

# SA agriculture in times of the pandemic

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Agbiz Information Day

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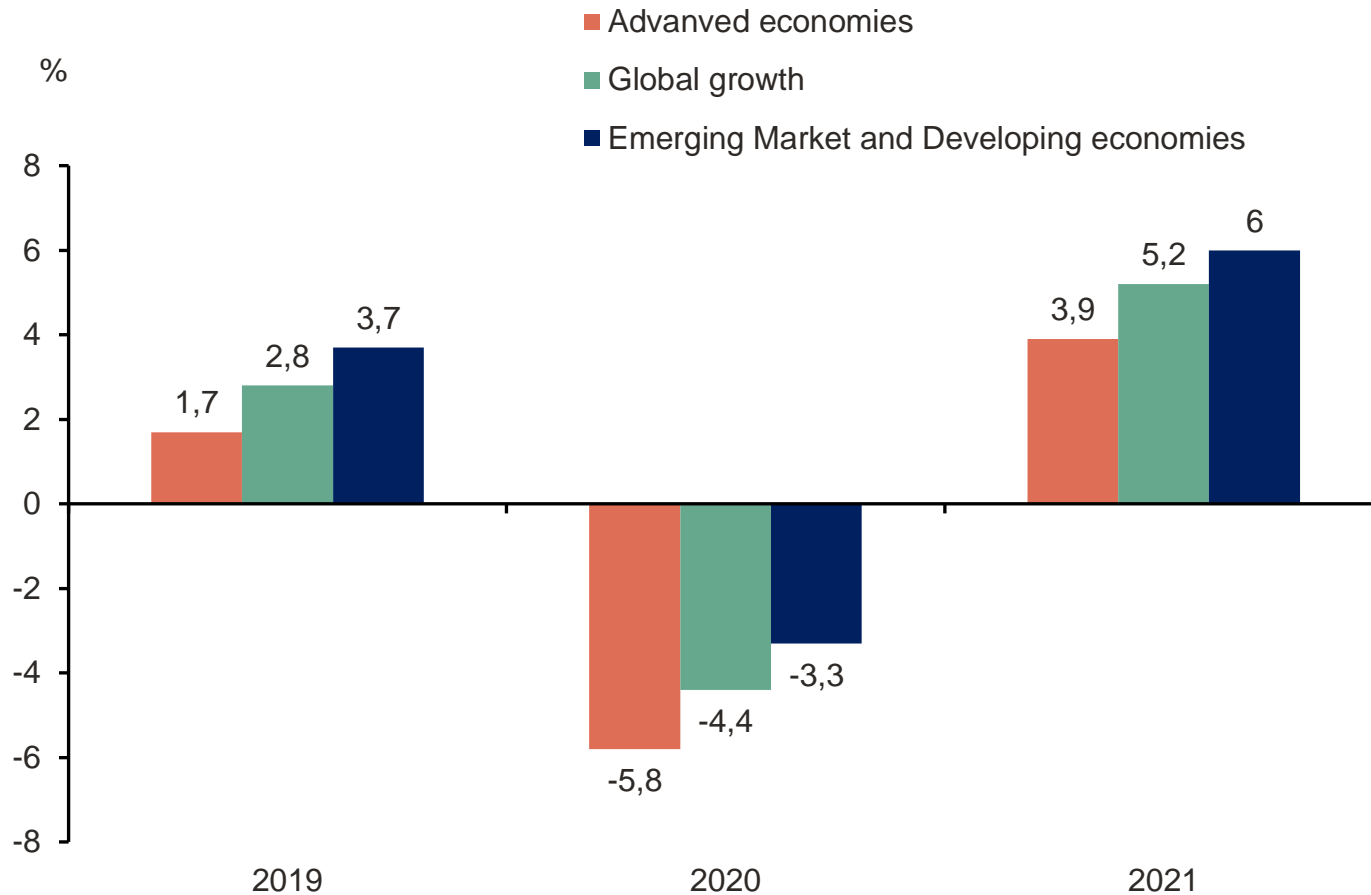


# Overview

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- Agriculture is not operating in a vacuum, so it's key that we reflect on the broader economy the sector is part of, which at the current juncture is set to contract, sharply, as a result of the COVID-19 pandemic
- South Africa's agriculture sector was largely insulated from the shock of the pandemic, except a few sub-sectors
- Government relief package was not well targeted to industries experiencing the pandemic shock, it was rather more developmental than responding to the shock
- South Africa's agriculture has the potential to contribute to economic growth in the coming years and there is work underway to outline how this process could unfold
- Land reform policy is very much part of the recovery thinking, but the approach could differ from what we are accustomed to

# Global economic prospects



**-3,0%**

## SUB-SAHARAN AFRICA

GDP in sub-Saharan Africa (SSA) is projected to contract 3,0% this year, from growth of 3,2% in 2019.

