaining to South Africa.

## 2.2 FOREIGN DIRECT INVESTMENT IN AFRICA AND AFRICA'S AGRICULTURE

In order to fully comprehend the current situation and developments of FDI in the South African land and agriculture sector, one must understand the current African phenomenon. This phenomenon is the significant interest and much-publicised investment in African land and agriculture by foreign entities. These entities exist in a number of different forms, such as multinational corporations (MNCs), sovereign wealth funds, private equity funds, pension funds and other large conglomerates or agribusinesses.

Analysis of the current literature on FDI in Africa and African agriculture develops the understanding of the agricultural investments currently occurring throughout Africa. It also helps to put foreign investment in the South African land and agriculture sector into perspective. It is thought that foreign firms use South Africa as a springboard economy to establish themselves on the African continent, as it is the most developed country, before investing in the rest of Africa. Therefore it is on this premise that the literature review is conducted, in not only investigating foreign investment in South Africa but also the overall perception of investment in Africa and the issues that surround it.

### 2.2.1 The African land and agriculture investment phenomenon

"Over the past two decades, foreign direct investment (FDI) has become a vital source of economic development for the African continent. With an increase from approximately US$9 billion in 2000 to US$18 billion in 2004 and US$88 billion in 2008, FDI has become a major source of finance for Africa's development" (NEPAD-OECD, 2010). The recent surge in FDI inflows to the African continent is without a doubt a clear indication that Africa has become a more accommodating and lucrative place for foreign investment. The sector which attracts the most investment has traditionally been the natural resources sector; however recently high-value activities such as services and manufacturing have been major recipients. Interest in Africa's

agriculture, particularly its arable land, was greatly enhanced by the recent 2007–2008 food price crisis.

According to Woodhouse (2012), "the 2007–2008 food price spike ended a three-decade-long period of stable but declining, agricultural commodity prices. Further, unlike the previous such episode in the 1970s, prices failed to return to their pre-spike levels and, after only two years at relatively lower levels, in late 2010, returned to close to the peak values seen in 2008." Along with these observations, agricultural commodity markets have been characterised as increasingly volatile over the past five years (HPLE, 2011). The commodity price volatility is illustrated in Figure 2.1.

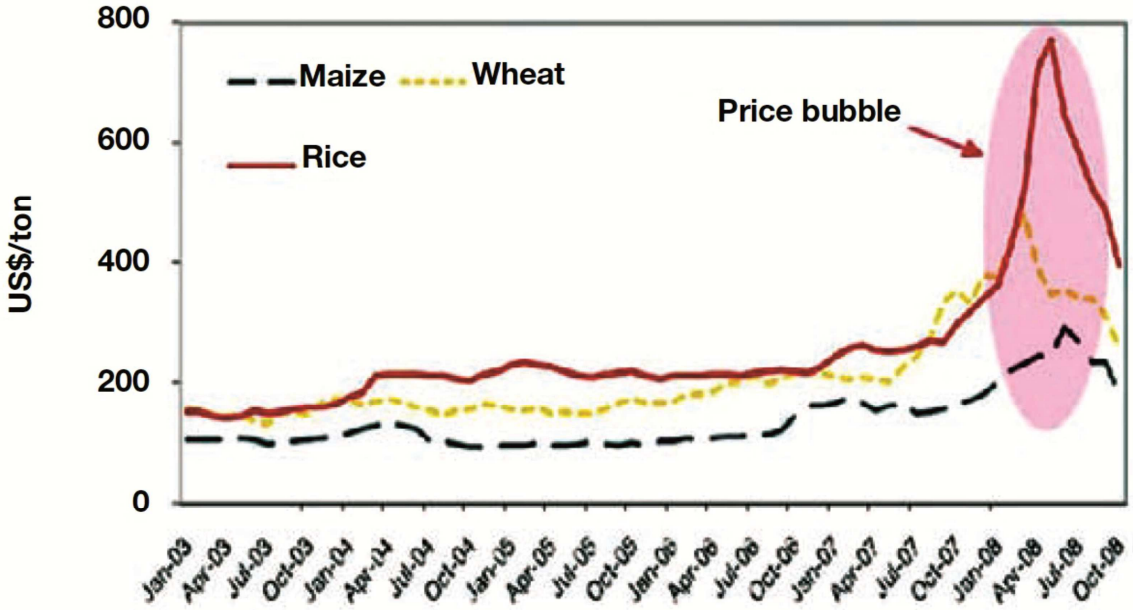


**Figure 2.1: Global food price crisis 2007/2008**
*Source: Cotula et al. (2009)*

The significant interest has created a situation that is relatively new to African agriculture, which is often seen as backward and extremely underdeveloped. But when one takes in account the growing demand for food, fibre and biofuels and the fact that 60 per cent of Africa's arable land is undeveloped and uncultivated, then the current trend is completely understandable (Mckinsey, 2010). Foreign investors are looking to Africa to invest in its agricultural land and agribusiness potential. By doing this they perceive agriculture as an investment for the future and are therefore engaging in "Malthusian-orientated speculation". Malthusian speculation was

developed by the economist Thomas Malthus, who predicted that the world's population growth would outpace food production (Anseeuw, Ducastel & Gabas, 2011).

Further reasoning is needed to justify why, over the past decade, there has been such a significant increase in foreign investment in African land and agriculture. De Schutter (2011) offers a few reasons:

> The global food crisis of 2007–2008 convinced many governments and private commodity buyers that international markets would be less reliable and more volatile in the future and that these markets could not be trusted to provide a stable supply of food and commodities: in order to achieve food security or stability of supply, buying farmland-outsourcing food production was seen as more interesting than buying on the international markets (De Schutter, 2011).

The acquisition of agricultural land by certain governments, worried by their future inability to produce enough food to feed their populations, became popular. Investment funds also found that investments in agricultural land are a way to hedge their assets against inflation, especially where the stock markets became unreliable and were only realising low returns (De Schutter, 2011).

Private-sector investment in African land and agriculture is driven by expectations of competitive returns. Due to agricultural commodity prices rising, land acquisitions for agricultural production are becoming an increasingly attractive option for investors. Although the food price spike of 2007/2008 gave an indication of the increasing price of agricultural commodities and food, the private investments made in land and agriculture are not short-term decisions but rather expectations of returns over the longer term. Primary production never used to attract as much attention as further processing, distribution and value chains did due to their higher returns. However the upward trend in commodity prices is changing the scenario. Downstream risks to processors and distributors are increasing as sourcing raw materials at competitive prices becomes difficult; therefore investing in primary activity, including the acquisition of land, secures production and lowers risk. Agribusinesses that develop

these value chains by moving either downstream or even upstream invariably boost returns on their investments (Cotula *et al.*, 2009).

The reasoning behind foreign investments in African land and agriculture enables one to understand why the trend has developed. However, the actual trend presented by the United Nations Conference on Trade and Development (UNCTAD, 2011) is crucial to fully comprehend the African FDI developments over the past decade. Although there has been a significant increase in FDI to Africa when compared to other developing regions, there has also been a recent drop in FDI inflows to Africa. This drop ended the upward trend which peaked in 2008, but investment is still significantly higher than it was in 2000. Figure 2.2 indicates the most recent trend of FDI inflows into Africa between 2000 and 2010. What is very interesting, particularly for this study, is the increasing proportion of investment in Southern Africa over the period.

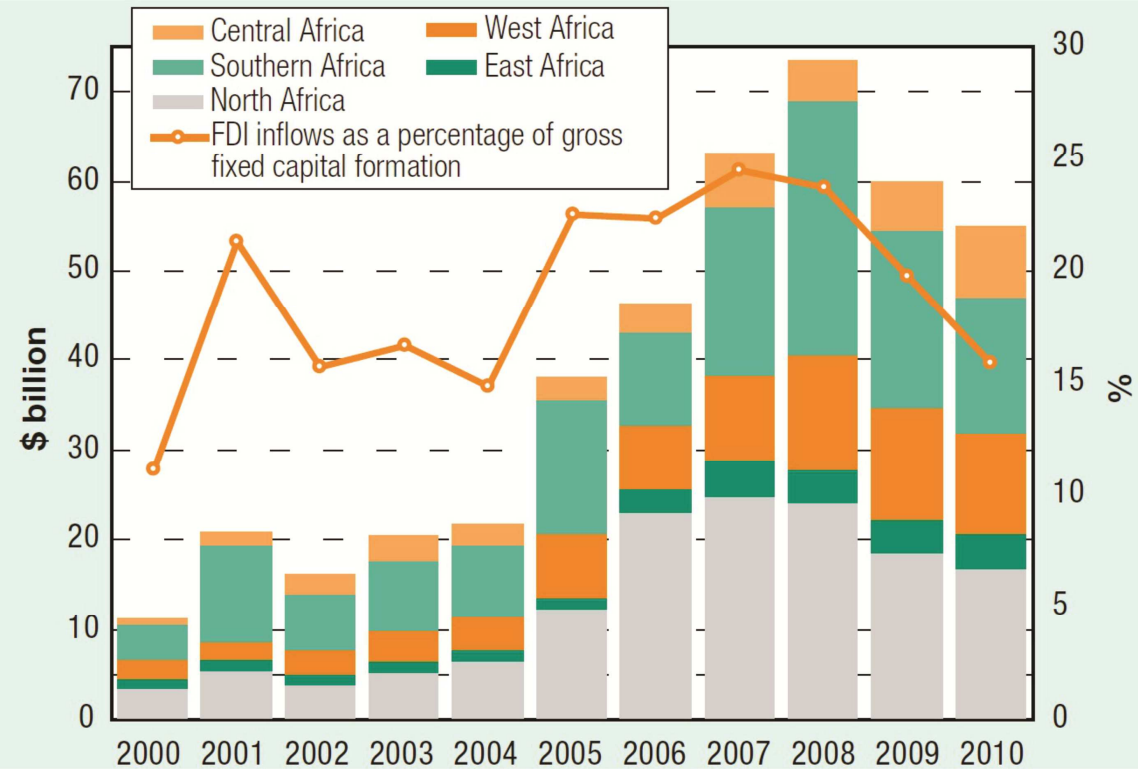


**Figure 2.2: FDI inflows into Africa, 2000–2010**
*Source: UNCTAD World Investment Report (2011)*

FDI flows are affected by the global economic environment, and at the beginning of the global downturn FDI inflows to Africa remained strong. The significant decline only started in 2009. This is in part due to the decrease of cross-border Mergers and Acquisitions (M&A's), which are one of the major drivers of FDI on the continent (NEPAD-OECD, 2010). Even though there has been a decline in the overall FDI inflows to Africa as a whole and to the Southern African region in particular, FDI in African land and agriculture has become a significant economic, social and political focus area, albeit one which is complicated and difficult for African governments and policy makers to deal with.

### 2.2.2 Land and production grabbing

The issue of greater FDI in Africa, especially Southern Africa, is a unique trend which involves many stakeholders. There are positives which arise from FDI in the agricultural sector and they are discussed further in the following section. Contrary to the positives created by FDI inflows is a very intriguing and much-publicised argument and debate that has developed due to the increasing foreign investment in African land and agriculture. It has been called "land grabbing" by several authors who have researched and argued this phenomenon, which is intricately linked to the recent occurrence of FDI flows into African agriculture. "Land grabbing", as the name indicates, is a negative aspect associated with foreign investment in African land and agricultural production. To fully understand the social and political stances taken by African governments, and in particular the South African government, one needs to gain an understanding of this unique FDI trait.

The topic of land grabbing by foreign investors or local entities backed by foreign finance has created a stir in the world of African agriculture. This is probably due to the fact that many of the land deals are not only between private commercially driven enterprises looking to make a return on investment, but between African governments and foreign governments. SOE or SWF and even inter-government agreements on land and agricultural use of land have created a buzz concerning FDI in Africa. The sheer volume of land involved in these proposed deals adds to the negative sentiments about land grabbing, as many of the deals would entitle the

foreign entity to between 1 000 hectares and 500 000 hectares. The range of land is large and due to the distribution of the rural African population, these deals affect many rural people. This has led many authors to go as far as saying that this is a form of neo-colonialism.

But the question must be asked: if foreign investment will create jobs and ensure agricultural production, then why is there such an outcry, mainly by the media and research institutions? The reasoning is provided by a number of authors, but one of the better and most recent documentations on the topic is by Cotula *et al.* (2009). According to Cotula *et al.* (2009), "As many large-scale land deals are recent or in the making, reliable evidence of impacts on land access on the ground is still very limited. But land allocations on the scale documented in this study do have the potential to result in loss of land for large numbers of people, as much of the rural population of Africa crucially depend on land for their livelihoods and food security". This reasoning provides very good grounds for why the topic attracts so much attention, especially considering Africa's oppressive colonial past.

Cotula *et al.* (2009) contributed significantly to the topic of land grabbing and created the impetus for further research. Zoomers (2010) offers seven processes that are currently driving the current land grab. However, most of the processes Zoomers describes are not necessarily agricultural and do not take up arable agricultural land. They do nevertheless indicate the trend in which foreign investors are targeting land in developing countries. Processes that do affect agricultural land and production are included in this literature review. The first of these is offshore farming, as it is called; it is plainly FDI in food production created by the increasing demand for cheap food crops. Food production uncertainties are created by growing constraints on production such as a shortage of land and water, storage and distribution issues and the expansion of bio-fuel crops which compete with food crops in terms of land use. Further to this discussion are the increasing urbanisation rates in the developing world and the subsequent changing diets that are significantly influencing global food demands (Zoomers, 2010).

For these reasons, so-called “food-insecure” governments that rely on significant imports to feed their populations have begun targeting vast areas of farmland abroad for their own food production. These countries view investments in agricultural land abroad as a long-term strategy to ensure their country’s food security. Food is not the only factor in the current FDI trend; energy is another. Hence the second driver behind the land grab trend is the growing demand for bio-fuels and other non-food agricultural commodities. This, along with investor expectations of rising rates of return from agricultural land and increasing land values, has allowed farmland to become a strategic investment asset class. This has been further exacerbated by the recent financial crisis, which has led investors to move back to fundamentals – and agricultural land has been one of them (Zoomers, 2010).

Therefore FDI and the issue of land grabbing has become a significant global issue that has developed over time to affect African governments and African people particularly. De Schutter (2011) not only describes the trends, drivers and reasoning behind the issue but also critically examines three approaches. The first approach is that of the benefits of small-scale farming, mostly family-owned farms, which are then contrasted with the highly mechanised large-scale farming operations developed by foreign investors. The second approach speaks to the abilities of the countries targeted by these investments to manage the investment and ensure that they contribute positively and broadly to agricultural and rural development. The final approach deals with the question of whether large-scale investments in agriculture and the transformation they cause are desirable, particularly the greater need for the entitlement of land and land rights, which leads to a land market. This type of analysis is what the overall debate and discussion in the literature has developed into, and it is from these critiques that policies and frameworks can be developed to better safeguard local African stakeholders in the acquisition of land by foreign entities (De Schutter, 2011).

The literature discussed above provides the necessary background to the most publicised trait of FDI in African agriculture. But as indicated it is necessary to narrow the literature down to that which is most relevant to the current situation and trend of FDI in South African agriculture. One aspect that continues the discussion of “land

grabbing" but in a different manner is that of "production grabbing". This term, recently coined by Anseeuw, Ducastel and Gabas (2011), offers another way in which investors are ensuring production and revenues from production by partially or totally, directly or indirectly, controlling agricultural production. The investors are made up of financial actors, commercial banks and investment funds which are diversifying their portfolios.

Recently South Africa's agricultural structure has changed from a very controlled and regulated system to one of the most deregulated. However, although it is deregulated it still is very structured: there are well-defined property rights; the commercial sector is well developed; and there is a range of risk management instruments available to investors. It is because of this that South Africa has become a place for alternative forms of agricultural investment such as production grabbing to thrive. Anseeuw *et al.* (2011) explore four methods or models of production grabbing. The first is the traditional finance value chain, which acts as the vector through which capital flows. In this model, increased control of primary production is gained by the financers or marketers of goods by vertically integrating. The second model analysed is that of bank integration into the agricultural value chain. This model has ensured banks' greater participation in primary production through innovative risk management. Production on the land instead of actual land is used as collateral for finance, and therefore risk of production is turned into performance risk, which is taken on by the farmer (Anseeuw *et al*., 2011). The third model is that of the agricultural engineering companies, which aim to centralise all agricultural production services in the same entity. The farmer merely rents out his land and takes on the role of production manager and is monitored and assisted in all aspects by the company. The final model is that of investment funds which are dedicated to agriculture. However, not all funds are involved in actual land acquisition, and the management of the land is entrusted to a sister agricultural company. Others simply invest in already established agribusinesses engaged in primary production. The funds have vastly differing strategies but all offer returns on investment based on the fundamentals and FDI in African land described in the first section of this review. Although these models are methods of investment in South African agriculture, the literature presented

provides the only insight into some of the possible FDI options in South African agriculture (Anseeuw *et al*., 2011).

The negative trait of “land grabbing” by investors provides one with important background to why there is such an interest in African land and agriculture. It also gives an insight in how foreign investment is being deployed in Africa, often to the severe detriment of the local people. While foreign capital is being laid out on African land, the justifications seem to be very honourable and beneficial to the country receiving the FDI. Unfortunately many deals are made with corrupt government officials and elites who do not care about the local people on the ground. However, due to the structured South African economy and the structured agricultural and land system, land grabbing is not as much of a threat to local people in South Africa.

### 2.2.3 Foreign direct investment and its positive role in the African agriculture sector

The role of FDI in developing countries is extremely important. Although the majority of total investment in developing countries originates from domestic investors, foreign investment does complement domestic investment. Foreign investment in its different forms plays an important role in promoting growth and sustainable development, ensuring greater country competitiveness. Foreign investment makes up for the gap created by insufficient domestic savings and investment in the developing countries of Africa and plays a part in reducing social and income disparities (UNCTAD, 2011).

Asiedu (2001) also comments on the importance of FDI to the sub-Saharan Africa region by stating: “FDI provides the needed capital for investment. In addition, FDI brings with it employment, managerial skills and technology, and therefore it accelerates growth and development.” Asiedu (2001) goes on to explain that the role of FDI has become extremely important as a source of capital because income levels and domestic savings in the region are particularly low. For that reason external capital is needed to supplement domestic savings in order to stimulate growth.

Arvanitis (2005) provides robust and profound statements/ideas which contribute to the positive role that FDI can play by stating that:

> "Foreign investment can help address saving deficiency and promote economic growth. The role of FDI is buttressed by developments in the growth literature that highlight the dependence of growth on the rate of technological progress and the empirical observation that FDI, by triggering a diffusion of new technologies and management practices to host countries, can support a faster pace of economic growth."

It is these aspects that make the demand for FDI in developing African countries so significant in a world where economic growth has become an objective. This objective is seen as being able to ensure a better life for many Africans, if correctly guided.

A growing contributor to FDI in African and South African agriculture and agribusiness is that of Multinational Companies (MNCs). These MNCs create positive spinoffs for the local economy. Three main spinoffs or effects that a multinational has on the host economy have been identified. The first is the competition effect: as MNCs compete with local agribusiness firms, so prices drop; this may cause the exit of local uncompetitive firms. Secondly, MNCs create improved demand for local raw materials as they source goods and produce from local suppliers. This may lead to decreasing average costs, which may allow for increases in profits for local raw material suppliers. The third spinoff is that MNC presence in the local economy can play an important role in actually benefitting suppliers and manufacturers and creating better competition in the economy (Gorg & Strobl, 2001).

An example of the increasing expansion of MNCs in Africa and South Africa is the merger between Pioneer and Pannar. This merger has contributed to the concentration of the seed industry in South Africa and there are claims that this has had a negative impact on small-scale and subsistence farming (AGRA Watch, 2012). But for the two companies to conclude and finalise the deal a small-scale farmer development fund was established to assist these farmers. In spite of these negative

claims, as aforementioned and proven by many authors there are positive spill-overs and spinoff effects in the local economy. An example is that of the US retail giant Walmart's acquisition of Massmart holdings. The acquisition was taken to court by a number of concerned parties over the detrimental effects the acquisition would have on consumers and suppliers. However the court ruled in favour of the acquisition on the grounds that the benefits to consumers and suppliers far outweigh the detrimental effects. The approval was subject to a few conditions, for instance that employees would not be dismissed in the first two years and that Walmart would set up a R100 million fund to assist local suppliers and manufacturers (Cohen & Brand, 2012).

As shown in the literature, the benefits of FDI to Africa and especially South Africa's development are determined by the framework in which it is deployed. However, many African governments do not have sufficient policy frameworks or regulations to control investment decisions by international investors or MNCs. Some countries like Mozambique have an Investment Promotion Centre (CPI) which acts as the government's investment promotion and enabling centre where certain requirements must be met before the CPI actually approves the proposed investment. In South Africa, the Competition Commission investigates any significant mergers or acquisitions that may prove to be harmful to the successful functioning of the local economy or the ability of local firms to compete. There are greater pressures now from international bodies such as the Food and Agricultural Organisation (FAO) World Bank, the International Finance Institution and the International Fund for Agriculture (IFAD), which contribute to Principles for Responsible Agricultural Investment and are playing an increasingly important role, ensuring that investments made are done so, responsibly (De Schutter, 2011).

## 2.3 FOREIGN DIRECT INVESTMENT IN SOUTH AFRICA, ITS LAND AND AGRICULTURE

### 2.3.1 FDI in the South African economy

Since 1994 South Africa as a whole has had a significant influx of foreign investment, albeit from a low base. But as indicated above it has not attracted as much FDI as other emerging markets. However research has indicated that FDI measured 0.5 per cent of Gross Domestic Product (GDP) for the period 1994 to 2002 compared to other similar countries, which range from 2 to 5 per cent. This is despite the advantages South Africa has, such as macroeconomic policy improvement since 1994, abundant natural resources and a significant local market. Foreign investors have not shown as much enthusiasm to acquire, create or expand local enterprise, even though foreign investment is viewed by many as the catalyst for further development and growth of the South African economy (Arvanitis, 2005).

Due to South Africa's low savings rate and the need for development of the nation as a whole, South Africa requires FDI to fill the gap between local savings, public expenditure and the demand for growth to create employment. This is a requirement for many developing and transitional countries like South Africa. As Layton and Makin (1993) state, "foreign investment augments the local capital stock, leading to an increase in output, providing the servicing cost is less than the increase in output the nation's income." As mentioned before, South Africa's FDI flows have not been stable or predictable. The graph in Figure 2.3 provides one with that very sense of a highly volatile FDI flow, which has been aggravated in recent times.

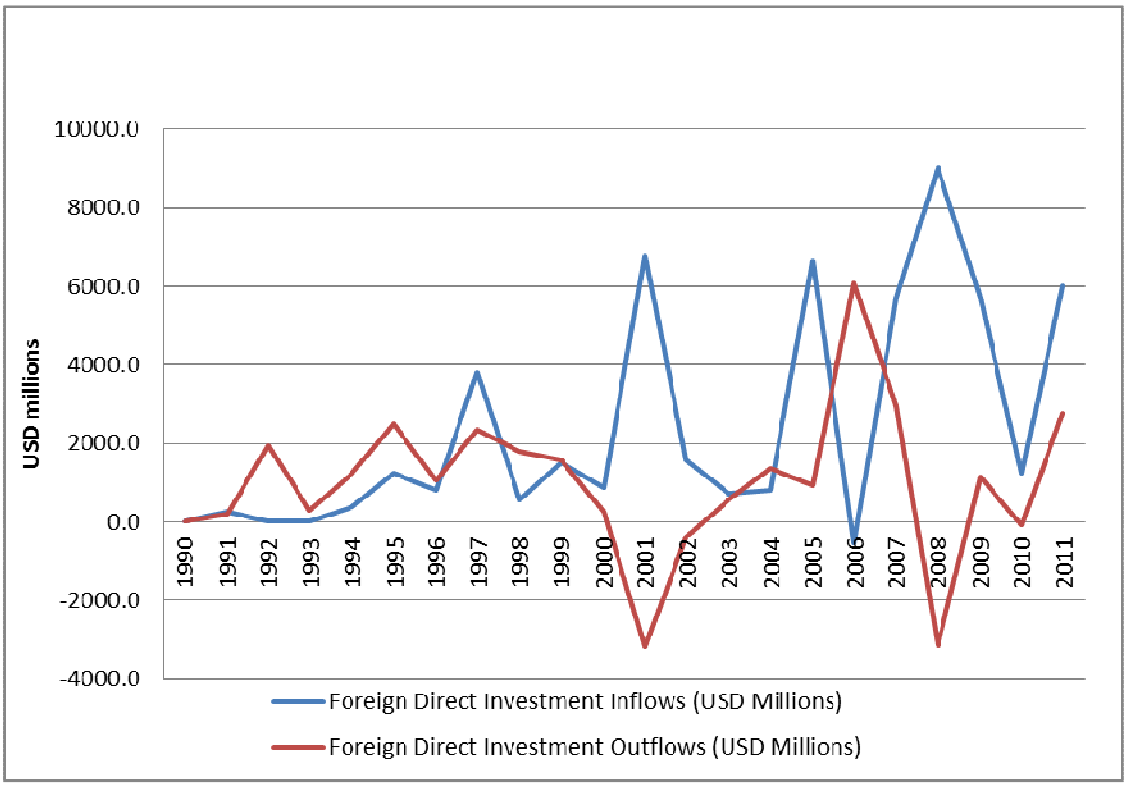


**Figure 2.3: FDI flows in and out of South Africa**

*Source: OECD International Direct Investment Database, Eurostat, IMF (2013)*

Peak inflows were reached in 2008 when $9 006 million was invested in South Africa, but in that same year there was an FDI outflow of $3 133 million. From those peak inflows in 2008–2010 there was a drop of 86 per cent to a very low level of $1 228 million. This was due to the global economic recession and major investors relinquishing their investments. A significant recovery was made in terms of inflows in 2011 when they peaked at $6 004 million. However, as shown by the graph, the FDI flows in and out of South Africa are rather volatile and large changes occur in short spaces of time.

