South Africa's agricultural policy in 2021

18 January 2021

Wandile Sihlobo
Chief Economist
+27 12 807 6686
wandile@agbiz.co.za

www.agbiz.co.za

Acknowledgements:

This text benefited from discussions with Prof. Johann Kirsten and Dr Sifiso Ntombela. Any errors, are however, exclusively my responsibility.

A stable, predictable and conducive policy environment is crucial for developing any sector and the economy at large. The expansion in South Africa's agricultural output, which since 1994 has now more than doubled in real terms, has mainly been achieved despite the lack of substantive support to commercial agriculture and various inconsistencies in policies. We have witnessed sustained output growth across South Africa's agricultural subsectors at a more micro level – horticulture, field crops and livestock. The improved production has been supported by technological innovation to improve seed yield and agrochemicals and post-harvest technologies. South Africa's open trade policy approach since 1995 has connected the country's value chains to the global economy, which subsequently boosted global demand for agricultural products and incentivized domestic farmers to increase production.

The start of every year presents an opportunity for business to review strategies, and some government departments to review policies. In 2020, the Department of Agriculture, Land Reform and Rural Development focused on four broad policy-guiding themes for driving agricultural expansion, inclusive growth, job creation, an integrated rural area and eradicating hunger, namely;

1. Transformation and redistribution;
2. Addressing inefficiencies;
3. Growth and expansion; and
4. Coordinating policies and investments for the integrated rural economy.

First, the transformation and redistribution pillar encompassed the land reform programmes, with notable progress in 2020 being the announcement of 700 000 hectares of state-owned land available for use by the public. While this is not all new land, some already occupied by beneficiaries, the decision nevertheless shows progress in releasing the land on government hands using clear and transparent policies such as the recently adopted Beneficiary Selection and Land Allocation Policy. Our criticism of this has been that the government should have released the land with tradable leases or offer the beneficiaries an option to buy the land after a minimum of five years of working the land. Moreover, the land release should simultaneously go with a farmer support programme to ensure newly settled farmers have access to working capital.

Another significant development on the land reform front was the new Expropriation Bill which was gazetted towards the end 2020, outlining a uniform process for all expropriations to take place and a uniform means to calculate just and equitable compensation. Moreover, the National Policy on Comprehensive Producer Development Support and Blended Finance programmes also saw some progress in 2020 and should be completed and launched early this year. Lastly, the development of the Land Donation Policy, which encourages private landowners to participate in the redistribution of land voluntarily, is one of the policy changes that could accelerate the transformation process and redistribution of agricultural land. The process will require incentives to be aligned appropriately as detailed in the Presidential Advisory Panel report on Land Reform and Agriculture.

This "transformation and redistribution" pillar is likely to gain momentum in 2021 as the majority of these land policies will be introduced to Parliament for endorsement. We are likely to see progress on the release of the land, and this will be an important area to watch as it promised transparency this time around and that there will be bias towards the youth, women and other vulnerable groups; unlike the past where a disproportionally higher number of older men benefited on land reform. Another critical area worth keeping an eye on is the broader discussion about the amendment of Section 25 of the Constitution to enable land expropriation without compensation. There was little discussion on this point in 2020 as the work of the committee that was tasked to "make explicit what is implicit" in the current wording of the Constitution was interrupted by the pandemic. This year there will likely be momentum on this discussion. Our view has always been that the concept of 'expropriation without compensation' is not the desired path for agricultural development because of various economic risks outlined in the past. As an organization, we are not in support of it.

Second, the government promised to address the inefficiencies that exist in both legislation and infrastructure. Addressing the legislative inefficiencies will mean increasing human capital within the Department of Agriculture, Land Reform and Rural Development, and working closely with the private sector and broader social partners. This will entail leveraging the social partners' networks, capital, know-how, and good will to bring about the sector's growth and transformation. The interventions to address the inefficiencies will differ from subsector to subsector. For example, some subsectors might require improvements on export-related and water-efficiency matters, while others might need increased efficiencies on the registration of certain input products to increase productivity. An essential requirement here will be for government to be proactive in engaging with the private sector and broader social partners about their specific needs. On the infrastructural matters, we are less optimistic that there will be notable progress in the near term given the fiscal constraints and continued pressure to contain the spread of the pandemic and secure the vaccines. Importantly, this is not a task carried out by the Department of Agriculture, Land Reform and Rural Development per se, but by other line departments. Perhaps, a better barometer on this will be through monitoring progress on the national infrastructure programme headed by the Infrastructure Office in the Presidency.

