

May 20 2024

Ten areas that require the attention of the SA agricultural leadership post-elections

- With just over a week left before South African heads into the 2024 general elections, discussions in various agricultural gatherings are understandably centered on the theme of elections and possible outcomes. However, the policy direction and commitment to implementation will be far more critical for agriculture. A rough scan of various political parties' manifestos shows that agricultural matters are well-featured, with varying views on land reform. Also evident this time is an appreciation of what the sector could continue to contribute to the rural economy, job creation and the national food security.
- Next month, when the new administration comes into office, we remain convinced that new policies should not be introduced. The focus should be on implementing and updating the existing programmes where necessary. As we argued recently, the starting point should be the Agriculture and Agro-processing Master Plan (AAMP), as it has the buy-in of most agricultural stakeholders and strives to grow a competitive and inclusive sector. The AAMP's growth narrative is through focused value chain deep dives and commodity corridors. The Department of Agriculture, Land Reform and Rural Development (DALRRD) should, in the new administration, reignite the AAMP through clear communication of the expectations to the various provincial departments and local offices that private sector stakeholders will essentially work within the implementation of the plan.
- Moreover, the implementation of the AAMP has so far been slow because of various factors that have taken the government and stakeholders' attention away from the primary focus these past two years, such as load-shedding, port issues, and animal diseases. Organizations may have started some projects on their own during this time. Thus, there is a need for a formulation of a team that can take stock of the objectives of the AAMP and what work or projects various stakeholders have done that could be accounted as part of the AAMP or aligned with its goals. This would be important for reigniting the energy and focus of the social partners.
- Beyond that exercise, we believe there are ten key areas the new administration should drive in addition to the AAMP aspects. Admittedly, there is already work underway in some of these areas, and what will be essential is the continuous push for results. Some aspects of the DALRRD already have work underway that should continue after the election. These include:
 1. **Land reform:** The DALRRD should continue finalizing the Land Reform and Agricultural Development Agency. This Agency will help release the roughly 2,5 million hectares of land within the State Land Holding Account to beneficiaries, amongst other tasks. The Agency will also implement the beneficial selection criteria for such land. This land can potentially improve the inclusiveness and growth of the agricultural sector and employment possibilities. There may be a need for collaboration with various implementing agencies at different stages of the land release

process. The DALRRD has championed this work and should be see it to completion in the next administration. Blended Finance could also be aligned with this work.

2. **Animal health:** Minister Thoko Didiza appointed the Ministerial Special Task Team to provide insight on ways of improving animal health in South Africa. The report provides clear policy guidelines, which should be implemented in the new administration. The livestock and poultry subsector forms nearly half of the South African agricultural economy, which makes this task vital, especially for the export drive that is a focus in the sector.
3. **Agricultural product standards:** There have been various complaints in the industry about the practice of appointing assignees and their associated exorbitant costs. This aspect should be addressed in the next administration as such costs burden producers and consumers. Importantly, in some cases, the value addition of some of the assignees is not straightforward, and if anything, they add ambiguity and costs to the food system of South Africa.
4. **Registrar for Act 36:** The DALRRD, academia and organized agriculture have collaborative work underway to improve the capacity and effectiveness of this crucial office that registers all new agrochemicals, seeds and other agricultural products. The initiatives underway must continue under the new administration. The delays and backlogs in the Registrar's office may slow SA's agricultural productivity; thus, it is vital that DALRRD collaboratively with the private sector work to address the inefficiencies and continue with interventions underway.
5. **Agricultural exports:** The South African government has done admirable work opening various export markets over the years. These efforts should continue to focus on India, China, Saudi Arabia, and Egypt, amongst others. Continuous efforts should also be made to nurture the existing markets in Africa, the EU, the Americas, parts of Asia and the Middle East. The rising geopolitical tensions in the world remain a concern, and South Africa should work to open as many export markets as possible to improve diversification.
6. **Ports and rail:** Transnet's new management continues to collaborate. Adequate ports and rail are critical to agricultural exports and domestic product distribution.
7. **Roads and municipalities:** While this work is not necessarily under the DALRRD, it remains vital for the success of agriculture and agribusinesses. Improving roads and the effectiveness of municipalities should remain high on the agenda post-election.
8. **Rural crime:** Stock theft and other forms of crime undermine investment in agriculture and the growth of small towns. This is, again, an area outside the DALRRD, but the department's leadership should raise it in various forums and ensure that improvements are made.
9. **Water:** Post-elections, there is a sensible collaboration with the Department of Water Affairs and various stakeholders to improve the policy dispensation on irrigation water.
10. **Statistics:** The DALRRD should work to improve the statistics on agriculture across all subsectors. These are critical for monitoring, evaluation and policy formulation. There remain some gaps in our

understanding of certain aspects of South Africa's agricultural economy, particularly the smallholder and informal value chains, partly because of inadequate statistics.

