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Poor implementation is a major issue for policy credibility in SA agriculture

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The effectiveness of government policy and programmes depends on the credibility that various role players place on such programmes and the government's ability to implement them. The government can build credibility over time by showing commitment to implementation. South Africa has not always shown such commitment to policy implementation, at least over the past decade. Thus, it can be argued that the government's policy credibility has, over time, been eroded due to a patchy record of implementing its policies. An example is the National Development Plan (NDP), launched in 2012, and the National Treasury's 2019 economic policy paper titled "Economic transformation, inclusive growth, and competitiveness: Towards an Economic Strategy for South Africa", both have not been fully implemented.

These documents outlined a sectoral approach to development, which various government departments should have pulled ideas from to enhance their strategies. However, this has not been followed faithfully. The factors that lie behind poor policy implementation are varied and complex, ranging from conflicting ideologies, lack of capacity within the state and its institutions, corruption, and poor governance at local municipalities.

As a result of the poor record of policy implementation, there is always scepticism from businesses and the general public whenever the government announces new broad policies or programmes. Credibility is improved through implementation. In October 2020, the South African government announced the Economic Reconstruction and Recovery Plan (ERRP). The ERRP also had a sectoral approach, to an extent, focusing on energy security, infrastructure development, green economy, food security, and the tourism sector, amongst others. Unlike the slow progress in policy implementation, we have observed over the past decade, the government has followed through with reforms in the energy sector - a good step towards rebuilding credibility. It is worth highlighting that this is an area that was already in a crisis mode. Interventions in other priority areas such as food security and improvement of the industrial base for job creation are made by the Department of Agriculture, Land Reform and Rural Development (DALRRD), and the Department of Trade, Industry and Competition (DTIC). These departments have focused on the creation of the sectoral master plans and localisation strategies.

The master plans have a social compact approach, which entail pulling ideas from a range of key stakeholders in each sector. For this process to succeed trust amongst all parties involved is essential. In agriculture and agribusinesses, such participants include government, farmer organisations, agribusiness, commodity organisations and labour representatives, amongst others. This process too could suffer inertia if it only leans on grand ideas while suffering implementation deficit.

At a technical level, the ideas of expanding agriculture and agro-processing capacity to boost growth and job creation were well established as far back as the publication of the NDP in 2012 and were again highlighted in the 2019 National Treasury paper. These include expanding agricultural activity in the former homelands and government land, enhancing government-commodity organisations partnerships in extension services, investment in the network industries (water, electricity and road infrastructure), investment in port infrastructure, and state laboratories. Some interventions are more regulation-focused, and therefore do not require significant capital spending by the government although these still require institutional capacity building. Such regulatory interventions include the modernisation of regulations such as the Fertilizers, Farm Feeds, Seeds and Remedies Act 36 of 1947, which many role players in agriculture continue to express dissatisfaction with. The enforcement of the Agricultural Product Standards Act in a way that ensures that the DALRRD leads the implementation and does not assign it to the third parties is also another critical intervention that could be explored.

The DALRRD and various social partners are at the tail end of drafting the Agriculture and Agro-processing Master Plan, which is a document supporting the ERRP that the president launched in October 2020. Still, the fundamental approach and orientation of this master plan are similar to the NDP's chapter six approach to agriculture development. But what will make this particular plan different is the commitment to implementation and the costing of its activities. We offer a few suggestions below.

What should the government/DALRRD do in the near term?

- Implement all the regulatory interventions that require less capital and are within the government's reach with speed and provide consistent updates to social partners.
- Reprioritise the budget in line with the master plan interventions. This will signal the government's commitment to ensuring the success of the plan.
- Support state entities such as Transnet to improve the effectiveness at the ports.
- Work closely with the National Treasury to resolve the Land Bank's financial challenges so that the bank can play an influential role in the master plans.
- Intensify efforts to open more export markets for South African agriculture.
- Release land in the government's hand to new beneficiaries with long-term tradable land rights or title deeds.
- Root out corruption at various levels within the department to ensure the effectiveness and efficiency of staff.

