Is there hope for Agriculture in South Africa?

Is daar hoop vir Landbou in Suid-Afrika?

John Purchase

SATI/SASEV

18 August 2020
We truly live in the VUCA world.

What is VUCA?

V – Volatility
U – Uncertainty
C – Complexity
A – Ambiguity

Who coined the term? USA MI
For today……..

1. Political economy context:
   - Major Global & African risks and challenges
   - Major South African risks and challenges

2. Food Security and Competitiveness imperative

3. Confidence and growth in SA Agriculture

4. Major developments in legislative and policy environment

5. Covid-19 Impact

6. Wrap up
Major Global Risks and Challenges

• New multi-polar global power dynamic – power shift to Asia (BRICS role NB?)
• USA vs China Trade War – impact on global power dynamics
• Middle East tensions will continue – importance for SA.
• Brexit and European Unity: UK and EU economic outlook depressed.
• **Global population & Africa’s demographic ‘dividend’**
• Interconnectivity (4th IR) still a massive driver, despite general protectionist and localization developments across the globe. Covid-19 has hit Globalization hard.
• Mass migration, as an outcome of conflict and globalisation/interconnectivity, was rampant. Stopped in tracks by Covid-19, but will return.
• Environmental sustainability issues, e.g. climate change and extreme weather phenomena, water availability and quality, biodiversity loss, pollution/waste, etc.
• Biosecurity issues: human (Covid-19), animal and plant.
• Global GDP projected at -4,9% for 2020, but rebounds by 5,4% in 2021 - IMF.
China and India = 36.2% of global population, but 18.7% of global GDP

Africa = 16.9% of global population, but <5% of global GDP
Africa’s population to exceed 2.0 billion by 2050. Africa’s population to exceed 4.0 billion by 2100.

World population to reach 11.2 billion by 2100

Either massive opportunity, or a critical risk......!
Major Global Risks and Challenges

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South Africa’s Political Economy: Risks & Challenges

• **ANC remains in turmoil** – divisions and distrust persist, given various Commissions of Enquiry into respectively ‘State capture’, SARS, PIC, NPA and now PPE corruption.

• **President Ramaphosa’s SONA** in February 2020: Right direction, but can State implement? **Capability of the state has been badly eroded** – seen in DALRRD. Also other Dept’s/SOE’s.

• **Biggest concern: Lack of GDP growth, Competitiveness decline (WEF) and escalating debt.**

• **Massive unemployment** (>29% pre-Covid), especially amongst the Youth (>50%).

• **Inequality** – SA top of GINI Coefficient (WEF, 2018): populist calls & demands will persist.

• **Service delivery and other protests increasing, and more violent** (ISS).

• **Land & water reform** will be at the centre of demands. Even nationalisation pressure on banks & mines, e.g. Reserve Bank. “Expropriation without Compensation” decision.

• **Crime & Security factor**, including corruption and farm/rural safety, a huge and increasing concern.
South Africa’s GDP: 347.7 billion USD (2018)

<table>
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<tr>
<th>Year</th>
<th>US$ (Billion)</th>
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<td>2016</td>
<td>294.8</td>
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<td>2018</td>
<td>283.8</td>
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</table>

2011 GDP per capita (US$) = 8,066
2016 GDP per capita (US$) = 5,261
2018 GDP per capita (US$) = 6,180

Source: WEF Competitiveness Reports
South Africa’s growth has decoupled from global growth

Source: Bloomberg, Agbiz Research.
Business confidence leads fixed investment

Index

BER Business Confidence (LHS)
Private Sector Fixed Investment % y/y (RHS)
The gap between revenue and expenditure is expected to widen.