**-9,2%**

## WORLD MERCHANDISE TRADE

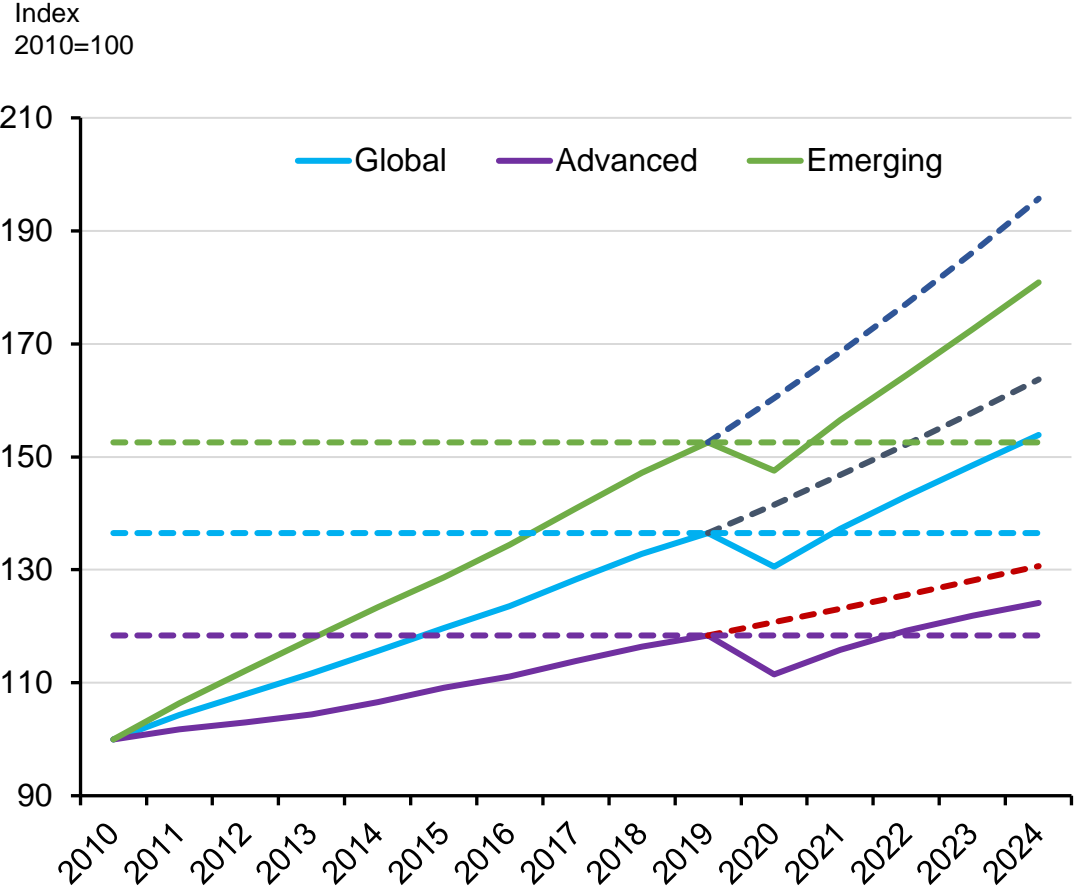
The World Trade Organisation (WTO) forecasts world merchandise trade to fall by 9,2% in 2020 due to the pandemic. There is an expected recovery of 7,2% in 2021

All South Africa's major trading partners are expected to take a severe knock from the pandemic this year:

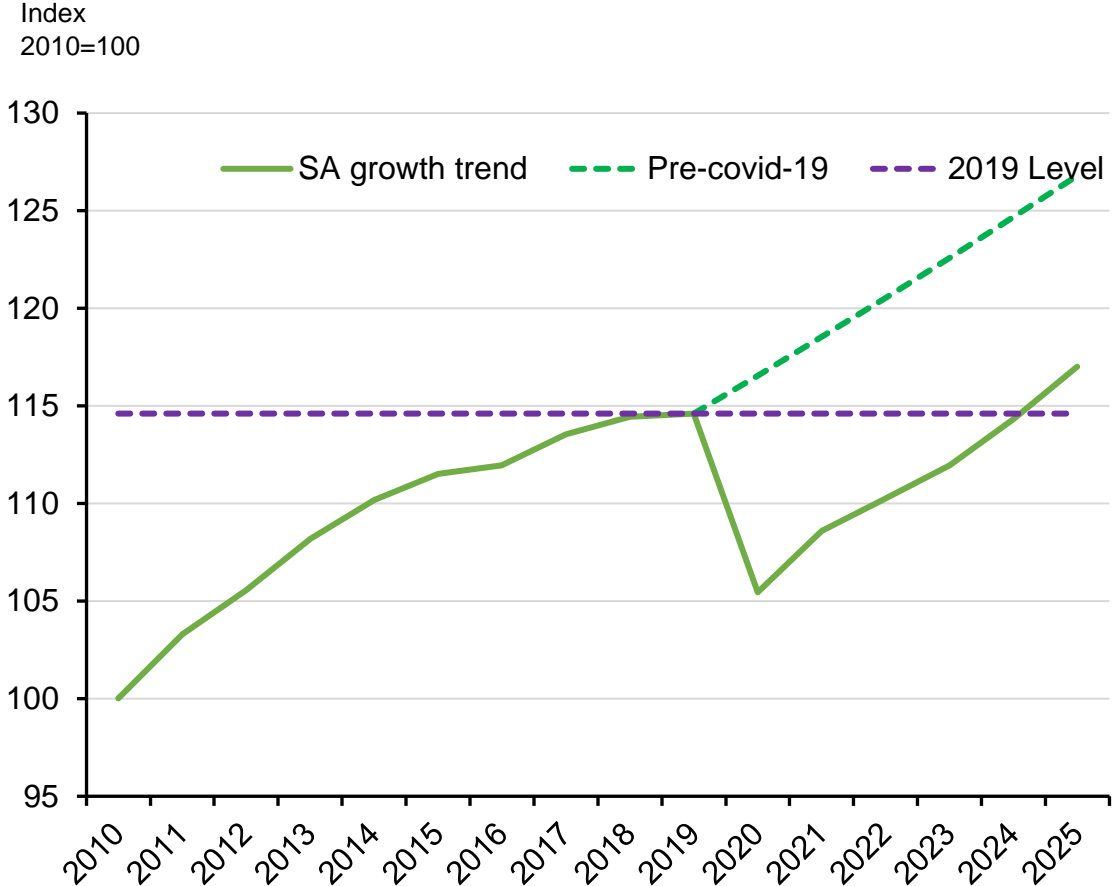
- With the euro area GDP expected to decline by -8,3% (from growth of 1,3% in 2019)
- China's GDP growth expected to slow sharply to 1,09% (from 6,1% in 2019)
- US GDP expected to contract by -4,3% (from 2,2% growth in 2019)
- UK GDP projected to contract by -9,8% (from 1,4% growth in 2019)
- and Japan's GDP projected to contract by -5,3% (from 0,7% growth in 2019).

# Global economic prospects

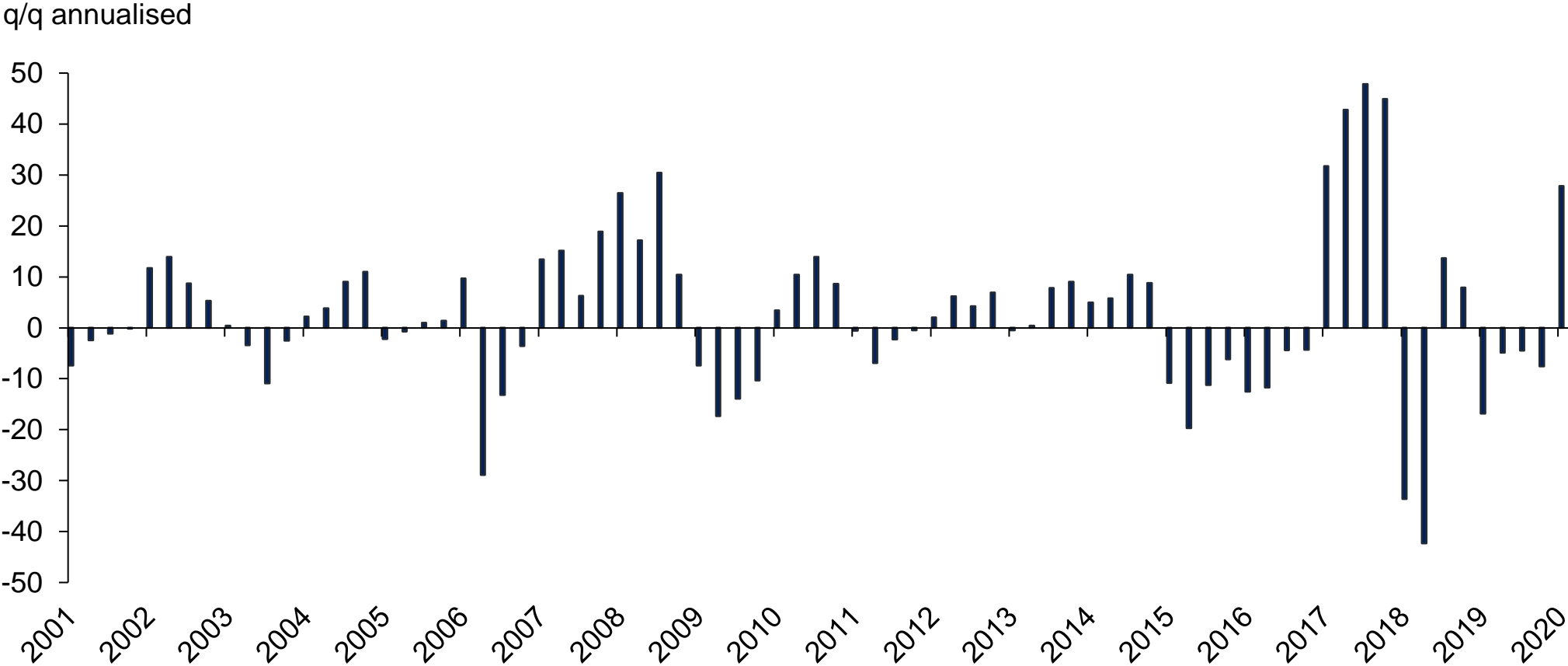
### Recovery path from the pandemic shock