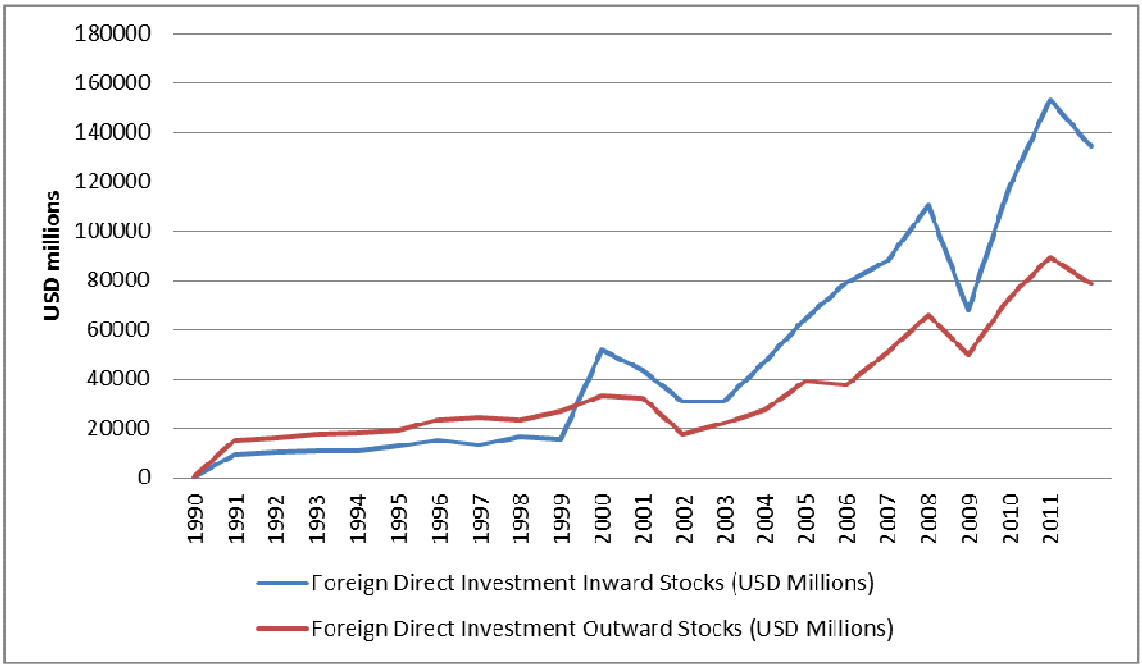


**Figure 2.4: South Africa's FDI inward and outward stocks**
*Source: OECD International Direct Investment Database, Eurostat, IMF (2013)*

FDI inward and outward stocks to South Africa have shown a positive upward trend since 1990. But since 2002 the trend has become much steeper in both outward and inward stocks, which have displayed similar movements since approximately 2000. FDI inward stocks surpassed the outward stocks in 1999, to reach a peak in 2011 of $153 133 million. The inward stocks have remained greater than the outward stocks since 1999, which may be due to the increasing globalisation of South African businesses. When inward stocks change direction the outward stocks follow suit as an indication of the global market and economy. This analysis is one of many conclusions to be drawn from Figure 2.4.

What is interesting to note in Figure 2.5 is the sudden climb in GDP growth in South Africa from 2002 onwards. This is very similar to the inward FDI stock trend in Figure 2.4. By looking at these figures one can gauge that among other things FDI stock inflow does have a positive impact on the South African GDP.

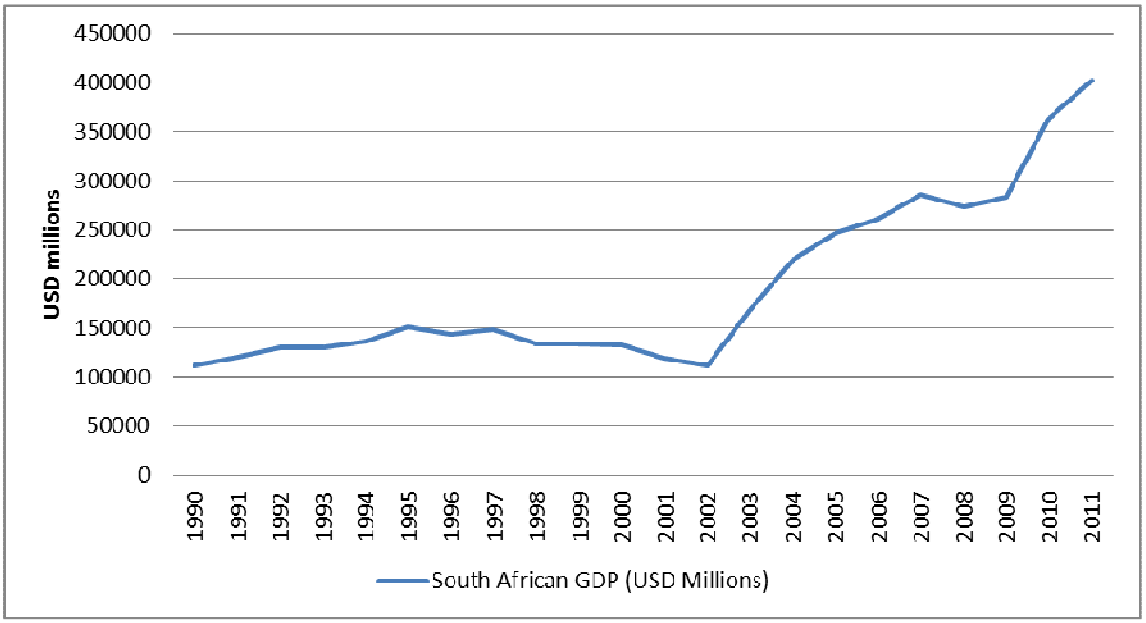


**Figure 2.5: South African GDP**
*Source: OECD International Direct Investment Database, Eurostat, IMF (2013)*

By analysing rather simply the overall South African position regarding FDI, we are prepared to look closely at the current status of FDI in the South Africa by analysing the South African Reserve Banks' (SARB) Agriculture, Forestry and Fisheries data. Before doing so, an understanding of South Africa's FDI, ownership and land use is crucial to the discussion as a whole.

### 2.3.2 Foreign ownership of South African agricultural land

The literature discussed created the necessary impetus for investigation into FDI and foreign ownership of South African agricultural land and agribusiness. Not only do aforementioned macro-"African" issues also affect South Africa, but South Africa is unique among other African countries. South Africa gained full democratic status in 1994 and the government is still grappling with the social and economic challenges created by the previous colonial and apartheid regimes. One of the main issues that are hampering social and economic development is the issue of land and land reform. Land reform in South Africa has the objective of transferring productive land to previously disadvantaged people, who in this case are predominantly black South Africans who were discriminated against by the 1913 Native Land Act. This law entrenched the migrant labour system needed by the colonial and apartheid regimes

by ensuring that black people only had access to 13 per cent of the land. If we throw in the issue of increased foreign ownership of land in South Africa or FDI in agricultural assets and agribusinesses, South Africa presents itself as a unique melting pot of local aspirations and foreign demand.

The recent Green Paper on Land Reform presented by the Department of Rural Development and Land Reform aims to ensure that local aspirations are put ahead of foreign land demand. The principles guiding South African land reform provide some insight in what the process is trying to achieve. The three principles are:

- Deracialising the rural economy
- Democratic and equitable land allocation and use across race, gender and class
- Sustained production discipline for food security (Department of Rural Development and Land Reform, 2011b).

The proposed land tenure system is in principle a sound objective, but this possible constriction on FDI in South Africa also jeopardises the positive spill-overs and spinoffs of job creation and new technology that the country can potentially benefit from.

Due to the current intricate state of land transfers and use of land in South Africa, foreign ownership of land, especially agricultural land, is often regarded as negative by the government and policy makers. This follows on to FDI flows into the country and the agricultural sector as a whole. Investors need a sense of security when investing in assets in another country. Land and foreign ownership of land will undoubtedly be used by foreign investors as a measure of whether they will invest in South African agriculture, which is inextricably linked to the land. For investors to be certain of returns or even produce from agribusinesses or agricultural land, the production base must be secure. If it is not, FDI flows will be constrained as investors prefer some level of certainty in the environment. Although these are crucial aspects to investment in South African agriculture, the fact remains that there has not been significant research or analysis into FDI in the agricultural sector.

An understanding regarding South Africa's land use patterns is also important, as it plays a major role in the use and purchase of land by locals and foreigners (non-South African citizens). South Africa is a relatively dry country and is not as well endowed with arable land as other neighbouring countries such as Zimbabwe. Therefore land use in South Africa is highly dependent on the climatic conditions of the area. According to the FAO (2005a), "South Africa has an average annual rainfall of less than 500 mm". More than 80 per cent of the land is classified as semi-arid to arid and only 18 per cent is classified as dry sub-humid and sub-humid by the United Nations Council on Combating Desertification. Dryland or rain-fed crop production only occurs in the latter two zones, as well as in the central and eastern reaches of the semi-arid zone where favourable soils occur, according to the FAO (2005).

Eighty-two per cent or 100 million hectares of South Africa's 121.9 million hectares of land area is agricultural land, of which only 14 per cent or 14 million hectares is suitable for arable crop production as it receives sufficient rainfall. The remainder of the agricultural land is used for extensive grazing, forestry and wildlife or nature conservation. Land under irrigation amounts to 1.35 million hectares, less than 10 per cent of the total arable land, but this area produces a significant proportion of the country's total agricultural output – most notably in vegetable production, horticulture and viticulture (FAO, 2005).

South Africa has nine vegetation biomes due to the varying climates that occur from the dry west to the moister eastern seaboard. Most of South Africa's land is natural grazing and rangeland: 73.2 per cent of the land is suited to this. In addition approximately 12 per cent of the land in South Africa has been allocated for conservation and only 1 per cent is urban and residential (Department of Agriculture and Land Affairs, 2007). Table 2.1 provides numerical data regarding the land use patterns in South Africa.

**Table 2.1: South Africa's land use patterns**

| Land Use | Hectares | % |
|---|---|---|
| Arable/Agriculture | 14 753 249 | 12.1 |
| Nature Conservation | 14 549 797 | 11.9 |
| Forestry | 1 790 270 | 1.5 |
| Natural Pasture | 89 240 143 | 73.2 |
| Industrial/Commercial | 274 549 | 0.2 |
| Urban Residential | 1 299 784 | 1.1 |
| **Total** | **121 907 792** | **100** |

*Source: Department of Land Affairs (2007)*

Therefore South Africa's agricultural potential is not as great as that of other African countries; however, due to the highly commercialised farming sector which produces 95 per cent of the marketable agricultural produce in the country and covers 87 per cent of the agricultural land, the local demand is met and South Africa is seen as food-secure (FAO, 2005a).

Due to South Africa's history and past apartheid policies, the South African agricultural sector is dualistic, consisting of the commercial farming sector with average farm sizes of approximately 1 200 hectares under private ownership, small-scale farmers and the subsistence farm sector. The first is large-scale, capital-intensive and export-led and there are approximately 46 000 commercial farm units in the country. On the other hand the small-scale and subsistence sector is impoverished, with low-input and labour-intensive agricultural production. There are an estimated 3.4 to 4.8 million smallholders who are predominantly settled in the former homelands under mostly communal land tenure, and produce on the remaining 13 per cent of the agricultural land (Gbetibouo & Ringler, 2009).

This understanding of South Africa's land use patterns and ownership within the agricultural sector may give one a better understanding of the potential – or lack thereof – that an investor sees when deciding to invest in agricultural land or not. It therefore builds the bigger picture for analysis and possibly helps explain the reasons why foreigners do or do not invest in agricultural land in South Africa.

### 2.3.3 Ownership of agricultural land in South Africa

As stated above, the question of land is a difficult one in South Africa. Previous targets for land reform set by the Department of Rural Development and Land Reform were that 30 per cent of land should be transferred to black people by 2014, but that target is not close to being reached (Department of Rural Development and Land Reform, 2011). Progress in this area is not necessarily known, however, as the Department of Rural Development and Land Reform has not engaged in a land audit to determine where they are in their quest to transfer land. This is also the case in terms of foreign ownership of agricultural land in South Africa.

As a result there is very little literature describing foreign ownership of land in South Africa and South African agriculture. The most recent literature on the topic is the *Progress Report of the Panel of Experts on the Development of Policy on the Regulation of Ownership of Land in South Africa by Foreigners* (Department of Agriculture and Land Affairs, 2006). This study was commissioned by the then Minister of Agriculture and Land Affairs. The report set out to investigate the following:

- The nature, extent, trends and impact of the acquisition and use of, and investment in, land in South Africa by non-South African citizens;
- The extent to which the current lack of a comprehensive policy and legislative framework contributes to the acquisition, use and investment in land by non-South African citizens;
- Whether government should monitor and intervene by policy, legislative and other means to prevent any possible negative consequence of land acquisition/use by non-South African citizens, and how this should be done;
- The impact on property markets of land acquisition and use by non-South African citizens, distinguishing between land use for residential, commercial, agriculture, eco-tourism/tourism/game lodge and golf course purposes; and
- Comparative international practices (laws, policies, impact etc.) on the land ownership of non-citizens (Department of Agriculture and Land Affairs, 2006).

The report managed to accomplish its goals with limited information, which in itself raises questions about the true reflection of the data. However, the data represents the starting point for land analysis of foreign agricultural land ownership. One of the main criticisms is that the study has not been followed up by subsequent studies to determine recent trends in foreign land ownership in South Africa. Follow-up studies on this particular topic are crucial to create a platform from which South Africa's policy makers can work to create policies and regulatory frameworks that encourage suitably balanced ownership structure. These policies are desperately needed in order to balance South Africa's economic, social and political needs.

### 2.3.4 Foreign direct investment in the South African agricultural sector

The South African agriculture sector has not garnered as much interest from international investors as other countries in the rest of Africa. This may be because of the already developed state of the commercial agriculture sector, or that the environment made uncertain by policy is not conducive or easy to invest in. Although the government, the African National Congress (ANC) and members of the tripartite alliance attempt to attract foreign investment, they often create investor nervousness by careless rhetoric and continually shifting goalposts in terms of policies. According to the Development Bank of South Africa (DBSA) Working Paper Series No.17 (2009), "the propensity to invest in the agricultural sector is a function of the expectations of people and business active within the sector, as well as the expectations of prospective investors, both foreign and domestic". As a result of continually changing expectations, investor confidence is knocked and FDI inflows may not be as high as one would expect, given South Africa's relative stability as a country and an economy.

So why has the South African government not played an even bigger role in taking on significant FDI flows? South Africa received less FDI than other countries with similar credit characteristics up to 2001. Comparisons allow one to see that contributors to lower FDI inflows were, among other things, lower growth rates, less trade openness, less deep telecommunication infrastructure, weaker labour skills and slightly less competitive tax rates. These reasons can explain why South Africa has

not in the past been the biggest gainer of FDI compared to its competitors (Arvanitis, 2005). As a whole South Africa's FDI competitiveness has not been up to standard for a developing nation and economy.

However, there have been some good developments in FDI flows into agriculture between 1994 and 2006. The data presented by the DBSA is the most recent exposure these aggregated FDI data have been given. FDI growth in agriculture from 1994 to 2005, after exchange rate adjustments, was an impressive 40 per cent. FDI in agriculture dropped to a low in 2005, at a value of total capital invested in agriculture of R143 348 million; 0.5 per cent of this originated from FDI flows. This available information indicates that FDI in the South African agriculture sector is not as strong as is often thought. Updated data, however, is needed to ensure sound analysis of the current situation (DBSA, 2009).

Literature does provide some answers as to how South Africa might attract greater FDI to its agriculture sector. A study completed by Dlamini and Fraser (2010) asked whether GDP and exports determine locational foreign inflows. The data period was from 1994–2006 and using statistical analysis, the pair concluded that FDI plays a significant role in complementing agricultural exports in South Africa, essentially implying that greater FDI will lead to greater agricultural exports. FDI locational choices to South Africa are significantly affected by agricultural exports and vice versa. The results also reveal that due to a perceived rate of economic or agricultural activity, FDI in the form of agribusiness, investment or MNCs locate themselves in South Africa. These results, especially the latter, present the proverbial "chicken or the egg" dilemma: which comes first – FDI leads to GDP growth, or vice versa? The enabling framework that should help to answer the question is provided by government policies on foreign investment. These policies either instil confidence in investors to invest their capital or it limits their willingness to invest as they are not sure whether they will gain the return on their investment or not. Therefore this section of the review looks into the current South African foreign investment and land policies, as well as a short discussion on policies in other countries.

## 2.4 SOUTH AFRICA'S INVESTMENT AND LAND POLICIES

The Organisation for Economic Growth and Development (OECD) presents data at a national level of its member countries as well as some non-member countries regarding their FDI regulatory restrictiveness. South Africa is rated just above 0.05, where 1 is closed to FDI and 0 is completely open to FDI. South Africa's regulatory framework is measured very much closer to 0 and is therefore considered to be relatively open to FDI compared to other countries such as China, Saudi Arabia and Indonesia, which have significant FDI regulations and restrictions.

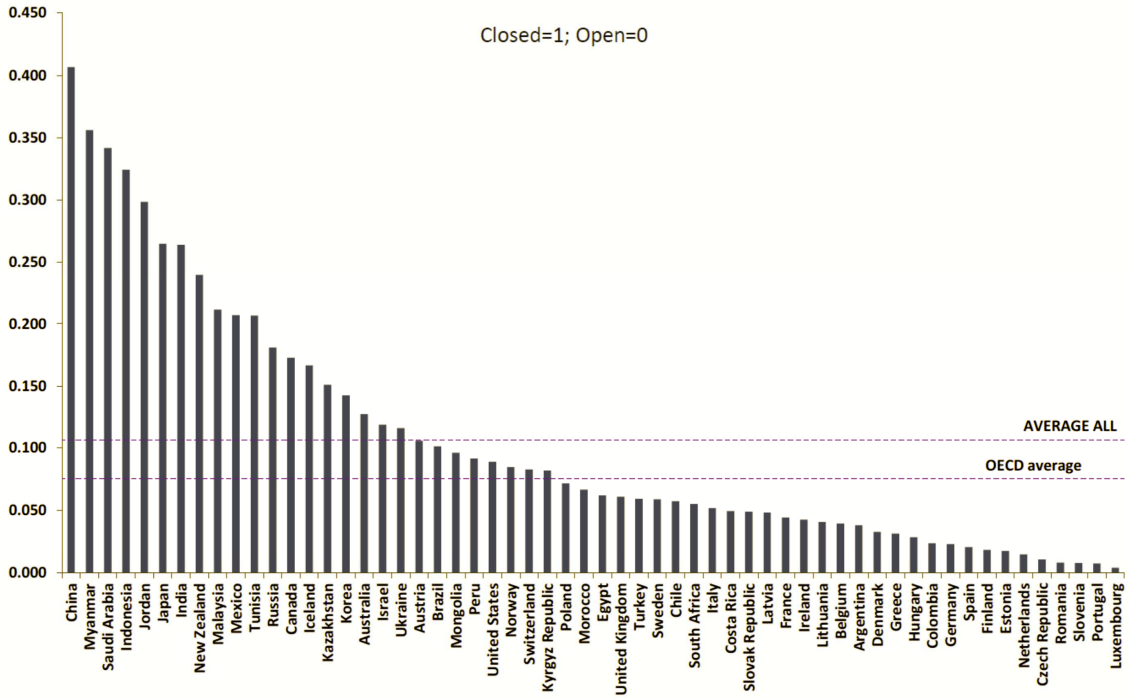


**Figure 2.6: FDI regulatory restrictiveness index**

*Source: OECD (2012)*

As shown in Figure 2.6, South Africa is at the lower end of the FDI restrictiveness scale and is therefore more receptive and open to FDI. Nevertheless there are certain aspects and policies that have been discussed which reduce South Africa's ability to attract more FDI, even though the regulatory environment is not very restrictive. The South African government is looking to improve FDI through its new Bill, but also to regulate and limit foreign agricultural land ownership in an attempt to

strike a balance between growing the economy and securing the rights of and opportunities for its citizens.

### 2.4.1 Promotion and Protection of Investment Bill

The South African government has redeveloped the policy framework for foreign investment in South Africa. The Promotion and Protection of Investment Bill is the starting point for the South African government, which is shifting away from numerous bilateral investment treaties to the Bill, which will be applicable to all foreign investors. The Bill has been passed by the South African Cabinet but is currently up for public comment; but in the meantime the South African government has been cancelling bilateral treaties with major investor countries such as Germany. This has created some uncertainty among investors about how well their investments are protected and what type of protection they will receive when the Bill is passed.
The purpose of the Act is to:

- Promote and protect investment in a manner that is consistent with public interest and a balance between the rights and obligations of investors; and
- Ensure the equal treatment between foreign investors and citizens of the Republic, subject to the applicable legislation (Department of Trade and Industry, 2013).

On closer inspection of the Bill there are a number of issues that have created concern amongst analysts. The Bill is very different from the bilateral investment treaties that were previously in place. For instance, the Bill removes the obligation to undergo international arbitration; if compensation to investors is required it will not be at full market value but rather at a “fair and equitable” value as per the South African Constitution (Paton, 2013).

Although this Bill attempts to create an overriding and all-inclusive investment policy and framework for foreign investors, it has by its rather vague structure created some uncertainty amongst foreign investors. Uncertainty is never good where investors are

concerned and new investors may look elsewhere for their investment opportunities. This Bill may also affect foreign investment in the South African agribusiness sector.

### 2.4.2 Green Paper on land reform

The Green Paper on Land Reform was released by the Department of Rural Development and Land Reform in 2011. This Paper spells out the proposed land tenure system that the government is looking to adopt. Investments especially in primary agriculture depend heavily on a well-structured land tenure system as this is what provides investors with the confidence that returns realised will belong to them in the long run. This section reviews the Green Paper on Land Reform as presented by government and how it will affect the foreign ownership of agricultural land in South Africa.

The land tenure framework has been fashioned from the existing format in a multilayer tenure system. The four tiers of land tenure are communal, state, public and private. The Green Paper on Land Reform lists the new tenure system according to the four tiers, as shown below:

- State and public land: Leasehold
- Privately-owned land: Freehold, with limited extent
- Land owned by foreigners: Freehold, but Precarious Tenure, with obligations and conditions to comply with
- Communally-owned land: Communal Tenure, with institutionalised use rights

The land owned by foreigners will have regulatory limitations placed on the freehold titles. These regulatory limitations are:

- Strict compliance with obligations and conditions
- Partnerships between foreigners and local South Africans regarding the land-based investment
- Foreigners will be excluded from sensitive and national security land

- The transactions will be controlled and valued at the prescribed threshold (Department of Rural Development and Land Reform, 2011).

