

The challenge of getting rid of dualism in SA agriculture

At the dawn of democracy, few probably thought that nearly three decades on South Africa would still be battling with the phenomenon of 'two agricultural systems'. Although some progress has been made as black farmers have joined commercial production and supply chains, the combination of poor and slow implementation of land reform, inefficient government decisions and support systems, bureaucratic delays, the misfortunes of drought and diseases have all entrenched the divide between commercial agriculture (mainly white) and subsistence farming (mainly black).

Recent studies show that black South African farmers produce less than 10% of the country's total agricultural output.¹ This number is at best a guesstimate and unfortunately hides the stellar progress in maize production, wool production, commercial cattle farming; where black farmers are responsible for a sizable share of 34% of stock), and some horticulture products. In addition to this, the numbers also do not consider transactions in informal value chains and sales into small local markets. This is because the reported shares are largely extracted from records provided by the commodity organisations as part of their commitment to transformation. The incomplete picture is also a result of the way the Agricultural Census conducted by Statistics South Africa is done, i.e., including only VAT registered farmers in the census.

As we argue in our recent chapter in the *Oxford Handbook of the South African Economy*, the 2017 agricultural census excludes 92 634 households who practice commercial farming as their main source of income, and a further 122 200 households who practice commercial farming as a secondary source of income (estimates from the Community Survey, 2016). One can therefore assume that around 214 800 farming households (black and white) who practice some forms of commercial farming were excluded from the agricultural census. Most of these are micro-enterprises with gross farm incomes below R500 000 per annum but can be characterised as commercial since they sell produce. There are several reasons behind the slow progress in black farmers' total share of farm output. We discuss some of the important reasons here:

First, a lack of direction and fast decision-making in the national and provincial government as well as poorly designed programmes to support black farmers to become part of the commercial sectors have been a challenge for years.

Second, poor adoption of the latest technology to increase productivity. The commercial farming sector, whose output has more than doubled in real terms since 1994, had leveraged technological innovation and expansion in export markets when South Africa integrated into the world economy after years of sanctions.

Third, there is a lack of collaboration between government and the private sector as manifested through commodity organisations, agribusinesses, commercial farmer organisations, etc. This results in slow implementation of the farmer development plans. The farmer organisations are frustrated with the lack of delivery and bureaucratic inefficiency.

¹ See W Sihlobo, J Kirsten - *The Oxford Handbook of the South African Economy*, 2021 for more information: https://books.google.co.za/books?hl=en&lr=&id=polNEAAQBAJ&oi=fnd&pg=PA195&dq=info:lzTw4lw9qH8J:scholar.google.com&ots=A4zeoXUvNZ&sig=NpFq5HkKlcavr9NWT9jUo0HFTvQ&redir_esc=y#v=onepage&q&f=false

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When they do try and implement transformation initiatives, these are sometimes not supported by government officials, primarily at provincial level and in the municipalities, and as a result, the farmers who need and deserve support the most are underserved.

Fourth, the inefficiency of many of the provincial Departments of Agriculture. This results in poor and non-delivery of critical programmes to support farmers in especially the former homeland regions KwaZulu-Natal, Eastern Cape, Mpumalanga, North West and Limpopo. This includes animal biosecurity, water infrastructure, farm security, extension and CASP funding. This state of affairs is also worsened by a lack of coordination with water affairs, environmental affairs, provincial roads, and local municipalities.

Fifth, slow delivery of critical large infrastructure projects. A case in point is the Brandvlei Dam, where raising the canal walls by 30 cm for 4 km at the cost of about R20 million would result in an additional 33-million cubic metres of water, leading to an additional 4 000 ha of irrigated horticulture in the area, has been neglected.² Such an extension in area plantings would have facilitated the inclusion of black farmers and contributed to job creation and export earnings for the country.

Sixth, in the North West, Mpumalanga, and Free State, the failure of municipalities to deliver basic services such as water, electricity, and road maintenance have been amongst some of the major constraints to higher growth of agribusiness increased transaction costs of moving agricultural products. Similarly, in the old Transkei region, prime agricultural lands such as Magwa tea could be reoriented to high-value horticulture, which is also labour intensive and to attract private sector players for co-investing in infrastructure in the surrounding areas.³

Seventh, black farmers own a decent share of cattle in South Africa. Unfortunately, the poor implementation of animal biosecurity systems and the enforcement of regulations on disease controls and the movement of animals have had a negative impact on the commercial aspirations of many black farmers.

Many of these contributing factors to the continuation of dualism in South African agriculture requires only effective policymaking and the right incentives. There is minimal need for massive expenditure programmes. A quick reform on the non-monetary interventions could go a long way in boosting growth.

At the national level, such intervention includes (1) the release of land already in the government's book to beneficiaries with tradable land rights, (2) improvement in efficiency in various regulations in the livestock industry and animal hygiene, which would assist in boosting exports and improving the market access for farmers on communal land, (3) improvements in the efficiency in registering new agrochemicals that can help in making agriculture more efficient. The new beneficiary selection criteria policy should be properly applied to select the correct *jockeys* for the land on the land question.

