

Should South African agribusinesses expand into the continent?

South African agribusinesses aiming to expand their operations into the rest of the continent in the coming years will face different environments compared to realities in South Africa. This includes the commonly cited factor of poor infrastructure, and also a much less talked about problem, which is low levels of agricultural productivity. With respect to the latter, a recent study by agricultural economists Thomas Jayne and Pedro Sanchez argued that sub-Saharan Africa's agricultural output growth in the recent past has been through area expansion rather than improvement in productivity or yield per hectare.¹ A case in point is maize, which shows a striking difference in yield levels between South Africa and the rest of sub-Saharan Africa. Consider maize yields between 2015 and 2020 in Zimbabwe, Nigeria, Kenya, Malawi and Tanzania, which averaged 2 tonnes per hectares for most of these countries with the exception of Zimbabwe, where the yields averaged one tonne per hectare over the observed period. By contrast, South Africa's maize yields averaged 5 tonnes per hectare over the observed period as illustrated in Exhibit 1.

One of the reasons for this difference in yield levels is the difference in input use between South Africa and most countries in the continent. South Africa has an advanced and highly mechanized largescale commercial farming sector, which has easy access to fertilizers, improved seed varieties, agrochemicals. By contrast, most sub-Saharan African countries are dominated by micro, small and medium-scale farmers – a majority of whom are resource poor and lack access to fertilizers and hybrid seeds.² Intensive maize production systems typically require relatively higher input costs, which, with a lack of access to credit and finance, limits small-scale farmers' uptake of these technologies. Another point to consider is that in countries such as Zimbabwe, smallholder farmers tend to limit the area planted to food crops in favour of tobacco and other lucrative crops in various seasons. Still, the point of lower productivity in food crops in sub-Saharan Africa remains. A 2019 study by McKinsey researchers made a similar point that Africa's potential lies in improving the crop yields, and not land expansion, which has been the dominant practice in the recent past.³

Improving productivity should not be the only focus for sustained improvement in Africa's agriculture. When farmers have improved their productivity, there must be a place to safely store their maize crop and reach the markets to ensure a decent return on investment. This once again is a dominant feature of the South African agricultural sector, where the value chains are mature and well-integrated, with access to markets that operated within a liberalized environment. Meanwhile, in much of the sub-Saharan African countries, the agricultural value chains are fragmented, and maize markets are subject to ad-hoc government interventions that distort market signals. Poor storage infrastructure has seen high post-harvest losses (ranging anywhere between 17% and 30% of total national maize output). Under conditions of such systemic market flaws, improved yields would not make a significant impact on markets. To some extent, Zimbabwean farmers tend to substitute maize

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¹ Jayne, T. & Sanchez, P., 2021. *Agricultural productivity must improve in sub-Saharan Africa*. Washington, D.C., Science.

² Jayne et al., 2016. *Africa's changing farm size distribution patterns: The rise of medium scale farms*. Agricultural Economics, Volume 47, Issue S1, pp. 197–214.

³ Goedde, L., Ooko-Ombaka, A., and Pias, G., 2019. *Winning in Africa's agricultural market*. Washington, D.C., McKinsey and Company

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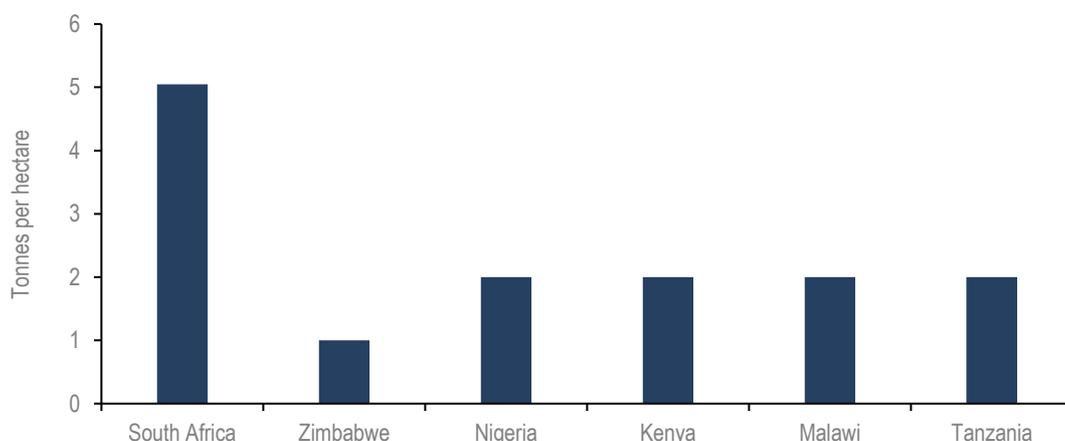
for tobacco in certain seasons because the latter has a well-functioning marketing system than maize.⁴