The Green Paper also creates the Land Management Commission and the Land Valuer-General (LVG), of which the Commission will perform the advisory, coordination, regulatory and auditing duties and monitoring role to ensure compliance with the policy. The LVG will take on the much-publicised and debated role of providing fair and consistent land values and will determine the financial compensation in expropriation cases, provide specialist valuation and property-related advice to government and establish the standards and norms for land values. Both the Commission and the LVG will become crucial mechanisms to manage land transactions in South Africa when the Green Paper becomes legislation.

During the public comment period there have been various reports that foreign land ownership will not even be freehold tenure with compliance and obligations, but will become leasehold tenure. The Minister of Rural Development and Land Reform has mentioned this in a few reports, indicating that foreigners will receive a 30-year lease (which could be turned into a 50- or 99-year lease) for South African land. However this has not yet been finalised in the policy documents. These changes to the policy will be a drastic move away from freehold tenure with compliance and obligation to leasehold tenure.

South Africa, like the other countries discussed below, is attempting to develop its own foreign ownership policies. Although foreign land ownership in South Africa is small, the government is moving along the same trend as other countries to regulate and monitor foreign ownership of agricultural land in South Africa. The section below briefly presents the sample countries that have created highly restrictive policy environments followed by those that are more open to FDI.

## 2.5 FDI AND FOREIGN LAND OWNERSHIP POLICY REVIEW IN SELECTED COUNTRIES

Of the 34 OECD member countries, New Zealand is the seventh most restrictive when it comes to FDI in agriculture (Moir, 2012). Restrictions on the acquisition and use of farm land by foreigners as well as locals in New Zealand have been in place since 1877. Today the purpose of the Overseas Investment Act 2005 (OIA) is to ensure that foreign investors acknowledge that it is a privilege to own or control New Zealand assets. The OIA was developed mainly as a land investment regulation, as the Act has more stringent rules applying to “sensitive” land which is 5 hectares or more in size than it does to business investment. Investors have to meet a list of criteria when applying to acquire New Zealand land. Not only does the purchaser have to meet the criteria for the actual management of land, but the economic benefits to New Zealand such as employment, new technology, access to overseas markets and potential value-adding are also assessed. The OIA assessment system treats individual investors the same as foreign governments and companies.

The second most restrictive country, Canada has the Investment Canada Act which governs FDI in Canada by putting potential investors and their investment through a review process to ensure that the investment is likely to have a net benefit to Canada. Only transactions above a certain threshold are subject to review. In 2011 the threshold for direct acquisition by foreigners from a World Trade Organisation (WTO) country was C$311 million and for investors from non-WTO countries the threshold was C$5 million. Though farming property does not fall under the provisions of the Act, it may be included if the overall investment consists of land as well (Moir, 2011).

The third most restrictive country according to figure 2.6 is Brazil. Due to its significant agricultural sector the country has had policies in place since 1971 which regulate foreign ownership of agricultural land. In 2010 the president of Brazil, Luiz Inácio Lula da Silva, approved a change in rules for municipalities to allow only 25 per cent of a municipality’s land to be owned by foreigners, down from the previous figure of 40 per cent. Approval for new projects on rural land must also be gained

from the Federal Ministry of Agrarian Development. Foreign investors must also go through a registration process, which has become more taxing on the investor, who must meet additional demands that previously did not exist. The United States is more restrictive than South Africa but less so compared to Brazil. The US Federal government does not impose any restrictions on foreign ownership of farmland. Sales of farmland to foreigners must be reported as per the Agricultural Foreign Investment Disclosure Act of 1978. This Act makes it compulsory for all foreign persons who acquire land to report within 90 days to the US Department of Agriculture's Farm Service Agency, which compiles a report every year. These reports are records of the status of foreign-owned agricultural land in the US; in 2010 they indicated that foreigners owned 1.8 per cent of all privately held agricultural and forest land. However, the US has a federal state system and some states are more restrictive than others.

Finally the as shown in figure 2.6 the least restrictive nation in terms of FDI is Argentina. However until recently there was no regulation or control of foreign ownership of agricultural land in Argentina. In 2011 a new Bill was introduced by the president, Cristina Fernandez, called the Protection of National Dominion over the Ownership, Possession or Tenancy of Rural Land Bill, which aims at regulating and monitoring foreign ownership. The Bill was enacted in December 2011 and limits the foreign ownership of Argentina's rural land to 20 per cent of the total land area. The Argentinian authorities will only allow foreign entities to purchase land up to 1 000 hectares, and foreign individuals and entities must seek the approval of the Interior Ministry to acquire rural land within National Security Zones.

The five countries and their FDI and foreign land ownership policies indicate that the highly developed nations have the necessary regulations that sometimes deter foreign land ownership (such as New Zealand) and policies and procedures in place to monitor foreign land ownership (such as the US and Canada). Middle-income countries that have recently emerged in this category, such as Brazil and Argentina, are stepping up their efforts to limit foreign land ownership without slowing FDI in the agricultural sector and are also implementing improved record-keeping and monitoring systems. Greater regulation monitoring of foreign land ownership is a

global policy trend, especially in countries with abundant natural resources and higher levels of foreign ownership. Therefore South Africa's Green Paper on Land Reform is moving in the same direction as other countries such as New Zealand, Brazil and Argentina.

## 2.6 SUMMARY

There are many obstacles facing those looking to invest in South African agriculture, such as inflexible labour laws, crime, policy uncertainty and possibly increased restrictiveness. For South Africa to attract greater FDI inflows, a better understanding is needed at government level of how policy strategy should be tailored to suit investment. FDI to South Africa currently appears to be motivated by access to the South African and Southern African markets. Necessary steps need to be taken to ensure that a suitable environment is created so that foreign firms and capital may be put in production in South Africa for the benefit of the local market (Hawkins & Lockwood, 2001).

Hawkins and Lockwood further suggest a multi-tiered approach that will contribute to increasing the FDI to South Africa. This strategy speaks to "developing a preference for South Africa, reducing the risks of investing, targeting specific projects for foreign and local investment." These are all positive levels in a strategy aimed at attempting to create a catalyst for greater economic growth via FDI inflows. However, this is all unfortunately dependent on the political will to do so. This may yet prove to be South Africa's greatest investment risk (Hawkins & Lockwood, 2001).

This review of the literature should provide the necessary base and platform from which to understand the unique set of circumstances in South Africa. The African FDI and land grab phenomenon creates the outline for global events currently occurring and being debated by governments and institutions the world over. From there one moves through differing aspects of FDI, the positives and negatives, to focus finally on the local situation. Even though there is not much recent literature on the local situation, the macro-issues help to fill in the gaps where necessary.

# CHAPTER 3

# RESEARCH DESIGN AND METHODS

## 3.1 INTRODUCTION

The methodology to be followed for this study is based on the quantity and quality of information available on the topic. As the topic is relatively un-quantified in terms of comprehensive data collected over time, it is all the more difficult to study. Presenting and appropriately packaging what data is available is crucial to exposing the current situation and indicating the need for further research in the topic. This assists to either substantiate the truths or alleviate the misconceptions that have been generated by leaders, politicians and other public figures on the current status of foreign ownership of land and the agricultural sector in South Africa.

This empirical study is on a countrywide scale, therefore the data collected, analysed and presented in the study is secondary data. The use of secondary data is indicated as an inquiry strategy by Mouton's (2001:144–146) classification of inquiry strategies. The classification separates textual data and numeric data. Textual data is broken down into content analysis, discourse analysis, textual criticisms and historical studies. Numeric data consists of secondary data analysis and statistical modelling of secondary data. These uses of secondary data presented by Mouton (2001) indicate the possible tools and types of analysis for secondary data. For the sake of simplicity, not all of these types of analysis are used for this study, but only the most appropriate.

## 3.2 RESEARCH PARADIGM

A research paradigm is a method of investigating social phenomena whereby an understanding regarding the particular phenomena is gained and explanations are attempted. The paradigm is a guide for the researcher and provides the necessary structure and framework for the researcher to understand a particular occurrence. There are four distinct paradigms, which all correspond to four conceptual

dimensions. The four dimensions are radical change, regulation, subjectivist and objectivist. These conceptual dimensions form part of the research philosophies that provide the framework for the research paradigms (Saunders, Lewis & Thornhill, 2009).

The functionalist paradigm is found in the objectivist and regulatory dimensions. According to Saunders *et al.* (2009), objectivism is the ontological philosophy the researcher is likely to adopt when operating in this paradigm. Furthermore, the regulatory dimension ensures that a researcher will be concerned with rational explanations for a particular occurrence. Burrell and Morgan (1979) explain that the functionalist paradigm is dominant in organisational study and that relationships are tangible and can be observed, recorded and measured scientifically. Therefore it is the functionalist paradigm that this research will fall under as it seeks to rationally explain the occurrences in set structures and parameters of foreign investment in the South African land and agriculture sector.

## 3.3 DESCRIPTION OF ENQUIRY STRATEGY AND BROAD RESEARCH DESIGN

### 3.3.1 A description of the proposed study's strategy of enquiry

Given the limitations of secondary data and the limited range of sources that are available to the author, the main objective of the study is to present what is available in a manner that is simple and can be used to further highlight the topic and the need for increased data collection and records on foreign investment in land and agriculture. This, as the literature review indicates, has become increasingly important in today's high-demand, resource-scarce world. As stated previously, this study is based on a similar study in Australia, *Foreign investment and Australian agriculture*, whose authors also had difficulty with their data sets but presented an overall view of the current trend in foreign investment in agriculture in that country (Moir, 2011). Data is mainly quantitative as it is made up of survey statistics and longitudinal data. The data that is available is a mixture of cross-sectional and longitudinal data. By combining results from both sets in the analysis, the current situation of FDI in South African land and agriculture is exposed.

### 3.3.2 Basic characteristics of mixed method research

According to Johnson, Onweuegbuzie and Turner (2007), “mixed method research is generally speaking an approach to knowledge (theory and practice) that attempts to consider multiple viewpoints, perspectives, positions and standpoints (always including standpoints of qualitative and quantitative research)”. This interpretation of the mixed method approach provides the reasoning for using the approach. It allows for greater diversity of datasets in analysing a particular phenomenon.

Another reason for using the mixed method design in this study is known as triangulation. Triangulation is described by Bryman (2006) in Saunders *et al.* (2009) as the use of two or more independent sources of data or data collection methods to substantiate research results in a particular study. Because this particular study uses three data sets, which will require differing methods of analysis, the mixed method of triangulation is substantiated. Another reason for the mixed method in this study is that of complementarity. This is explained by the need for two or more research strategies in order to piece together the argument and analysis. In this case there is a need for two or more sources of data, as there is no formal and regular data collected on this particular topic that provides one with the overall picture of FDI in South African agriculture. Using the results from the data analysis to substantiate, argue and deliver the research objective requires the mixed method.

## 3.4 DATA SOURCES

Due to the scope of the topic and the availability of data, secondary data is most appropriate for the study. The possible data needed to successfully analyse the past and current status of foreign investment in South African land and agriculture has been identified. The method of analysis is to scrutinise the data, to present it clearly and with purpose, and to uncover the realities behind it. This method is especially true for the first set of data analysed.

### 3.4.1 Reserve Bank foreign direct investment flows

The data currently available from the SARB is limited regarding FDI per sector. The data is also limited in terms of the data points available to the study. However this data is sufficient to provide the study with a clear illustration of the current situation, and some historical build-up to the current situation, regarding FDI in South African agriculture.

This is made easier because the variables to be analysed are balance-sheet items. The rationale is that the variables can provide additional analysis in terms of the attitudes, beliefs and strategies of businesses and agribusinesses in the sector. However, not all the variables that make up total investment are unpacked, but only the few that make most sense to the objective of the study and those that show the most drastic changes to the total investment data.

The data set that was gained from the SARB represents a cumulative sector-wide data set. The data set reflects FDI stocks/positions in the Agriculture, Forestry and Fisheries sector. This data, although not split further into its constituents, represents the overall data collected for the sector. As indicated by the SARB, “the South African Reserve Bank does not compile FDI flows disaggregated by kind of economic activity. We (SARB) only compile stock/position data by kind of economic activity on an annual basis as at 31 December of each year” (Swart, 2013). The secondary data from the SARB used in this study is therefore time-series data representing stock/position data of FDI from 1997–2010. The data is presented first in the study to give the overall position of FDI in South African agriculture. The methodology used by the SARB is discussed, followed by the explanation of the endogenous variables.

### 3.4.2 South African Reserve Bank FDI data methodology

The SARB uses the following methodology to compile their data annually. The sector-wide data is based on the balance sheet approach. This data is gathered by the SARB using a survey to which companies respond, supplying their financial statements which are split between domestic and foreign transactions, liabilities and assets. This survey information provides the SARB with the necessary data to distinguish between the various forms of FDI. These forms of FDI are “Direct

investment", "Portfolio investment" and "Other investment". The companies are classified into their major economic activity, such as Agriculture Forestry and Fisheries, Mining, Services etc.

FDI in the Agriculture, Forestry and Fisheries sector is spilt into different variables regarding the form of investment. These variables are:

- Direct investment: Transactions and positions between companies with at least a 10 per cent shareholding relationship. This definition is expanded for the data to include transactions and positions between fellow enterprises that have the same parent company. Direct investment also refers to investment in domestic structures, equipment and organisations. The investor has control over the acquired assets in proportion to the share of investment made.
- Portfolio investment: Transactions and positions in equity (shares) and debt (bonds) securities below the 10 per cent threshold mentioned above. It does not necessarily result in foreign management, ownership or any other control by the investor.
- Other investment: Transactions and positions in loans, trade finance, currency and deposits, and other liabilities or assets where there is no direct investment relationship (Swart, 2013).

### 3.4.3 Data on South African agricultural land

The first data set that forms a crucial part of the study is that of the *Progress Report of the Panel of Experts on the Development of Policy on the Regulation of Ownership of Land in South Africa by Foreigners* (Department of Agriculture and Land Affairs, 2006) presented to the then Minister for Agriculture and Land Affairs, the Hon. Thoko Didiza, in February 2006. Research into foreign ownership of land in South Africa is limited, but the panel submitted the most up-to-date land ownership findings for South Africa. The methods used to conduct the study were desktop research; textual interpretation of legislation and policy; analysis of public submissions; and interpretation of Deeds Registry data. The research findings of the panel differentiated land into Erven, Farm, Agricultural Holding and Sectional Title. For the purpose of this study the only data of interest is that of the foreign ownership of Farms and Agricultural Holdings. Analysis of this data is based on the nature of the

data available. The data in the report is only cross-sectional data as at 2006 and does not include any historical data.

There is a significant issue with the PEFOL data. The original PEFOL report incorrectly specified the category Agricultural Holdings. This category, before the new constitution established in 1994 was subject to the Subdivision of Agricultural Land Act, 1970 (Subdivision Act). The Act prevented the subdivision of any land zoned for agricultural use, therefore preventing agricultural land units from becoming smaller and uneconomical. But under the present constitution and decentralisation process which entrenched the municipality system in the rural areas, doing away with the urban/rural divide. Agricultural Holdings were not subject to the Subdivision Act due to the repeal of the Act in 1997. The repeal stated that appropriate zoning measures are deemed sufficient for the protection of high potential agricultural land. It also deems that it is not necessary for the government to determine what constitutes appropriate land size but rather land users and the market. Therefore Agricultural Holdings category is land zoned for agricultural use but may be rezoned and subdivided with approval from the municipality or provincial government as argued by Steytler (2009). The distinction between land categories under the current dispensation is therefore purely legal.

The explanation on the treatment of Agricultural Holdings is important as these properties may not necessarily be used for agricultural purposes rather redeveloped for residential use. This may be even more appealing to foreign investors however the category is still generally used for agriculture as these properties are generally on the outskirts of the urban areas.

### 3.4.4 Agribusiness ownership structures

The following data set requires first-hand investigation in ownership structures of agribusinesses, both listed and unlisted. The OECD Definition of Foreign Direct Investment (1996) defines FDI: “foreign direct investment reflects the objective of obtaining a lasting interest by a resident entity in one economy (“direct investor”) in an entity resident in an economy other than that of the investor (“direct investment enterprise”). The lasting interest implies the existence of a long-term relationship

between the direct investor and the enterprise and a significant degree of influence on the management of the enterprise. Direct investment involves both the initial transaction between the two entities and all subsequent capital transactions between them and among affiliated enterprises, both incorporated and unincorporated."

The difficulty lies in being able to track and establish the ownership structures of the majority of agribusinesses in South Africa. Because of this, a sample will be taken, including all the listed agribusinesses and a portion of the unlisted agribusinesses. The recommendation from the OECD Benchmark is that direct investment in an enterprise is defined once a foreign investor owns 10 per cent or more ordinary shares or voting power of an incorporated enterprise, or the equivalent in the case of an unincorporated enterprise.

On further analysis of ownership structures of agribusinesses in South Africa, the line must be drawn as to how far back in ownership one can go, as a number of agribusinesses have a majority shareholder that is owned in majority by another group/fund/company. For this study, and for the sake of simplicity, the immediate shareholders and their origin are reviewed to determine whether the South African enterprise is owned wholly or in part by foreigners.

## 3.5 DATA ANALYSIS

Due to the number of different data sets required to build the overall picture and substantiate the reasoning behind FDI in South African agriculture, different data analysis techniques are required. Yet one must keep in mind that the overriding objective of this study is to investigate and present the current data, trends and policies which regulate FDI in South African agriculture. This requires simple data analysis methods rather than econometric models, which present causal analysis and forecast trends. The research focusses on presenting FDI in the agricultural land and sector from 1994 to date, but more specifically on presenting and understanding the current situation of FDI in South African agriculture.

This research consists of various data sets, some quantitative and others qualitative, which creates the need for differing data analysis strategies for each data set. The analysis for each data set is described below in order of research objectives.

### 3.5.1 Analysis of foreign investment flows

The data is nominal which can be problematic when drawing conclusions. However the analysis of the data is based on the balance-sheet nature of the data points. Data presented is secondary cumulative data and it is gathered via the balance sheet survey method every year, there are certain limitations to the analysis and display of the data. For example, one has to be cautious when calculating the change in FDI over two years, as there are many other elements which contribute to and have a substantial effect on the balance sheets during the year (such as valuation adjustments, profits and losses). Therefore, due to the balance sheet nature of the data and the objectives of this study, this data will be analysed by unpacking its various financial constituents to determine the deeper effect and meaning of FDI in the agricultural economy. By doing this one can gain an understanding of agribusiness's willingness or lack thereof to invest in South Africa and the many forms in which investment is made.

The data analysis to follow is a graphical analysis that allows one to draw certain conclusions. Explanations and evidence are provided regarding why possible changes in trends have occurred in FDI in the agricultural sector. The graphs developed for the analysis represent different aspects of the overall FDI stock and position per year from 1997–2010.

### 3.5.2 Analysing the South African agricultural land database

The primary research data conducted by the Department of Agriculture will allow the researcher to fully dissect and package the necessary data to illustrate the current situation with regards to foreign ownership of agricultural land. The data is cross-sectional and therefore represents a point in time; no time-series analysis will be possible. The techniques used here will be simple data manipulation techniques such as percentages and graphical comparisons. The analysis objective is to quantify and

present useful statistics indicating the agricultural land owned by foreigners in South Africa. The analysis of this data does not need any specialised econometric programmes or software; Microsoft Excel will be satisfactory to produce the simple statistics and manipulations required. The use of institutional survey data and analysis of the data is similar to the data and analysis used by the comparative study *Foreign Investment and Australian Agriculture*, completed by researchers at the Rural Industries Research and Development Corporation (Moir, 2011).

### 3.5.3 Agribusiness ownership data analysis

The data set and analysis presented here requires significant investigation and multiple methods of data analysis. Methods such as desktop research, analysis of company structures, financial statements and shareholding of the sample companies were used to identify whether the firm is owned by foreigners. The analysis adheres to the definitions of foreign ownership of a firm generated by the OECD (1996) and Duce (2003). This provides the framework for the data collection and analysis. Only the most relevant data adhering to the above definitions are presented.

The data presented is secondary data, like the rest of the study. The data was captured in a desktop study of the agribusinesses acting in the South African market which are either listed and readily publish information, or it was gained from other literature in the field of study. The data was collated in the various sectors to simplify the description of the results.

## 3.6 ASSESSING AND DEMONSTRATING THE QUALITY AND RIGOUR OF THE PROPOSED RESEARCH DESIGN

### 3.6.1 Accessibility, coverage and validity

The data samples that have been selected were accessible and meet the determined research objectives. The secondary data such as the FDI flows in the South African agriculture sector and the *Progress Report of the Panel of Experts on the*

*Development of Policy on the Regulation of Ownership of Land in South Africa by Foreigners* (Department of Agriculture and Land Affairs, 2006), along with data gathered on agribusiness ownership structures, provide measurement validity. This is one of the most important criteria for the suitability of any data set. The other important criterion to measure the suitability of the secondary data is coverage. Coverage refers to how well the secondary data collected covers the necessary questions or population under analysis. The issues that coverage is concerned with in this case are ensuring that unwanted data can be excluded, and that sufficient data remains for analyses (Saunders *et al.*, 2009).

In this case the secondary data gained from the foreign land ownership paper by the Department of Agriculture and Land Affairs, and the SARB FDI agriculture sector data, provides the necessary coverage. With regard to the foreign ownership of land data from Department of Agriculture and Land Affairs (2006), the unwanted data can be stripped out and only the agricultural holdings and farm data is used and provides sufficient coverage. All secondary data sets, including policies that are analysed, come from valid sources such as national government, national departments of agriculture or the SARB. The objective is to present the most accurate situation regarding foreign investment in South African agriculture; measurement bias does not affect the analysis.

# CHAPTER 4

## ANALYSIS AND REVIEW OF FDI IN THE SOUTH AFRICAN AGRICULTURAL SECTOR

## 4.1 INTRODUCTION

Authors and institutions such as Arvanitis (2005), Wentworth (2012) and the United Nations Conference on Trade and Development (UNCTAD) (2011) have indicated that FDI inflow in the South African economy has been rather unimpressive when compared to other developing countries. The recent global economic recession certainly did not help matters, as the 2011 World Investment Report from UNCTAD (2011) indicated that South Africa experienced a significant decline in FDI flows from 2008 to 2010. The report stated that FDI flows decreased from $9 billion in 2008 to $1.6 billion in 2010. The UNCTAD (2011) report did provide a possible reason for the decrease in FDI flows in South Africa and some other emerging economies, as it stated: “it is argued that this may reflect its changing composition, for example a shift from equity to debt components, which would make it more sensitive to the changes in United States monetary policy that have triggered previous crises”. FDI is also made up of short-term capital and volatile flows which are known as “hot money”; therefore stabilisation of these investment flows remains a challenge for a developing country like South Africa.

Comparator countries to South Africa such as fellow BRICS partners Brazil, Russia, India and China were not immune to the global economic recession. But in 2010 Brazil, Russia, India and China were ranked in the top 20 global FDI recipients, with FDI receipts of $48 billion, $41 billion, $25 billion and $106 billion respectively. This is significantly lower than the $1.6 billion received by South Africa, indicating that South Africa’s FDI competitiveness has clearly been undermined by a number of factors (Wentworth, 2012).

There has recently been some improvement in South Africa’s FDI performance during the recovery from the global economic recession. This was described in a recent report on FDI by the OECD (2013); South Africa’s FDI inflow performance in

the third quarter of 2012 improved more than threefold from $0.8 billion to $2.7 billion. However this sudden and large quantitative change reflects the ease with which FDI can move in the global economy.

South Africa's FDI landscape as a whole is not as healthy as that of other countries in a similar developmental state. The overall state of South Africa's FDI status may filter through the economy into the agricultural sector. This chapter unpacks the current situation South Africa finds itself in, firstly in the economy as a whole and secondly in the Agriculture, Forestry and Fisheries sector. This analysis uses secondary data from the SARB to provide an overall picture of the current situation of FDI stocks and positions in South Africa and its agricultural sector.

In the introduction and literature review chapters the necessary groundwork was laid concerning FDI in South African land and agriculture. The data sets, methodology and analysis techniques to be used were described in Chapter 3.This allows for the analysis of the respective data sets regarding FDI in South African agriculture to take place. The first data set to be analysed and reviewed is the SARB FDI stock data. This data is sector-wide and the relevant data for this study falls under the heading "Foreign Liabilities by kind of Economic Activity", in this case Agriculture, Forestry and Fisheries. This data is crucial to the overall data analysis as it provides an overview of FDI flows in South African agriculture since 1997. It allows one to track the changes in businesses and agribusinesses and their investments over time. By doing this simple analysis, one is able to compare the data to certain events which may cause the change in investment stocks and positions over time.