What should the private sector do?

- Build trust amongst various farmer organizations and agribusiness to have a unanimous private sector voice that speaks to the government.
- Recognise the need for collaborative efforts in rebuilding South Africa and expanding the agriculture and agribusiness sector. This could be through a partnership with new entrant farmers in the development programmes of various commodity organisations.
- Participate in the Blended Finance instrument as it will help finance the new entrant farmers and somewhat close the financial hole caused by the challenges of the Land Bank.
- Showcase and expand partnership programmes that have proven success in various commodities and parts of the country.

These are not exhaustive but we believe are interventions that could move the needle in terms of translating the ideas on paper in various plans into tangible projects that could contribute to the growth and job creation in South Africa's agriculture. From the government's side, the priority should be on building credibility. This could be done by listening to business and social partners and effectively implementing the less financially costly programmes quickly. This will demonstrate the commitment and prove to be an encouragement to all role players. In the case of localisation, South Africa's agricultural sector is export oriented and has very small space for localisation in the major agriculture imported products list such as rice, wheat and palm oil. Therefore, localisation should not be a priority for agriculture and agribusiness role players. Instead, the focus should be on expanding export markets for South Africa's agriculture products.

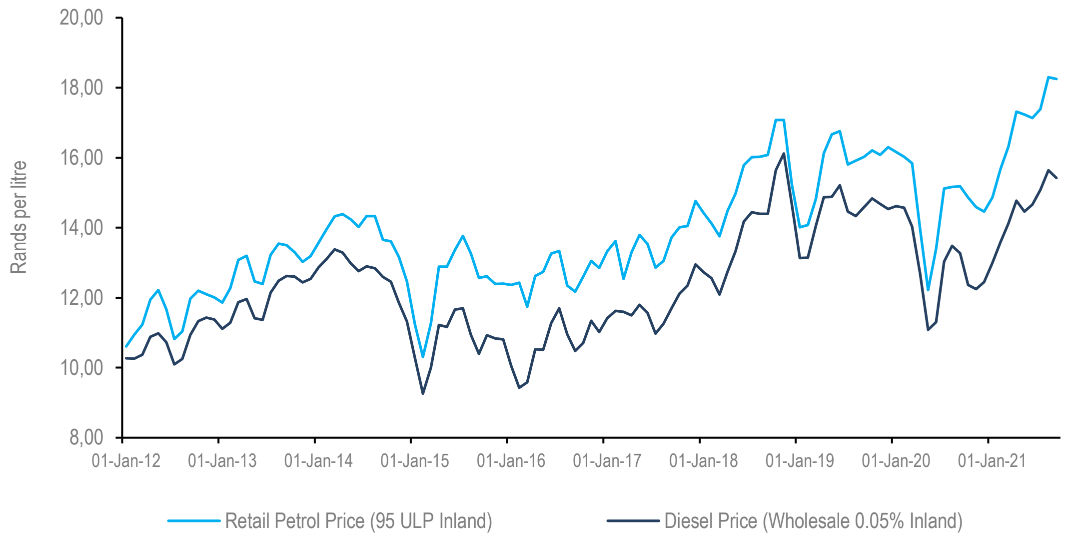
Weekly highlights

South Africa's fuel prices to remain at higher levels in September 2021

The planting season for South Africa's 2021/22 summer grains and oilseeds beings in October. While the weather outlook is favourable with prospects of a weak La Niña, which should bring above-normal rainfall, there are concerns about the rising input costs. We have recently written about the fertilizer and agrochemicals prices which are over 30% higher compared to levels seen in 2020.[1] The additional costs to farmers and agribusiness are the higher fuel prices.