- The COVID-19 pandemic erupted when South Africa was already in a weak fiscal position.
- In recent months, fiscal deterioration has accelerated.
- In 2020/21, significant tax revenue underperformance is expected, and expenditure will increase as government reprioritises and allocates funds to contain COVID-19.
- The main budget deficit and gross borrowing requirement will increase sharply.
In the active scenario, debt stabilises at 87.4 per cent of GDP in 2023/24
DEBT-SERVICE COSTS TAKE AN INCREASED SHARE OF MAIN BUDGET REVENUE

- Gross national debt is now expected to reach 81.8 per cent of GDP in 2020/21 compared to the 2020 Budget estimate of 65.6 per cent of GDP
- Rising public debt means that an ever-increasing share of tax revenue is transferred to bondholders
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Our future - make it work

FIG 1.1 AN APPROACH TO CHANGE

- Rising Living Standards
- Poverty Reduction
- Effective Government
- Employment
- Growth
- Conditions
- Opportunities
- Active Citizenry
- Strong Leadership

Cycle of Development
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Food Security Imperative
Components of Food Security

FOOD QUALITY & SAFETY (5)
- Nutritional standards
- Protein quality
- Food safety, etc.

FOOD AFFORDABILITY (6)
- Food consumption as % of DHI
- % of pop under GPL (<US$3.10)
- Presence of Food Safety Net Programmes, Etc.

FOOD AVAILABILITY (8)
- Sufficiency of supply
- Volatility of agric production
- Agricultural infrastructure
  - R&D spend, etc.

Stability over TIME

Complex concept: Difficult to measure and evaluate.
2017 Global Food Security Index

2018: South Africa ranks 47th

SA Household Food Security a risk: >20% of households food insecure

Source: Economist Intelligence Unit/DuPont

Competitiveness Imperative
The Global Competitiveness Report 2019

Klaus Schwab, World Economic Forum

Selected contextual indicators

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<tr>
<th>Indicator</th>
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<tr>
<td>Population millions</td>
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<td>GDP per capita us$</td>
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<td>5-year average FDI inward flow % GDP</td>
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<tr>
<td>10-year average annual GDP growth %</td>
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<tr>
<td>GDP (PPP) % world GDP</td>
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Social and environmental performance

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<td>Environmental footprint gha/capita</td>
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<td>Global Gender Gap Index 0-1 (gender parity)</td>
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<td>Renewable energy consumption share %</td>
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<td>Income Gini 0 (perfect equality) -100 (perfect inequality)</td>
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<td>Unemployment rate %</td>
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The Global Competitiveness Index 4.0 2019 Rankings

Covering 141 economies, the Global Competitiveness Index 4.0 measures national competitiveness—defined as the set of institutions, policies and factors that determine the level of productivity.

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2016 = 47th
2017 = 61st
2018 = 67th
2019 = 60th
WEF Global Risk Report 2020

The diagram illustrates various global risks plotted on a matrix with axes for likelihood and impact. The likelihood is represented on the bottom axis, ranging from 3.0 to 3.31 average, while the impact is on the left axis, ranging from 3.0 to 4.0. The likelihood is color-coded from yellow to red, and the impact is color-coded from green to red. Infectious diseases are highlighted with a red circle and situated in the lower left quadrant, indicating a high potential for impact and high likelihood.

Key risks include:
- Climate action failure
- Biodiversity loss
- Water crises
- Natural disasters
- Extreme weather
- Human-made environmental disasters
- Cyberattacks
- Natural disasters
- Human-made environmental disasters
- Extreme weather
- Human-made environmental disasters
- Natural disasters
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Agriculture Subsector Performance

5-year average share

- Maize
- Sugar cane
- Wheat
- Soybeans
- Other Field Crops
- Horticulture
- Vegetables
- Citrus fruit
- Deciduous Fruit
- Other Animal Products
- Poultry
- Milk
- Cattle
- Other Field Crops

Subsector Performance: Gross Production Value

Index (2000 = 100)

- Field Crops
- Horticulture
- Animal Products
- Agriculture
SA Agriculture, Forestry & Fisheries GDP: 2005 - 2020

Mean GDP growth per annum: ~1.4%

Source: Stats SA, Agbiz Research
Inconsistencies in policy impacts agricultural business confidence and investment – major drop in Q2 2020

Source: Agbiz Research

(Shaded areas indicate periods when rainfall across South Africa was below the average level of 500 millimetres)
Fortunately, there has not been disinvestment in SA agriculture thus far
Evolution of farm sizes in SA: mechanisation has been key in this process