## 4.2 TRENDS IN FDI IN THE AGRICULTURE, FORESTRY AND FISHERIES SECTOR

The data analysis to follow is a simple graphical analysis which allows one to draw certain conclusions. Explanations and evidence is provided regarding why possible changes in trends have occurred in FDI in the South African agricultural sector. The graphs developed for the analysis represent different parts of the overall FDI stock and position per year from 1997–2010.

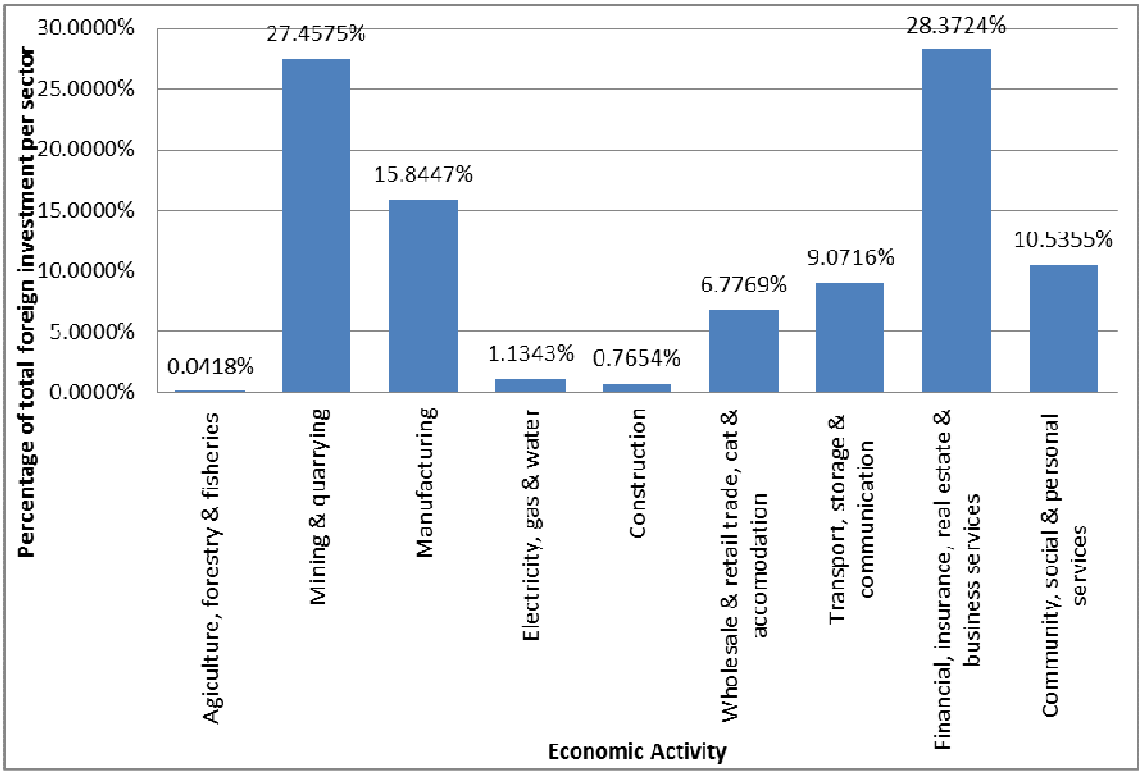


**Figure 4.1: South African Reserve Bank foreign investment per sector as a percentage of the total foreign investment in 2010**

*Source: SARB (2012)*

Foreign investment in the South African Agriculture, Forestry and Fisheries sector at R1.038 million is only 0.0418 per cent of the total R2.48 billion foreign investment in the South African economy in 2010. Figure 4.1 depicts this very clearly and shows how small the foreign investment is in the Agriculture, Forestry and Fisheries sector. Two very well-established sectors, Mining and Quarrying and Financial, Real Estate and Business Services, which are well known for their foreign investment, have the majority foreign investment at 27.45 and 28.37 per cent respectively.

Figure 4.2 shows the trend of total foreign investment made in the South African Agriculture, Forestry and Fisheries sector. The overall trend is upward to a peak in 2006 of R1 107 million. The trend then drops and levels out from 2008 onwards to a figure in 2010 of R1 038 million. One outstanding movement was the significant drop in total investment from 2002–2003 of R141 million. This may have been due to the appreciation of the rand at the time, as well as drought which led to a fall in agricultural and economic growth to 1.9 per cent (OECD, 2004). However a strong recovery in 2004 increased total investment in the sector to R930 million; this is again indicative of the quick turnaround in investment flows over a period.

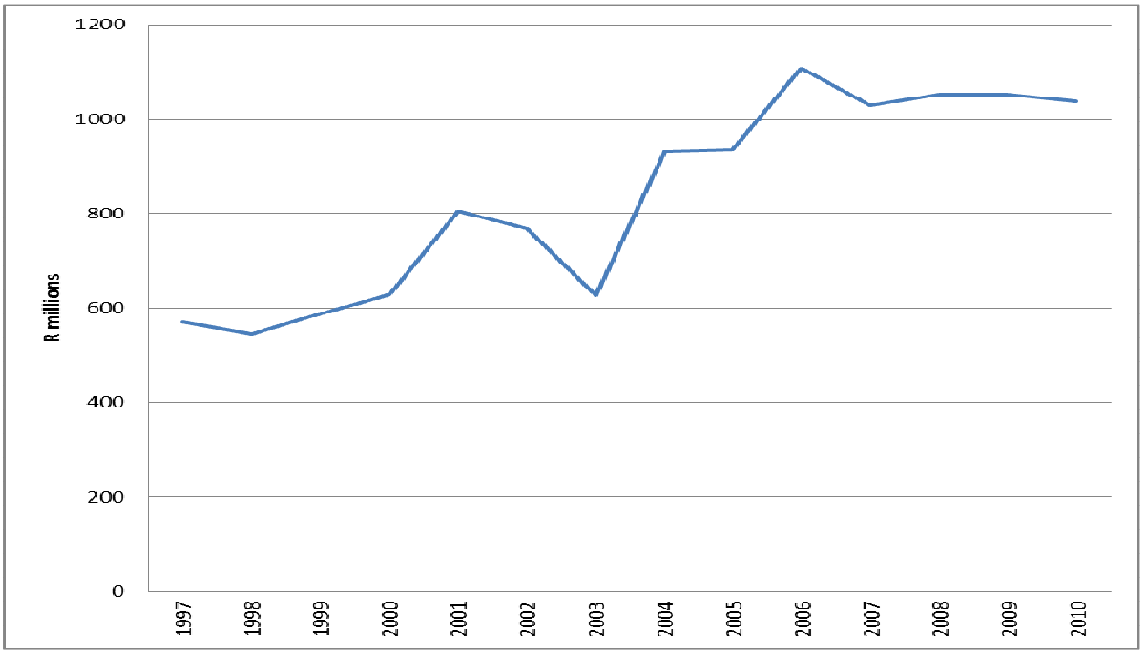


**Figure 4.2: Total foreign investment in the South African agriculture, forestry and fisheries sector**

*Source: SARB (2012)*

The following sections unpack the total foreign investment in Agriculture, Forestry and Fisheries data to create a better picture of what the actual drivers of the investment trend are and how agribusinesses as investors are actually investing in the sector. Total foreign investment is divided into three categories which are defined in the previous chapter. These categories are split into their various parts below. But for clarity the three categories of FDI in South African Agriculture, Forestry and Fisheries are;

- Direct investment
- Portfolio investment
- Other investment

## Table 4.1: Foreign Investment in the Agriculture Forestry and Fisheries sector as per the SARB

| Reserve Bank Data (R Millions) | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Foreign Investment** | Agriculture, forestry & fishing | Agriculture, forestry & fishing | Agriculture, forestry & fishing | Agriculture, forestry & fishing | Agriculture, forestry & fishing | Agriculture, forestry & fishing | Agriculture, forestry & fishing | Agriculture, forestry & fishing | Agriculture, forestry & fishing | Agriculture, forestry & fishing | Agriculture, forestry & fishing | Agriculture, forestry & fishing | Agriculture, forestry & fishing | Agriculture, forestry & fishing |
| **Direct investment** | | | | | | | | | | | | | | |
| Equity capital | 260 | 260 | 255 | 155 | 157 | 136 | 139 | 176 | 181 | 210 | 207 | 207 | 211 | 211 |
| Reinvested earnings | 116 | 118 | 140 | 96 | 153 | 210 | 44 | 213 | 168 | 307 | 452 | 436 | 446 | 446 |
| Other long-term capital | 11 | 9 | 11 | 194 | 297 | 263 | 272 | 280 | 331 | 299 | 135 | 154 | 154 | 154 |
| Other short-term capital | 0 | 0 | 0 | 12 | 46 | 46 | 45 | 50 | 54 | 72 | 64 | 138 | 121 | 121 |
| **Total direct investment** | **387** | **387** | **406** | **457** | **653** | **655** | **500** | **719** | **734** | **888** | **858** | **935** | **932** | **932** |
| **Portfolio investment** | | | | | | | | | | | | | | |
| Equity securities | 43 | 10 | 48 | 30 | 60 | 36 | 28 | 55 | 96 | 117 | 65 | 30 | 40 | 52 |
| Debt securities | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total portfolio investment** | **43** | **10** | **48** | **30** | **60** | **36** | **28** | **55** | **96** | **117** | **65** | **30** | **40** | **52** |
| | | | | | | | | | | | | | | |
| **Other investment** | | | | | | | | | | | | | | |
| International Monetary Fund | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Long-term loans | 133 | 133 | 134 | 134 | 22 | 22 | 22 | 83 | 23 | 23 | 23 | 23 | 23 | 23 |
| Short-term loans and trade finance | 7 | 15 | 0 | 7 | 69 | 55 | 77 | 73 | 81 | 79 | 83 | 64 | 56 | 31 |
| Deposits | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total other investment** | **140** | **148** | **134** | **141** | **91** | **77** | **99** | **156** | **104** | **102** | **106** | **87** | **79** | **54** |
| | | | | | | | | | | | | | | |
| **Total investment** | **570** | **545** | **588** | **628** | **804** | **768** | **627** | **930** | **934** | **1107** | **1029** | **1052** | **1051** | **1038** |

*Source: SARB (2012)*

### 4.2.1 Direct foreign investment in the South African agriculture, forestry and fisheries sector

The figure 4.3 below shows that in 2010 the total direct investment was recorded at R932 million. Total direct investment is the major contributor to the total foreign investment figure and has grown larger in its contribution, from 68 per cent in 1997 to 90 per cent in 2010. This indicates that per definition, 90 per cent of the foreign direct investment made in the Agriculture, Forestry and Fisheries sector is by companies with at least 10 per cent shareholding in the company operating in South Africa. This indicates that as per the definition the investor has control over acquired assets in proportion to the share of investment made.

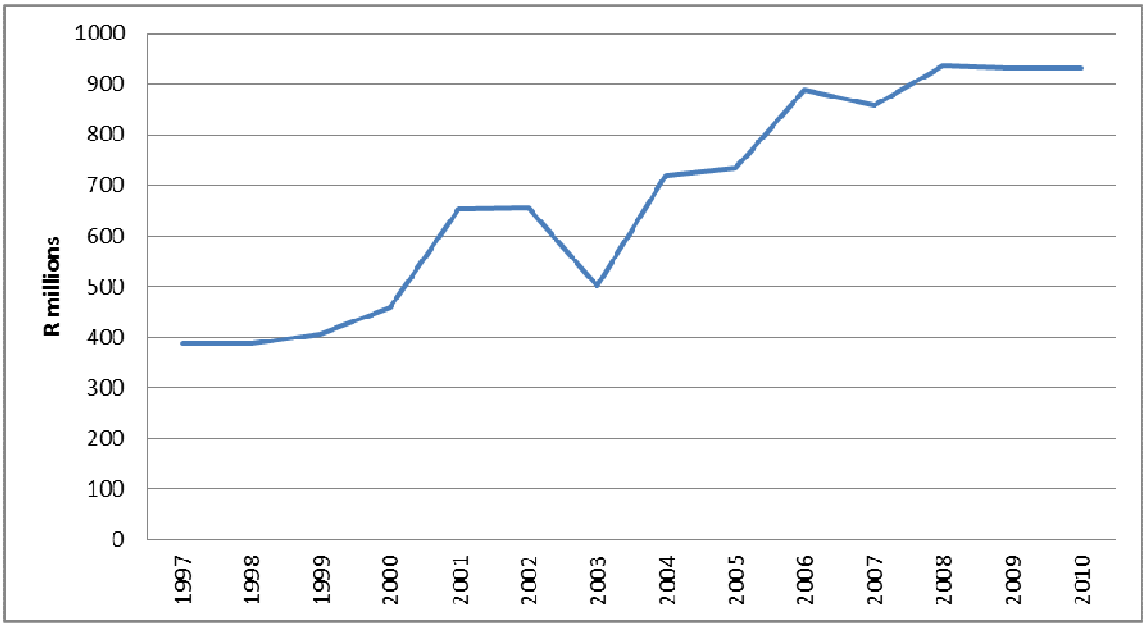


**Figure 4.3: Total foreign direct investment in South African agriculture, forestry and fisheries sector**

*Source: SARB (2012)*

By unpacking the total direct investment trend into its respective parts and reflecting them over time, one is able to see which items have an upward or downward impact on the total direct investment trend. The foreign direct investment trend is made of 4 parts, they are;

- Equity capital
- Reinvested earnings
- Other long-term capital
- Other short-term capital

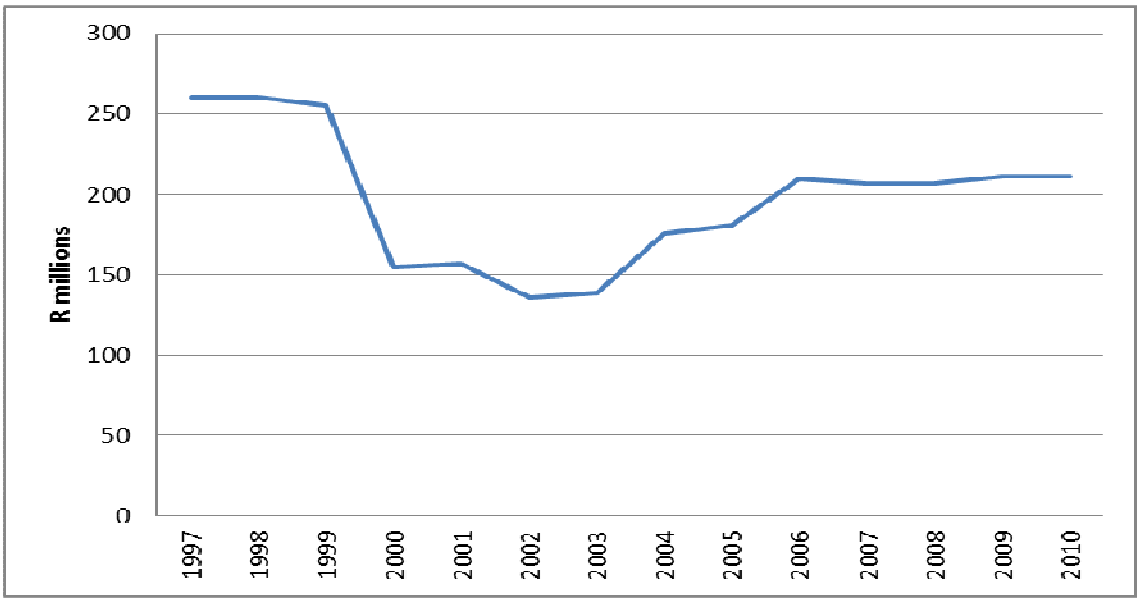


**Figure 4.4: Direct investment component: equity capital**

*Source: SARB (2012)*

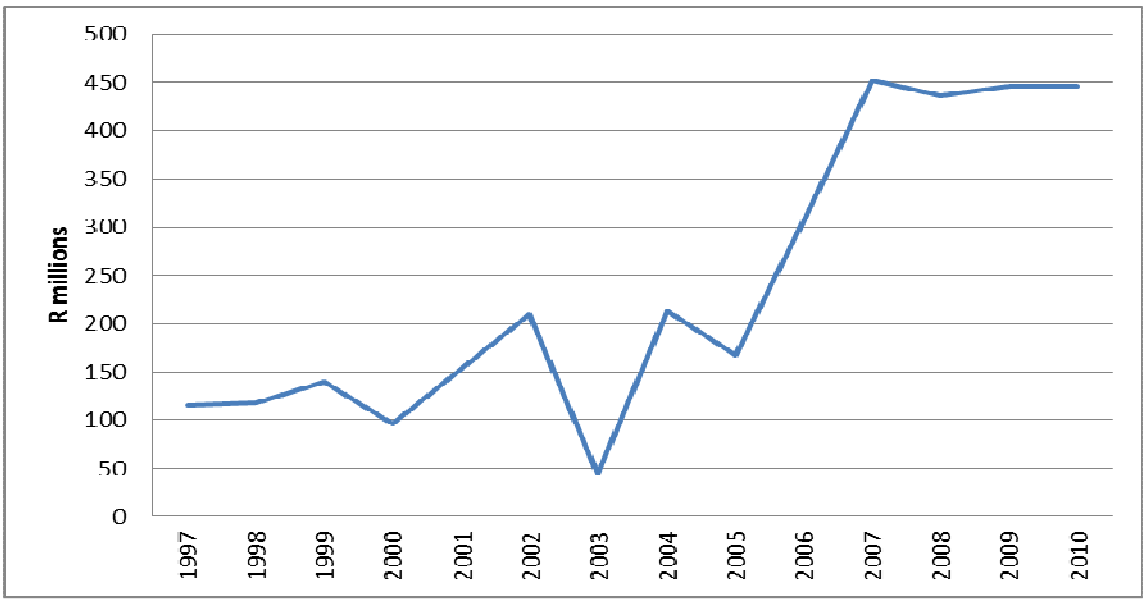


**Figure 4.5: Direct investment component: reinvested earnings**

*Source: SARB (2012)*

Presently equity capital contributes 23 per cent and reinvested earnings contribute 48 per cent to total direct investment. It is clear from figure 4.4 that equity capital dropped in 1999 from above the R250-million mark to a low of R136 million in 2002. Although companies have invested more equity capital over time, recovering it to R210 million in 2006, it has never recovered its original 1999 position. In 2010 the equity capital invested in South African Agriculture, Forestry and Fisheries sector was recorded at R21 million. This drop in companies' own equity investment in the sector may be an indication of perceived risk by these investor companies, as equity represents the risk of ownership.

Reinvested earnings however may be the major driver in the upward total direct investment trend. The graph in Figure 4.5 shows that there is a significant upward trend from 2003, when it was at a low of R44 million, rising to a high of R452 million in 2007. In 2010 it was recorded at R446 million. This increased upward trend of reinvested earnings in 2005 provides one with some insight into the foreign investors' business strategy. These businesses, which are 10 per cent or more foreign-owned entities, have taken the perceived risk of investing greater amounts of equity capital in account and therefore would rather reinvest earnings generated from their South African operation.

The remaining two components of the total direct investment variable are called "other long-term capital" and "other short-term capital", which make up 17 and 13 per cent respectively of total direct investment variable. These variables are described by Swart (2013) as "short-term and long-term loan or trade financing between companies in a direct investment relationship".

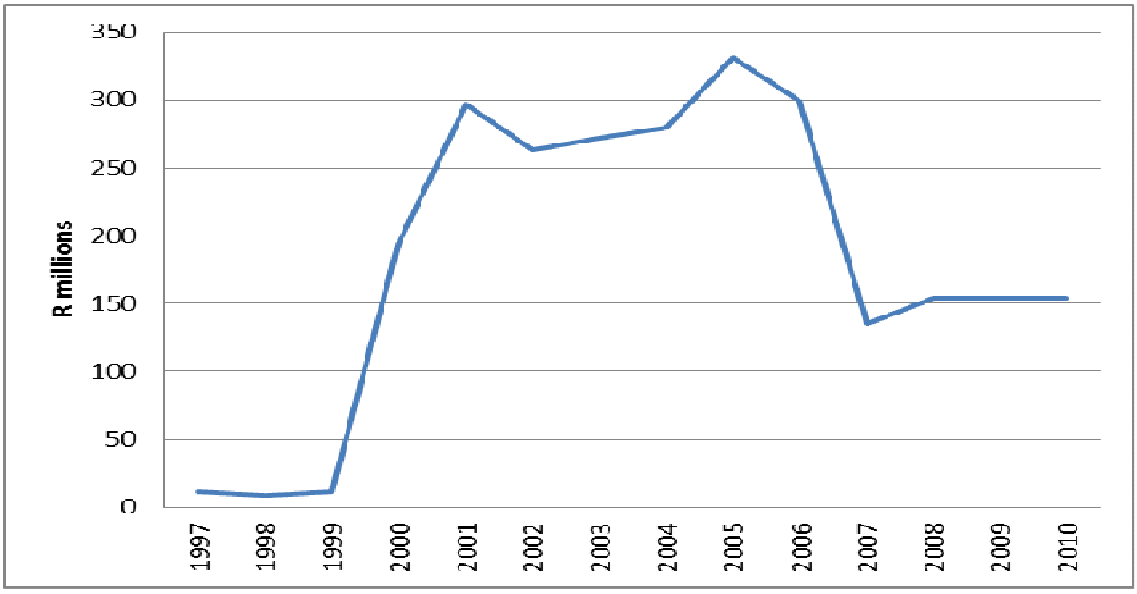


**Figure 4.6: Direct investment component: other long-term capital**

*Source: SARB (2012)*

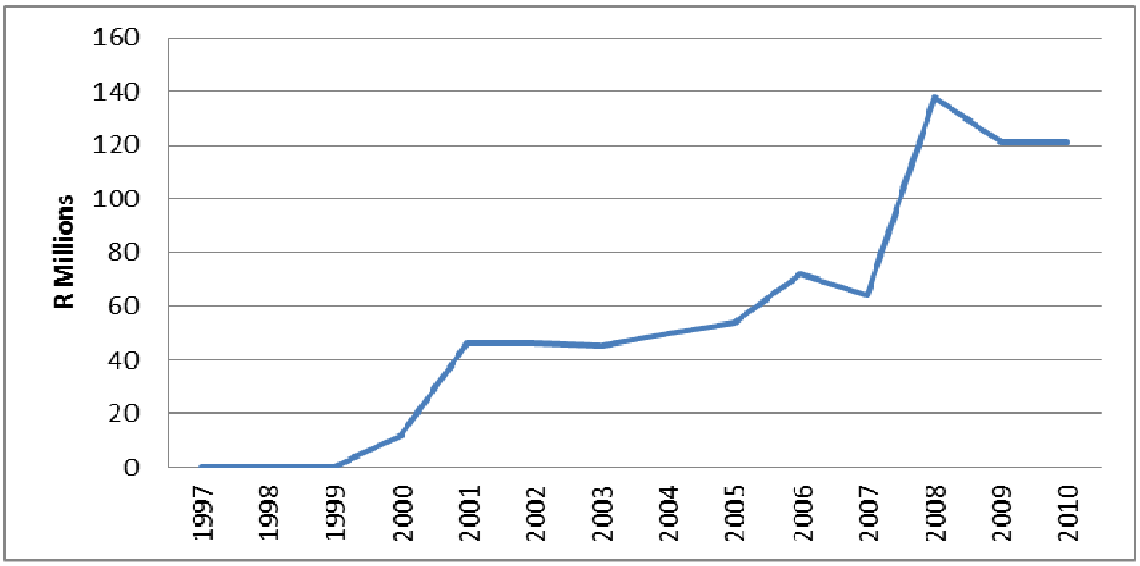


**Figure 4.7: Direct investment component: other short-term capital**

*Source: SARB (2012)*

Figure 4.6 depicts the increased use of long-term capital between 1999 and 2005, where it peaked at R331 million. From 2005 onwards this type of investment decreased to R154 million in 2010. Figure 4.7 shows that all the while there was increasing use of short-term instruments to finance investments between 1999 and 2010, when it was recorded at R121 million. This trend again depicts the risk-averse nature of investments made from 2005 onwards. Businesses and investors would

rather expose their capital to the perceived risks in South Africa for a shorter period of time rather than for the longer term.

### 4.2.2 Portfolio and other investment in the South African agriculture, forestry and fisheries sector

The portfolio investment variable is made up of two items:

- Equity securities
- Debt securities.