The preliminary estimates from the Central Energy Fund suggest that petrol (95 ULP Inland) and diesel (0.05% Wholesale Inland) prices could decrease by 5 cents per litre (c/l) and 22 c/l respectively, on 01 September 2021. This adjustment means the retail price of petrol could marginally fall to R18,25 per litre from the current level of R18,30 per litre. Simultaneously, the wholesale diesel price could decline to R15,42 per litre from R15,64 per litre in September 2021. These will still be relatively higher levels. The key factors sustaining fuel prices at these higher levels are relatively weaker ZAR/USD, combined with the rising Brent crude prices, which averaged US$70,09 per barrel in the first 20 days of August 2021, up 55% year on year.

Exhibit 1: South Africa's retail petrol and wholesale diesel prices



Source: Central Energy Fund and Agbiz Research

South Africa's consumer food price inflation will likely moderate in the second half 2021

Although South Africa's July 2021 consumer food price inflation of 7% y/y is unchanged from the previous month, there are clear signs in the underlying details that pressures are beginning to moderate. We are seeing a similar trend in the global market, with the Food and Agriculture Organization of the United Nations (FAO) Global Food Price Index, which slowed for the second consecutive month in July. After all, the acceleration in South Africa's

[1] Rising costs to keep South African farmers on their toes. Available here.

consumer food price inflation from late 2020 and in the first half of 2021 was not necessarily driven by domestic factors, but mostly unfavourable spillover effects from the global market.

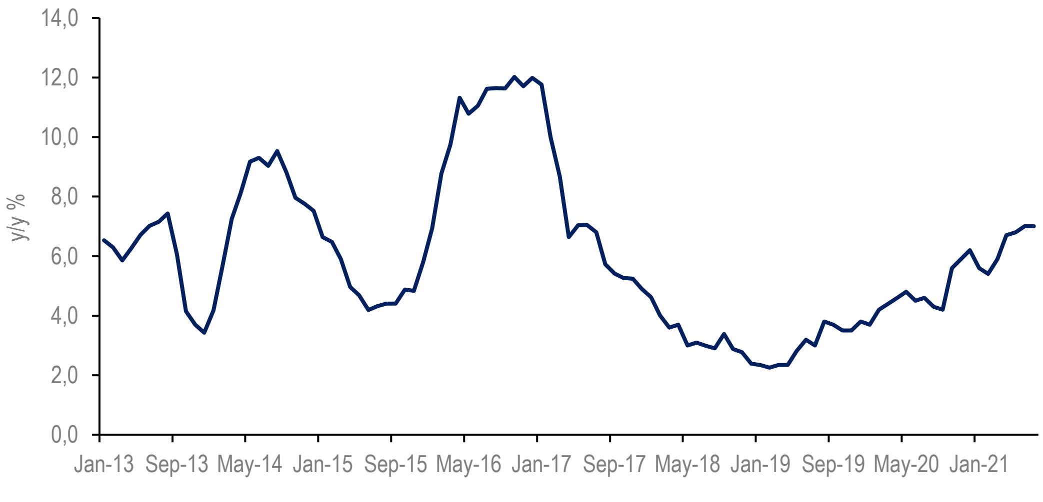
South Africa had a large grains harvest in the 2020/21 production season, with maize production at 16,4 million tonnes, the second-largest yet. The soya bean harvest was the largest on record, and the same is true for citrus. Harvest figures like this would typically add pressure on the domestic commodities prices. But we experienced spillover effects of the global surge in agricultural commodity prices. The price increases were caused by a range of factors, including growing demand in China, lower production of palm oil in Asia, lower global grain stocks, dryness in South America and unfavourable weather in parts of Europe and North America at the start of the 2021/2022 production season.

With that said, we have now seen a substantial change in these factors, and global prices are starting to reflect it – an example is a decline in the FAO Global Food Price Index. Production conditions have improved, notably in Europe and North America. Against this, the International Grains Council forecasts 2021/2022 global grain production at a record 2.3-billion tonnes. These production forecasts suggest global agricultural commodity prices in the second half of the year could continue softening slightly from the levels of recent months.