Lastly, the government's growth and expansion policy focus is a positive step. While there were no tangible results on this point in 2020, the government and social partners' progress on the Agricultural Master Plan thus far is positive. We expect the Master Plan's launch in the first quarter of the year. After the launch, the material work on growth and expansion in the sector will begin. The two points mentioned above are also the key pillars of change in the industry. The general Master Plan theme will likely dominate and provide direction to the Department of Agriculture, Land Reform and Rural Development's approach on broader farmer development initiatives this year.

Trade will also continue to be a part of the policy discussions as the South African agricultural sector will seek access to additional markets and attempt to improve access to the new markets. Moreover, an increase in production will need to be anchored on increased export potential and domestic agro-processing capacity to replace food imports, where it is feasible. Aside from the recently launched African Continental Free Trade Area, other South African markets should seek increased access to India, China and others, including Eastern Europe.

Other essential points that did not dominate the policy discussion in 2020, but will likely be on the agenda in 2021 are; agricultural finance and commercialization of black farmers and the development of rural areas. The agricultural finance discussion will probably build from the Land Bank’s liquidity challenges and broaden in search of new and efficient financing methods. In terms of the commercialization of black farmers, this could gain momentum, but not necessarily at the expense of smallholder farmers’ support and initiatives. The government could support commercialization of the land released to various individuals as part of the 700 000 hectares announced in 2020. The microfinance, targeting the most vulnerable subsistence and household farmers, announced by the department at the end of 2020, is fresh thinking. This will build a group of new smallholder farmers that can later be financed by private financial institutions and agribusinesses. The progress or success in this point, however, will hinge on the improvement in the financing discussion and mechanisms put in place to distribute these funds in an efficient and corruption-free manner, especially at provincial and district levels. Perhaps the Land Reform Fund raised in the Presidential Advisory Panel for Land Reform and Agriculture could offer a solution in creating affordable blended finance instrument.

In summary, South Africa's agricultural policy focus will likely not deviate much from the path set out in various speeches by the Minister of Agriculture, Land Reform and Rural Development, Ms Thoko Didiza, which is what we have outlined above. Financing, which is the lifeblood of any success in the policy priorities and programmes mentioned above, could become a prominent issue of the policy discussion, in a broader sense than the narrow focus of the past year's blended finance instrument discussions.

Weekly highlights

After a solid performance in 2020, SA agricultural machinery sales to cool off in 2021

Higher agricultural output gains in 2020, coupled with relatively higher commodity prices, improved farmers' finances, which subsequently benefited the allied industries. A case in point is South Africa's agricultural machinery market which registered a notable improvement from the previous year. Tractor sales amounted to 5 738 units, up by 9% from 2019, with combine harvester sales up by 23% from the same year, amounting to 184 units. These sales are nearly as high as in 2018, which was also supported by higher grains output in the 2016/17 production season.

As recorded in the 2020 fourth quarter results of the Agbiz/IDC Agribusiness Confidence Index (ACI), the agricultural market sentiment remained positive. The ACI rallied to 61 from 51 points in the third quarter, which is its highest level since the third quarter of 2014. A level above the neutral 50-point mark implies that agribusinesses are optimistic about business conditions in South Africa. The optimism is on the back of both the above-mentioned higher agricultural output in 2019/20 production season, coupled with higher commodity prices and optimism about the production conditions in 2020/21 production season.

Ordinarily, in a year of higher agricultural output, commodity prices would soften. But in 2020 and into the beginning of this year, the rising demand for grains in China provided support to global prices, which influenced the domestic market. Most recently, an added factor is the persistent dryness in parts of Argentina and Brazil, which has also supported the rally in grains prices. The rising demand for South Africa's grains in Southern Africa and the Far East markets, coupled with the relatively weaker domestic currency, also supported domestic grain prices. Farmers were on the right side of having supplies, in an environment with favourable prices, and thus the slight improvement in the finances that supported the increased machinery sales.