Farming Units and Average Farm Size in South Africa

<table>
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<tr>
<th>Year</th>
<th># of Farms</th>
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<th>Size</th>
<th>Estimate</th>
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SA’s Agricultural imports, exports & trade balance

Source: ITC, Agbiz Research
South Africa's agricultural exports by region

Source: ITC, Agbiz Research

**ROW** represents Rest of the World
Indexed GDP: Agro-processing vs Manufacturing Output

South Africa's Manufacturing Output Index (Seasonally adjusted)

Agro-processing: ~25% of MO and ~3.5% of GDP

Source: Stats SA, Agbiz Research
36 of 54 commodities SA a net exporter = 67%

Table grapes included
High-growth industries are on track

Gross Value of Agricultural Production

Average growth in GVA: 5 year
Average share in total agricultural GVA

Source: DAFF, 2019
SA primary agriculture jobs

Source: Stats SA, Agbiz Research
SA primary agriculture jobs per province

South Africa’s agricultural jobs by province

Source: Stats SA, Agbiz Research

Jan-Mar 2019
Jan-Mar 2020
SA agro-processing jobs

Source: Stats SA, Western Cape Department of Agriculture
For today......

1. Political economy context:
   - Major Global & African risks and challenges
   - Major South African risks and challenges

2. Food Security and Competitiveness imperative

3. Confidence and growth in SA Agriculture

4. Major developments in legislative and policy environment

5. Covid-19 Impact

6. Wrap up
The current policymakers’ thinking revolves around these aspects

• Inclusive growth and job creation

• Land reform

• Climate change

• Water rights regulations and water infrastructure

• Infrastructure constraints in some farming areas, particularly former homelands

• International trade matters (market access, and expansion of export markets)
For today...

1. Presidential Land & Agriculture Reform Advisory Panel Report, ‘Expropriation without compensation’ and other land policies/legislation

2. Environmental and natural resource legislation

3. Engagement with Government
Fields of policy and legislation


2. Carbon Tax Act (implemented) and Climate Change Bill (In Nedlac) - contentious

3. Labour legislation: NMWA + LRAA + BCEAA (Nedlac package) – Exemption system problem?

4. Water rights and water security:
   - Water Masterplan & Water Phakisa – New Water Bill & ELU?
   - Water licence application regulations & Water tariffs (Independent Water Regulator?)

5. Land reform:
   - Expropriation without Compensation – Re-establishment of Parliamentary subcommittee to propose wording to National Assembly
   - Regulation of Agricultural Landholdings Bill – in Nedlac but suspended.
   - Valuation Regulations (Property Valuation Act) – Recent Court judgement vital and welcomed.
   - Communal Land Tenure Bill (Comments in 2017 – no progress?)
   - Communal Property Association Amendment Act (passed but not assented)
   - Preservation & Development of Agricultural Land Framework Bill (DAFF Bill) – currently in Nedlac and contentious. Constitutional challenge?

6. Other
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Introduction

Process flow for the review of section 25 of the Constitution

Also under scrutiny
- Expropriation Bill
- Restitution of Land Rights Amendment Bill
- Beneficiary Selection and Land Allocation Policy
- Land Donations Policy
- Land Reform (Labour Tenants) Act 3 of 1996
- Communal Land Rights

Status update on Agbiz/BASA’s land reform proposal: commercial financing for NDP model for land reform
- Background
- The BASA/Agbiz Task Team’s proposal
- Process flow: commercial financing of land reform
- Status update
- Agricultural Development Agency

Report of the Presidential Advisory Panel on Land Reform and Agriculture

LAND REFORM
Status update
May / June 2020
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Engagement with Government

1. Bilateral (Agbiz, BUSA, CEO Forum, etc.)

2. NEDLAC:
   - NEDLAC Act
   - Jobs Summit developments
   - Trade & Industry Chamber
   - Development, Labour Market & PFMP Chambers

3. Public-Private Growth Initiative (PPGI)

4. Masterplan process
Government has embarked on a Masterplan initiative which is essentially a partnership model between government, business and labour in a Nedlac approach of social dialogue to establish an environment conducive for investment and inclusive economic growth in the sector.

