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AGRICULTURE, AQUACULTURE & FISHING SECTOR ALERT

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Smart farming: Embracing the digital evolution in agriculture

A number of sectors have seen significant changes to the way they do business as a result of the increasing prevalence of smart technology and innovation, and the agricultural sector is no exception. Examples of agricultural technology (also referred to as "AgriTech", "precision agriculture" or "smart farming") include the use of technology to monitor and adapt the relationship between farming inputs and outputs to, among other things, combat climate change, reduce the use of pesticides and fertilizers, improve food quality, reduce the cost of production and make optimal use of resources while maintaining or increasing expected yields.



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Smart farming: Embracing the digital evolution in agriculture

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In South Africa, the commercial use of AgriTech has generally been seen by way of GPS-enabled tractors. Several industry players are also developing solutions aided by advances in drone, satellite and information communication technology and the Internet of Things. In spite of the COVID-19 pandemic, AgriTech companies in Africa enjoyed a prosperous 2020, with projected numbers and capital inflows on the rise. In South Africa, a company specialising in the development of precision farming technology recently raised US\$17 million. The company uses artificial intelligence, drones and other robotics to track and assess the health of crops. A local cannabidiol (also known as "CBD") company also concluded a recent merger with an investment company, in a deal that will see the combined company valued at approximately R650 million.

There are many examples across the globe in which the use of AgriTech has demonstrated its potential to help the agricultural sector implement sustainable farming practices, including:

- The use of GPS-based applications using digital mapping technology which assists farmers to survey their fields, analyse soils, navigate tractors, monitor growing crops and assemble accurate data on yields. Modern GPS systems could also make it possible to continue with farming activities in darkness and during poor weather.
- Drones and satellites which collect aerial information to gather data on climate and vegetation, and help with stock monitoring issues.
- Smart hydroponics, which uses mineral nutrient solutions to replace soil, is another smart farming method that has the potential to minimise inputs while maximising yields.

Because of the increase in access to information and intelligence that AgriTech would make available to farmers, farmers would be able to make more informed decisions around not just production, but also access to markets, new developments and investment opportunities.

The role of regulation

AgriTech is not extensively regulated in South Africa and there are currently no restrictions on the introduction or use of AgriTech in South Africa. Instead, there is growing encouragement for such technologies to be integrated in the agricultural sector. This is evidenced by the Draft Climate Smart Agriculture Strategic Framework published by the Minister of Agriculture, Forestry and Fisheries in 2018. The Draft Framework outlined the need to integrate AgriTech into farming practices.

Smart farming: Embracing the digital evolution in agriculture...*continued*

The combination of an investor-friendly landscape and increasing advances in the smart technology underpinning AgriTech is setting the scene for this sector to continue growing.

During the 2021 State of the Nation Address, South Africa's President also noted that, over the next five years, the Government intends to reduce reliance on imports by 20%, largely in the manufacturing and agriculture sectors. To achieve this goal, serious consideration should be given to integrating AgriTech solutions into agricultural practices to increase efficiency. This move could create more investment opportunities into the agricultural sector and pave the way for the development of further AgriTech solutions.

Industry stakeholders have, however, raised concerns regarding ongoing land reform policies and the effect these could have on the industry and investors' appetite. There is no present restriction on the acquisition of land, including agricultural land, in South Africa by a foreign party or by a South African resident. However, the new Regulation of Agricultural Land Holdings Bill may change this, in that foreign nationals and legal entities will no longer be able to acquire agricultural land in South Africa, subject to certain exceptions.

The move towards creating an investor-friendly landscape in South Africa is supported by the Exchange Control Circular 1/2021 (Circular) published by the South African Reserve Bank in 2021. This Circular relaxes the restriction in respect of loop structures, which are structures that

provide for the formation by a South African resident of an offshore structure which, by reinvestment into South Africa, acquires an interest in a South African resident company or asset. In terms of the Circular, the loop structure prohibition applicable to South African residents, which allowed them to hold a maximum of 40% interest collectively with other South African residents in an offshore entity, will no longer apply. This means they can now invest more freely in South Africa, provided that where South African assets are acquired through an offshore structure (loop structure), the investment is reported to an Authorised Dealer of the Reserve Bank's Financial Surveillance Department. This change in the regulatory landscape can increase investment in the development of AgriTech and the agricultural sector at large.