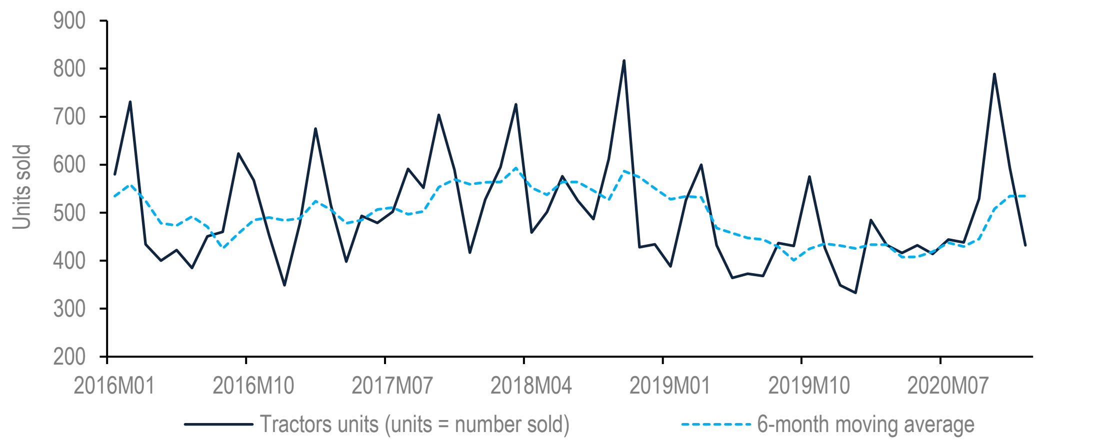
The higher sales were also a sign of confidence about the 2020/21 production season's planting conditions. As early as October 2020, farmers already intended to increase the area plantings for summer crops by 5% year on year to 4.15 million hectares. These planting data comprise yellow and white maize, sunflower seed, soybeans, groundnuts and dry beans. There is an expected increase in area plantings of most of these crops, except for sunflower seed, where the area plantings were set to decline by 4% y/y to 480 500 hectares, which would be the smallest area planted in nine years. This likely decline in sunflower seed planting is mainly on the expected shift in some hectares to white maize, in part, due to attractive prices.

As best as we can tell, farmers have followed through with these planting intentions, and the crops are in good shape across South Africa. The preliminary indications suggest that the 2020/21 season might be better than the previous season, at least for certain crops such as maize. At the end of February, the Crop Estimates Committee will release its first production estimates which will provide insights to this view.

However, the large harvest in 2020/21 production season might not lead to another year of higher agricultural machinery sales. Typically, a relatively good sales year is likely to be followed by a somewhat lower sales period as the replacement rate of machinery with new ones would ordinarily be down from the previous years. Moreover, there will likely be pressure from weak exogenous macroeconomic fundamentals such as the weaker domestic currency, which will lead to higher prices for imported agricultural machinery.

In sum, while a sizeable agricultural output supported the allied industries such as farm machinery in 2020, another essential factor is that it followed a year of reasonably low sales, which meant that a need for replacement of some machinery was slightly higher. These fundamentals are different this year. We also think that stock of machinery imported at a weak exchange rate will be more available this year, pushing prices higher and discouraging buying by some farmers. We are therefore not optimistic about the near-term agricultural machinery sales. However, the agricultural output promises to be a good harvest, and the sentiment in the sector is generally positive as illustrated in the ACI results.

