

## Unlocking growth in South Africa's agriculture

We believe South Africa's agricultural sector will grow by over 6% this year<sup>1</sup> after an already solid growth of 13,4% y/y in 2020. Still, this expansion will likely slow to a long-term average of around 3% in 2022, in our view (see Exhibit 1). The continuous favourable weather conditions, strong export activity, and relatively higher commodity prices will remain critical catalysts for growth in this sector in the near term. While there remains uncertainty about the commodity price trajectory, the expected La Niña and associated dryness it typically brings to South America could prove to be a significant global price supporting factor and, in turn, boost the South African agricultural commodities market.

In the case of trade, South Africa has experienced numerous challenges at the ports through delays, theft of Transnet infrastructure, cyber-attacks, and general inefficiency, which calls for a need to improve and modernise South Africa's shipping ports. Still, agricultural exports have held on positively for the first half of this year. We suspect that the full-year exports will surpass the 2020 levels of US\$10,2 billion. In the first half of 2021, South Africa's agricultural exports amounted to US\$6,1 billion, which is a 30% y/y increase (see Exhibit 2). Compared with last year, the growth is partly because of base effects, as the first half of 2020 was heavily affected by the Covid-19 related disruptions to global supply chains. Still, the growth reflects rising export performance for various products.

The vibrancy could be seen across the major subsectors of the South African agricultural economy – field crops, animal production, and horticulture. As such, we are confident that employment in South Africa's primary agriculture could also remain elevated around the average long term of 852 000 people. Already, in the second quarter of this year, direct agricultural jobs recovered from the slump of the first quarter by 9% q/q and 8% y/y to 862 000 (see Exhibit 3).

While these near-term growth prospects support the sector, unlocking the full growth potential over the long run will require policy interventions within agriculture and cross-cutting government departments. This area has remained a challenge for South Africa for a while because of the poor implementation of government policies and programmes. As indicated in this note before, as far back as in 2012, the South African government published its National Development Plan, which promised prospects of accelerated growth and job creation at the sector's primary and value chain level. But as with some policies before it, South Africa never fully implemented the ideas of Chapter six of the National Development Plan.<sup>2</sup> The prerequisites for unlocking growth in the sector included a need for investment and expansion of irrigation infrastructure across the country. If done properly, it would have unlocked about 500 000 hectares for the horticulture sector – a labour-intensive subsector. In addition, the government had to convert some under-utilised land in communal areas and land reform projects into commercial production. This intervention would have involved a transfer of land rights to beneficiaries so that they could mobilise funding opportunities. Also, the government had to support the commercialisation of the new entrant farmers

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**Wandile Sihlobo**

Chief Economist

+27 12 807 6686

[wandile@agbiz.co.za](mailto:wandile@agbiz.co.za)

[www.agbiz.co.za](http://www.agbiz.co.za)

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<sup>1</sup> Other analysts like the Bureau for Food and Agricultural Policy (BFAP) see a much higher growth figure of 7,6% y/y in 2021. The BFAP's full publication is available [here](#).

<sup>2</sup> The National Planning Commission. 2012. *National Development Plan 2030*. Pretoria: The Presidency.

instead of locking them into small farming enterprises. Unfortunately, none of these suggestions were implemented fully.

The expansion that we have observed in agriculture since 2012<sup>3</sup> has been led by private sector firms rather than government-led. As a result, the discussion about the low levels of transformation in South Africa's agriculture continues to linger. The National Agricultural Marketing Council estimates that black farmers in South Africa still constitute less than 10% of the commercial production.<sup>4</sup> To address the low transformation challenge and potentially slower growth in agriculture in the coming years, the government has revived the high-level views of Chapter six of the National Development Plan through its Agriculture and Agro-processing Master Plan. The master plan involves social compacting between business, labour, and government amongst other stakeholders. Its major contribution is that it has managed to map commodity corridors through which expansion could take off and clearly outline the types of investment and infrastructure needs in each area. Still, this will need a full buy-in of all agricultural role players. We, as Agbiz, have been positive and participating throughout the process.