However portfolio investment in this sector is made up solely of equity securities, as debt securities was zero for the period under review and therefore is not considered. As per the SARB definition used for the data, equity securities are equity or shares held by a company below the particular 10 per cent ownership threshold. Therefore only equity (shares) has been recorded by the SARB in their data collection. Portfolio investment at a total of R52 million in 2010 makes up 5 per cent of the total foreign investment made in the Agriculture, Forestry and Fisheries sector. As shown in the comprehensive table above, there has been no debt securities recorded in the period under analyses therefore it was not included.

Figure 4.8 depicts the portfolio flow of investment in the Agriculture, Forestry and Fisheries sector.

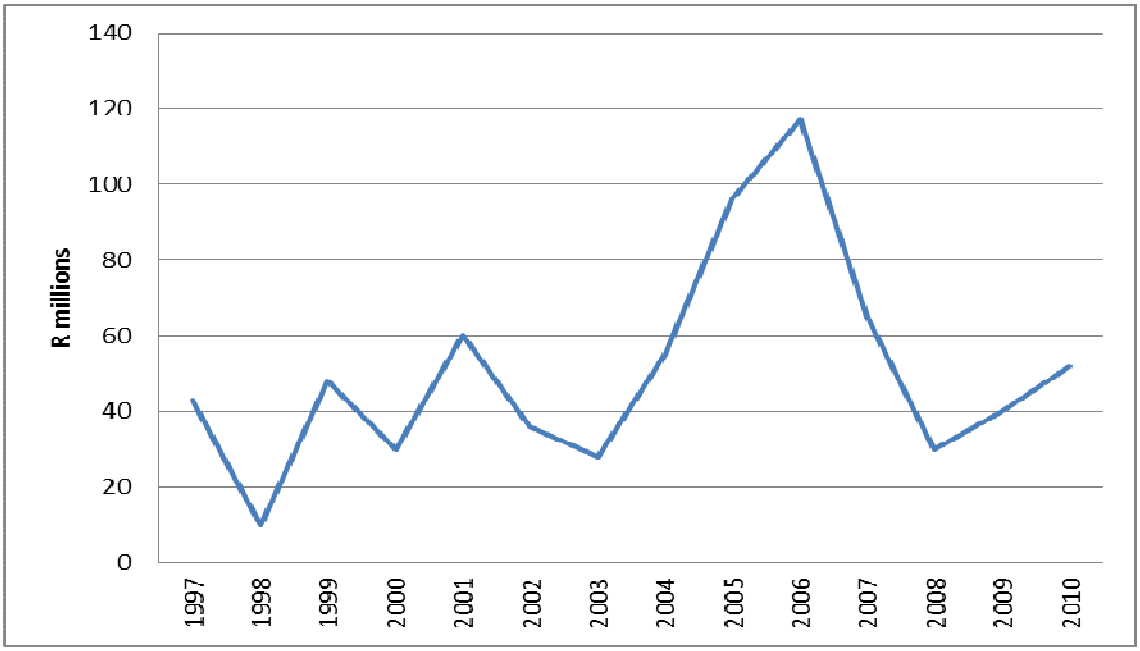


**Figure 4.8: Total portfolio investment in the South African agriculture, forestry and fisheries sector**

*Source: SARB (2012)*

As to be expected with regard to equity securities, the figure above is rather volatile, but shows an overall upward trend from the low in 1999 of R10 million to the peak in 2007 of R117 million. The global economic recession in 2008 was one cause of the drop in equity securities to R30 million in 2009, as it was in many countries. This sudden drop was made possible by the ease with which securities transactions can take place globally.

"Other investment" is the final variable that contributes to the total foreign investment figure; however it only contributes 5 per cent. "Other investment" is made up of the following parts:

- Long-term loans
- Short-term loans
- Trade finance.

Figure 4.9 illustrates the changes in total other investment from 1997 to 2010.

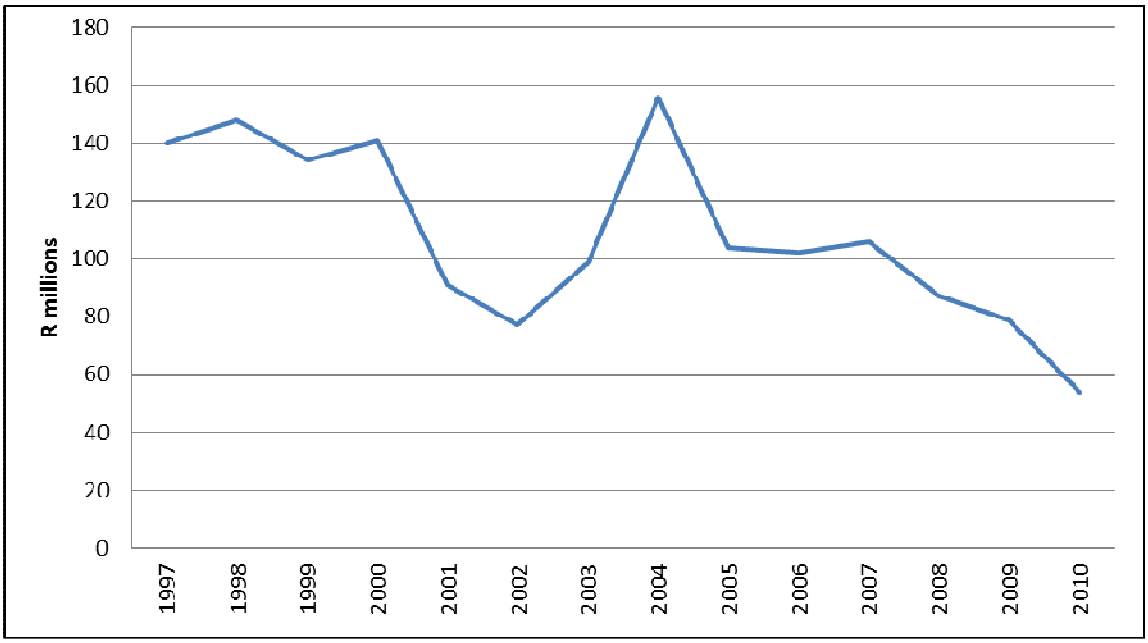


**Figure 4.9: Total other foreign investment in the South African agriculture, forestry and fisheries sector**

*Source: SARB (2012)*

The graph in Figure 4.9 slopes downward, indicating the declining use of long-term loans, short-term loans and trade finance by foreign investors and companies, from a high of R148 million in 1998 to a low of R54 million in 2010. To understand this drop in other investment, the total "other investment" variable is broken down in its balance sheet items. Figures 4.10 and 4.11 give a clear indication of what makes up total other investment and how the balance sheet constituents of the variable have moved over time.

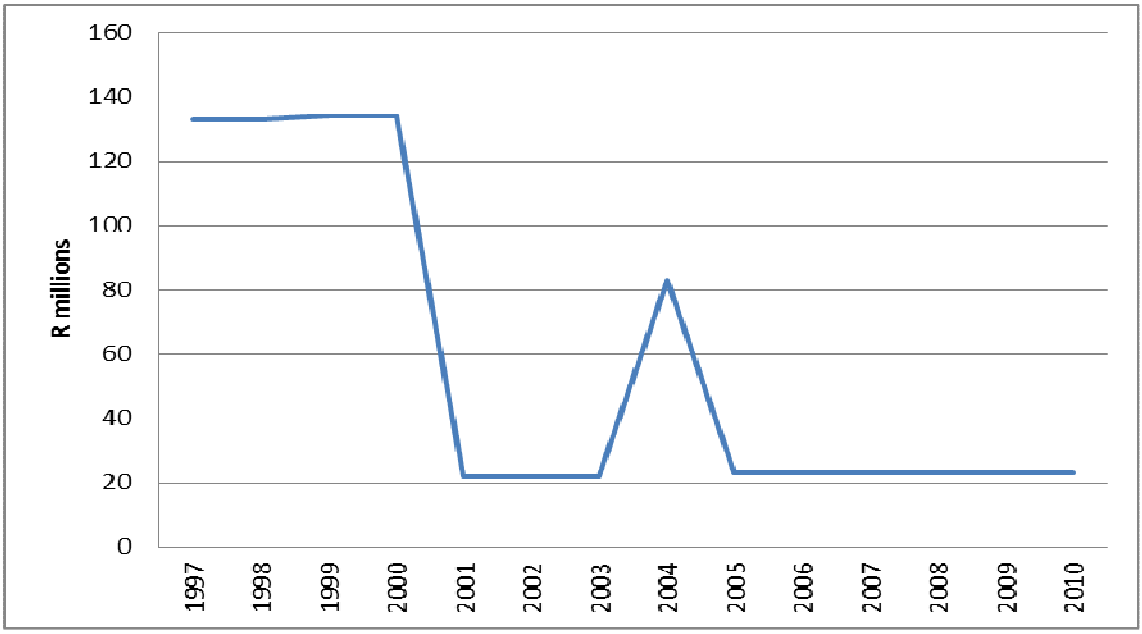


**Figure 4.10: Other foreign investment constituent: long-term loans**

*Source: SARB (2012)*

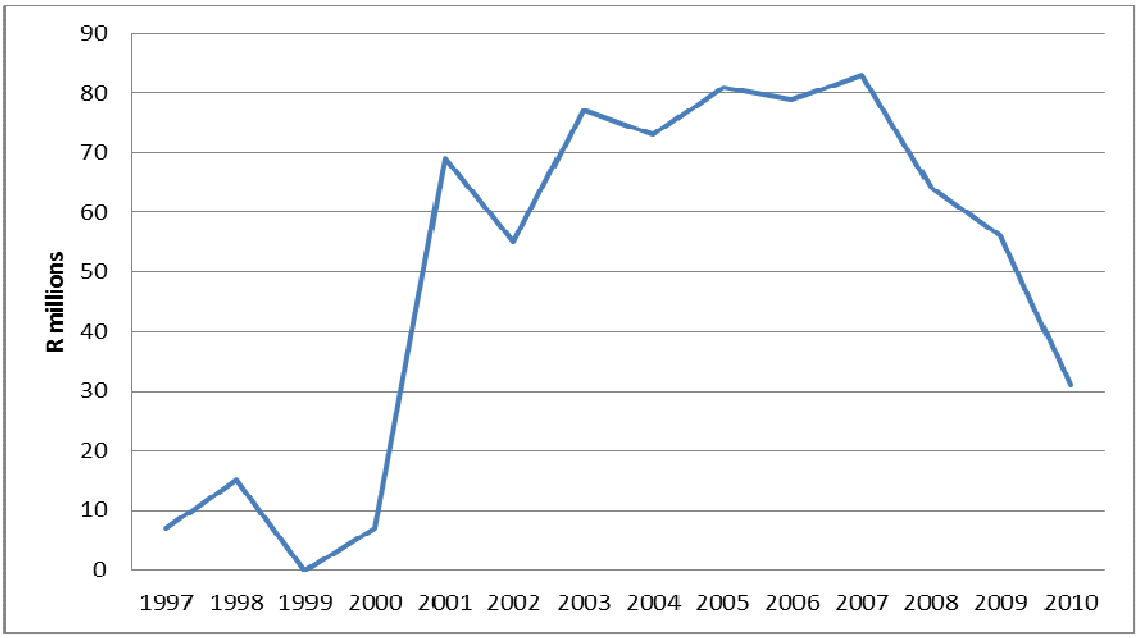


**Figure 4.11: Other foreign investment constituents: short-term loans and trade finance**

*Source: SARB (2012)*

Short-term loans and trade finance provide businesses and agribusinesses with the necessary cash flow for operations within the country of operation. This is finance spent in the South African economy, but it has to be repaid over a short period of

time of between one to five years. Of the “other investment” variable, short-term loans and trade finance make up 57 per cent and long-term loans make up the remaining 43 per cent. Long-term loans generally reach maturity after between 20 and 30 years (Ellinger & Barry, 2012). This provides one with very good insight into the aptitude for risk that businesses and agribusinesses have in their investments in South Africa. These businesses would rather focus on short-term financing and trade cash flow than on the long-term finance option.

## 4.3 SUMMARY

Although the Agriculture, Forestry and Fisheries data only makes up 0.0418 per cent of the total foreign investment per sector as recorded by the SARB, it is still worthwhile to unpack the figure and understand how the investment has been made in the sector. This chapter has exposed how foreign investment from a balance sheet point of view has been allocated in the sector. The SARB data has shown that 90 per cent of the investment is unlike what Wentworth (2012) suggested as being mostly portfolio flows; rather it has been direct investment. The other 10 per cent is shared equally between portfolio flows and other investments such as long-term loans, short-term loans and trade finance. The South African Agriculture, Forestry and Fisheries foreign direct investment shows a general upward trend. Further analysis reveals the attitude and strategy used by foreign firms and investors to use earnings from their operations rather than equity capital, as well as using short-term rather than long-term financing. These changes in strategy provide clues as to the general feeling these companies and investors have for the South African Agriculture Forestry and Fisheries sector.

The downward trend of the total “other investment” variable, which was entrenched by the recent rather flat trend of long-term loans and the steep decline in short-term loans and trade finance since 2007, has indicated the lack of risk appetite in the sector. This is possibly due to the lack of government policy direction in land and agriculture and its recent, poor foreign investment track record.

These findings indicate that businesses and agribusinesses are willing to build foundations in the South African Agriculture, Forestry and Fisheries sector, but they would rather not invest too much more of their own equity and prefer to build the local capacity to reinvest. The results of this analysis can contribute to the development of policies aimed at encouraging further direct and longer-term investment in the sector as this is the current trend.

# CHAPTER 5

## FOREIGN-OWNED AGRICULTURAL LAND: DATA REVIEW

### 5.1 INTRODUCTION

This chapter aims to assemble and review secondary data that has been compiled by government, special committee groups and institutions regarding foreign ownership of agricultural land in South Africa. The data remains rather scarce, but warrants the necessary public and academic exposure as the tabled Green Paper on Land Reform attempts to limit foreign ownership of land (Department of Rural Development and Land Reform, 2011). This will be discussed further in the final chapter of this study.

The aim of this chapter is to analyse and review the data that was reported by the *Progress Report of the Panel of Experts on the Development of Policy on the Regulation of Ownership of Land in South Africa by Foreigners [Non-Citizens].* However due to this data being published in 2006 two other smaller data sets that have recently been compiled have been included to indicate that attempts are being made on a smaller scale to investigate foreign land ownership in South Africa. The two minor data sets presented are the Land Matrix data and the Free State Land Audit data.

### 5.2 PANEL OF EXPERTS ON FOREIGN OWNERSHIP OF LAND DATA SET

The investigation presented in this chapter was based on the most comprehensive study on land ownership at the time, which was carried out by the Department of Agriculture and Land Affairs and published in 2006. Though this data gives indications of the ownership of land in the country, it was published seven years ago; this highlights the need for on-going research and current data in order to better

understand the situation and make more informed decisions with regards to policy making and implementation. It is only through up-to-date data and data analyses that one can truly draw relevant conclusions. However, this data set at least provides a starting point in developing an analysis of foreign land ownership in South African agriculture, which is needed for future policies.

### 5.2.1 Data set

The first major source of information and data regarding foreign ownership of South African agricultural land is the *Progress Report of the Panel of Experts on the Development of Policy on the Regulation of Ownership of Land in South Africa by Foreigners [Non-Citizens]* (Department of Agriculture and Land Affairs, 2006). This report, produced by the Panel of Experts on Foreign Ownership of Land (PEFOL), was constituted and commissioned by the then Minister of Agriculture and Land Affairs, Hon. Thoko Didiza, on 24 August 2004. The land audit carried out by PEFOL was much needed to provide the starting point for the quantification of land ownership by the state, foreigners and private individuals and entities.

Comprehensive policy on land can only be properly developed when the government's policy makers have the necessary research, data and analysis to guide policy and make informed decisions. This was one of the major goals of the PEFOL team appointed by government to assist in understanding the extent of foreign-owned land in South Africa.

**Box 1: The PEFOL Terms of Reference**

The Department of Agriculture and Land Affairs (2006) PEFOL report states: "the following Terms of Reference were to investigate, consider and make recommendations regarding:

- The nature, extent, trends and impact of the *acquisition* and *use of* and *investment in* land in South Africa by non-South African citizens;
- The extent to which the current lack of comprehensive policy and legislative framework contributes to the acquisition, use and investment in land by non-South African citizens;
- Whether the Government should (and how) monitor and intervene by policy, legislative and other means, in preventing any possible negative consequence of land acquisition/use by non-South African citizens;
- The impact on the property markets on land acquisition and use by non-South African citizens, distinguishing between land use for residential, commercial, agriculture, eco-tourism/tourism/game lodge and golf course purposes; and
- Comparative international practices (laws, policies, impact, etc.) on the issue of land ownership by non-citizens."

*Source: Department of Agriculture and Land Affairs (2006)*

As well as PEFOL's Terms of Reference, two broad categories and views play a significant role in the analysis of the results. The first category is viewed from the investor confidence point of view where FDI, free markets and economic growth leading to job creation are critical aspects for developing countries. The second category takes the social view of land reform and community development. As described in the PEFOL report, these views are not mutually exclusive (Department of Agriculture and Land Affairs, 2006).

From these two broad categories, three issues emerge that can only be found in the South African context when the question of foreign ownership of land comes into play. The first issue speaks to foreign land ownership being both a hindrance to food security, because of the possibility of foreign producers exporting all the produce, and an obstruction to the land reform process. The second issue is that foreign land ownership only has a significant impact in certain localised areas such as the Southern Cape and Kwazulu-Natal. The third issue is that foreigners buying land in South Africa will cause prices to increase, making it more costly for government to buy land for land reform. These issues were all presented to the PEFOL as either

written or oral submissions by a wide range of organisations, NGOs and political parties (Department of Agriculture and Land Affairs, 2006).

The mandate for the PEFOL team was not only to consider the relevance of size, percentage and economic value of land but also to consider the context in which land ownership in South Africa is located. This is in terms of the historical, political, social and emotional issues associated with the land, which are as important as the physical and economical properties of the land in the South African context. It is within the above-mentioned framework that the PEFOL report was one of the starting points for the ANC government to understand the reality of private, state and foreign ownership in order to assist with development of appropriate and fact-based land policy (Department of Agriculture and Land Affairs, 2006).

### 5.2.2 PEFOL methodology

The PEFOL methodology is unique to a study of this nature, as it had to include a number of sources because the data on foreign land ownership from the South African Deeds Registry was inadequate. As stated by Swanson (2011), “the Deeds Registry and other governmental sources are incomplete and unreliable”. PEFOL data collection involved desktop research; textual interpretations of legislation and policy on access, ownership and use of land; solicitation and analysis of public submissions; interpretation of deeds registry data; and analyses sourced from foreign embassies and high commissions in South Africa. The research had to include many different aspects and data sources to try and fill in the missing pieces, which became apparent as the PEFOL team carried out their research (Department of Agriculture and Land Affairs, 2006).

International comparisons were also made for input into the development of policy on foreign ownership of land in South Africa. It is crucial to the development of land policy that the South African government learn from the past and also from other countries’ experiences. The international comparisons are valuable indications of land policy in other countries that have regulated foreign ownership. The PEFOL team examined these foreign trends as well as the situation of each country under international law. This data has been shown to be one of the first, most crucial steps

in data analysis regarding the question of how much land is owned by foreigners in South Africa.

The PEFOL data is presented in the sections below as the starting point for land audit data analysis. Other data compiled by different organisations from 2006 to date is also presented, as many will argue that the PEFOL data of 2006 is outdated. However, this data remains one of the more comprehensive studies of property ownership by foreigners in South Africa to date. The need for continuous assessment of foreign land ownership is, however, crucial to ensure better understanding of the trends.

### 5.2.3 PEFOL land audit data

The cross-sectional data of PEFOL allows one to assess the status of land owned by foreigners in South Africa at a particular point in time.

The data collected by PEFOL was, as explained above, from many sources, but one of the major sources for a study of this nature is the Deeds Registry. The following is the description of the Deed's Registry data from the PEFOL report (Department of Agriculture and Land Affairs (2006) :

- The data is not designed to differentiate between citizens and non-citizens or foreigners in general.
- It is poorly structured.
- It contains significant error in data entry.
- It contains a large amount of duplication.

Capturing of land purchase data by the Deeds Registry takes place only when the transaction is presented for registration. However, there are significant flaws in the data-capturing mechanism, which are indicated by the number of "defective records" there are.

The land audit data presented by PEFOL is split into a number of categories. Firstly there are the ownership categories:

- Defective Records: unclear ownership
- South Africa: private individual owners
- South African state: land owned by the South African state
- Foreign individuals: non-South African landownership by individuals
- Corporate: properties owned by corporate bodies, both foreign and South African

The second set of categories describes the type of property owned. These categories are:

- Erf: urban residential land
- Farm: land for commercial agricultural purposes
- Agricultural Holding (AH): agricultural holdings, smaller than commercial farm land but used for agricultural purposes
- Section: residential sectional titles

The data presented below is categorised according to the above descriptions (Department of Agriculture and Land Affairs, 2006).

### 5.2.4 PEFOL land audit data review

To begin the review of the PEFOL results we look at the division of land ownership in South Africa in 2006. Table 5.1 presents the data regarding land ownership between the State, Trust (on behalf of the state) and privately held land.

**Table 5.1: Division of land ownership**

| Ownership | Department | Size (ha) | Size (ha) | Proportion (%) |
|---|---|---|---|---|
| **State-owned land** | | | **24 919 290** | **20.4** |
| | DPW | 6 845 916 | | |
| | Land Affairs | 13 759 968 | | |
| | Provincial | 4 313 406 | | |
| **Trust-owned land** | | | **4103 096** | **3.4** |
| | Ingonyama | 2 893 232 | | |
| | Coloured Rural | 277 926 | | |
| | Traditional | 931 938 | | |
| **Private** | | | **92 885 406** | **76.2** |
| **Total** | | | **121 907 792** | **100** |

*Source: Department of Agriculture and Land Affairs (2006)*

The division of land ownership in South Africa in its broadest sense indicates that 20.4 per cent of land in South Africa is state land, 3.4 per cent of the land is held in trust for the state and 76.2 per cent of the land is privately owned. Unlike other African states, South Africa has a relatively high proportion of land that is owned privately in a freehold land tenure system. In a liberal economy such as South Africa, this provides a situation where foreigners can potentially access 76.2 per cent of South African land under the freehold tenure system. Foreigners can purchase the land like any other South African citizen. There are no current regulations on foreigners purchasing land in South Africa, although the Green Paper on Land Reform which has been tabled does introduce a significant amount of regulation of foreign ownership of South African land (Department of Rural Development and Land Reform, 2011).

The following tables represent consolidated statistics compiled and published in the PEFOL report of 2006 They provide the type of cross-sectional data that should be recorded every year to gain a good understanding of the possible patterns of foreign land ownership.

**Table 5.2: Individual owner count according to each form of land use**

| Head Count | | | | |
|---|---|---|---|---|
| **Type of Owner** | **Erf (%)** | **Farm (%)** | **AH (%)** | **Section (%)** |
| Defective Records | 11.15 | 16.40 | 10.52 | 5.28 |
| South African | 71.06 | 49.80 | 69.95 | 74.33 |
| State | 12.19 | 5.80 | 6.17 | 1.11 |
| Foreign | 0.93 | 0.55 | 1.79 | 3.02 |
| Corporate | 4.67 | 27.45 | 11.57 | 16.26 |
| **Total** | **100.00** | **100.00** | **100.00** | **100.00** |

*Source: Department of Agriculture and Land Affairs (2006)*

Table 5.2 indicates the individual ownership of all four property types listed in the analysis. What is interesting to note from the outset is that in 2006 foreigners only accounted for 0.55 per cent of the farmland ownership in South Africa. The foreign ownership of Agricultural Holdings is also relatively small at 1.79 per cent.