### SA economic recovery path will be much slower than other Emerging Markets and Global Economy at large

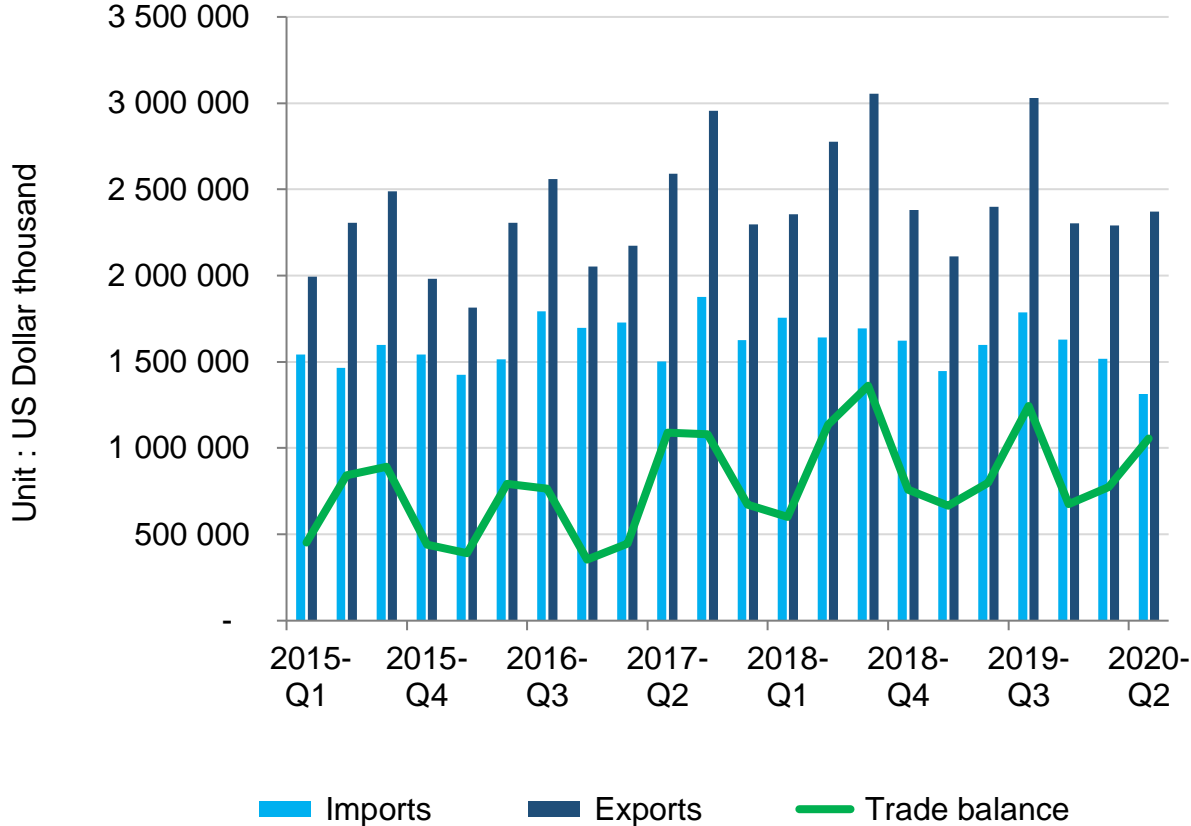


# But, SA farm economy remains on a firm footing and will be through to 2021

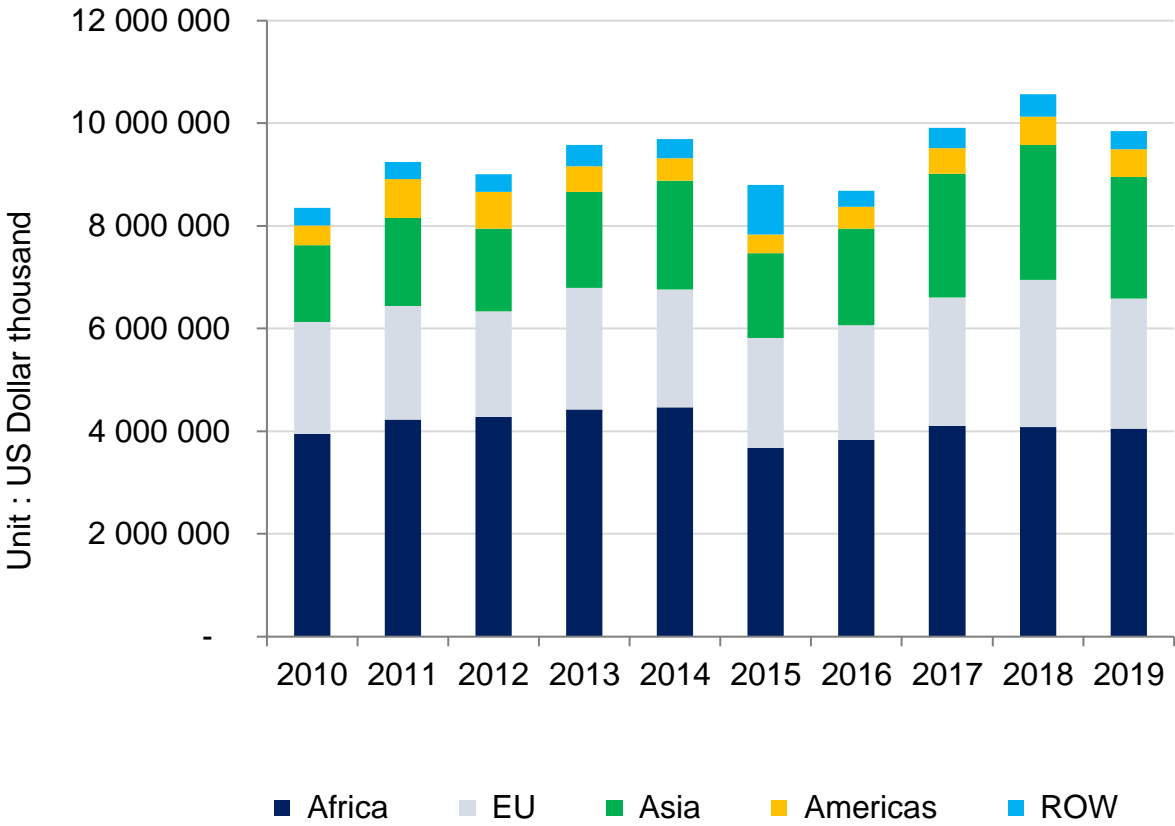


# SA's agricultural exports on solid footing

### SA agriculture exports, quarterly



### SA agriculture exports, by region



# What policy interventions have been implemented to support SA agriculture?

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- The South African Reserve Bank has swiftly cut interest rates by a cumulative 300 basis points year to date
  - For a sector that has a record debt of R187 billion, the relief that lower interest rates could bring is substantial.
  - If all the debt is on flexible interest rates, we estimate that the lower interest rates could bring savings in debt-service costs of roughly R5.6 billion for farmers over 12 months.
- The Department of Agriculture, Land Reform and Rural Development has ring-fenced R1.2 billion
  - This prioritizes the poultry sector, livestock and vegetables, amongst other agricultural commodities which will be selected on a case-by-case basis.
  - The farmers within the Proactive Land Acquisition Strategy programme are also included in this package.
- Our view
  - Overall, the recent policy interventions, specifically on interest rates, are a welcome relief on easing the financial conditions of the indebted farmers.
  - The financial support to small-scale farmers could have perhaps been designed differently to specifically target farmers that made losses as a result of the pandemic. The focus of the criteria seemed to focus more on development matters.

# Why do we say the agriculture relief fund wasn't well targeted?\*

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In the current event, there are three layers of economic impact during the period of crises:

1. The virus per se (negligible impact – only short-term supply disruptions);
2. the panic which translates in low business and consumer confidence (large impact); and
3. the lockdown regulations (yet larger and most serious impact).