The two major areas we feel need increased attention are (1) messaging and participation of the provincial and local governments and the (2) financing instruments beyond the Blended Finance model that the government has launched its first leg. On the first point, some of the most critical implementation for the agricultural sector happens at local government, even if the policies are crafted at a national level. Therefore, the national government should ensure that the provinces' agricultural strategies are aligned with the overall national policy approach of the master plan. This will need proactive communication and engagement from the national government.

Secondly, the blended finance instrument is a welcome development but will not be sufficient to fund the new entrant farmers and initiatives entailed in the master plan. Social partners should work on the financial strategy to implement the plan, and the government will have to be proactive in this regard. The first step from the government side would be through ensuring that all provincial spending is aligned with this new plan for agricultural development. The provinces should not continue with their old spending patterns in various projects, instead, align with this new national vision. This is a discussion that could be facilitated within the government, so that appropriate policies and procedures are followed.

Another essential point that the South African government will have to reassess is its land reform policy. The development and expansion that the master plan calls for require private investment into the new land and partnerships. Such interventions will likely continue to be a challenge when there is no clarity on the land reform policies. While already advanced in the National Assembly, the debate about expropriation without compensation will not serve the sector and economy well.<sup>5</sup> In principle, the focus should be on securing property rights, releasing the land already in the government's books to carefully identified beneficiaries, and continuing to pursue various instruments of accelerating land reform. Some were highlighted in the President's Advisory Panel report on Land Reform and Agriculture.<sup>6</sup>

In sum, South Africa's agricultural economy growth prospects are positive in the near term. Still, the long-term growth prospects depend on the pace and commitment to implementing reforms such as the Agriculture and Agro-processing Master Plan, along with various land reform suggestions in the President's Advisory Panel report, amongst others. Another important area that needs the attention of all social partners is agricultural finance.

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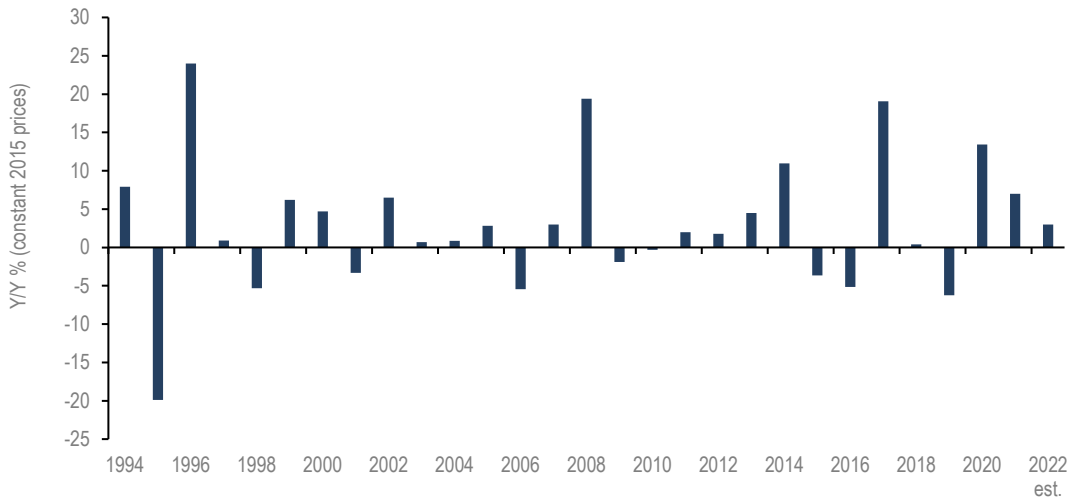
<sup>3</sup> Bureau for Economic Research. 2020. *South Africa's Progress Towards its Development Objective*. Stellenbosch: Stellenbosch University.

<sup>4</sup> There is no consensus around this figure, which shows the need for research in this area. With that said, there is convincing anecdotal evidence which backs the National Agricultural Marketing Council's view that transformation remains at very low levels in South Africa's agriculture. Hence, we continue to call for a need for inclusive growth.

<sup>5</sup> Sihlobo, W. 2020. *Finding Common Ground: Land, Equity and Agriculture*. Johannesburg: Pan Macmillan South Africa.