Exhibit 1: South Africa's tractor sales



Source: South African Agricultural Machinery Association (SAAMA), Agbiz Research

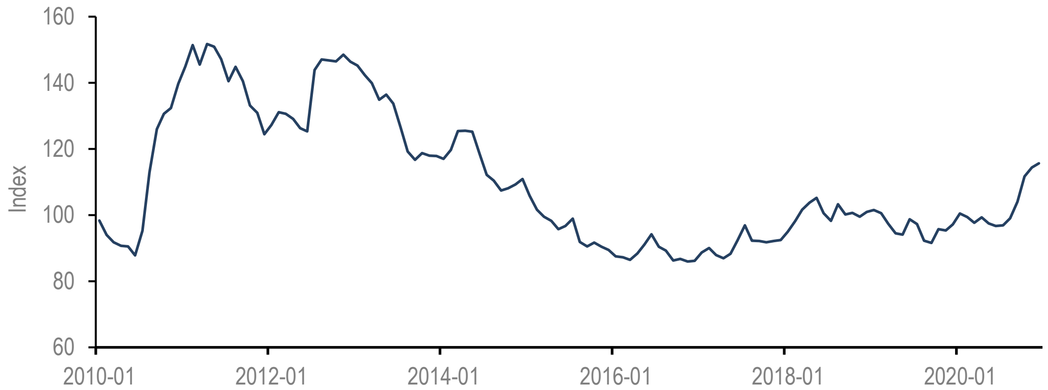
Recent developments in the global grains market

The key feature of the global agricultural markets, particularly grains, at the end of 2020 and into the beginning of 2021 are the rising prices. The FAO Global Cereals Price Index reached 116 points in December 2020, which is the highest level since June 2014. The higher prices were evident across major commodities and underpinned by various factors. In the wheat case, the unfavourable weather conditions in parts of the US and Russia were the primary drivers. In sorghum and maize, China's rising demand was the main driver of prices, along with dryness that threatened growing conditions in Argentina and Brazil. In the rice market, the tight supplies in Thailand and Vietnam led to higher prices which spilt over to January 2021.

Nevertheless, while there are various regional specific production challenges, the global grains supplies are still in fairly good shape on aggregate. For example, the latest estimates from the United States Department of Agriculture (USDA) placed the 2020/21 global wheat production at 772 million tonnes, up by 1% from the previous season. The ending stocks are estimated at 313 million tonnes, up by 4% from the 2019/20 season in the same season. The relatively higher ending stocks suggest that increases in wheat prices could be temporary as there are sufficient supplies in the global market. The 2020/21 maize production estimate has been revised down notably from estimates released at the start of the marketing year, but the expected harvest is still sizable. The 2020/21 global maize harvest could amount to 1.13 billion tonnes, which is a 2% annual increase. An uptick has compensated for the expected decline in Argentina's maize production in supplies in other geographies. The growing demand, specifically from China, which boosts global maize consumption means that the stocks could be lower than in the previous seasons. The USDA estimates a 6% year-on-year decline in global maize stocks to 283 million tonnes in 2020/21. The relatively lower ending stocks mean that global maize prices could remain slightly elevated in the near term.

In rice, the 2020/21 production could amount to 501 million tonnes, up marginally by 1% from the previous season. The stocks are also set to lift by 1% from the 2020/21 season to 180 million tonnes, which means the recent price rally could be temporary, as there are expectations of large supplies. These developments are essential for South Africa, both as an importer of some products such as wheat and rice and exporter of maize. The global effects influence the domestic price trends.