- South Africa's agriculture has the potential for inclusive growth and job creation. However, this cannot materialize if there is a continuous introduction of new plans without properly implementing the existing ones and addressing the fundamental issues that constrain the sector, which we highlight in these ten points. Admittedly, not all these issues fall under the DALRRD, but the department should use its leadership position in the next administration to push for proper improvement in these areas.

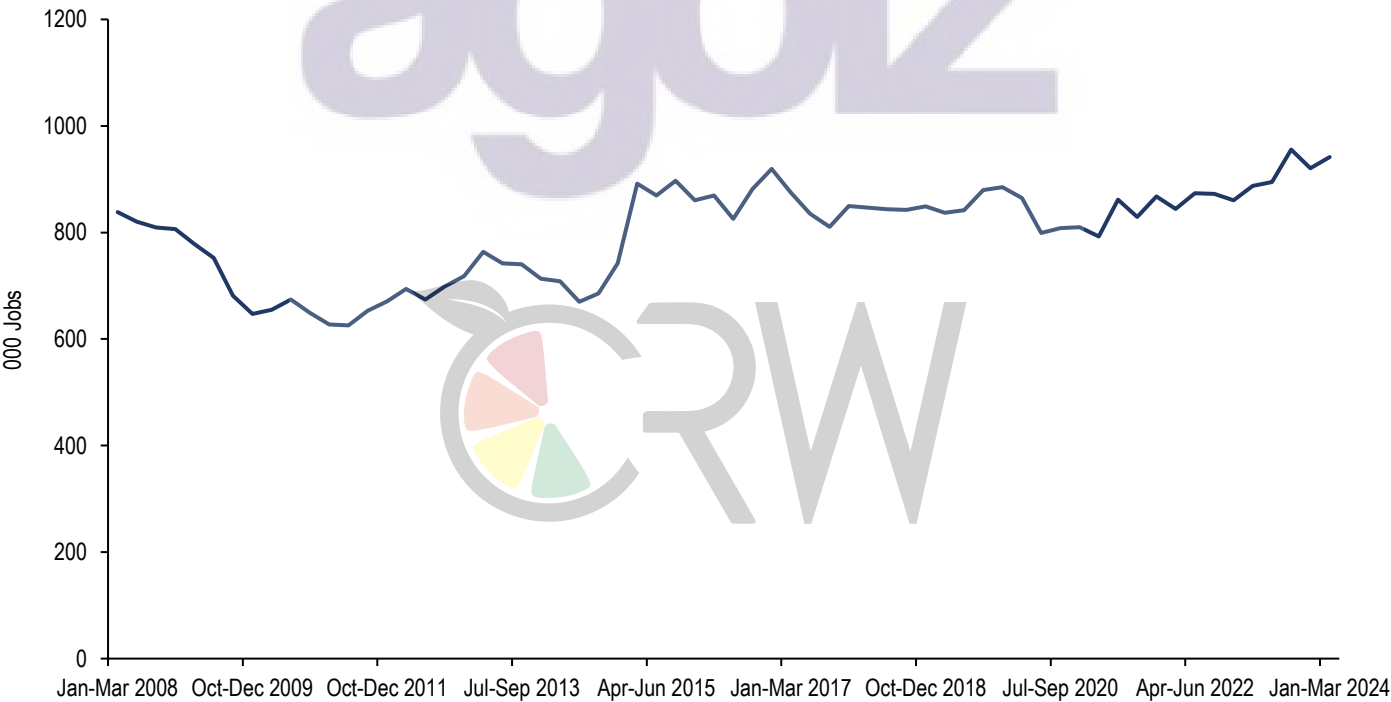
WEEKLY HIGHLIGHT

South Africa's primary agricultural employment lifted in the first quarter of 2024