The only significant upside risk on grain prices is tightening global grain stocks and progressively growing consumption from the bioenergy industry. That said, the data so far point to improved affordability for consumers in the second half of the year. Another upside risk that is worth keeping an eye on, particularly in the South African market is the rising fuel prices. South Africa transports a large share of the food by road. An example is grains and oilseeds where over 70% is transported by road.

The oils and fats in South Africa's food basket, whose price direction is largely influenced by global vegetable oil price trends and were amongst products keeping food inflation at fairly higher levels in July 2021, could also soften in the coming months. Global prices are already on a downward path. Meat, which also increased slightly in July, is likely to soften in the coming months and the high-frequency data is already pointing to a downward trend. We attribute this to a potential increase in domestic meat supplies. Overall, all else being equal, South Africa's consumer food price inflation probably now peaked and the coming months will present some moderation.

Exhibit 2: South Africa's consumer food price inflation



Source: Stats SA and Agbiz Research

Data releases this week

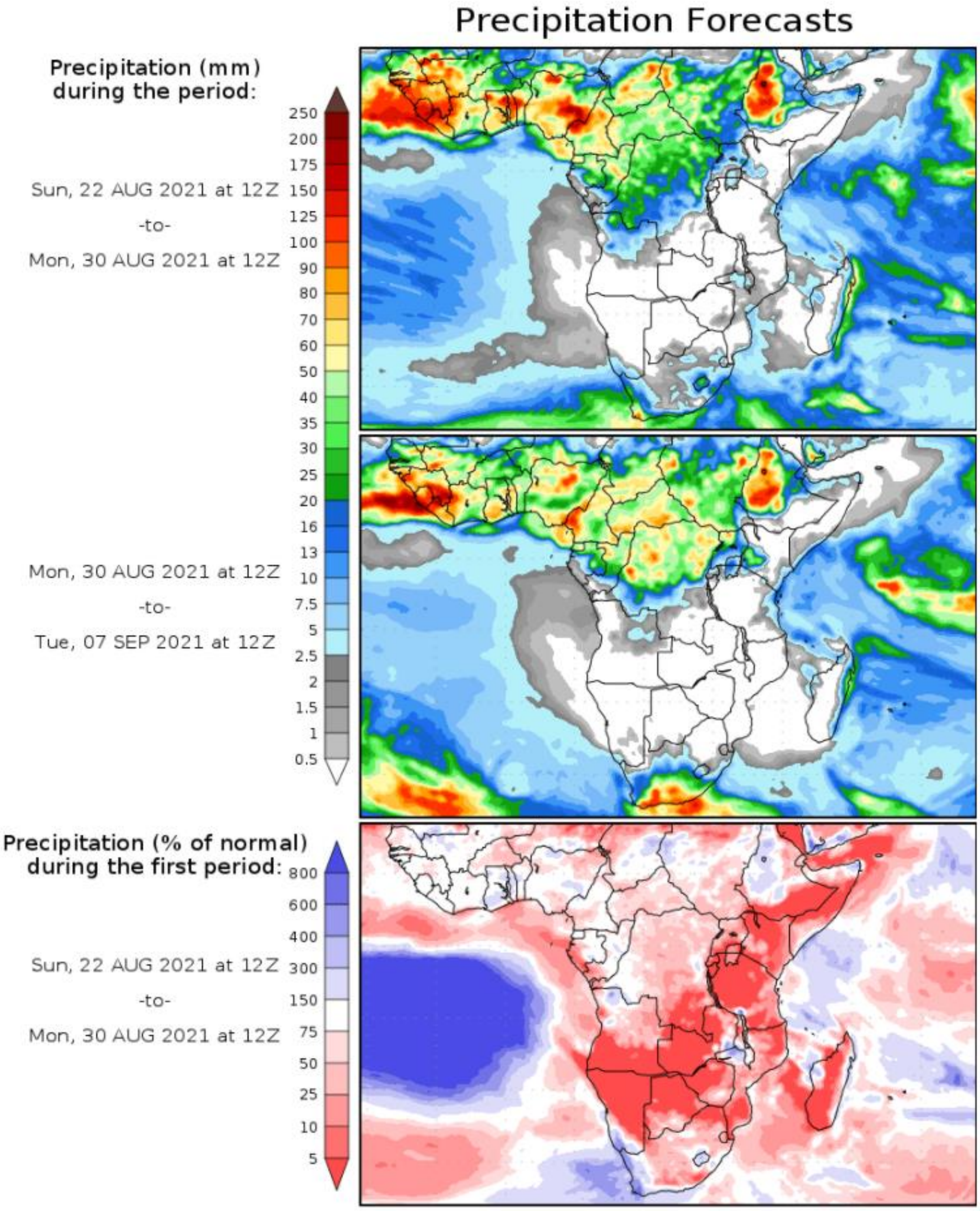
We start the week with a global focus, as the USDA will today release **US Crop Progress** report for 22 August 2021. In the previous report of 15 August, the US maize crop was rated 62% good/excellent, which is well below the previous year's rating in the same week of 69%. These results speak to the dryness reported in parts of the US. In the same week, the US soybean crop was rated 57% good or excellent, poorer than the same time last year's rating of 72%. On Thursday, the USDA will release the **US Weekly Export Sales** data.