Exhibit 2: FAO Global Grains Price Index



Source: South African Agricultural Machinery Association (SAAMA), Agbiz Research

Data releases this week

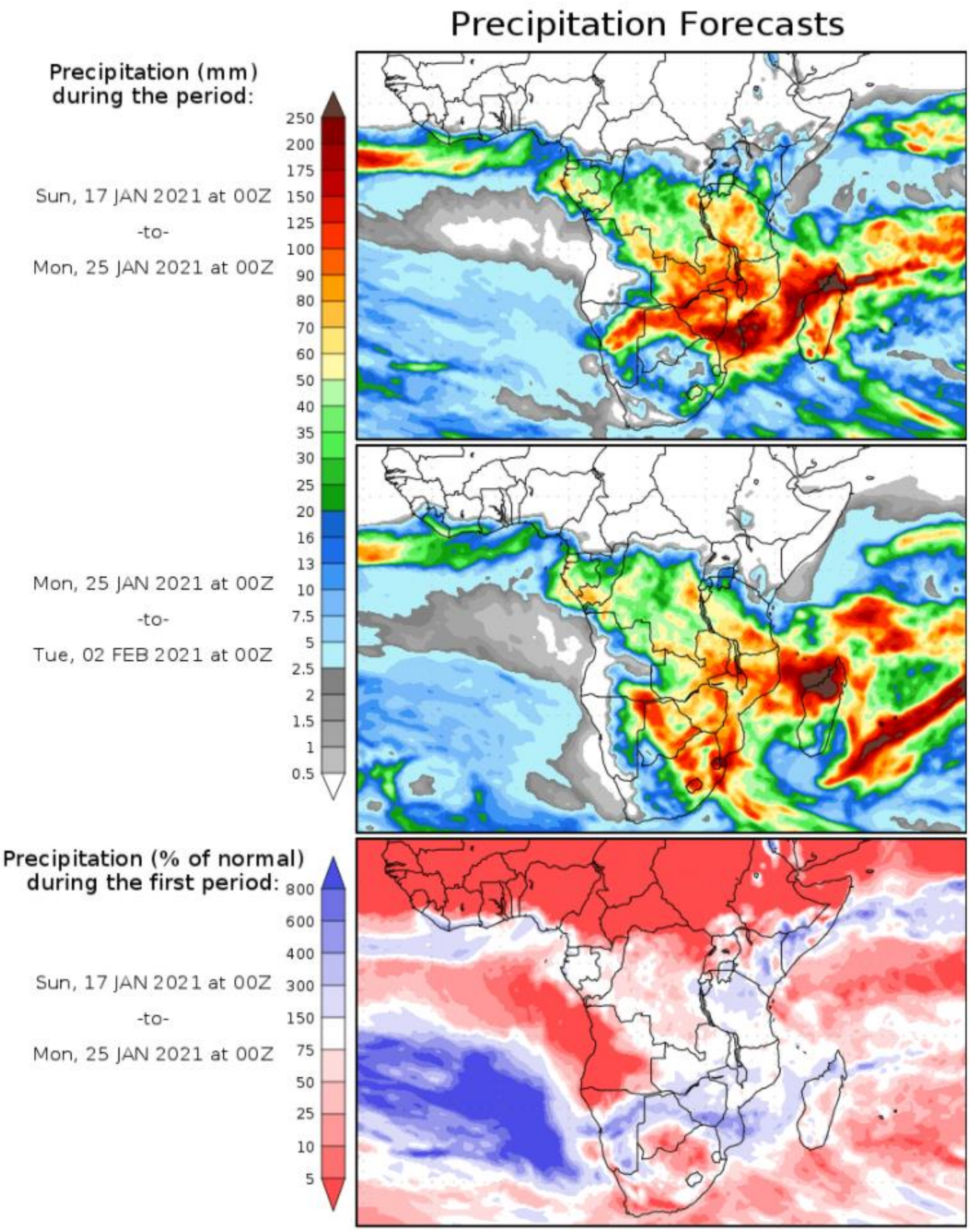
We start the year with a fairly quite week on the agricultural calendar. On the global front, on Thursday, the USDA will release the **US weekly export sales data**. In recent weeks, China has been buying large volumes of both maize and soybeans, and the demand is expected to hold as the country continues to rebuild its pig herd which was devastated by African swine fever in 2019.

On the domestic front, on Wednesday, the South African Grain Information Service (SAGIS) will release the **weekly grain producer deliveries data** for the week of 15 January 2021. This data cover both summer and winter crops. But the focus has shifted towards winter crops whose harvest is under way. In the week of 08 January 2021, about 9 042 tonnes of winter wheat were delivered to commercial silos. This placed the 2020/21 wheat producer deliveries at 1.83 million tonnes, which equates to 85% of the expected harvest of 2.15 million tonnes. Also, on Wednesday, Statistics South Africa will release the **Consumer Price Index (CPI) data** for December 2020. For background, South Africa’s food price inflation accelerated to 5.9% y/y in November 2020 from 5.6% in the previous month.

On Thursday, SAGIS will release the **weekly grain trade data** also for the week of 15 January 2021. In the previous week of 08 January 2021, South Africa's 2020/21 total maize exports were at 1.92 million tonnes, which equates to 77% of the seasonal export forecast (2.50 million tonnes). In terms of wheat, South Africa is a net importer, and in the week of 08 January 2021, imports amounted to 429 964 tonnes. This equates to 28% of the seasonal import forecast of 1.54 million tonnes.

The next two weeks could bring higher rainfall over the summer crop producing regions of South Africa.

Exhibit 3: South Africa's precipitation forecast



Source: George Mason University (wxmaps)