To quote President Ramaphosa at the Investment Summit of 6 November 2019:

• **We are on a path of removing impediments and constraints to inclusive growth.** We have embarked on a path that is illuminated by policy consistency and regulatory certainty, fiscal responsibility, and decisive interventions to stimulate economic activity.

• Central to our efforts to ignite growth and create jobs is an ambitious execution oriented industrial strategy founded on partnerships between government, labour and industry. It prioritises growth in important sectors such as automotive, clothing and textiles, gas, chemicals and plastics, tourism, renewable energy, oceans economy, agriculture and agro-processing, mining and beneficiation, the digital economy and the high-tech industries.

• **Master plans for each of these sectors will ensure that infrastructure, skills, incentives and other resources are directed towards where they have the greatest impact.** Today we will witness the signing of master plans for the poultry and the clothing, textile and footwear industries.

Pres Ramaphosa reiterated the position of Masterplans at BUSA’s Business Economic Indaba 2020 on 14 January 2020, as well as in SONA, February 2020.
For today....

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   - Major South African risks and challenges

2. Food Security and Competitiveness imperative

3. Confidence and growth in SA Agriculture

4. Major developments in legislative and policy environment

5. Covid-19 Impact

6. Wrap up
Outline

1. Observations and learnings of COVID-19 on agriculture
   • Global impact and developments
   • Domestic impact and developments
   • Government engagement – critically important

2. Inclusive growth strategy for South African Agriculture

3. Take home message…!
Global agriculture is still in remarkably uncertain territory

- Major supply and demand disruptions
- Demand-side: Changing consumer patterns on food spend.
- Protectionist policies and trade restrictions (Cambodia, Vietnam, Russia, etc.)
- Logistical and supply chain challenges/disruptions (India, Nigeria, Kenya, South Africa, etc.)
- Food waste amid closure of restaurants (USA, Belgium, Canada, etc.)
- Labour shortages due to lockdown (France, Netherlands, Germany, etc.)
- Agro-processing workplace closures due to Covid-19 cases, e.g. meat-packers in USA.
SA agriculture not as hard hit by the COVID 19 pandemic

- **SA agricultural sector was already constrained** prior to the outbreak of COVID-19 due to a series of droughts and biosecurity issues, amongst other aspects.

- **Estimate a 10% y/y recovery in SA agricultural GDP for 2020.** Some risks though!

- **Number of agricultural products originally not classified as essential services** during AL5 lockdown and were therefore interrupted until May 1 when AL4 regulations kicked in. These included wool, cotton, mohair & wine and the state needed to re-open their operations, which it did. **But Wine & Tobacco industries?!**

- **Exports of all agricultural products now allowed.** Port capacity has improved, but still a major concern.

- Some concerns as to whether **global demand for SA exports** will remain vibrant, amid shutdowns and economic distress in various countries. Variable across products and regions – Africa?

- **Local demand declined**, due to informal market disruption, closures of restaurants and QSR’s, etc. Recovered quite well now.
Projected reduction in Sub-Saharan Africa GDP per capita growth in 2020

Sub-Saharan Africa projections

Specific country projections

Source: World Bank
Additional impacts and developments impacting on SA Agriculture?

- The **SARB has swiftly cut interest rates** by a cumulative 300 basis points year to date: ~R5,0 bn interest saving for farmers alone over 12 months. Welcome relief for whole sector though.

- **DALRRD ring-fenced R1.2 billion for ~15 000 small-scale farmers** – Some household food security contribution.

- **Impacts of downgrade to sub-investment grade** on SA agriculture – transmission effects through volatility of the domestic currency and agribusiness confidence deterioration.

- **Land Bank default**: Significant systemic risk as it holds ~29% of SA’s ~R200bn farm debt.

- **Liquidity crunch in agriculture** – capital scarcity a real concern. **Development impact?**
Outline

1. Observations and learnings of COVID-19 on agriculture
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   • Domestic impact and developments
   • Government engagement – NB!