The combination of an investor-friendly landscape and increasing advances in the smart technology underpinning AgriTech is setting the scene for this sector to continue growing. However, for AgriTech to truly come to fruition in South Africa, it will require dedicated buy-in from not only investors and the farming community, but also regulators and government stakeholders.

Christoff Pienaar, Lee Shacksnovis and Mieke Vlok



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provide practical and commercial advice to help our clients in this sector achieve their business objectives, protect existing interests and maximise opportunities.

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OUR TEAM

For more information about our Agriculture, Aquaculture & Fishing Sector sector and services in South Africa and Kenya, please contact:



André de Lange
Sector Head
Director
Corporate & Commercial
T +27 (0)21 405 6165
E andre.delange@cdhlegal.com



Andries Le Grange
Director
Competition
T +27 (0)11 562 1092
E andries.legrange@cdhlegal.com



Verushca Pillay
Director
Corporate & Commercial
T +27 (0)11 562 1800
E verushca.pillay@cdhlegal.com



Emil Brincker
Practice Head
Director
Tax & Exchange Control
T +27 (0)11 562 1063
E emil.brincker@cdhlegal.com



Gillian Lumb
Director
Employment
T +27 (0)21 481 6315
E gillian.lumb@cdhlegal.com



Lucinde Rhoodie
Director
Dispute Resolution
T +27 (0)21 405 6080
E lucinde.rhodie@cdhlegal.com



Roy Barendse
Executive Consultant
Dispute Resolution
T +27 (0)21 405 6177
E roy.barendse@cdhlegal.com



Richard Marcus
Director
Dispute Resolution
T +27 (0)21 481 6396
E richard.marcus@cdhlegal.com



Belinda Scriba
Director
Dispute Resolution
T +27 (0)21 405 6139
E belinda.scriba@cdhlegal.com



Tobie Jordaan
Sector Head
Director
Business Rescue, Restructuring
& Insolvency
T +27 (0)11 562 1356
E tobie.jordaan@cdhlegal.com



Burton Meyer
Director
Dispute Resolution
T +27 (0)11 562 1056
E burton.meyer@cdhlegal.com



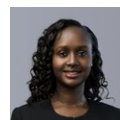
Roux van der Merwe
Director
Corporate & Commercial
T +27 (0)11 562 1199
E roux.vandermerwe@cdhlegal.com



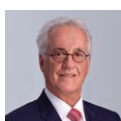
Johan Latsky
Executive Consultant
Corporate & Commercial
T +27 (0)11 562 1149
E johan.latsky@cdhlegal.com



Susan Meyer
Director
Competition
T +27 (0)21 481 6469
E susan.meyer@cdhlegal.com



Clarice Wambua
Partner | Kenya
T +254 731 086 649
+254 204 409 918
+254 710 560 114
E clarice.wambua@cdhlegal.com



Hugo Pienaar
Director
Employment
T +27 (0)11 562 1350
E hugo.pienaar@cdhlegal.com



Charl Williams
Director
Corporate & Commercial
T +27 (0)21 405 6037
E charl.williams@cdhlegal.com

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JOHANNESBURG

1 Protea Place, Sandton, Johannesburg, 2196. Private Bag X40, Benmore, 2010, South Africa. Dx 154 Randburg and Dx 42 Johannesburg.
T +27 (0)11 562 1000 F +27 (0)11 562 1111 E jhb@cdhlegal.com

CAPE TOWN

11 Buitengracht Street, Cape Town, 8001. PO Box 695, Cape Town, 8000, South Africa. Dx 5 Cape Town.
T +27 (0)21 481 6300 F +27 (0)21 481 6388 E ctn@cdhlegal.com

NAIROBI

CVS Plaza, Lenana Road, Nairobi, Kenya. PO Box 22602-00505, Nairobi, Kenya.
T +254 731 086 649 | +254 204 409 918 | +254 710 560 114 E cdhkenya@cdhlegal.com

STELLENBOSCH

14 Louw Street, Stellenbosch Central, Stellenbosch, 7600.
T +27 (0)21 481 6400 E cdh Stellenbosch@cdhlegal.com

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