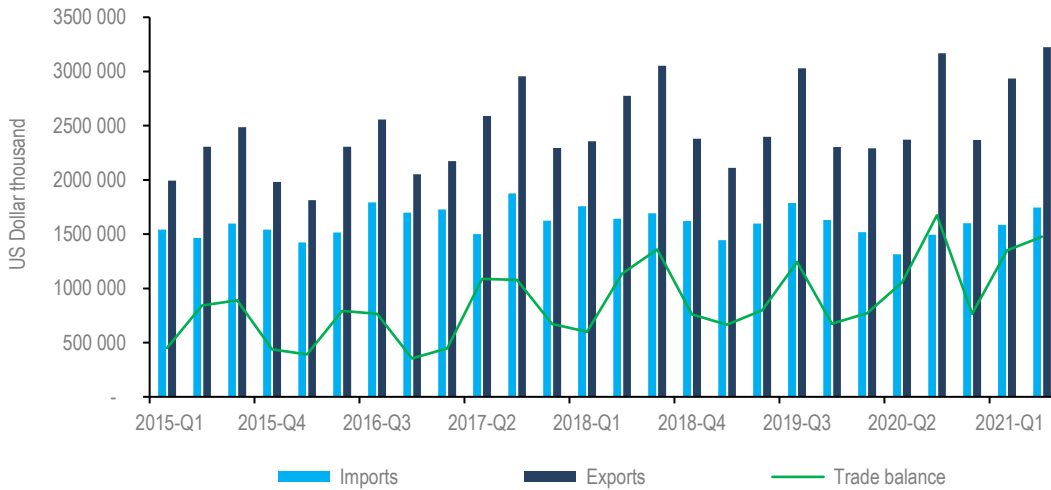
<sup>6</sup> Panel on Land Reform and Agriculture. 2019. *Final Report on Land Reform and Agriculture in South Africa*. Pretoria: The Presidency.

**Exhibit 1: SA agriculture growth could slow to a long-term average of around 3% in 2022**



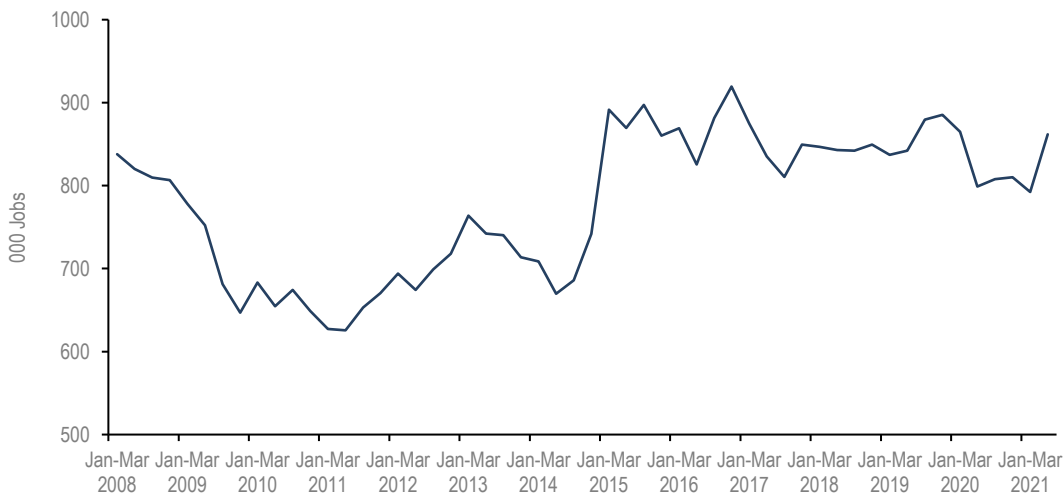
Source: Stats SA and Agbiz Research

**Exhibit 2: In the half of 2021, SA agricultural exports amounted to US\$6,1 billion**



Source: Trade Map and Agbiz Research

**Exhibit 3: In Q2, 2021 primary agricultural jobs recovered**



Source: Stats SA and Agbiz Research