The most constrained industries under the aforementioned pathways of the virus are (Paper written in June 2020):

- Floriculture
- Wool
- Mohair
- Wine (Wine cellars, wine estates, wine grape producers)
- Ostrich feathers
- Leather industry
- Tobacco

*\*This draws from a paper by Prof Johann Kirsten (Stellenbosch University and BER), Wandile Sihlobo (Agbiz) & Prof Ferdi Meyer (Stellenbosch University and BFAP).*



## A qualitative assessment of the losses per industry -- selected grains and oilseeds

Industry	Level 5 26 March – 30 April	Level 4 1 May to 31 May	Level 3 1 June -?
Maize	No impact	No impact	No impact
Soybeans	No impact	No impact	No impact
Wheat	No impact	No impact	No impact
Sunflower	No impact	No impact	No impact
Canola	No impact	No impact	No impact
Barley	No impact	No impact	No impact
Grain sorghum	No impact	No impact	No impact
Oats	No impact	No impact	No impact

## A qualitative assessment of the losses per industry -- selected horticulture

Industry	Level 5 26 March – 30 April	Level 4 1 May to 31 May	Level 3 1 June -?
<b>Potatoes</b>	Potato market prices In April 2020 R10/packet lower than the same month in 2018, 2019	Impact (prices and volumes not back to normal levels)	Impact due to weaker demand and restaurants that remain closed
<b>Tomatoes</b>	Reduced demand and lower prices:	Reduced demand and lower prices:	Reduced demand and lower prices:
<b>Other vegetables</b>	Reduced demand and lower prices:	Reduced demand and lower prices:	Reduced demand and lower prices:
<b>Citrus</b>	Minimal impact due to logistical bottlenecks at ports but support from the weak exchange rate	Minimal impact due to logistical bottlenecks at ports but support from the weak exchange rate	Minimal impact due to logistical bottlenecks at ports but support from the weak exchange rate
<b>Deciduous fruit</b>	No impact	No impact	Potential impact on seasonal labour under exponential infection rate
<b>Table Grapes</b>	No impact	No impact	Potential impact on seasonal labour under exponential infection rate
<b>Wine grapes</b>	Some wineries/cellars were not able to pay producers for Feb/March deliveries	Minimal impact	Potential impact on seasonal labour under exponential infection rate
<b>Wine cellars and estates</b>	Full impact – all sales and exports prohibited. The dramatic impact on stock levels and cash flow and profitability. South African wines lose market share abroad. No other wine exporting country banned exports!	Wine cellars and wine cooperatives continue to experience cash flow strain due to the ban on local sales.	Reduced demand due to no tourism, & restaurant sales.

## A qualitative assessment of the losses per industry -- selected livestock

Industry	Level 5 26 March – 30 April	Level 4 1 May to 31 May	Level 3 1 June -?
<b>Beef cattle</b>	Reduced demand and lower prices:	Reduced demand and lower prices:	Temporary disruptions in supply chains under exponential infection rates
<b>Dairy</b>	Reduced demand and lower prices due to bans on QSR.	Reduced demand and lower prices due to bans on QSR.	Temporary disruptions in supply chains under exponential infection rates
<b>Lamb and Mutton</b>	Reduced demand and lower prices: Minimal impact	Minimal impact Prices back to pre-COVID-19 levels	No impact
<b>Wool</b>	Auctions and all fibre activities suspended. Cash flow impact for farmers with wool in value chain/auctions	No impact	No impact
<b>Mohair</b>	Auctions and all fibre activities suspended. Cash flow impact for farmers with mohair in value chain/auctions	No impact	No impact
<b>Animal skins/leather</b>	Trading and transport suspended – cash flow impact on abattoirs and beef and lamb farmers	No impact	No impact
<b>Broilers</b>	Drop in volumes and prices due to bans on take-aways, hot meals, roast chickens (20% of normal market demand destroyed)	Drop in volumes and prices due to bans on take-aways, hot meals, roast chickens (20% of normal market demand destroyed)	Temporary disruptions in supply chains under exponential infection rates
<b>Eggs</b>	Drop in volumes and prices due to bans on take-aways & restaurants	Drop in volumes and prices due to bans on take-aways & restaurants	Temporary disruptions in supply chains under exponential infection rates

## **Broad SA's near-term agricultural priorities**

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1. Transformation and redistribution
2. Addressing inefficiencies
3. Growth and expansion
4. Measuring impact / Implementation

# Transformation and redistribution

## 1 (0-6 months)

### Enhance land redistribution

#### Intervention

Government has started releasing the land – 700 000 ha  
Incentivise existing landowners to donate land for land reform