- While South Africa's agriculture has had a rough start to the year, characterized by El Niño-induced drought, the employment conditions remain encouraging. The data released by Statistics South Africa last week shows that employment in primary agriculture lifted by 6% year-on-year to 941 000 in the first quarter of 2024. This is also up 2% from the last quarter of 2023. Admittedly, the significant drought damage has been concentrated on the summer grains and oilseed regions, not across all agricultural subsectors, which somewhat explains the resilience in job data. Moreover, there could also be a lag in fully accounting for agriculture's financial pressures and the impact on employment after that.
- We can observe from the current data that jobs generally increased across most subsectors of agriculture in the first quarter compared with the corresponding period last year. The decline in employment was only in the production of organic fertilizers, fishing, and fish hatcheries. Again, this could indicate the potential delay before the subsectors heavily impacted by the mid-summer dryness fully reflected the financial impact and subsequent jobs effect. We may have a complete picture of such in the second quarter jobs data.
- The Eastern Cape, Northern Cape, North West, Gauteng, and Mpumalanga were behind the annual uptick in agricultural employment. These provinces broadly comprised various agricultural commodities or value chains. Thus, the uptick in jobs is not primarily on the back of a particular value chain but spread across a range.
- Surprisingly, the Western Cape, KwaZulu Natal and Limpopo are amongst the provinces that recorded a mild decline in employment in the first quarter compared to 2023. These provinces are amongst those that hold significant shares of horticulture production, which benefitted from the irrigation throughout the harsh mid-summer season. Meanwhile, the mild reduction in employment in the Free State could be somewhat explained by the province's vast grains and oilseed production and the expected decline in production because of the drought.

- As we look in years ahead, the agricultural sector remains crucial for employment creation in South Africa's rural communities. But, the sector must be on a positive growth path to sustain and create new job opportunities. In the near term, a range of constraining factors for businesses require policymakers' attention to resolve for the sector to grow.
- These include the recent El Niño induced drought that devastated the summer grains and oilseed regions, and some distressed farmers may require government support. Moreover, the positive momentum in resolving the port inefficiencies should continue. The sector also struggles with poor rail and road infrastructure and worsening municipal service delivery. Rising incidents of crime, lingering animal disease challenges, and increased geopolitical uncertainty remain top-of-mind challenges for agribusinesses.
- In a survey we conducted in March 2024, covering businesses operating in all agricultural subsectors across South Africa, the respondents raised the above challenges as the most troubling issues they face. Therefore, the South African government and the private sector should work collectively to address these issues, particularly the ones on the domestic policymakers' reach, to support long-term growth.
- We are closer to elections, with possibly limited action from the political leadership as they focus on nationwide campaigns. However, post-election, the agricultural sector should start with these factors.