**Table 5.3: The area, or size, of land owned by the various categories**

| Area/Size of land | | | | |
|---|---|---|---|---|
| **Type of Owner** | **Erf (%)** | **Farm (%)** | **AH (%)** | **Section (%)** |
| Defective Records | 8.27 | 11.97 | 18.48 | 1.17 |
| South African | 6.53 | 48.60 | 49.34 | 22.27 |
| State | 81.00 | 5.73 | 21.97 | 0.11 |
| Foreign | 0.07 | 0.07 | 1.98 | 0.52 |
| Corporate | 4.13 | 33.63 | 8.23 | 75.93 |
| **Total** | **100.00** | **100.00** | **100.00** | **100.00** |

*Source: Department of Agriculture and Land Affairs (2006)*

Table 5.3 shows the relative percentages in terms of area owned by the respective groups of owners. The area or size of farmland and agricultural holdings owned by individual foreign owners was measured at only 0.07 per cent and 1.98 per cent respectively. This is a very small area compared to South African individual ownership which is 48.60 per cent, and corporate ownership at 33.63 per cent. This indicates that foreign individuals do not own large areas of land in South Africa. Therefore foreigners cannot necessarily be blamed for inhibiting the Land Reform process by their ownership of farm land and agricultural holdings as their ownership in term of size is rather insignificant. “Defective Records” are quite significant in this analysis and may have an effect on the area owned by foreign individuals. Corporate ownership may also include some foreign entities, which could push up the foreign ownership somewhat. But as it stood in 2006 South African agricultural land was certainly not at risk of significant ownership by foreign individuals.

**Table 5.4: Summary of the value of properties owned by various categories**

| Value of the properties | | | | |
|---|---|---|---|---|
| **Type of Owner** | **Erf (%)** | **Farm (%)** | **AH (%)** | **Section (%)** |
| Defective Records | 17.66 | 15.70 | 4.10 | 11.40 |
| South African | 17.73 | 5.69 | 43.19 | 48.03 |
| State | 0.26 | 0.37 | 0.14 | 0.14 |
| Foreign | 0.74 | 0.15 | 1.75 | 2.46 |
| Corporate | 63.61 | 78.09 | 50.82 | 37.97 |
| **Total** | **100.00** | **100.00** | **100.00** | **100.00** |

*Source: Department of Agriculture and Land Affairs (2006)*

Table 5.4 indicates the relative value of the properties by ownership category. This is extremely important because, as seen in Table 5.2, the individual foreign ownership in terms of area was extremely small compared to the other categories, but the value of the farm land owned by foreigners was much higher at 0.15 per cent. The best example of this is in the Erf category, where the area owned by foreign individuals was 0.07 per cent but the percentage value of Erven owned by foreigners is much higher at 0.74 per cent, which is a 0.67 per cent difference. This indicates that foreigners tend to purchase smaller areas of higher-value land in both Erf (residential land) and agricultural land.

**Table 5.5: Combined foreign ownership**

| **Measurement** | **Erf (%)** | **Farm (%)** | **AH (%)** | **Sectional (%)** |
|---|---|---|---|---|
| Head Count | 0.93 | 0.55 | 1.79 | 3.02 |
| Value | 0.74 | 0.15 | 1.75 | 2.46 |
| Size | 0.07 | 0.07 | 1.98 | 0.52 |

*Source: Adapted from Department of Agriculture and Land Affairs (2006)*

Table 5.5 presents the combined data of individual foreign ownership across the land parcel categories. The table shows quite clearly that the preferred category of land ownership by foreigners in terms of numbers and value is residential sectional title landholding. Understandably, the size or area acquired in this land category is small as residential sectional titles are relatively small pieces of land used mainly for housing. Agricultural Holdings owned by foreigners in terms of numbers and value come in second to sectional title. The size or area is much greater due to the nature of the land category. The farm category is the least-owned property category in the number of owners (the head count), value and size of land.

The pattern of ownership amongst individual foreign owners was also included in the report and is shown in Table 5.6.

**Table 5.6: Breakdown of individual foreign ownership in 2006**

| Type of land | Head Count | % Head Count | Value | % of total value | Size (ha) | % of size |
|---|---|---|---|---|---|---|
| **Erf** | 52 786 | 65.66 | R13 992 479 496 | 61.99 | 94 548.8 | 31.99 |
| **Farm** | 2 540 | 3.16 | R1 009 916 956 | 4.47 | 172 414.3 | 58.33 |
| **Agricultural Holding** | 1 049 | 1.30 | R258 657 755 | 1.15 | 28 380.0 | 9.60 |
| **Sectional** | 2 4013 | 29.87 | R7 312 556 270 | 32.39 | 231.6 | 0.08 |
| **Total** | **80 388** | **100** | **R22 573 610 477** | **100** | **295 574.7** | **100.0** |

*Source: Adapted from Department of Agriculture and Land Affairs (2006)*

Table 5.6 shows that of the total number of foreign individual land owners in South Africa, the majority of foreign individuals own Erf or Sectional Title properties. Only 4.46 per cent own Farms or Agricultural Holdings. The values of the properties are heavily distorted towards the Erf and Sectional Title land categories indicating that foreigners prefer to own high value residential property, than large areas of lower value agricultural land. Because farms are bigger than residential properties, the farm area owned by individual foreigners is greater than the other categories of land. But the table above proves again that individual foreign agricultural land ownership should not get in the way of the South African government's Land Reform objectives. Individual foreign ownership of land does not necessarily have to be curtailed in any way by policy as the table above shows their preference for residential property.

The PEFOL report provides some interesting statistics from which one can calculate foreign ownership as a percentage of total South African land area. Table 5.7 represents one such calculation. As shown in Table 5.6, the report exposes, to some extent, the area of land owned by foreign individuals. This information is crucial to understanding the actual land owned by foreign individuals in absolute terms. By taking the absolute values from Table 5.6 and comparing them to the total land surface area of South Africa, which amounts to 121.9 million hectares according to the Department of Agriculture and Land Affairs (2006), one is able to calculate the percentage of the area owned by foreign individuals. These areas are broken up into the relevant land parcels but together, along with local ownership, they add up to the total surface area of the country. Table 5.7 shows the author's own simple calculation

of area owned by foreign individuals as a percentage of total South African land surface area.

**Table 5.7: Foreign individual ownership of land area compared to overall South African land surface**

| Type of Land | Size (ha) | Percentage of total South African land | Total land area of South Africa |
|---|---|---|---|
| Erf | 94 548.8 | 0.07756 | |
| Farm | 172 414.3 | 0.14143 | |
| Agricultural Holding | 28 380.0 | 0.02328 | |
| Sectional | 231.6 | 0.00019 | |
| **Total** | **295 574.7** | **0.24246** | **121 907 792.00** |

*Source: Adapted from Department of Agriculture and Land Affairs (2006)*

What Table 5.7 shows is that foreign individuals own only 0.2424 per cent or 295 574.70 hectares of South Africa's land surface area. This is very small area of land and it speaks to the previous chapter's discussion of very low FDI investment in the Agriculture, Fishery and Forestry sector. The land owned by foreign individuals is broken up into the specific land parcels, of which farmland is the greatest area owned at 172 414.30 hectares or 0.1414 per cent of the total land surface area. This relatively large amount of foreign-owned land is not surprising, as South Africa is a mostly arid country and most of the land use is rangeland for grazing. Due to the arid nature of the country the average commercial farm unit in South Africa is 1 200 hectares, which is large in comparison to other countries. The second-largest foreign-owned land parcel is the Erf, making up 0.077 per cent or 94 548.80 hectares of the total land surface area. This land parcel is not of consequence to this study as it is non-agricultural land, but it does show that foreign individuals prefer residential areas to rural agricultural holdings, which come in at 0.02328 per cent (28 380 hectares) of the total surface area. Lastly, foreigners own small areas of residential sectional title landholdings, but this is to be expected because the land parcels are naturally small.

It is interesting to note that foreign agricultural land ownership is made up of farms and agricultural holdings at 200 794.30 hectares or 0.1647 per cent of the total land area. This is very small when compared to state ownership in 2006, which amounted to 24 919 290 hectares or 20 per cent of the total, excluding trust land.

The focus has been on the PEFOL land audit data, which pertains mainly to individuals. Some data was collected regarding land ownership by corporate entities,

but it could not be broken down into types of owner as the Deeds Registry had insufficient information. Individual properties could be broken down into owner categories because the Deeds Registry records the identity number (ID) of the particular owner in the case of a South African citizen; where no ID appears the record is assumed to be foreign-owned. Corporate entities do not have ID numbers, and given the nature of the records it is almost impossible to tell whether they are local or foreign corporates (Swanson, 2011).

The PEFOL report is the only reputable data source regarding foreign ownership of land in South Africa, especially when one is looking at agricultural land, even though it only provides for foreign individuals and not for corporates. This is a serious shortcoming of the study, as foreign corporate ownership could be higher than individual ownership but is unknown due to unsuitable records. While this is the case, the data on foreign ownership by individuals and the analysis thereof provides some very important insights into the types of property foreign individuals are interested in in terms of values and sizes. Other foreign land ownership data sets will be presented as additional and supplementary data, but the PEFOL data set remains the core focus of the chapter.

There are cases of foreign entities and individuals buying up land in South Africa which can be and have been presented by the PEFOL team. Other cases will be presented below along with other data sources, which are included to indicate the importance of the topic. The realisation of the importance this by organisations adds to the overall debate and the need for a concerted effort to understand the structure of land ownership in South Africa.

### 5.2.5 PEFOL land audit: foreign land purchases and investments

A list of these cases from the PEFOL report and other sources is presented below:

- Utrechtse Beheer Maatschappij “Catherine” B.V. owns Marakele National Park (Pty) Ltd, CCG088 Investments (Pty) Ltd and CCG 108 Investments (Pty) Ltd, which has substantial land in and around Marakele National Park in Limpopo.
- Anne Cointreau-Huchon made large investments in the Morgenhof Estate.

- Count Ricardo Agusta invested R17 million in Agusta Wines in Franschoek.
- A Bahaman-American-South African partnership created BoweJoubert Vineyards and Winery.
- A Swiss investor bought in Dornier Wines with R100 million.
- Chateau Pichon-Longueville-Lalande bought Glen Elly in Simonsberg.
- Transnet sold the Cape Town Waterfront to foreign owners.

This list focuses mainly on specific acquisitions, which allows for an understanding of the scope of the investments and acquisitions by foreign corporates and individuals.

## 5.3 OTHER LAND OWNERSHIP DATA SETS AND CASE STUDIES

### 5.3.1 Land Matrix

The Land Matrix is an independent, land-monitoring initiative that uses open-source systems to collect and display large-scale land acquisitions worldwide. The objective is to create transparency and accountability in land deal issues, which are often clouded in controversy and uncertainty. The data is collected from various sources all over the world and is constantly being updated. Anseeuw, Lay, Messerli, Giger and Taylor (2013) describe the Land Matrix as “creating a public tool to assess and promote transparency in global land deals”; this was published in the Journal of Peasant Studies Forum (2013).

The data presented in this forum covers land deals made all over the world, but only two of the deals captured are pertinent to this study as they can be found in South Africa. These two examples provide further understanding of foreign investors’ methods of investing in land in South Africa, although the land may be owned by the corporate entity registered in South Africa. The foreign investors will likely hold significant investment in the firm, and therefore the foreign owners have a significant say over how the land is used. This influence over the land and the land use creates a situation where foreign investment in land influences local use of the land.

**Table 5.8: South African land deals according to the Land Matrix**

| Target Country | Investor Name | Investor Country | Intention | Implementation Status | Size (ha) |
|---|---|---|---|---|---|
| South Africa | Nippon Paper Group Inc. | Japan | Forestry | In operation (production) | 11 000 |
| South Africa | Global Environment Fund | United States | Forestry | [2010] In operation (production) | 18 000 |

*Source: Land Matrix (2013)*

Table 5.8 indicates that the two land deals recorded by the Land Matrix cover 11 000 and 18 000 hectares respectively, totalling 29 000 hectares of South African land. Although the investment is not direct ownership, the investors have invested in South African registered firms: the Nippon Paper Group, Incorporated in Nippon-SC Tree Farm SA Pty Ltd; and the Global Environment Fund in Cape Pine Investment Holdings. As stated before, it does show that the foreign corporate can have an influence over large tracts of land in South Africa.

### 5.3.2 Free State land audit

The increasing need for valid and reputable land ownership data in South Africa is the driving force behind some institutions within the agricultural sector investigating the issue in their own capacity. This is true for the recent preliminary results of the Free State land audit. The research, data assembly and results were presented to the Free State Agricultural Congress (Vrystaat Landboukongres) on 31 July 2013 by Free State Agriculture. The data was assembled by the Bureau for Food and Agricultural Policy (BFAP), a research organisation within the University of Pretoria's Department of Agricultural Economics, Extension and Rural Development. These preliminary results provide the indication that non-governmental institutions are playing a role in answering the question of "who owns what land" in South Africa. The Free State land audit is an example of how a detailed land audit can be commissioned, and succeeds in obtaining reliable data for the benefit of policy and decision-making in South African agriculture.

The Free State land audit preliminary results presented in Table 5.9 are based on land within the Free State. Total land amounted to 13 075 020 hectares and the total

agricultural land amounted to 12 196 060 hectares. Table 5.9 represents the ownership split between foreigners or South African citizens and also by race and by state ownership or land allocated by the state to land reform. There is also an indication of land of which ownership is uncertain. This is a common theme in the current land ownership data and is relevant not only to the Free State, but also nationally.

**Table 5.9: Free State Land Audit data**

| Ownership | Sum of Audit (ha) | % |
|---|---|---|
| Black (Privately procured land) | 152 772 | 1.22 |
| Foreign | 29 908 | 0.24 |
| Land Reform (State procured land) | 209 071 | 1.68 |
| State | 110 961 | 0.89 |
| Unsure | 1 194 948 | 9.58 |
| White | 10 775 512 | 86.39 |

*Source: Vrystaat Landboukongres (2013)*

Table 5.9, although containing preliminary data, indicates that foreign ownership of agricultural land in the Free State province of South Africa amounts to 29 908 hectares or 0.24 per cent of the agricultural land of that province. These results are in line with the PEFOL findings. This indicates that foreign investors have not necessarily taken a significant interest in the agricultural heartland of South Africa. Nevertheless this may provide an indication that foreign investors may not be as interested in the grain-rich Free State land as they are in the tourist haven and wine-producing Cape. The data provides another insight into the efforts being made by some institutions and organisations in the sector to provide the necessary data for policy makers.

## 5.4 SUMMARY

The PEFOL team had to deal with some significant data challenges in 2006; these challenges still exist in 2014. The Deeds Registry data is insufficient to provide researchers with clear-cut information on the ownership of land parcels in South Africa. However, despite its shortcomings it remains the most comprehensive report on foreign land ownership in South Africa to date. The data compiled, although not

always in absolute terms, does provide one with interesting insights into foreign ownership patterns and preferences.

The PEFOL report showed that foreigners prefer residential Erf and Sectional Title properties, as they make up a significant portion of the percentage owned by foreign individuals in terms of head count and value. This leads one to acknowledge that these land purchases tend to be in areas of high demand such as the Southern Cape or KwaZulu-Natal (Department of Agriculture and Land Affairs, 2006). The Farm and Agricultural Holdings percentages in terms of head count and value tend to be much smaller at 3.16 and 1.30 per cent and 4.47 and 1.15 per cent respectively. The proportion of land in terms of size owned in the Farm and Agricultural Holding categories is much larger, at 58.33 and 9.60 per cent. This is due to the large size of farms needed in South Africa.

With a few conversions of the PEFOL data one can roughly ascertain the total percentage of land owned by foreign individuals in South Africa. The total is less than 1 per cent of the total area of South Africa, indicating that the actual amount of land owned by foreign individuals is insignificant. This statistic is crucial to the question of why the South African government is attempting to curtail foreign ownership of land in South Africa.

It is for this reason that other institutions and organisations such as the Land Matrix and Free State Agriculture are gathering land ownership data –not only to help create a clearer picture of who owns South Africa and how much, but also to aid policy with factually correct data. This is why two other data sources were included in this chapter to indicate this effort. This is clear in the Free State Land Audit, which not only managed to identify private-, state-, black- and white-owned land but also presented foreign ownership data, which is useful to this study and its objectives. Foreign land ownership in the Free State turns out to be rather small at 0.24 per cent, which indicates that foreign buyers are not all that interested in the breadbasket of the country. But changes to this figure over time would indicate a different strategy by foreigners. Continuous collection and analysis of this type of data is crucial to identifying these trends, as highly productive agricultural land has moved into an investment class of its own.

# CHAPTER 6

## FOREIGN INVESTMENT IN SOUTH AFRICAN AGRIBUSINESS

### 6.1 INTRODUCTION

The final data collected for this study describes the current state of foreign investment in South African agribusiness. Since the 1990s the South African agribusiness landscape has evolved significantly from a once highly state-controlled industry to the present, where it operates in a free and open economy. Through privatisation and economic liberalisation the South African agribusiness sector has grown significantly since the 1990s, with some companies becoming global competitors whilst others have been invested in by major multinational foreign companies looking to extend their global reach in Africa. Large multinational companies view South Africa as their entry point into growing sub-Saharan African economies.

As stated by Moir (2011), “increasingly open economic policies and reductions in cost arising from advances in transport and communication have fostered globalisation. FDI is, together with trade, one of the key channels for economic integration. Technology transfer has also become an increasingly important factor.” Modern communication and information technology have allowed for greater participation and production by agribusinesses in foreign countries that have the resources and the potential markets they seek.

Production processes are also placed in different countries where they may be cheaper than in the firms’ home countries. This means that goods are produced in foreign countries which are endowed with the necessary natural resources (in the case of agribusiness) and transported and marketed in other countries under the brand of a company from a completely different country to the one where the product was produced. Therefore global value chains have emerged; motivated by the need for increased efficiency, due to increasing competition that forces firms to lower costs

and find new markets. Most emerging economies are implementing increasingly open economic policies, and firms are looking to gain economies of scale through expansion in these economies as well as access the emerging markets for strategic assets, markets and local knowledge. This discussion is no different for an emerging economy like South Africa, where investment in South African agribusiness gives foreign companies access to the South African market, South African sources of supply and local technology and access to the markets in sub-Saharan Africa (Moir, 2011).

Not all sub-sectors of the agricultural sector are discussed below, as some sub-sectors or industries do not attract much foreign interest as yet and do not need to be included based on the goal of this study. The sectors that are analysed make up some of the largest and most important agricultural sub-sectors. The seed industry is included as it has received great attention due to the foreign investment made in the industry.

The sectors included are:

- Sugar milling and refining industry
- Grain trade and silo industry
- Poultry industry
- Dairy-processing industry
- Seed industry

These sectors are of national importance: they are either significant agricultural industries that have been developed over many years, such as sugar milling and refining, dairy-processing, grain marketing and poultry industries; or they are of significance because they are industries in which South African companies have succeeded and which have garnered interest and buy-in from foreign entities, such as the seed production industry. The author has shown in the following results the overall effect that foreign ownership has in the market, by multiplying foreign ownership in a particular company to its market share in the industry. The results below are presented in the following order: the sugar milling and market industry, the

grain marketing industry, the poultry industry, the dairy manufacturing industry and finally the seed industry.

## 6.2 FOREIGN INVESTMENT IN THE SOUTH AFRICAN SUGAR MILLING INDUSTRY

In the South African sugar milling and refining industry there are three major agribusinesses which are the biggest players in the industry. These three big sugar mills own 94 per cent of the market with their modern state-of-the-art milling facilities, production and export infrastructure, which has been built up since the 1850s. The sugar milling and refining industry is an oligopoly market in which three large millers and refiners operate alongside three smaller millers, making up 6 per cent of the market (Department of Agriculture Forestry and Fisheries. 2012).

Illovo Sugar Limited is the largest producer in South Africa and Africa. Market share for Illovo Sugar in South Africa is currently 45 per cent, from five mills. The Illovo group also has milling, refining and agricultural operations in six African countries. Illovo produces both raw and refined sugar for the local, regional and export markets of the US and the European Union. Illovo not only manufactures sugar from cane bought from out-growers but also owns significant sugar estates to ensure factory throughput. As a South African company Illovo Sugar Limited is a subsidiary of Associated British Foods plc, a British company which has 51.5 per cent of the issued share capital (Illovo, 2013).

The next biggest sugar producer in South Africa is Tongaat-Hulett, which owns four mills and has a 31.7 per cent market share in the South African sugar industry. The company was listed on the Johannesburg Stock Exchange in 1952 and retained its 1939 listing on the London Stock Exchange as a secondary listing. The company has grown its footprint in Southern Africa, with operations in South Africa, Botswana, Namibia, Swaziland, Mozambique and Zimbabwe (Tongaat-Hulett, 2013a).

**Box 2: The history and contribution of the South African sugar milling industry**

The South African sugar milling and refining industry began in 1855 with the first public sale of "colonial sugar" in Durban. By 1880 there were 70 mills in operation in the then Natal province and the industry would grow from strength to strength with significant investments of foreign capital, mainly from Britain (Lewis, 1990).

The South African sugar industry makes a significant contribution to the national economy. This contribution comes in the form of agricultural and industrial investments, approximately R2 billion in foreign exchange earnings, employment and industrial linkages. The industry produces approximately 2.2 million tons of sugar per season, of which about 60 per cent is marketed in the South African Customs Union (SACU). Revenue generated from the sugar industry in South Africa, which is based on sugar sales within the SACU, is estimated to be R8 billion annually. As an emerging economy, employment linkages for the industry are important. The sugar industry is a significant contributor to this objective as direct employment is approximately 79 000 jobs. This represents a significant portion of the total agricultural workforce (SASA, 2013).

The South African sugar industry is one of the only agricultural industries that are still regulated. Due to its national importance the regulatory framework has remained in place in the form of the Sugar Act and the Sugar Industry Agreement. The three main regulations provided in the Sugar Act and the Sugar Industry Agreement are:

- an import tariff that is set relative to the US dollar-based reference price
- a single market export mechanism
- a local market proceeds-sharing agreement whereby proceeds earned in the South African sugar industry are divided amongst growers and millers according to a set formula.

The third biggest sugar producer in South Africa is known as TSB. With three mills in the northern sugar-producing region of South Africa, the company has situated itself as the only sugar miller and processor in that region. The company is a wholly-owned subsidiary of Remgro Limited, which is a South African investment-holding company listed on the Johannesburg Stock Exchange (TSB, 2013).

The Gledhow Sugar Company is one of the three smaller sugar millers and processors in the South African sugar industry, with one mill in KwaZulu-Natal. The Gledhow Sugar Company is majority owned by the South African firm Ushukela Milling (Pty) Ltd at 34.9 per cent shareholding and Illovo Sugar Limited at 30 per cent shareholding (Gledhow Sugar Company, 2013).

The UCL Company Limited, in operation since 1952, is the second of the three small sugar producers in South Africa. The South African-owned company operates one sugar mill in KwaZulu-Natal along with two timber farms and two sawmills (UCL, 2013).

Umfolozi Sugar Mill is the third small sugar miller and refiner in South Africa. This company operates one mill in KwaZulu-Natal (Umfolozi Sugar Mill, 2013). The Sokhela Family Trust purchased the Umfolozi mill from Illovo under the name Umvoti Transport (Pty) Ltd. Today the Umfolozi Sugar Mill is owned by a local consortium which controls 75 per cent of the company; the remaining 25 per cent is owned by NCP Alcohols, which was bought in 2001 by Alcofinance S.A., part of the AlcoGroup from Belgium (NCP, 2013).

**Table 6.1: The structure of the South African sugar industry**

| Sugar Industry | Market Share % | Foreign Ownership % | Majority Shareholder | Country |
|---|---|---|---|---|
| TSB Sugar | 17 | | Remgro | South Africa |
| Illovo Sugar | 45 | 51 | Associated British Foods Plc | Britain |
| Tongaat-Hulett | 31.7 | | Public Investment Corporation | South Africa |
| Gledhow Sugar Company (Pty) Ltd | 2 | 30 | Ushukela Milling/Illovo | South Africa |
| UCL Company Ltd | 2 | | | South Africa |
| Umfolozi Sugar Company Ltd | 2 | 25 | South African Consortium/Alcogroup | South Africa/Belgium |

Table 6.1 shows the combined market share of the major sugar millers and refiners in the South African industry. Although most of the companies are South African-owned, the biggest (Illovo Sugar Limited) with an overall 45 per cent South African market share is in fact majority owned by the British firm Associated British Foods. Illovo Sugar Limited has an even greater stake in the South African sugar industry by also owning 30 per cent of Gledhow Sugar Company. The actual foreign ownership in the sugar industry has been calculated and shown below. Therefore as shown in the figure 6.1 below the foreign ownership of Illovo as well as the small influence of Alcogroup owning 30 per cent of Umfolozi Sugar, one is able to calculate the actual foreign ownership within the sector by multiplying foreign ownership in a particular

company with its overall market share. Actual foreign ownership in the South African sugar industry equates to 24 per cent.