On the domestic front, we start the week with Stats SA releasing the **Quarterly Labour Force Survey** data for the second quarter of 2021 on Tuesday. To recap, in the first quarter of 2021, South Africa's agricultural jobs were down by 8% y/y, with 792 000 people employed. This is the lowest level since 2014, which was a drought year. But we did not have a drought season in the 2020/21 season. The decline in jobs was mainly concentrated within industries affected by various regulations in the lockdown period, such as the horticulture (wine grapes) and game industries. We expect the second quarter numbers to remain at these fairly low levels as the wine industry in the Western and Northern Cape continues to feel the impact of the ban on sales.

On Wednesday, SAGIS will release the **Weekly Grain Producer Deliveries** data for 20 August 2021. This data cover summer and winter crops, although we only focus on summer crops for now where harvesting has recently been completed and farmers will soon be preparing for the next season. To recap, on 13 August, about 1 517 tonnes of soybeans were delivered to commercial silos. This placed the soybean producer deliveries for 24 weeks of the 2021/22 marketing year at 1,81 million tonnes, which equals 94% of the expected harvest of 1,92 million tonnes. Moreover, 656 011 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 fourteenth week of the 2021/22 marketing year, which began at the start of May. The producer deliveries currently amount to 13,3 million tonnes, equating to 81% of the expected crop of 16,4 million tonnes.

On Thursday, SAGIS will release the **Weekly Grain Trade** data for the week of 20 August 2021. In the week of 13 August, which was the fifteenth week of South Africa's 2021/22 maize marketing year, total maize exports amounted to 1,2 tonnes, which equates to 48% of the seasonal forecast of 2,7 million tonnes (down by 7% y/y). The decline in South Africa's maize export forecast is because of an anticipated decline in Southern African demand's demand on the back of an improvement in supplies. In terms of wheat, South Africa is a net importer. On 13 August, imports amounted to 1,4 million tonnes, equating to 88% of the seasonal import forecast of 1,6 million tonnes.

Exhibit 3: South Africa's precipitation forecast



Source: George Mason University (wxmaps)

The weather forecast for this week shows prospects of light showers in the eastern and south-western regions of the country.

In the eastern regions, the forecast rains will help slightly improve soil moisture ahead of the planting season.

In the south-western regions, the forecast rains will help boost winter crop growing conditions.