Exhibit I: South Africa's agricultural jobs

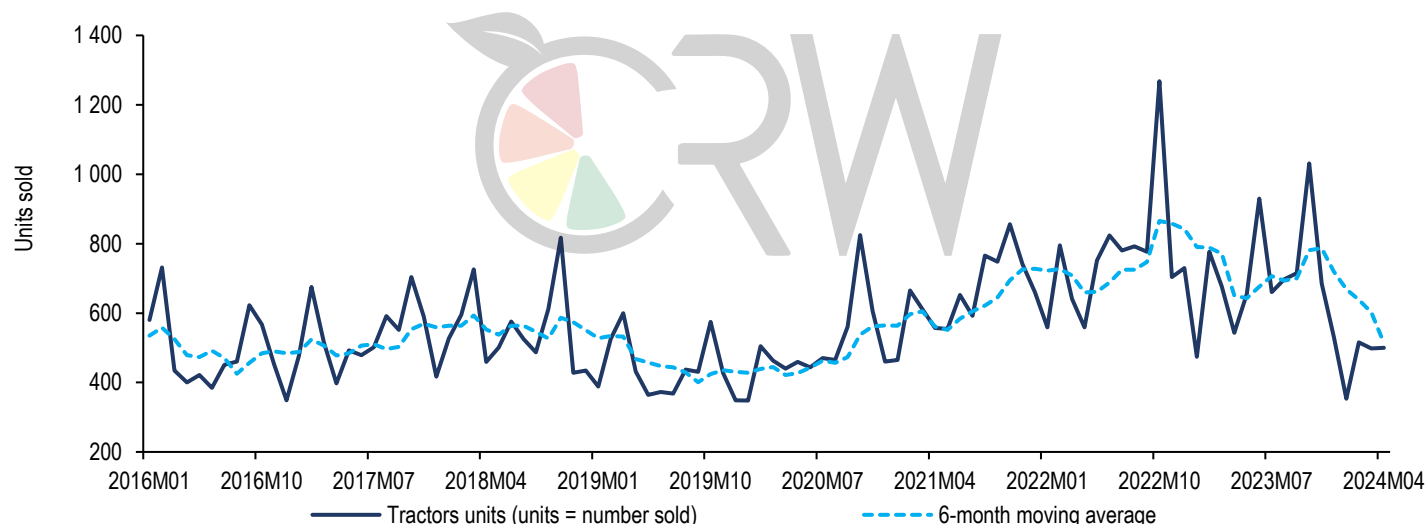


Source: Statistics South Africa and Agbiz Research

South Africa's agricultural machinery sales declined in April 2024

- South Africa's tractor sales were down 8% y/y in April 2024, with 500 units sold. The combined harvester sales were down 75% y/y in the same month, with 26 units sold. The persistent decline in sales since the start of the year reflects the normalization of sales after a few years of robust activity.
- For example, South Africa's tractor sales for 2022 amounted to 9,181 units, up 17% y/y. This was the highest annual sales figure in the past 40 years. The combine harvesters also had an excellent performance of 373 units in 2022, up 38% y/y. This was the highest yearly sales figure since 1985. In 2023, the tractor sales were down marginally from the previous year, while the combine harvester sales held the last year's momentum. These past few years, the generally strong agricultural machinery sales were primarily supported by ample grains and oilseed harvests when prices were also favourable.
- Against this backdrop, we believe agricultural machinery sales are on the normalization path this year. Also worth noting is that while in the past, agricultural machinery sales would be read as one of the early indicators of the health of the farming sector, this time around, one should read these sales differently for the reasons we stated above.
- Still, the South African agricultural sector is not in good shape because of the harsh El Niño impact on summer grains and oilseed production. The Crop Estimates Committee, at the end of April 2024, placed South Africa's 2023/24 total grain and oilseeds production at 16,0 million tonnes, which is 20% lower than last season's harvest. This year's overall decline in production prospects is primarily due to poor yields, not the area reduction, as farmers tilled more land than in the 2022/23 season.
- Moreover, the higher interest rates have added pressure to farmers' finances. Also, although various input cost prices, such as fertilizer and agrochemicals, softened since 2023, the prices are still generally well above the pre-COVID levels, thus adding pressure on farmers' finances.