In essence, sub-Saharan Africa's agriculture sector remains underdeveloped and has various challenges. But these could also be viewed as opportunities for expansion by agribusinesses in countries that have fairly developed agricultural sectors, notwithstanding the infrastructure constraints already mentioned. If South African agribusinesses intend to expand their activities beyond the border in the continent, their strategies and approaches have to be markedly different. Productivity improving techniques are one part of the solution, but this will need a "ground-up" approach. This means working with farmers to understand value chains region by region within each country because of their fragmentation. This will enable various agro-dealers to be closer to their customers – farmers – and also aware of the off-takers or large buyers of the produce so that farming could be sustainable.

Importantly, there is a need to lobby sub-Saharan African governments to prioritize network industries investments such as roads, electricity, water, and investment on agriculture infrastructure such as silos. With that said, this is unlikely in the near term because of fiscal constraints in a number of countries. Perhaps, a workable approach would be for African governments to be open to partnerships with private sector players. An important pre-requisite for creating public-private partnerships is a strict adherence to the rule of law so that private sector firms can be assured that their investment is protected, and that corruption is reduced. Notably, the African governments will also have to relax regulations that hinder the adoption of improved seed varieties which are crucial for productivity enhancement.

In sum, the sub-Saharan Africa region holds potential for expansion for South African agribusinesses, but the approach to doing business will have to adapt to country-specific practices at the start. The South African model cannot be copied as is because of differences in farming and market structures, seed and food regulations, and network industries underdevelopment. This also means that the returns to investments in agriculture in the continent will likely be long term, and at the start, lower than what could be achieved in well-functioning agriculture markets. With that said, given the expected increase in population in the coming decade, rising urbanization, large, underutilised land in sub-Saharan Africa, and the increased connectedness through the African Continental Free Trade Area, collaboration and long-term investment in the continent will be key. The African governments should also improve infrastructure and land governance and the aforementioned regulatory matters to attract private sector investments into the continent's agricultural sector.

Exhibit 1: Selected countries average maize yields (2015 – 2020)



Source: United States Department of Agriculture and Agbiz Research

⁴ More information on Zimbabwe's tobacco industry matters is [here](#).

Weekly highlights

SA's summer crop production forecasts were left roughly unchanged in June 2021's assessment

Last week, the South African Crop Estimates Committee (CEC) released its fifth production estimates for the 2020/21 season, which left most crop estimates roughly unchanged from the previous assessment in May. This is with the exception of commercial maize, whose forecast was lifted marginally by 0,3% from the previous month to 16,2 million tonnes. Meanwhile, the non-commercial maize saw a much larger revision of an 8% increase from the previous month to 586 650 tonnes. This placed South Africa's overall maize production for the 2020/21 season at 16,8 million tonnes. This is up by 6% from the 2019/20 production season, and the second-largest harvest on record. Moreover, the groundnuts production estimate was also lifted by 2% from May to 58 900 tonnes (up 18% y/y).

Soybean's production estimate was left unchanged at a record 1,9 million tonnes (up 54% y/y), sorghum at 195 035 tonnes (up 23% y/y) and dry beans at 56 577 tonnes (down 13% y/y). Whereas the sunflower seed is the only crop that was lowered from the May assessment, down by 5%, and currently estimated at 677 240 tonnes. This is down by 14% from the 2019/20 production season.

The broadly large summer grain and oilseeds production estimate this season is on the back of increased area plantings for summer crops and favourable rainfall since the start of the season. The harvesting process is at completion stages for oilseeds, with maize in full swing. We continue to receive reports of generally higher yields across the country from farmers.

If we focus on the major grains, the current maize production data essentially means South Africa would remain a net exporter in the 2021/22 marketing year. South Africa's annual maize consumption is roughly 11,5 million tonnes, which means there will likely be over 2,8 million tonnes of maize available for export markets, all else being equal (the official estimates, however, are that exports could amount to 2,6 million tonnes in 2021/22 marketing year, down 10% y/y because of expected weak demand in the Southern Africa region⁵). Importantly, the increased soybeans production also means there could be a decline in soybean oilcake imports, which in a typical year is just under half a million tonnes a year.