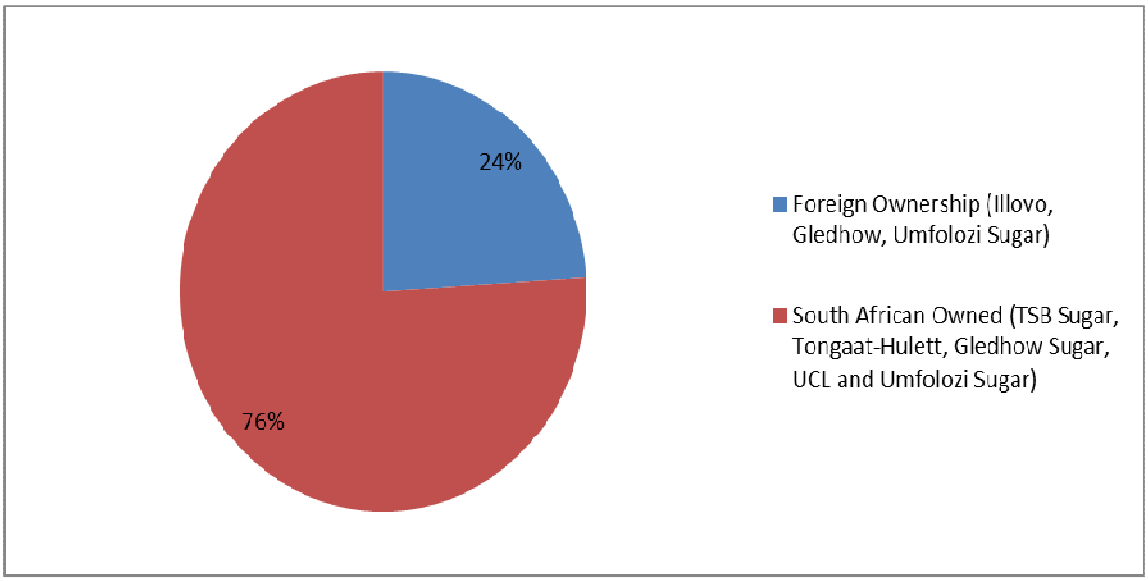


**Figure 6.1: The South African sugar industry: local and foreign influence on the market**

## 6.3 FOREIGN INVESTMENT IN THE SOUTH AFRICAN GRAIN INDUSTRY

The South African grain market is extremely important to the country, especially the production of maize as it the staple diet of the majority of the population. The grain industry therefore has significant impact on food security within South Africa and in the entire Southern African region. South Africa is a major maize producer and exports the majority of its surplus maize to the SADC region (Department of Agriculture, Forestry and Fisheries, 2012). The grain industry as a whole refers to barley, wheat, maize, oats and sorghum as well as the oilseeds canola, groundnuts, soya beans and sunflowers. The South African grain industry is one of the largest industries in agriculture as it produces between 25 and 33 per cent of the total gross value of agricultural production. The most-produced field crop is maize, due to it being a staple food (Kirsten, 2005).

**Box 3: The South African grain industry**

Maize is the most important grain crop in South Africa, being the staple diet of the majority of South Africans as well as the major feed grain for the livestock industry. It is also the second-largest crop produced in South Africa after sugarcane. Sixty per cent of maize produced in South Africa is white maize, mainly for human consumption and the other 40 per cent is yellow maize, mainly for the animal feed industry. In 2011 the contribution by the maize industry to the gross value of agricultural production in South Africa amounted to just over R15 billion. The maize industry provides direct employment to an estimated work force of approximately 128 000 people. It also contributes to South Africa's foreign exchange earnings, as maize is exported mainly to Africa, Asia and Europe (Department of Agriculture, Forestry and Fisheries, 2012).

Wheat is the second most important grain crop in South Africa. Due to South Africa's climatic conditions as well as low prices and high input costs for wheat production, it is not as widespread as maize and therefore South Africa is not a major producer. There are only between 3 800 and 4 000 wheat farmers in the country and South Africa has to import wheat to supplement domestic demand. In South Africa wheat is mainly used for human consumption, and therefore most wheat grown is suitable for the milling and baking industries. South Africa's self-sufficiency index for wheat is approximately 80 to 85 per cent. Most of South Africa's wheat imports come from Argentina, Australia, France, Britain and the US.

Sunflower seed is the third most produced grain crop in the South African grain industry after maize and wheat. Sunflower seed is primarily used for manufacturing sunflower oil and oilcake, which is used in the animal feed industry. Most of the sunflower seed produced in South Africa is used locally by oil refineries, animal feed producers and as seed for consumption. Between 2002 and 2011 an average of 696 000 tons of sunflower seed was produced per annum with an estimated gross value of R1.7 billion per annum. Due to the cyclical behaviour of sunflower seed producer prices, the crop size varies from year to year. Very little sunflower seed is exported from South Africa as local production makes up the majority of local demand, but South Africa is generally a net importer of sunflower seed to supplement the deficit of local production (Department of Agriculture, Forestry and Fisheries, 2012).

Soya beans have become an increasingly important crop within the oilseeds sector of the overall grains industry. Rising incomes and changing preferences have generated growth in the demand for protein. Soya bean oil and oilcake for the animal feed industry (especially the broiler and egg industry) is in demand. Since 2002 South African soya bean production has risen dramatically from 223 000 tons to 710 000 tons in 2011. South Africa is a net importer of soya beans, mainly from Argentina, but as production in South Africa grows so the need for imports from Argentina slows down (Department of Agriculture, Forestry and Fisheries, 2012).

### 6.3.1 The South African grain trading industry

There are a number of links in the South African grain market value chain from the farmer to the consumer in which large and small agribusinesses are involved, and they have a unique hold on the grain industry as a whole. Grain trading and grain storage in silos are two linking steps from the farmer to the miller, refiner, processor and finally the consumer.

Grain trading is part and parcel of an open and free agricultural marketing system. As stated by Kirsten (2005), “since 1995 grain marketing in South Africa has been deregulated in terms of price intervention. The agricultural derivatives market was established to provide market participants with a price risk management facility as well as a price determination mechanism without distorting economic principles.”

Grain traders include international grain traders, local grain traders and financial institutions that provide credit facilities. These traders act on behalf of clients, be they farmers, millers or processors, for a fixed fee or performance margin; take positions in the market and assume risks; establish value; and provide the cash market for grain. This step in the grain industry is vitally important in the free market system. These firms can make significant profits from a high-volume trading platform such as the South African Futures Exchange (SAFEX) (Kirsten, 2005).

The South African grain traders are made up of a few very large multinational agribusinesses and a few medium to small local operations. The data gathered on the industry revealed that the larger companies have a significant hold over the local grain-trading market share. The two major companies are Cargill and Louis Dreyfus. Cargill is a family-owned multinational company based in the US, which specialises in agricultural risk management (trading) and financial solutions as well as processing and distributing grains and oilseeds to further processors. Cargill has been operational in South Africa since 1981 and employs over 100 people in 12 locations (Cargill, 2013).

Louis Drefyus is on a par with Cargill in the South African grain industry. It too is a privately owned multinational company originating in France. Louis Dreyfus opened

its first office in South Africa in 1924 in Cape Town and since then has expanded operations in the African continent to become one of the biggest traders of oil, grain and rice. The difference between the two companies in the South African context is that Cargill is mainly involved in trading for the domestic market whereas Louis Dreyfus is focused more on the import-export markets (FAO, 2010b).

As shown in Figure 6.2 it has been estimated by the Food and Agriculture Organisation (FAO) in the report "*Food Security in Africa: Market and Trade Policy for Staple Foods in Eastern and Southern Africa"* that Cargill and Louis Dreyfus both foreign owned firms make up 70 per cent of the South African grain trading market. Both are foreign-owned firms and yet they have a significant influence on the local grain markets. The remaining 30 per cent of the market is made up of local independent trading firms, banks and silo-associated traders that are described below (FAO, 2010b).

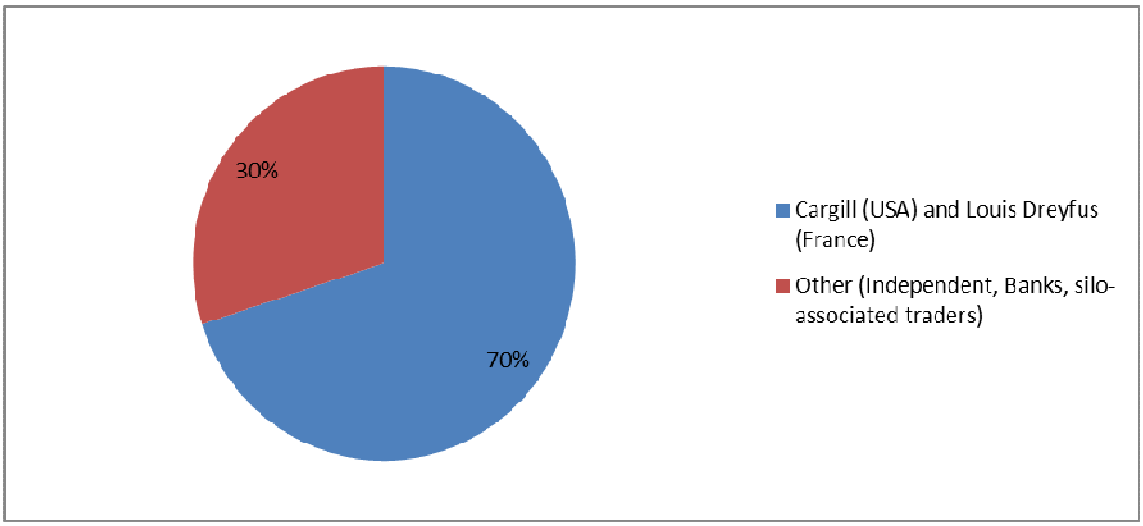


**Figure 6.2: The South African grain trading and brokering market share**

### 6.3.2 The South African grain silo industry

Silo ownership is another form in which companies of all sizes play a significant part in the grain industry. Total grain storage capacity in South Africa is estimated to be approximately 17.5 million tons.

The regional composition of this total is as follows:

- 14.5 million tons or 82.8 per cent in the north of the country
- 970 000 tons or 5.5 per cent in the south
- 2.1 million tons or 12 per cent at the harbours and with private owners

The three most northern companies, Afgri (the former OTK co-operative), Senwes and Noordwes (NWK) own 70 per cent of the silo storage in South Africa (National Agricultural Marketing Council, 2009).

Afgri was a listed company on the Johannesburg Stock Exchange (JSE) and has diversified into a number of different agricultural sectors. The company has significant grain handling and storage infrastructure, with 65 grain silos with a total storage capacity of more than 4.5 million tons, equating to 45 per cent of the grain storage market (Sherry, 2013). Afgri was a firm owned by shareholders on the JSE, but at the end of 2013 the firm was bought for R2.6 billion by AgriGroupe Holdings with plans to delist the company. AgriGroupe Holdings is made up of a US consortium of investors and wealthy individuals, 70 per cent of which are from North America (*Business Day*, 2013). This type of deal at the time of writing indicates that there is significant interest in South African agribusinesses from foreign investors, especially ones like Afgri with a solid local and regional platform to build from.

**Box 4: The South African Co-operative turned agribusiness**

Afgri (the former OTK co-operative), provides financial and insurance services to farmers and businesses within the agriculture value chain. Afgri also produces animal feed from three mills for the livestock and dairy industry. The company owns a cotton, sunflower and soya bean-crushing and oil extraction plant producing high-protein textured vegetable products for the food and animal feed industries. Afgri also owns a vertically integrated poultry production business from Afgri Poultry, producing day-old broiler chicks through to retail under their "Daybreak Superior" brand. 19 per cent of the animal feed produced by Afgri Animal Feeds production is utilised by Afgri Poultry. Under their Afgri Agri Services section the company operates retail and equipment as well as grain management. Afgri has operations in divisions located not only in South Africa but also in Western Australia, Zambia, Zimbabwe, the Republic of Congo, Ghana, Botswana, Namibia, Uganda, Nigeria, Swaziland and Mozambique.

Senwes is the next large co-operative turned agribusiness that has grown significantly in various sectors. Not as diversified as Afgri, it is still one of the larger agribusinesses in South Africa. The company's core business is the provision of inputs for agricultural production, market access for grain producers and logistics, financial and technical services. The company has significant storage and grain handling infrastructure as its silo capacity is 4.6 million tons, which constitutes 25 per cent of the total commercial storage capacity in South Africa (Senwes, 2013).

On 2 September 2011 the South African Competitions Commission approved the joint venture agreement between Senwes and the multinational grain trader Bunge. The joint venture company called Bunge Senwes Proprietary Ltd was formed, with each party owning 50 per cent of the entity (ACB, 2011). Bunge, originating from Europe in 1895, is now a Bermudan food corporation which has grown to become one of the world's largest agribusinesses. The current operations of the joint venture company are international trading of wheat, yellow maize and oilseeds. One of Senwes Bunge's main objectives is to develop grain and oilseed operations in South Africa that will supply the domestic market as well as export to Africa.

Finally, the third-biggest player in the South African grain storage market is NWK (Noord Wes Koöperasie). This agribusiness, like the other two, started off as a co-

operative and through the deregulation process became a fully-fledged private company. NWK is a private entity and is 58.3 per cent owned by NWK Holdings Limited, which is an unlisted investment company registered in South Africa (NWK, 2013).

**Table 6.2: The structure of the South African silo storage industry**

| Grain Storage Industry | Market Share % | Foreign Ownership % | Majority Shareholder | Country |
|---|---|---|---|---|
| Afgri | 26 | 100 | AgriGroupe | USA |
| NWK | 19 | | NWK Holdings Limited | South Africa |
| Senwes | 25 | | Senwesbel | South Africa |
| Other | 30 | | | South Africa |

Table 6.2 and Figure 6.3 show the three largest agribusinesses in the grain storage market. Some of the leading global agribusinesses and investors have shown substantial interest in Afgri and Senwes. There was some resistance to AgriGroupe purchase of Afgri, by the African Farmers' Association of South Africa, which appealed to the government to stop the buyout (Gebhart, 2013). However with the transaction allowed to proceed, a foreign-owned firm will own and control 26 per cent of the South African grain storage market.

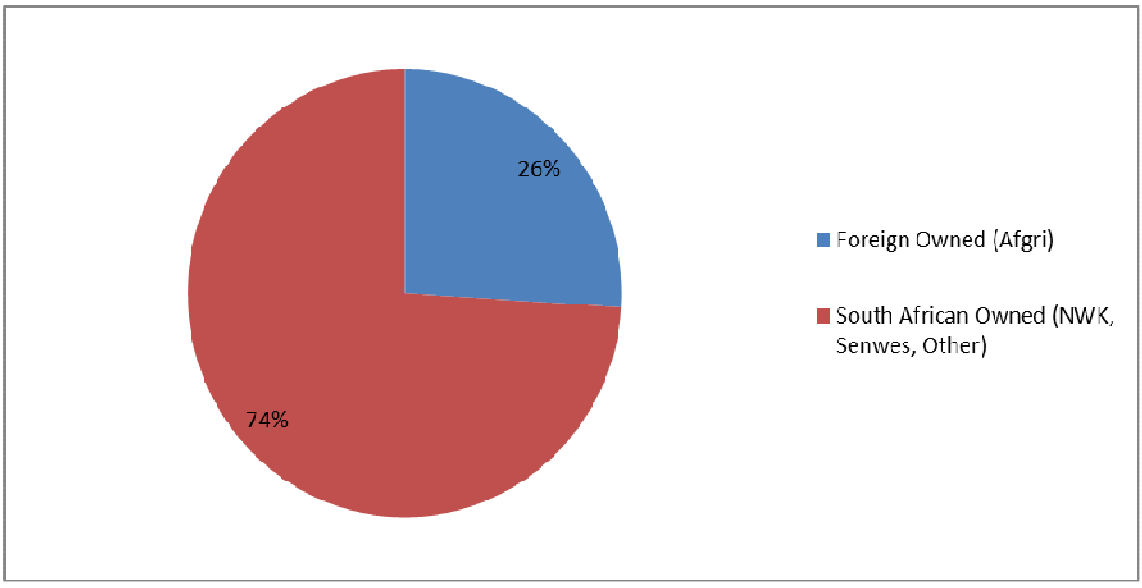


**Figure 6.3: The South African grain storage market: local and foreign owned companies**

*Source: Adapted from Department of Agriculture Forestry and Fisheries (2012)*

## 6.4 FOREIGN INVESTMENT IN THE SOUTH AFRICAN POULTRY INDUSTRY

According to the South African Poultry Association (SAPA) (2011), “The poultry industry is the largest agricultural sector in South Africa, contributing some 24 per cent of agricultural income in 2011.” The demand for poultry meat and eggs is increasing constantly as the population grows and living standards improve. This is proven in statistics from the Department of Agriculture, Forestry and Fisheries (2012), which states that “the per capita poultry meat consumed in South Africa increased from 19.7 kilogrammes per person in 2000 to 32.12 kilogrammes in 2011.” The broiler industry will be analysed in this section, as that is the most important industry within the poultry market.

The broiler industry is also a significant employer of 70 000 people directly and 375 000 people indirectly. Because the industry is dominated by highly intensive production, the feed requirements mean that it is the largest consumer of maize. The broiler industry consumes approximately 2.68 million tons of maize or 30 per cent of the maize consumed in South Africa. The industry also has linkages with peripheral businesses as well as businesses throughout the poultry value chain (South African Poultry Association, 2011).

The South African broiler meat market is relatively concentrated as it is dominated by two large producers, Rainbow and Astral Foods, which control over 50 per cent of the market share. The other four medium-sized poultry producers, Tydstroom, Country Bird, Chubby Chick and Daybreak, produce more than 400 000 broilers a week or 22 per cent of the market. The remaining smaller operations produce between 200 000 and 300 000 broilers a week for the market. But the three major companies discussed below with regards to their operations and ownership are Rainbow, Astral Foods and Country Bird Holdings.

As stated by Rainbow (2013), “Rainbow is South Africa’s largest processor and marketer of chicken.” The company is a vertically integrated producer that breeds and hatches its own stock, produces feed from its own mills, grows, processes and markets, and distributes the chicken meat in various forms to wholesalers, retailers

and fast-food franchises (Rainbow, 2013). Remgro owns 73.4 per cent of the company Rainbow Chicken Limited: therefore the South African investment firm is a major owner within the agricultural sector (Remgro, 2013).

Astral Foods is the second-biggest poultry meat producer in South Africa with a market share of 24 per cent. The company, like Rainbow, is a vertically integrated poultry meat producer, which owns a number of business units that contribute not only to Astral Foods' vertical integration system but also to the South African poultry and agricultural sector. The company is listed on the JSE and is majority owned by South African, public and institutional investors.

Country Bird Holdings (CBH) is the third -largest poultry producer in South Africa with 8 per cent market share. The company is an integrated poultry meat production company and has a number of business units which ensure this integration. CBH is listed on the JSE but the major shareholder is Synapp International Limited (Synapp). Synapp purchased approximately 3.3 million shares in 2009 to secure just over 65 per cent ownership of CBH. Synapp International Limited is, however, registered in the British Virgin Islands and is therefore considered a foreign investor (Country Bird Holdings, 2013).

**Table 6.3: The South African poultry industry**

| Poultry Industry | Market Share % | Foreign Ownership % | Majority Shareholder | Country |
|---|---|---|---|---|
| Rainbow Chicken | 26% | | Remgro | South Africa |
| Astral Foods | 24% | | Government employees pension fund | South Africa |
| Country Bird Holdings | 8% | 66.97% | Synapp International | British Virgin Islands |
| Tydstroom | 5% | | Pioneer Foods | South Africa |
| Daybreak Farms | 4% | 100% | Afgri (AgriGroupe) | USA |
| Others (small producers) | 33% | | | South Africa |

Figure 6.4 shows the South African poultry market share, which is dominated by the South African firms Rainbow and Astral Foods. But Country Bird Holdings as well as

Daybreak Farms form the foreign owned market share in the South African market which is calculated at 9 per cent.

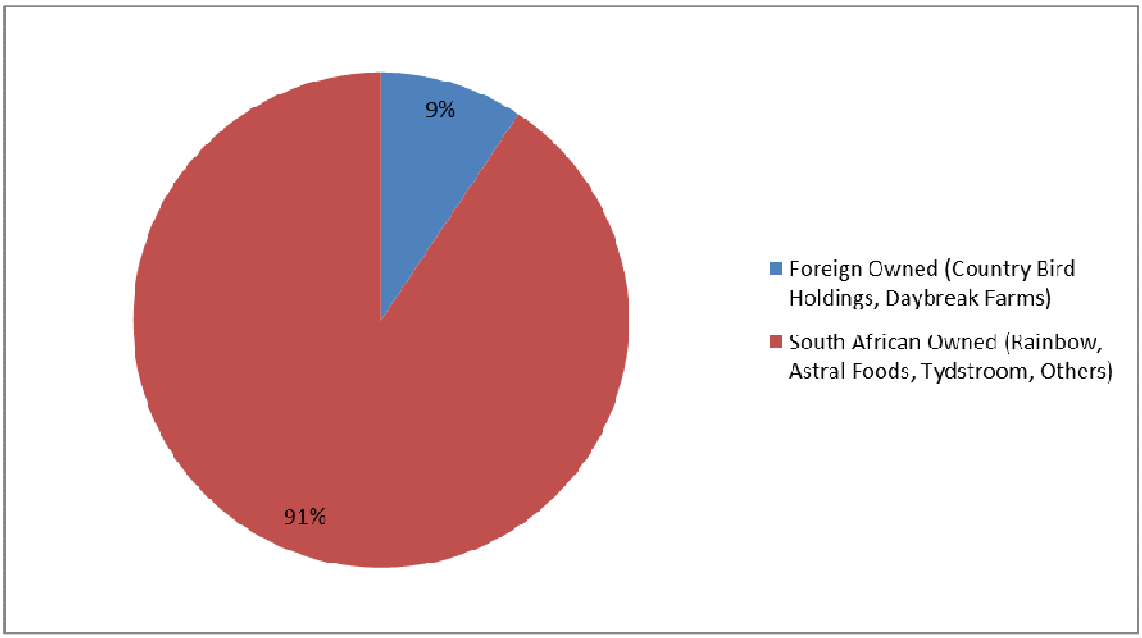


**Figure 6.4: The South African poultry meat industry: local and foreign influence on the market**

*Source: Adapted from the Department of Agriculture Forestry and Fisheries (2012)*

## 6.5 FOREIGN INVESTMENT IN THE SOUTH AFRICAN DAIRY-PROCESSING INDUSTRY

The South African dairy industry is unique in Southern Africa as it is the largest in the region, thanks to the fairly moderate climate of the country. But although South Africa's contribution to world milk production is very small at 0.5 per cent, it is regionally important because it is the fifth-largest agricultural industry in South Africa. However there are decreasing numbers of dairy farmers in South Africa due to significant production cost increases and low milk prices paid by the highly concentrated milk processing industry. According to Cutts and Kirsten (2006), "there are about 13 milk buyers, of which the largest four, process roughly 65 per cent of the total commercial milk delivered to dairies." Therefore the South African dairy farmer sells milk in an oligopolistic market. The dairy industry is divided into 60 per cent liquid and 40 per cent concentrated products.

The primary dairy production industry employs approximately 60 000 farm workers. Jobs created in the dairy processing value chain are approximately 40 000.