2. Inclusive growth strategy for South African Agriculture

3. Take home message…!
Government engagement

• Covid-19 Response Task Team of Minister Didiza (DALRRD)
  - Economic Workstream (Lead: John Purchase)
    * BFAP VC Tracker Reports (9) + Submission to AL4 (plus others) to NCCC  
    - Social Impact Workstream  
    - Communications Workstream

• Business for SA (B4SA) : Healthcare, Economic Interventions, Labour & Comms TT’s
  - Essential goods/services + Supply chain security + Infrastructure and logistics  
  - Economic Recovery Strategy (Masterplan – The way forward...!)

• SME Development Project with Office of Gauteng Premier (PPGI)

• Bilateral engagements with Ministers and Senior Government officials.
Outline

1. Observations and learnings of COVID-19 on agriculture
   • Global impact and developments
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2. Inclusive growth strategy for South African Agriculture

3. Take home message…!
Post COVID-19

A New Inclusive Economic Future for South Africa
Delivering an Accelerated Economic Recovery Strategy

10 July 2020
Key challenges: the agricultural industry faces 5 main structural constraints

Access to Finance
- Cyclical and capital intensive nature of agriculture means farmers have a critical need to access financing
- Financial sustainability of the Land Bank, and its ability to serve conflicting mandates (profit/commercial and development) under question
- Limited state funded agricultural insurance/relief available to protect farmers from the impact of recurring droughts

Land Reform
- Redistribution: Limited transfer of ownership, state support post transfer, beneficiary selection strategy
- Restitution: Limited institutional capacity and budget to process large backlog of claims
- Tenure rights: Lack of clarity and formalization of existing land rights in traditional areas
- Expropriation without compensation: A key inhibitor to future investment given uncertainties created

Water Infrastructure
- Delayed water infrastructure projects, limited strategic prioritization of new projects and limited private sector investment
- Weak or inefficient administrative processes (e.g. provisioning of water rights) and significant delays in execution of projects
- Impending impact of climate change on water availability and water supply gap will likely reduce available land for cultivation in key regions

Transport Infrastructure
- Lack of investment in port infrastructure at key ports in the country – constraining exports of high-value produce
- Existence of operational inefficiency at major agricultural export ports in SA
- Limited investment / lack of operational effectiveness of rail networks has driven up costs and caused shift to road transportation

Access to New Markets
- Limited institutional capacity to drive agricultural trade agendas, develop new agreements, enforce existing trade terms
- Lack of effective coordination and cooperation between the DAFF, DTI and Dircio, to formulate aligned and coherent trade strategies and drive through to conclusion
- Need to target new export opportunities in Sub-Saharan Africa
Outline

1. Observations and learnings of COVID-19 on agriculture
   • Global impact and developments
   • Domestic impact and developments
   • Government engagement – NB!

2. Inclusive growth strategy for South African Agriculture

3. Take home message on Covid…!!!
Take home message on Covid...!!!

1. SA has a resilient and robust agro-food/beverage/fibre system that is a major asset to our country in terms of national food security.

2. Covid-19 has exposed some fault lines and vulnerabilities in certain value chains that need to be addressed, including infrastructure and logistics.

3. The informal food market system (~40%) needs to be developed.

4. Still great uncertainty around the pandemic and its eventual impact on local and global markets, and thus on the demand-side of SA agricultural value chains.

5. Stay in touch with developments and be prepared to adapt. It may well be business unusual going forward...!
For today....... 

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Wrap up……..

• Relatively healthy and robust agri-food industry, but under pressure.

• **Challenges:** Investment environment, Agro-logistics, water availability and quality, environmental sustainability, R&D, crime and security, labour relations & legislation, land reform, climate change, droughts, trade agreements, sustainable transformation, etc.

• **Opportunities:** Growing population, consumer spending trends, new markets (especially to Africa and Asia), new technologies & improved productivity, etc.

• Major contributor to Food Security, growth and employment in RSA – **major South African asset.**

• But we live in uncertain times – many risks and variables, some controllable, others not or less so.

• However, risk creates opportunity and reward, and **concentrate on those risks and opportunities you understand and can manage!**
Thank you

Questions or comments?