SA agriculture sector 1Q20 recovery - where to from here?

By Casey Delport

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Despite four consecutive quarters of contraction (1Q19-4Q19) and ongoing challenges due to the global Covid-19 pandemic, South Africa's agriculture sector rebounded by 27.8% quarter-on-quarter, seasonally adjusted and annualised, in 1Q20.

Image source: Gallo/Getty

Primary agricultural employment increased 3% year-on-year (c. 27,000 jobs added) to 865,000 jobs, although this was marginally down quarter-on-quarter (-2.0%). This recovery was underpinned by strong activity in all major agricultural subsectors, including livestock, field crops, and horticulture production. The significant improvement in activity across the various subsectors was largely driven by favourable weather conditions during 2019/2020.

From a field crops perspective, South Africa expects its second-largest grains harvest on record in 2019/2020. Latest projections for the 2019/2020 maize, sunflower seed and soybeans harvests indicate year-on-year increases of 38%, 13% and 8%, respectively, equivalent to output levels of 15.5 million, 765,960 and 1.3 million tonnes, respectively.

Local sugar cane production is set to increase by 1% year-on-year to 19.4 million tonnes. In horticulture, South Afirca has generally had a good fruit harvest in the year to date, with the citrus industry recently noting a 13% year-on-year increase in available supplies for export markets in 2020. There is also a broad recovery in the production of deciduous fruit, with 2020's apple and pear production up by 5% and 1% year-on-year, respectively. Although the livestock subsector has also been resilient, the latest outbreak of foot-and-mouth disease posed a significant challenge at the beginning of the year.

Positive trajectory predicted

As it stands, the agricultural sector's 2Q20 data looks set to continue its positive trajectory, with South Africa's Agricultural Business Chamber (Agbiz) forecasting 10% annual year-on-year growth for the sector (vs a 6.9% year-on-year decline in 2019). However, despite this largely positive outlook, significant downward risks remain.

Agricultural employment data for 2Q20 will probably not be as robust as in 1Q20, as social-distancing regulations introduced at the end of March would have hampered farmers and agribusinesses from increasing employment, particularly of seasonal workers.

Ongoing economic uncertainty could negatively impact financing of the agricultural sector, as commercial banks are likely to be more risk-averse in the current unprecedented environment.

Reinstated liquor ban puts pressure on agricultural commodities

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This, compounded by the Land Bank's financial woes, poses significant risk around capital availability for the sector. Reinstating a ban on alcohol sales, as announced by President Cyril Ramaphosa on 12 July, has dealt another blow to the local wine industry, which has already lost billions this year due to Covid-19 related lockdown regulations. With the duration of the alcohol ban uncertain, its effects will be felt throughout the wine industry's value chain.

Interestingly, the Agbiz/IDC Agribusiness Confidence Index (ACI), which has in the past proven to be a strong indicator of the agricultural sector's growth path, fell from the 50-point mark in 1Q20 to 39 in 2Q20.

Agribusiness confidence falls to its lowest level since 2009

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A level below the neutral 50-point mark implies that agribusinesses are downbeat about prevailing local business conditions. The ongoing Covid-19 crisis is primarily a health shock, but its impact on the economy has been severe and the index reflects this sentiment.

Notably, this print is the lowest level since 3Q09 - at the height of the global financial crisis. The ACI will likely continue to print below the neutral 50-point level throughout 2020 due to the negative sentiment caused by Covid-19, which could lead to a disjuncture between agribusiness confidence levels and the sector's actual economic performance.

While the positive rebound in the agricultural sector's GDP is indeed a welcome development, the question remains - **where do we go from here**? A positive 1Q20 growth print is one thing, but **how does South Africa continue to create sustainable long-term growth for the sector as a whole**?

Recently, the African National Congress' (ANC's) economic transformation committee and Business for South Africa (B4SA), each released discussion documents sketching a post-Covid-19, inclusive South Africa's economy. As an identified priority sector for growth and job creation, agriculture features prominently in both documents.

Positively, both the ANC's and B4SA's agricultural development views are framed from chapter six of the National Development Plan (NDP), which highlights a need to expand irrigated agricultural land by one-third (by 2030), expand

commercial agricultural production, as well as prioritise subsectors and regions that have high potential and are labour intensive.

There is also a focus on the need for increased transformation in agriculture and its value chain. Both plans recognise that poor infrastructure, both in South Africa's former homeland regions and in logistics to move produce to ports and processing plants, is an area that needs urgent attention.

Improving agricultural finance

Another point of commonality that arises from both economic recovery documents is the need to improve agricultural finance through stabilising the Land Bank. South Africa's agricultural economists have long beaten the drum that the next frontiers for growth in the sector will be the expansion of production mainly in the former homeland provinces (KwaZulu-Natal, Eastern Cape and Limpopo).

The Eastern Cape and Limpopo have been among the provinces with the least contribution to domestic agriculture's gross value added, respectively accounting for 6% and 7% of the total. Meanwhile, provinces such as the Western Cape, Free State and Mpumalanga contribute 22%, 10%, and 9%, respectively. **This raises a further question**: Why has agricultural development lagged over the past two decades in these provinces while output doubled from commercial agriculture in other areas?

There are several reasons for this apparent disparity, the most notable being lower levels of investment in agriculture and a general lack of infrastructure. On investment, poor land governance (i.e. lack of secured tenure), both in the former homelands and some underutilised land-reform farms, have been key impediments which disincentivise on-farm investments.

The lack of basic infrastructure (road networks, rail, silos, irrigation systems and a stable water and electricity supply), has contributed to low agricultural productivity and poor linkages to markets for smallholder farmers. In an era where consolidation and fiscal prudence are proving vital, the tightening of already-scarce government resources translates into an ever-growing challenge on how to close the infrastructure gap.

This is how rural areas can be developed through agriculture

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Unlike the mining sector, where the private sector predominantly leads and paves the way in building public infrastructure, agriculture (particularly smallholder farming in the former homelands) relies mainly on state-led and government-supported initiatives in developing the required public infrastructure that supports overall production and market access.

With government resources stretched to their limits, there is much scope for private sector-driven infrastructure development. Developmental projects in areas such as irrigation systems, silos, electricity generation and packhouses can easily be led by the private sector. In other essential infrastructure projects such as roads, rail and dams, government is still required to lead activity.

There is, however, room for a private-public partnership approach, particularly for major agribusinesses that are aiming to expand within potential high-growth areas such as the Eastern Cape, KwaZulu-Natal, and Limpopo. This approach will, however, need to be a bottom-up one, where agribusinesses identify the binding constraints in specific areas of interest and then co-finance, with government, the necessary infrastructure development.

It remains to be seen whether there is indeed scope for and a willingness on the part of government for a public-private partnership approach towards agricultural infrastructure investment in the country's post Covid-19 developmental agenda.

ABOUT THE AUTHOR

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