**Table 6.4: Regional market share for raw milk procurement by major milk processors in South Africa**

| | Dairy Processors | | | | | | |
|---|---|---|---|---|---|---|---|
| **Province** | **Ladismith Cheese %** | **Dairybelle %** | **Woodlands Dairies %** | **Parmalat %** | **Clover %** | **Nestlé %** | **Other %** |
| Western Cape | | 32.1 | | 30.1 | | 11.5 | 26.4 |
| Eastern Cape | | | 9.9 | 27.8 | 29.2 | 26.4 | 5.1 |
| KwaZulu-Natal | | 3.6 | | | 78.1 | 11.5 | 7.1 |
| Free State | | | 9.3 | | | 68.3 | 19.5 |
| North West | | 50.5 | | | 36.6 | | 13.1 |
| Mpumalanga | | | | | 77.3 | | 22.9 |
| Southern Cape | 10.9 | | 47.3 | | 27.8 | | 13.9 |

*Source: Bandama (2011)*

**Table 6.5: South African dairy processors market share**

| Dairy Industry (Milk Processors) | Market Share % | Foreign Ownership % | Majority Shareholder | Country |
|---|---|---|---|---|
| Clover | 31.51 | | Multiple institutions | South Africa |
| Parmalat | 14.80 | 100 | Lactalis Group | France |
| Nestle | 21.08 | 100 | Nestle S.A. | Switzerland |
| Woodlands Dairies | 5.0 | | Gutsche Family Investments | South Africa |
| Dairy-belle | 12.06 | | Standard Bank/Dairy World SA | South Africa |
| Ladismith Cheese | 0.33 | | | South Africa |
| Other | 15.22 | | | South Africa |

*Source: Adapted from Bandama (2011)*

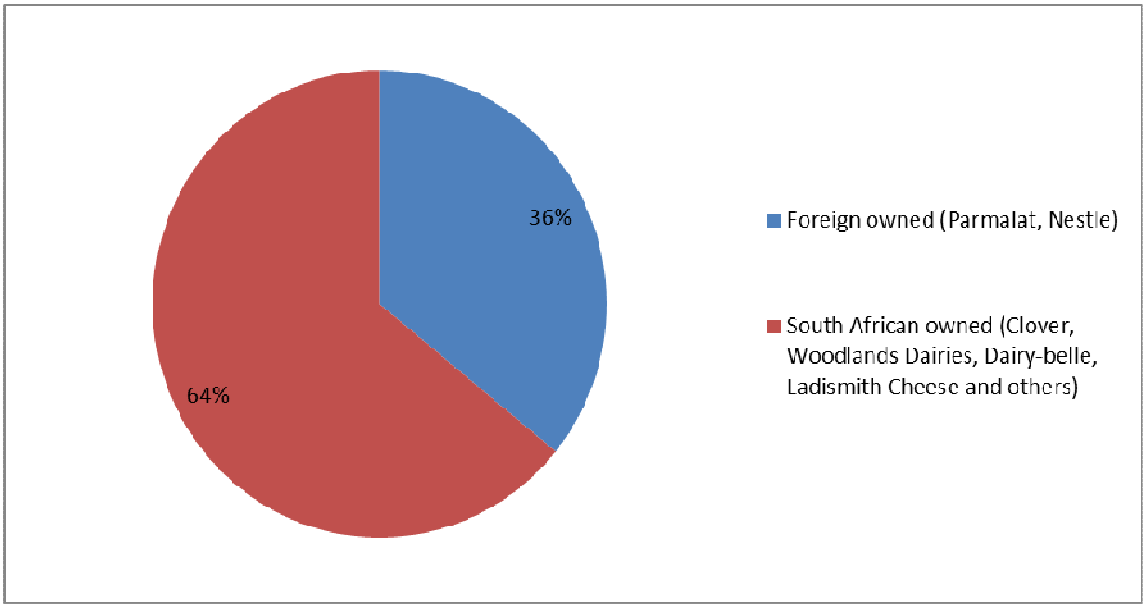


**Figure 6.5: The South African dairy industry: local and foreign influence on the market**

The market shares of the milk processors operating in the South African market can be seen in Table 6.4 and Table 6.5. The Table 6.4 above provides one with an insight into how within their localities certain processors are dominant, which not only squeezes out competition in the region but also gives the processor the ability to exercise excessive buyer power over the dairy farmers in that area. The three largest milk processors in South Africa, Clover, Parmalat and Nestlé all of which constitute the majority of the market will be discussed below. Figure 6.5 combines the data from the two tables above to indicate how much of the industry is actually owned by foreign firms. Parmalat and Nestle take approximately 36 per cent of the South African milk processing market. The remaining processors are South African-owned and are focused in their particular region of the country (Bandama, 2011).

Clover Group of Companies is the largest processor of milk in South Africa. It procures and processes approximately 30 per cent of the milk produced. Clover processes milk in 17 factories and distributes through one of the largest chilled and ambient distribution networks in South Africa to 30 depots (Bandama, 2011). Clover shareholders are mainly South African and they constitute milk producers, staff, directors of Clover, individuals and a number of South Africa's institutional investors (Clover, 2013).

However, Clover is receiving more interest from international institutions for investment and the company formed a joint venture with Fonterra Co-operative Group (Fonterra) of New Zealand in 2005. The joint venture is structured so that Clover Industries (Pty) Ltd owns 51 per cent and Fonterra owns 49 per cent. The joint venture aims to market and supply bulk dairy ingredients and food service products to the food industry throughout the sub-Saharan region (Clover, 2013). Fonterra is one of the largest dairy manufacturing and exporting companies in the world and is cooperatively owned by New Zealand dairy farmers (Moir, 2011).

Parmalat is the second-largest procurer and processor of milk in South Africa, taking 15 per cent of the market. As shown in Table 6.4 Parmalat is dominant in the Western and Eastern Cape, which are two of the highest-milk-producing provinces. Parmalat SA (Pty) Ltd has been active in the South African dairy industry since 1998. Both Parmalat SA and Parmalat Africa, which includes Zambia, Botswana, Swaziland and Mozambique, form part of the multinational French dairy company Lactalis. Lactalis acquired the majority stake in Parmalat in 2011, which created the Lactalis Group (Parmalat, 2013).

Nestlé is one of the most famous brands in the world and is known for its variety of foods and beverages. Nestlé was established in 1866 and not long after that, in the 1870s, Nestlé products arrived in South Africa The Swiss company began to entrench itself in South Africa in July 1916 when it registered as a company in South Africa and began to acquire businesses such as the Condensed Milk Limited factory and the Estcourt and Franklin factories owned by Joseph Baynes Ltd. Nestlé South Africa continued to acquire and amalgamate with local factories and firms to extend its market share. One of the more recent acquisitions, of the partnership Dairymaid-Nestlé from Tiger Brands in 2002, has ensured its significant presence in the South African milk and dairy processing market. Nestle currently has 21 per cent of the South African milk processing market (Food and Beverage Reporter, 2013).

## 6.6 FOREIGN INVESTMENT IN THE GRAIN SEED INDUSTRY

In 2008/09 the South African seed industry recorded an annual turnover of approximately R2.5 billion. Seventy-four per cent of the turnover was generated from the summer and winter grain crops.

The remaining turnover contributions were:

- 16 per cent vegetable seed
- 9 per cent pasture/forage crops
- 1 per cent flower seed (Kirsten, Stander & Haankuku, 2010)

The South African seed industry has also recently become more concentrated due to mergers and acquisitions that have occurred over the last few years. As a result the local seed market consists of international seed companies which bring significant research and investment capabilities. The South African seed industry now consists of multinational seed companies such as Monsanto, Pannar and Sakata (Kirsten, Stander & Haankuku, 2010).

As it states on its website Monsanto (2013) moved into the South African seed industry “a few years ago with the acquisition of seed companies”. At that time the company managed to gain a 20 per cent market share in the all-important maize seed market, but today the company claims to have gained approximately 50 per cent of the maize market share. Monsanto has invested in significant research facilities around the globe and through its research has developed products that are suited and adapted to the South African environment. Monsanto’s parent company is based in the US and Europe (Monsanto, 2013).

The other big player in the South African seed industry, especially the grain market, is Pannar Seed (Pty) Ltd, which is a locally established, family-owned company situated in Greytown in KwaZulu-Natal. The company started in 1958 and was the first private company in South Africa to sell hybrid seed in the 1960s (Pannar, 2013). One of the most recent and highly publicised mergers occurred on 14 September

2012 when the US-based multinational seed company Pioneer Hi-Bred International Inc (Pioneer) and Pannar Seed (Pty) Ltd were given the go-ahead by the Competitions Commission, after a lengthy investigation and court proceedings by the Commission to ensure the merger would not be detrimental to stakeholders within the industry (Competition Commission, 2010).

Pioneer owns 80 per cent of the company Pannar, but Pannar retains its company brand in Africa as it is already well known, trusted and has established infrastructure. Along with this investment Pioneer has committed R62 million by the year 2017 to establish a regional research centre in South Africa. This will allow advanced breeding technologies and application of these technologies to be implemented in South Africa, as well as a further R20 million investment for the developing farmers of South Africa. Due to this merger the South African grain seed industry is highly concentrated, with two foreign-owned firms dominating approximately 90 per cent of the market (Kirsten & Gouse, 2002).

**Table 6.6: The South African grain seed industry**

| Grain Seed Industry | Market Share | Foreign Ownership | Majority Shareholder | Country |
|---|---|---|---|---|
| Monsanto | 50% | 100% | Monsanto | USA |
| Pannar | 40% | 80% | Pioneer | USA |
| Other | 10% | | | |

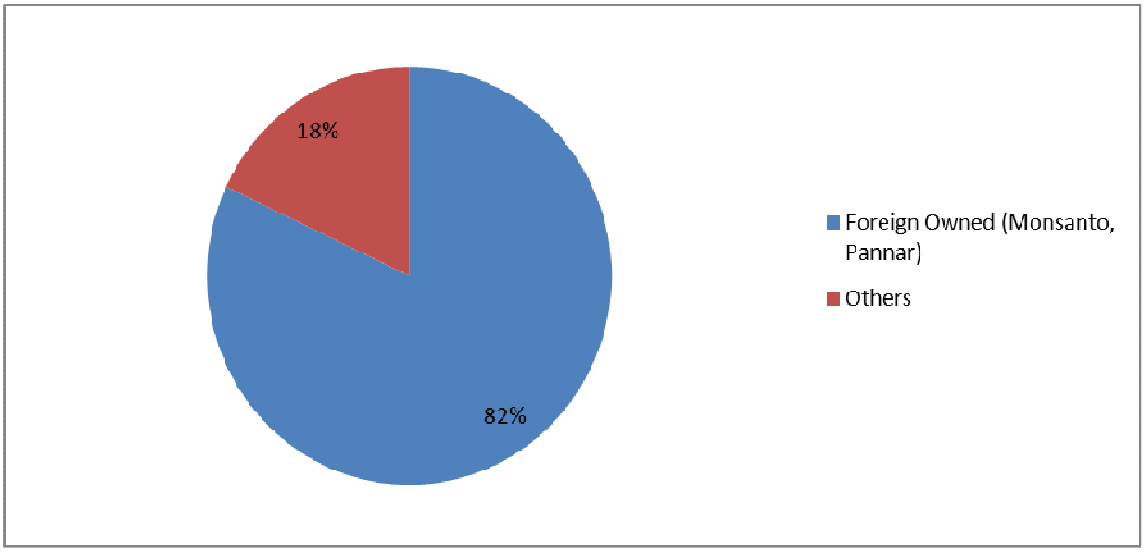


**Figure 6.6: The South African grain seed industry: local and foreign influence on the market**

## 6.7 REGULATORY FRAMEWORK FOR INVESTMENT IN SOUTH AFRICAN AGRIBUSINESS

Currently South Africa does not have a coherent policy framework for the regulation of cross-border direct investment in general or investment in particular sectors which may be regarded as strategic as stated by the National Treasury Discussion document (2011). Up until recently the statement has been the status quo for the South African regulation of FDI. Certain aspects of FDI have been taken care of by statutory bodies such as the Competitions Commission. Mergers and acquisitions in South Africa must be screened and approved by the Commission. There is no distinction between foreign and domestic mergers under the Competition Act. Only mergers above the monetary threshold require approval. The Commission considers, as it did with the Pioneer and Pannar merger, whether there will be a negative impact on competition and whether the merger may proceed based on public interest and wellbeing (National Treasury, 2011).

There are no general regulations for inflows and outflows of foreign capital under the exchange controls. However there are sectorial regulations in place which affect foreign entry and ownership. These regulations include licensing or similar

requirements that will be reviewed by the responsible minister for the sake of public interest. Regulations within a particular sector generally apply to both domestic and foreign investors. The sector regulations also provide for the consideration of public interest issues that may arise when foreign ownership is proposed. This regulatory framework is the current system, to which both foreign and domestic investors are subject. The South African Treasury reviewed the current policy in 2011; the Cabinet has recently approved the publication of the draft Promotion and Protection of Investment Bill and released it on 24 October 2013 for public comment.

The Promotion and Protection of Investment Bill looks to provide a comprehensive legal framework for investments and addresses legal protection of all investors based on the Constitution of South Africa. With the release of the Bill, the South African government intends to make South Africa an attractive place for domestic and foreign investment. However there has been significant criticism of the Bill and its potential effect on the agricultural economy.

## 6.8 SUMMARY

South Africa has an open, free-market economy and at this stage there are no substantial regulations covering the inflow or outflow of foreign investment. The South African agribusiness sector managed to grow for many years under a regulated marketing and monetary policy system, which meant, on the one hand, that the inputs and markets were certain and on the other limited foreign investment in the sector. However in this protectionist environment in which South African agriculture remained until the 1990s, agribusinesses built solid local bases. When the market opened up with deregulation in 1996, the larger South African agribusinesses grew exponentially to become some of the largest on the continent. This growth from 1996 to 2013 created some serious interest from foreign investors, which is increasing with the number of transactions occurring at present. As stated by Kirsten and Vink (2000): “it is obvious that investors will not invest in South African agriculture if they perceive the risk of investment in the country in general to be too high. By the same token, even if there is enough investor confidence in the country, the agricultural sector will only attract investment if it is profitable. Thus, an increase in investment in

agriculture could be ascribed to general investor confidence as well as to the deregulation process."

Foreign investment in the South African agribusiness sector is growing, as one can see from five of the major industries described in this chapter. Many of the companies and investors investing or merging with South African firms, such as Illovo, Afgri, Senwes and Pannar, view them as the gateway to the Africa continent for their multinational companies. This need for foreign firms to become established in Africa is based on the fact that many sub-Saharan African countries are growing at above 5 per cent per annum and their agricultural sectors still make a large portion of their GDP (International Monetary Fund, 2013). Making it easier for these foreign companies and investors is that many of the South African firms have already expanded into Africa as the South African market became highly competitive and saturated. The South African firms are therefore easier choices for investors looking for well-run, profit-making businesses that are highly experienced in Africa to expand their own business on the African continent.

# CHAPTER 7

## SUMMARY AND RECOMMENDATIONS

### 7.1 SUMMARY

Investigating foreign investment in South African agriculture is no mean feat, as was proved by the lack of clearly defined data on all the issues relating to the current state of foreign direct investment in the sector. The conclusions and recommendations below are drawn from the data grouped and presented in this dissertation and provide the basis for debate and further research on the topic.

The objectives of this dissertation were to investigate and present data from the three data sets that would give a clear view and understanding of the current state of foreign FDI and foreign ownership of the South African agriculture sector. A short review in chapter 2 of foreign investment and foreign land ownership policies in South Africa and abroad to identified the possible trends in policy making and compared the South African context to other countries. Supplementary data was uncovered to assist with the analysis, but mostly the three data sets were sufficient and were similar to the study in Australia (Moir, 2011). The dissertation uncovers the facts regarding FDI and foreign ownership in South African agriculture by using well-researched evidence. To ensure that there is a better understanding by the public, academia, politicians and policymakers of FDI and foreign ownership figures and trends in South Africa.

First, an overview of the current FDI and agricultural land ownership trend was given in order to put the study into the broader global context. This context is provided by Cotula *et al.* (2009): “over the past decade, economic liberalisation, the globalisation of transport and communications, and the global demand for food, energy and commodities have fostered foreign investment in many parts of Africa – particularly in extractive industries and in agriculture for food and fuel.” This context was then narrowed down to the South African level; with its highly developed market environment compared to the rest of Africa, South Africa is seen by many as the

gateway to the African economies. However, as authors such as Arvanitis (2005) and others indicate, foreign investment in the country (although it has grown since the democratic changeover in 1994) still does not compete with other nations in a similar developmental state.

The South African governments' current and new policies on land and foreign investment were briefly reviewed along with 5 other countries land and investment policies. Regulation and policy on foreign land ownership has been in the spotlight for the last two years, with the release of the Green Paper on Land Reform for public comment. Although foreign ownership of agricultural land is rather insignificant, the issue of foreign ownership contributing to the land reform objectives has been raised. The recent rhetoric concerning the Green Paper on Land Reform, which originally kept the foreign ownership of land under freehold tenure but with conditions and obligations, is now threatened with a change to leasehold tenure. The final decision on this is still uncertain, but it will again create investor nervousness. Other countries such as New Zealand and Brazil limit foreign land ownership, but these policies are well known and have been in place for a long time. South Africa is within its rights to change its policies and move with Argentina onto a more restrictive path, but this must be clearly laid out and quantifiable. Investor confidence will be destroyed if the South African government continues with a directionless and incoherent policy framework. Investors will invest when they know where and what the boundaries are.

The literature analysis created the necessary background for the investigation. Results from the SARB data indicated that, of the major sectors within the South African economy, the Agriculture, Forestry and Fisheries sector receives proportionately the least FDI inflows. This is in all likelihood due to the already highly established and commercialised agricultural sector in South Africa. Other sectors such as Mining, Manufacturing and Services receive much more FDI inflow and therefore are growing at a greater pace. However direct investment in agriculture, which makes up most of the FDI inflow, is in an upward trend. This indicates that although the FDI in the sector is coming off a very low base there is a strong positive upward trend. The literature also indicates that most of the foreign investment flows in South African agriculture are portfolio flows; however, the data indicates that this is not the case and in fact the direct investment component made up the majority of the

FDI investment stocks and flows recorded by the SARB. The analysis did reveal a clear reversal in trends from 2005 onwards, where long-term capital investments started decreasing but were replaced by short-term capital and reinvested earnings which increased from 2005 onwards. This change in business attitude reflects the local market and economic uncertainty and therefore a shift away from long-term commitments to short-term commitments. The upward trend from 2005 onwards of using reinvested earnings by the local investments indicates that these investments are self-sufficient and foreign businesses would rather use local earnings. Over time the business aptitude for risk in the South African environment changed and investors or firms investing in South African Agriculture Forestry and Fisheries began to focus on the short term rather than invest for the long term.

The fourth objective is covered in Chapter 5, which investigated foreign land ownership in the agricultural sector. This data, although relatively old remains the most comprehensive study of foreign ownership of land in South Africa. The results that were analysed indicated that individual foreign owners of land in South Africa prefer residential land, both Erf and Sectional Title properties, to Farms and Agricultural Holdings. The analysis also confirms that foreigners prefer smaller areas of high-value land and therefore are more likely to buy land in the more sought-after areas of South Africa than in the agricultural hinterland. Although the data indicates that the total area owned by foreigners is greater in the Farm and Agricultural Holding categories, this is based purely on the fact that greater areas are needed for agriculture in South Africa as it is mostly an arid country. In terms of the overall South African land area, individual foreign ownership of land in South Africa is less than 1 per cent of the total land mass. The results gained from the PEFOL report are in line with other studies that have been completed more recently, such as the Free State Agriculture Land Audit. In the Free State, known as the agricultural heartland of South Africa, foreign ownership accounts for less than 1 per cent of the land. This again shows the preference of foreigners to purchase land in residential areas or to acquire smaller areas of highly productive agricultural land. In this period in South Africa's history, where the need to know "who owns what land" is vitally important for policy direction, the Free State Agriculture's Land Audit proves that a comprehensive land audit on a large scale can be achieved in South Africa. There is therefore no

compelling evidence in the data that warrants significant limitations on foreigners owning agricultural land in South Africa.

In Chapter 6 the researcher analysed the foreign ownership of agribusinesses operating in five industries of the agricultural sector. These industries are the five biggest in the sector and are influential in local and regional markets. Understanding which companies are owned by foreign entities provides an idea of how foreign companies expand in the Southern African market and which South African companies are being acquired by the large multinational corporations. It was found that at least one of the larger entities operating in the South African market within their respective agricultural industry is a foreign owned entity. In some industries such as dairy and grain seed, more than one of the major companies acting in those particular markets are foreign-owned, and the grain trading market is entirely dominated in terms of market share by foreign-owned firms.

Some of these investments have occurred as recently as November 2013 in the case of Afgri being bought by the American consortium AgriGroupe. These investments in South African agribusinesses may give the foreign company a larger more efficient operation on the African continent as well as providing access to South African and African markets for its products. Foreign-owned agribusiness will bring additional brands, new suppliers and, in the case of the Du Pont-Pioneer merger with Pannar, greater access and funding for technology and research. On the other hand a negative effect of greater foreign ownership, due to mergers and acquisitions of already small oligopoly markets such as the five industries analysed, is lower competition between agribusinesses. Low competition between firms will have a negative knock-on effect in terms of low prices to farmers and higher prices to consumers. Not only this, but highly concentrated industries will increase the barriers to entry, resulting in fewer smaller firms entering the market and fewer employment opportunities.

The need for an improved regulatory framework to ensure investments are beneficial to the industry and the economy as a whole is crucial. The South African Competition Commission is the only statutory body providing this type of assessment. The Protection and Promotion of Investment Bill is another attempt at gearing the South

African investment climate to be more in favour of the South African government's development objective; however, analysts fear that it may do more to scare off investors. This is because the original legal protection of investors and their investments has changed to a situation where expropriation may occur, not at full market value but a "fair and equitable" value.

Finally the study set out to achieve certain objectives which are summarised below.

- The investigation into FDI stocks and flows in the South African agriculture sector revealed the changing business strategies form 2005 onwards from direct equity and long term investments to reinvested earnings or shorter term investments or loans.
- The investigation into the foreign ownership of South African agricultural land, revealed that foreigners are more interested in residential land than farm land and that foreigners own less than 1 percent of South African land.
- Foreign ownership in South African agribusinesses is significant as shown in the industries analysed at least one company with significant market share is foreign owned. In some markets such as the grains seed market a monopolistic market has occurred with two foreign owned companies occupying 90 per cent of the market.
- South African foreign investment and land policy is yet to be finalised but the Promotion and Protection of Investment Bill and the Green Paper on Land Reform have created significant uncertainty for foreign investors, particularly in terms of land ownership and the expropriation of assets and the compensation thereof.
- The five countries land and investment policies that were briefly analysed in the literature review provided a picture of how upper and middle income countries deal with foreign investment into land and agriculture. Some are more restrictive than others however all have put the necessary measures in place to either restrict foreign ownership to a certain degree or monitor it closely.

## 7.2 THE RECOMMENDATIONS

Therefore the objectives of the study were met. The major data sets that contribute to the overall picture of FDI in the South African agriculture sector were presented. The results are difficult to synthesise as they are quite different in their makeup but the sector receives the least FDI compared to others and less than 1 per cent of the agricultural land in South Africa is owned by foreigners. Although small, the major investments in the sector have been direct investments into agribusiness of which South Africa has a few very strong businesses. Investors then would rather invest in an already well-established business with potential growth into Africa such as Afgri, Illovo etc. than directly into South African agricultural land and start-up agribusinesses due to the poor policy environment. Foreign agricultural land ownership is rather insignificant but government policies are not clear cut to encourage greater investment into agricultural land. This is indicative of the policy paralysis South Africa faces at present. Therefore FDI in South African agriculture remains very low and is unlikely to reach the levels seen in other developing countries. But due to its history and strong but saturated base to work from in South Africa one can see that some foreign investors are using South African agribusiness as springboard into opportunities for real growth in Africa.

This study is the starting point for further analysis of foreign investment and ownership in the South African agricultural sector. The most important feature of this study is the lack of up-to-date data over time of FDI stocks and flows and of foreign land ownership. The emphasis of this recommendation is for the potential regulatory frameworks proposed by the Green Paper on Land Reform to perform the task of recording foreign land ownership or creating the means for the Deeds Registry to capture this data over time to assist in making informed and pragmatic policy decisions. In the meantime land audits can be conducted at a provincial level, as was the case with the successful Free State audit. These provincial audits provide an overall insight into foreign ownership trends.

Policy makers should be encouraged to look into the changing attitudes of investors from longer term investment allocations to shorter term investments. This has a negative effect on potentially new investors as well as creates a feeling of uncertainty

in the sector. Policy makers need to implement a coherent sustainable investment policy ensuring that land ownership is clearly defined as well as other conditions investors must adhere to before investing. These “laws of the game” create improved sentiment among investors that they are going to benefit from their investments.

Future studies need to look in depth at FDI stocks and flows in the Agriculture Forestry and Fisheries data and analyse trends over time. Studies can also be conducted on foreign ownership of the agribusiness sector in greater detail, as the South African market is receiving greater interest as a base for foreign entities to move into the high-yielding African markets. This trend needs to be analysed and reported. These are topical and current studies which would dramatically improve the current low level of understanding of South Africa’s role in the phenomenon of foreign investment in African agriculture. South Africa’s socioeconomic situation has also led the policy makers into some significant ideological battles between the benefits of foreign investment and the development of the local market and people. In terms of foreign investment in South African agriculture, one needs a great deal of up-to-date research on the topic to create coherent and applicable policy.

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