#### Impact:

- Reduce inequality in land ownership and avoid unutilized agricultural land

#### Funding available?

Not needed – just acknowledgement and BEE certificate  
Will be available through blended finance by DALRRD

#### Who should act?

DALRRD

## 2 (6-12 months)

### Inclusivity for small-scale farmers

#### Intervention

Government procurement programmes from small-scale farmers in remote areas to serve hospitals, school feeding programmes, government canteens, prisons, etc., through aggregation models

#### Impact:

- Improved market access for small-scale farmers
- Improved and consistent cash flow to small-scale farmers
- Improved access to funding instruments through off-takes by the State

#### Funding available?

Yes

#### Who should act?

DALRRD, NAMC, Commodity Groups, and Agribusinesses

# Addressing inefficiencies

## 1 (6-12 months)

### Improve government capacity

#### Intervention

- Improve efficiency of government systems and capacity to facilitate regulation, monitoring and reducing red tape.
- Intensify agricultural research and introduce new smart agriculture technologies

#### Impact:

- Reduce costs and delays leading to better performance of the sector and more investment and better returns
- Build domestic competitiveness and new farm innovations

#### Funding available?

Yes

#### Who should act?

DALRRD, DWS, Provinces, Municipalities, Environment, DSI, ARC

## 2 (12 months and beyond)

### Upgrade infrastructure

#### Intervention

- Improve export infrastructure : rail, rural roads, ports
- Activate the planned investments in dams, irrigation infrastructure to unlock more land for irrigated agriculture

#### Impact:

- Better rail, road and port infrastructure will improve market access and increase farm profitability and reduce transaction costs and losses
- Facilitate more intensify small scale farmers on high potential land for high value commodities

#### Funding available?

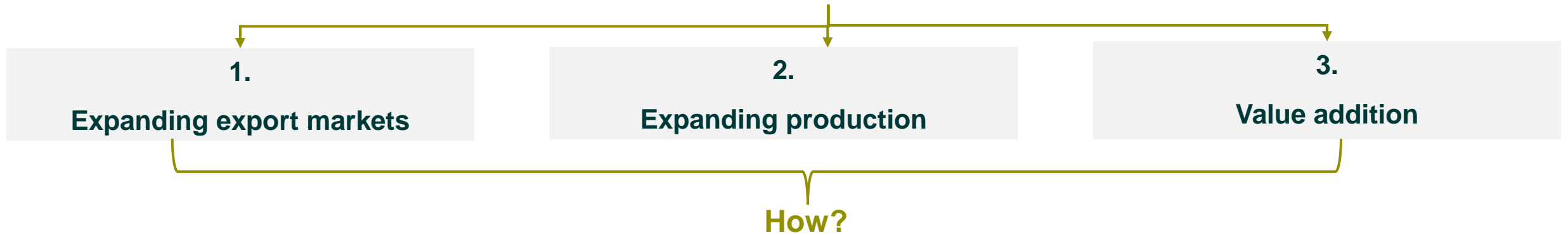
More work needed

#### Who should act?

DALRRD, TRANSNET, DOT, COGTA, and DWS

# Growth and expansion

## 3 ingredients (6-12 months and beyond)



### Funding

- Introduce Land Development Fund (Blended Finance) to support land reform and access to finance for small-scale farmers as part of revised CASP

### Attract private sector investment

- Use existing government funding to de-risk and catalyze private sector participation (prioritizing labour-intensive and high-value crops)
- Use technology to structure aggregation models to reduce small-holder transaction costs for processing