These developments, however, will have minimal impact on prices. South Africa's maize prices are at relatively higher levels compared to the previous year, not because of supply constraints in the domestic market, but the surge in global maize prices. South Africa has its second-largest grains harvest on record, and maize prices are at export parity levels. The second-largest maize harvest on record in the 2020/21 production season has not led to a decline in domestic maize prices. This is mainly because of the 56% increase in export parity prices in the 2020/21 production season. Export parity prices are derived from the global maize price multiplied by the exchange rate minus transaction costs and can be regarded as a "floor price" for domestic maize prices. As domestic prices trade closer to export parity levels, South African maize becomes more competitive in international export markets, triggering an increase in volumes of exports or demand by foreign buyers.

An important point to emphasize is that the global grains prices have rallied, reaching multi-year highs in the past few months because of supply concerns. Such concerns include the consistent downward revision of Brazil and Argentina's maize and soybean harvest because of dryness there and the drier weather conditions in Russia, Ukraine, and the United States at

⁵ These are estimates from the South African Grains and Oilseeds Supply and Demand Estimates Committee

the start of the 2021/22 production season. The production conditions have since improved in Russia, Ukraine, and the United States, pointing to a reasonably good crop this season.

Perhaps, the central point to make here is that while production conditions for the 2021/22 global harvest are promising for all major crops, there are generally lower stocks. The lower stocks are a catalyst for the knee-jack reactions we have observed on prices whenever there is news of unfavourable weather conditions in major grains and oilseeds production countries. Such price fluctuations happen even if the weather-related news has minimal impact on actual crop conditions. These fluctuations tend to influence also the South African market; hence the prices haven't softened in the face of a large domestic harvest.

A similar phenomenon is true for soybeans regardless of the recent uptick in domestic production. A key point on the global soybeans market is also the rising demand by China and also a potential increase in renewables energy users, which too is contributing to an increase in global prices. In sum, the domestic market is awash with grains supplies, but the prices are unlikely to ease notably. The guiding point for local prices is not what is happening in the fields domestically, instead it is the global events.

Exhibit 2: South Africa's major summer grain and oilseeds production



Source: CEC and Agbiz Research

Data releases this week

We start the week with the **US Crop Progress Report** on the global agricultural data calendar, which will be released by the United States Department of Agriculture (USDA) on Tuesday. The previous report of 27 June 2021 showed that 73% of the US maize crop was rated good/excellent, well above the corresponding period last year where roughly 65% of the crop had such a rating. In soybeans, planting was also completed, with 96% of the crop having emerged. Importantly, 71% of the crop that has emerged was rated good/excellent, compared with 60% in the corresponding period last season. The **US Weekly Export Sales** data is due for release, also by the USDA, on Friday.

