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South Africa at crossroads: Impact on and role of agro-food value chain?

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This past week Finance Minister Pravin Gordhan, together with Deputy Minister Mcebisi Jonas, met with members of Business Unity South Africa (BUSA), including Agbiz. The frank and open discussion focussed on government initiatives to address the challenges facing the economy and maximising the potential of the country. In a twist of irony, these discussions took place at exactly the same time that the damning and landmark Constitutional Court judgement was being read on the powers of the Public Protector and the subversion of the Constitution by the President of South Africa.

Gordhan introduced the discussion by noting the developments that led up to his taking up of the Minister of Finance position, and the odd situation that subsequently developed after a call from Lieutenant General Berning Ntsemeza on the SARS investigative unit established under his authority. But Gordhan emphasised the need for all to contribute to take South Africa forward, despite the distractions and barriers that we may encounter. Essentially, it is time to implement to achieve milestones and targets in terms of inclusive economic growth.

Just after the 2016 Budget Speech, a delegation comprising senior government officials, business and labour leaders, and led by Gordhan, visited the key financial capitals of New York and London to address the major investors into South Africa. The discussions with the investors also took place against the background of recent downgrades by rating agencies, and the real risk that South Africa may be downgraded to so-called "Junk Status" by Fitch and Standard & Poor in June 2016. A central theme soon emerged in these discussions, and that was that politics and the economy cannot be separated. In other words, in assessing risk and opportunity, the perception that the political economy created had a significant influence on investors.

Generally speaking, there was a tangible negative sentiment towards emerging markets in particular, with the disastrous Brazil situation regularly highlighted, both from an economic and political perspective. It is clear that foreign investors and global financial markets assess emerging market economies, including South Africa, from a political stability perspective - that is the lens through which world is looking at South Africa.

Gordhan then indicated that it became apparent that we all need to focus on the following:

1. The Constituencies of Government, Business and Labour need to develop practice codes, and stick to these codes.
2. All constituencies need to focus on growth. We need to understand where growth comes from and develop the paradigm to realise the necessary growth. There are still far too many blacks excluded from the mainstream economy, and unfortunately too many South Africans then get caught up in ideological issues and miss the imperative of growth in a developing economy.
3. We need to address the difficult issue of jobs and employment. South Africa has the worst unemployment numbers in the world, especially in terms of the unemployed youth.
4. Both local and global Investment into the economy needs to be scaled up significantly. Foreign Direct Investment (FDI) is currently at an insufficient scale. Business and investment confidence levels are currently simply too low and we need to change our mind set to create positive investment environments. Numbers change after mind set changes and we all have collective responsibilities in this regard.

5. Government needs to relook the regulatory environment. Government can't be against business, but also cannot be totally pro-business. Government needs to look at regulatory constraints and ensure there is no strangulation of the economy. Need to get the balance right and get a pro-investment climate going.

Gordhan emphasised that we were now at a major crossroads and that real leadership would be critical. Inclusive growth was essential and we must guard against just advocating a narrow interest position. While the sub-themes of inclusive growth needed to be unpacked, we also need to realise that robust contestation would result. A strong level of maturity would be required to resolve certain critical issues.

Agbiz indicated the work, emanating from government's CEO process, which the Agriculture workstream had recently finalised. The CEO process is an initiative that was launched by the President and the Minister of Finance with Business before the Budget Speech in order to re-ignite economic growth and prevent a downgrade by rating agencies. A number of workstreams emanated from initiative, including the Agriculture and Agro-food Value Chain workstream. The latter mentioned workstream has now submitted its recommendations to its principals and government. While the document included the issues of addressing the drought and policy uncertainty, it was primarily focussed on constructive short, medium and long term interventions to ensure recovery and growth of the sector and the agro-food value chain in general. Furthermore, escalating food prices were a major concern to industry. The issue now was how to implement the interventions with government to ensure food security.

In response, Gordhan emphasised the need to manage the potential side effects of high food prices. National Treasury will need to look at the risks in this regard and engage with industry on possible interventions.

In closing comments, Gordhan indicated that we are facing a multi-dimensional crisis and that there is a need to increase coherence in the public narrative. The country is facing huge political, economic, social and environmental crises. This would require a set of short term, medium term and long term interventions. The respective workstreams need to be strengthened and Gordhan called for participation in making the interventions more effective and implementable, as action was critical.

Gordhan emphasised the need to build trust and confidence, and that social dialogue was imperative to achieve this trust and confidence. The business culture that we create moving forward will be critical, and business would be wise to develop codes of good practice on constructive advocacy versus capture, and corruption, for example. Business needs a stronger voice, specifically also a stronger social justice voice.

Agbiz believes that there are clear and stark challenges facing South Africans, and that leadership will be necessary to address the challenges posed by Gordhan. Within Agbiz, but also within the broader agro-food system, we will need to debate and move forward on these matters with far more urgency.

ENQUIRIES:

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