There is also scope to boost land donations, but the state will have to do more to improve the incentives list in the current land donations policy. This process also needs to appreciate that there aren't many farmers that would be able to donate land as there are many farms in South Africa that can be characterized as micro, with 47% of commercial farming units with a turnover of less than a million rands in 2017.

In sum, the current dualistic farming structure of South Africa's agriculture is not sustainable. But the failure to improve it over the past decades cannot be laid before the door of the private sector only. It is evident that poor record of policy implementation, inefficient

² More information on the Brandvlei dam is available here: <https://wandilesihlobo.com/2021/11/18/grim-realities-of-south-africas-agriculture-infrastructure-investment-failures/>

³ More information about Magwa tea estimate current conditions is available here: <https://wandilesihlobo.com/2021/11/08/former-homelands-have-been-left-behind-to-occupy-the-periphery-of-progress/>

programmes and bureaucratic delays on critical aspects and poor coordination within government are largely to blame. Increasing black farmers' share in commercial agriculture output means that the government's agriculture policy needs to be reorientated from a smallholder or subsistence focus to considering the required intervention to boost the commercial opportunities for black farmers. Getting commercial agriculture going in the poorest region of South Africa is critical for a variety of reasons.

These include:

- Growth in agriculture is in general (two to three times) more effective at reducing poverty than an equivalent amount of growth generated outside agriculture.
- The advantage of agriculture over non-agriculture in reducing poverty is largest for the poorest in society and ultimately disappears as countries become richer.
- The advantages of growth in agriculture in reducing poverty can also extend to other welfare outcomes such as food insecurity and malnutrition.
- An important source of the poverty-reducing benefits of agricultural growth is through agricultural productivity growth changes driven by the widespread adoption of innovations. This increases producer returns (and wage labour opportunities) and reduces consumer prices.

Weekly highlights

SA consumer food price inflation moderated in October

South Africa's consumer food price inflation moderated to 6,7% y/y in October 2021, from 7,0% in the previous month. There was a deceleration in products price inflation across the food basket except for vegetables. Still, we think the uptick in vegetables price inflation is temporary and was mainly caused by the supply constraints in the northern parts of South Africa in the past few months, which has now normalised. While we expect consumer food price inflation to continue to slow in the coming months, we no longer think this will be significant. Meat, as well as oils and fats, which decelerated somewhat in October, will likely remain at fairly higher levels for some time, and thus counter the potential decline in various products such as 'bread and cereals' and 'vegetables'.

For example, the cattle and sheep slaughtering activity remains at relatively lower levels compared to 2020, and this could provide mild upward pressures for meat price inflation in the near term. In August 2021, cattle and sheep slaughtering activity was down by 1% y/y and 3% /y/y, with 207 449 and 293 883 head slaughtered, respectively. The livestock industry is still in the herd-rebuilding process that we have been in since the drought of 2015-16. Moreover, the excellent performance in crops production in 2020/21 season may have helped to provide some financial breathing room for some diversified farmers to rebuild herds rather than sell more meat to the domestic market.

In addition, South Africa is a net importer of oils and fats, and these product prices have remained elevated in the global market. For example, the FAO Vegetable Oil Price Index averaged 185 points in October 2021, up 10% month-on-month and marking an all-time high.⁴ This is underpinned by higher palm oil, soybeans, sunflower seed and canola prices on the back of constrained supplies in key producing countries such as Malaysia and parts of Europe, and the generally strong demand from China and India.

⁴ More information on the Global Food Price Index is available here: <https://www.fao.org/worldfoodsituation/foodpricesindex/en/>

Exhibit 1: South Africa's consumer food price inflation



Source: Stats SA and Agbiz Research

Data releases this week

As always, we start the week with a global focus. Today the USDA will release the **US Crop Progress** report. We focus on the harvest progress in the US grains and oilseeds. The previous report of 15 November 2021 showed that 91% of the US maize crop had already been harvested, slightly behind last year's pace of 94%. On the same day, 92% of the US soybeans crop had already been harvested, which similarly is slightly behind the pace of 15 November 2020, which was 95%. As we noted in the previous notes, this slight delay in harvesting is primarily on the back of a late start of planting in various areas that experienced dryness across the US grain belt. On Friday, the USDA releases the **US Weekly Export Sales** data.