Exhibit 2: South Africa's tractor sales



Source: South African Agricultural Machinery Association and Agbiz Research

WEEK AHEAD

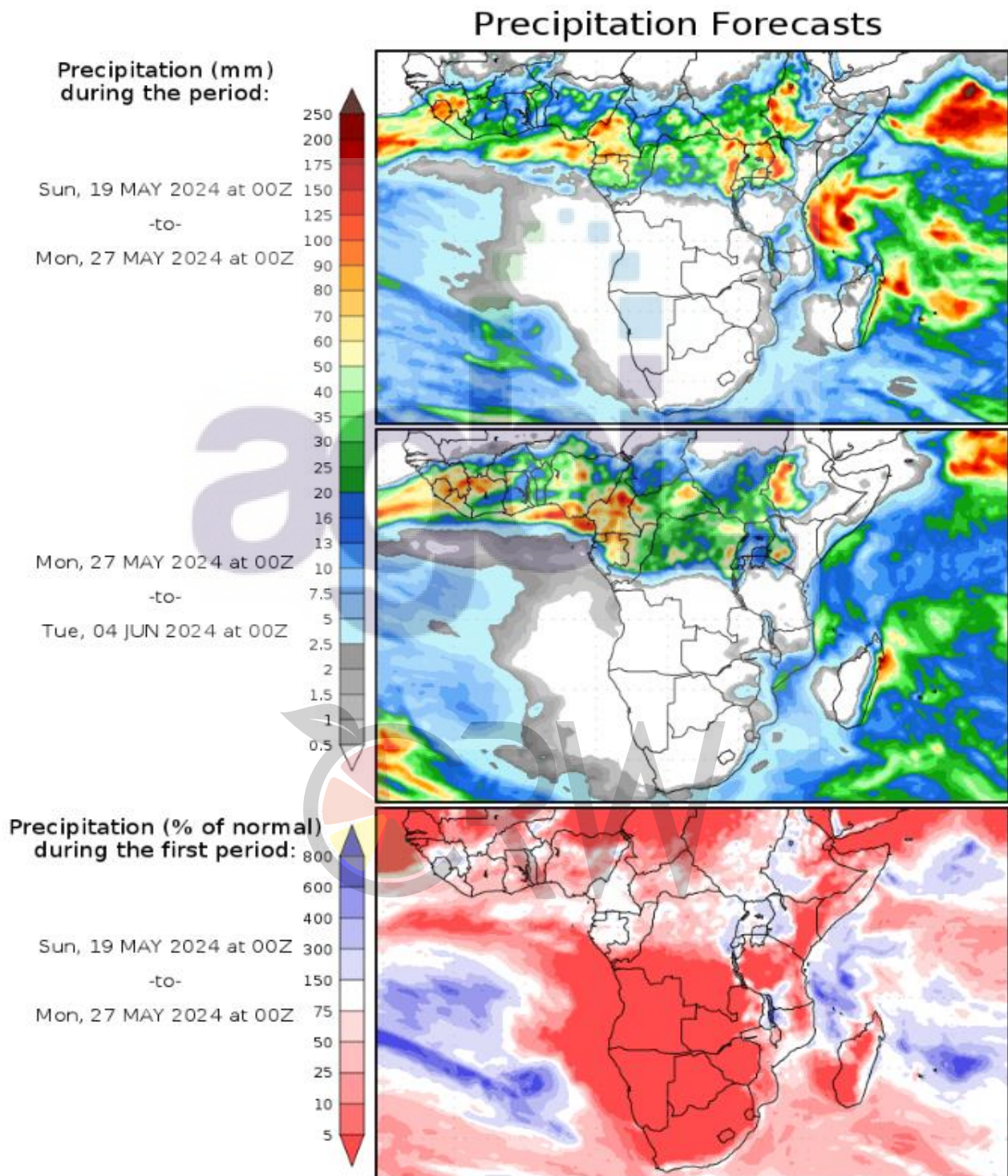
What we are watching this week

- We start the week with a global focus, and today, the United States Department of Agriculture (USDA) releases its **weekly US Crop Progress** report. This report provides insight into the US planting progress for the 2024/25 season. The planting activity across the US is gaining momentum but still lagging from last year's pace. For example, on May 12, US maize plantings were at 49% of the intended area (which is behind last season's pace of 60% in the same week). On the same day, soybean plantings were at 35% of the intended area (behind last year's pace of 45%). This year's slight delay in plantings has been primarily due to unfavourable weather conditions in some regions over the past weeks.
- Moreover, the USDA releases its **weekly US Grains and Oilseed Export Sales** data on Thursday.
- Within the domestic front, on Wednesday, Statistics South Africa releases the **Consumer Price Index (CPI)** data for April 2024. Reflecting on the recent releases, South Africa's consumer food inflation decelerated to 4,9% in March 2024 (from 6,0% in the previous month). This is the lowest level since September 2020 and was underpinned by the deceleration across most food products, except for "fish", which lifted mildly from the previous month.
- Also, on Wednesday, SAGIS will release its **weekly South Africa's Grains and Oilseeds Producer Deliveries** data. In the case of maize, this week, we will see a release of the data for the third week of the new marketing year, 2024/25. In the previous release on May 10, South Africa's 2023/24 maize producer deliveries were about 761 475 tonnes of maize to the commercial silos. This placed the overall deliveries at 1,2 million tonnes out of the expected harvest of 13,3 million tonnes.
- The 2024/25 soybean deliveries in the first 11 weeks of this new marketing year amounted to 1,4 million tonnes out of the expected harvest of 1,8 million tonnes. At the same time, the sunflower seed deliveries amounted to 258 958 tonnes out of the expected harvest of 615 000 tonnes.
- In the case of wheat, last week, 2 667 tonnes of wheat were delivered to commercial silos. This placed the 2023/24 wheat producer deliveries at 1,9 million tonnes out of the harvest of 2,1 million tonnes.
- On Thursday, SAGIS will publish its **weekly South Africa's Grains and Oilseeds Trade** data for the third week of the 2024/25 marketing year. In the previous release on May 3, the second week of the 2024/25 marketing year, South Africa exported 31 736 tonnes of maize. Of this volume, 47% was exported to Zimbabwe, and the balance to the rest of the neighbouring African countries. This places South Africa's total maize exports in 2024/25 at 62 596 tonnes.
- South Africa is a net wheat importer, and May 10 was the 32nd week of the 2023/24 marketing year; South Africa's 2023/24 wheat imports totalled 1,07 million tonnes out of the seasonal forecast of 1,6 million tonnes. The major wheat suppliers include Poland, Lithuania, Latvia, Russia, and Australia.

South Africa's Precipitation forecast

- Similar to the previous note, the weather forecast for the next two weeks shows clear skies over much of South Africa. This is conducive to the harvest activity in regions that have started over the summer crop growing areas. However, the winter crop-growing regions of the country need moisture.

Exhibit 3: South Africa's precipitation forecast



Source: George Mason University (wxmaps)