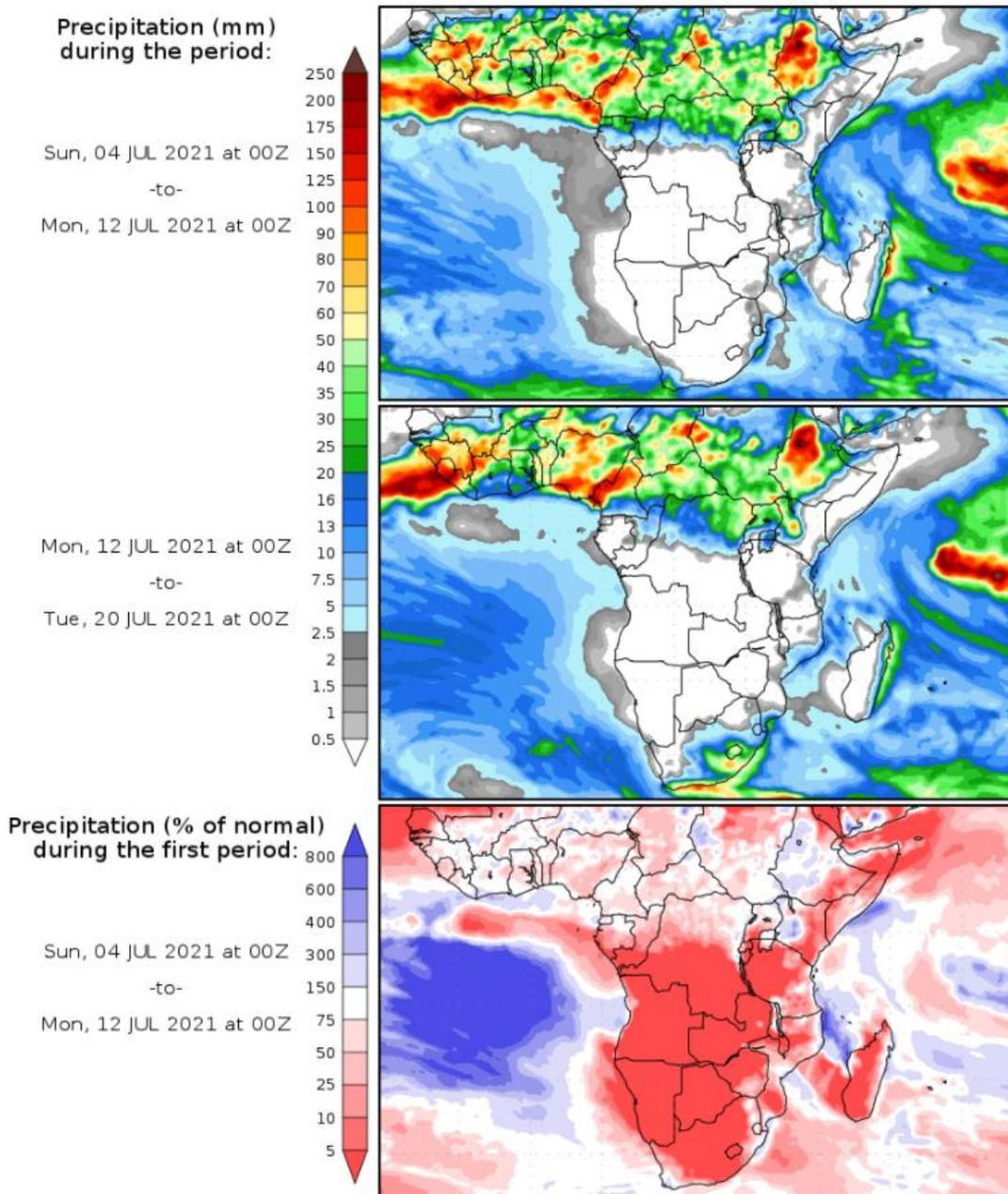
On the domestic front, on Wednesday, SAGIS will release the **Weekly Grain Producer Deliveries** data for 2 July 2021. This data cover summer and winter crops, although we only focus on summer crops for now where harvesting is at completion. To recap, on 25 June, about 4 490 tonnes of soybeans were delivered to commercial silos. This placed the soybean producer deliveries for seventeen weeks of the 2021/22 marketing year at 1,79 million tonnes, which equals 93% of the expected harvest of 1,92 million tonnes. Moreover, 525 911 tonnes of sunflower seed for the 2021/22 season had already been delivered to commercial silos in the same week, out of the expected crop of 677 240 tonnes. In maize, the marketing

year is different from oilseeds; we are still in the seventh week of the 2021/22 marketing year, which began at the start of May. The producer deliveries currently amount to 8,6 million tonnes, which equates to 53% of the expected crop of 16,2 million tonnes.

On Thursday, SAGIS will release the **Weekly Grain Trade** data for the week of 2 July 2021. In the week of 25 June, which was the eighth week of South Africa's 2021/22 maize marketing year, total maize exports amounted to 605 023 tonnes. The seasonal export forecast is 2,6 million tonnes, slightly below the previous season because of an anticipated decline in regional demand. In terms of wheat, South Africa is a net importer. On 25 June, imports amounted to 1,2 million tonnes, equating to 75% of the seasonal import forecast of 1,6 million tonnes.

Exhibit 3: South Africa's precipitation forecast

Precipitation Forecasts



The weather forecast for this week's shows clear skies over most regions of South Africa, which is supportive of the summer crop harvesting process.

The only region that could receive rains this week are the coastal parts of the Western Cape, which is a welcome development as it could support the winter crops.

The following week, however, could bring rain over most parts of the country, which is not conducive for harvest process in areas that have not completed, specifically maize regions.

Source: George Mason University (wxmaps)