### Reprioritizing DALRRD spending and reallocate state land

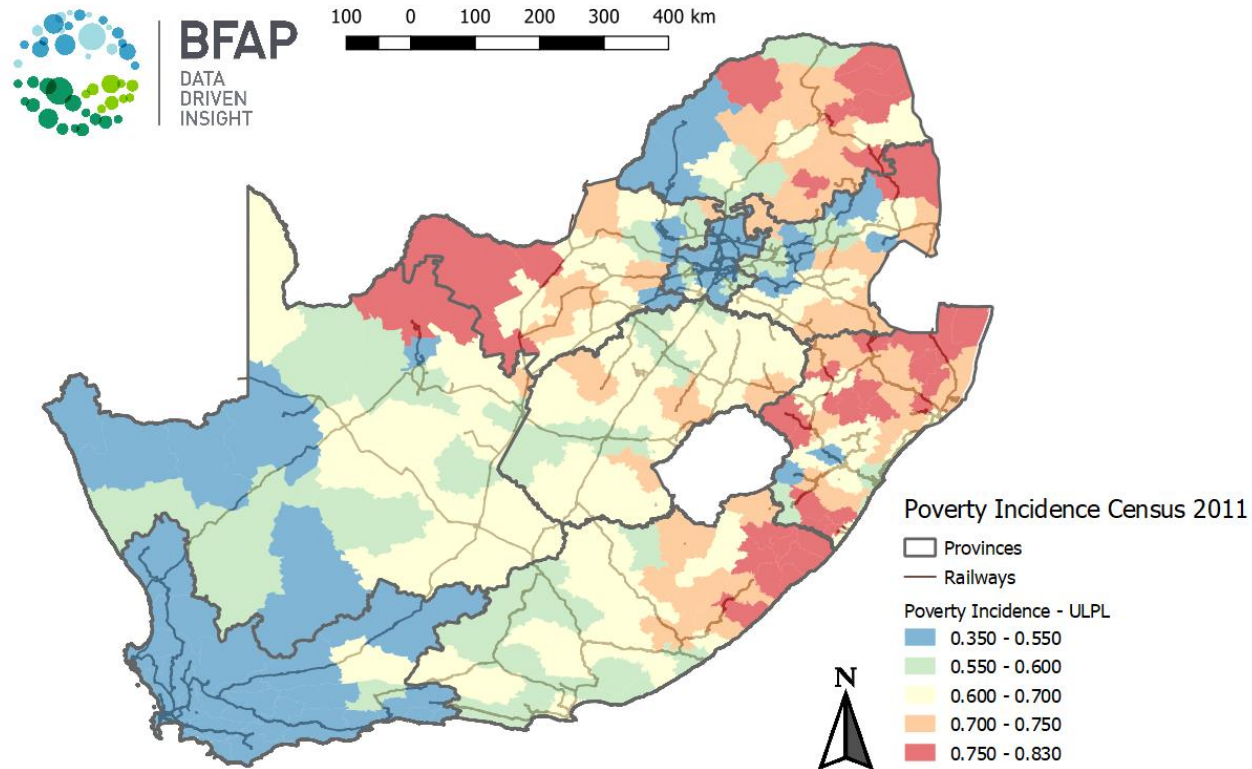
- Redesign and reconfigure the agricultural support programme (CASP) to small-scale farmers.

### Increase export readiness and access

- Reconfigure and strengthen animal health, meat hygiene, and state veterinary service at national and provincial level
- Identification of strategic markets in the African continent, Europe, and Asia. But also ensure that export systems (licenses, food quality standards ) are in place

# Agriculture is part of the economic recovery strategy

The focus should be KZN, EC, LP and parts of MP, which are also regions with higher poverty levels and availability of land





## The lower contribution to agriculture by black farmers is a reason transformation is key

Commodities	Average: 2019 - 2015					
	Employment	Production Value R'000	Black Farmer Share in Output	Commercial Farmers	Smallholder Farmers	Household Farmers
<b>Maize</b>	29,289	27,038,097	4.7%	21,024	162,583	975,776
<b>Soybean</b>	7,654	5,698,270	3.1%			
<b>Wheat</b>	2,912	5,805,830	1.3%			
<b>Cotton</b>	3,876	1,967,187	2.4%			
<b>Citrus</b>	128,219	15,046,134	2.1%	1,924	4,516	56,712
<b>Deciduous</b>	79,443	15,660,627	3.0%			
<b>Viticulture</b>	163,441	7,057,260	1.6%			
<b>Potato</b>	42,158	6,972,320	1.0%	3,573	10,538	120,117
<b>Tomato</b>	9,764	2,364,149	8.6%			
<b>Wool</b>	23,976	3,397,506	11.0%	13,601	123,443	1,174,696
<b>Mohair</b>	6,765	554,582	4.8%			
<b>Cattle</b>	89,752	31,992,265	34.0%			
<b>Poultry</b>	52,836	47,863,345	4.2%			

## Concluding remarks

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- South Africa's agriculture gross value added will grow by roughly 10% y/y in 2020 (BFAP sees a 13% y/y growth), and normalize into lower growth rates in 2021, in part because of base effects. The harvest on its own promises to be good in 2021 on the back of an expected La Niña, which will bring higher rainfall.
- Other things being equal, the large harvest of 2019/20 and expected good crop in 2020/21 also means that food price inflation this year won't exceed 4.5% y/y in 2020 and in 2021 should be contained at levels below 5% y/y.
- Government and private sector determination to implement the Sector Master Plan will be a key determinant of whether there will be real expansion and job creation beyond the usual trends in the coming years.
- It's important to keep a close eye on land reform developments and policies around it, but it's equally important not to be alarmist about every piece of legislation that government releases (a case in point is the recent publication of the Expropriation Bill (more details in Theo Boshoff's presentation))

# Thank you for your attention.

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