Government needs to remove restrictive regulations to allow the agricultural sector to grow

By Ian van Niekerk

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South Africa's economic recovery relies to a large extent on creating a more enabling business environment and putting the right structural economic reforms in place. The country needs to prioritise those reforms that will deliver results both in the short and long term and put the ruling party's tendency to revert to ideological thinking aside in the interests of rescuing the economy.

Image source: Gallo/Getty

The agricultural sector was one of the heroes of 2020 – while most sectors contracted in the first nine months of last year, agriculture grew 11%. Last year agricultural exports amounted to US$10.2bn - a 3% increase compared to 2019.

However, if the sector is to continue to play a role in South Africa’s economic recovery, including reducing unemployment, government needs to provide a more enabling environment. A number of laws and regulations under the umbrella of land reform and land redistribution – including the hotly debated Expropriation Bill – are deterring investment in commercial farming operations for good reason: commercial farmers need a guarantee that their land will not be indiscriminately expropriated before they make new investments.

Land reform efforts need to be focused on transferring ownership to emerging farmers so that they can access the necessary financing. This, however, will require an ideological shift in the ruling party.

Streamlining processes/b>

To ensure the ability to export agricultural products, the country needs to ensure its port infrastructure is sufficiently maintained and that customs processes are streamlined to ensure greater efficiency.

Although the agricultural sector was one of the success stories of the local economy in 2020, it was not unaffected by the events of 2020: certain parts of the sector including grape, barley and maize for the production of wine, beer and whiskey were badly impacted by successive alcohol bans and agricultural employment in many provinces declined during 2020.

The increased fuel levy – the latest 27 cents per litre increase is made up of 15 cents per litre for the general fuel levy, 11 cents per litre for the Road Accident Fund levy and one cent a litre for the carbon fuel levy – will put additional pressure on the agricultural sector. These increases – which are typically absorbed at a farm level - place further pressure on the sector given that they come hard on the heels of a 16% wage increase and 15% hike in electricity tariffs.

As far as the dairy industry is concerned, for example, the price paid to the farmer for a litre of milk will not reflect any of these increases. Exacerbating the situation is the fact that local dairy farmers are competing on price with imported products from countries with heavily subsidised dairy products. One potential solution to this is to agree import tariff agreements in order to ensure a level playing field for locally produced goods.

Rising input costs – in the form of increasing energy prices and agricultural feedstock prices, amongst others – will ultimately have an impact on food price inflation, which in the current environment, needs to be avoided if at all possible.

Financing support

The agriculture sector has long called for more support for emerging farmers. The Department of Land Reform and Rural Development has set aside R896.7m to provide for post-settlement support for emerging farmers is encouraging. This figure will include the recruitment of approximately 10,000 experienced extension officers to assist and advise emerging farmers. However, in addition to providing advice, government needs to ensure that emerging farmers – particularly small scale farmers – have access to finance and funding.

Without the ability to access affordable financing it is almost impossible to establish new commercial farming operations. Agri-SA has long called for an outcomes-based funding approach which is tied to technical and mentoring support.

Many commercial farmers are reliant on the Land Bank for affordable financing. The bank currently accounts for around 28% of the sector's agricultural debt. It received a R7bn bailout in the most recent budget. Given the essential role of the bank in the sector, it is vital that its long term sustainability is assured by being re-capacitated with proper oversight and governance, ideally through a public-private partnership.

There is no question that a thriving agricultural sector is essential to South Africa's economic recovery. In a challenging environment, however, not only does government need to provide more certainty around policy, but it also needs to ensure less restrictive regulations in order to allow for the growth of the sector.

ABOUT THE AUTHOR

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