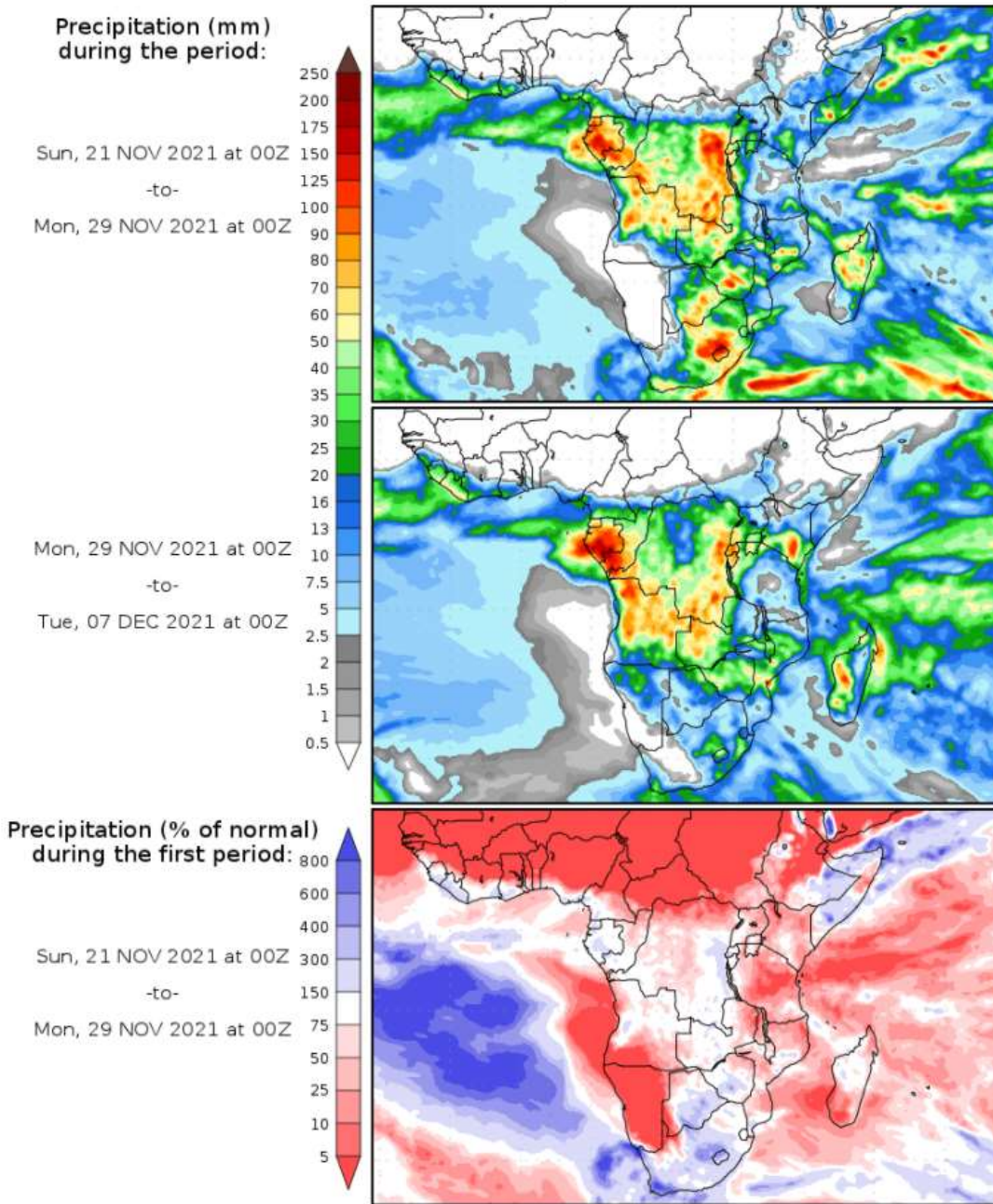
Domestically, on Wednesday, SAGIS will release the **Weekly Grain Producer Deliveries** data for 19 November 2021. This data cover summer and winter crops. We only focus on summer crops for now and will switch to winter crops when harvest gains momentum in the coming months. On 12 November, 248 tonnes of soybeans were delivered to commercial silos. This placed the soybean producer deliveries for 37 weeks of the 2021/22 marketing year at 1,83 million tonnes, which equals 97% of the expected harvest of 1,89 million tonnes.

Moreover, 672 727 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 28th week of the 2021/22 marketing year, which began in May. The producer deliveries currently amount to 14,3 million tonnes, equating to 88% of the expected crop of 16,2 million tonnes.

On Thursday, SAGIS will release the **Weekly Grain Trade** data for the week of 19 November 2021. In the week of 12 November 2021, which was the 28th week of South Africa's 2021/22 maize marketing year, total maize exports amounted to 2,12 million tonnes, equating to 62% of the revised seasonal forecast of 3,42 million tonnes (up by 16% y/y). South Africa is a net importer of wheat, and 12 November 2021 was the seventh week of the 2021/22 marketing year. The total imports are now at 299 139 tonnes out of the seasonal import forecast of 1,53 million tonnes (slightly above the 2020/21 marketing year imports 1,51 million tonnes).

Exhibit 2: South Africa's precipitation forecast

Precipitation Forecasts



The weather forecast for the next two weeks shows prospects of rainfall over South Africa.

This should help improve soil moisture and support the planting activity for the 2021/22 crop.

Source: George Mason University (wxmaps)