

Agricultural review of 2020 and outlook for the year ahead

 By [John Hudson](#)

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The year 2019 had been a challenging one for agriculture and as we headed into 2020 there was some trepidation about the year ahead and what it held in store for us. At that time the focus was on the impact of the ongoing drought, the need to get to grips with climate change, the increasing biosecurity concerns pertaining to pests and disease outbreaks and the slow pace of land reform.

While many of these challenges remain unresolved, the early sentiment in 2020 was turning positive.

But for all the reasons now known to us, 2020 turned on its head, and what a crazy year it has turned out to be. Not only did Covid-19 take centre stage, but we were also subject to a sovereign downgrade. At the height of the pandemic, there was extreme uncertainty as to what this meant for us as a country, which, as we know, was already experiencing economic hardship going into 2020.

Tackling challenges together

With agriculture having faced its fair share of challenges over the years, this may well have counted in our favour: The sector, both private and government, came together and with excellent communication and engagement and a clear plan of action the task at hand was tackled with common purpose and vigour.

The sector response was just brilliant, and it goes to show what can be achieved when a common threat is faced, there is clarity of purpose and immediate action. If we can harness what was achieved during the pandemic, just think of what we can do in solving for many of the challenges we face. But it will require courage, leadership and compromise as we look to build a transformed yet vibrant, competitive and inclusive agric sector.

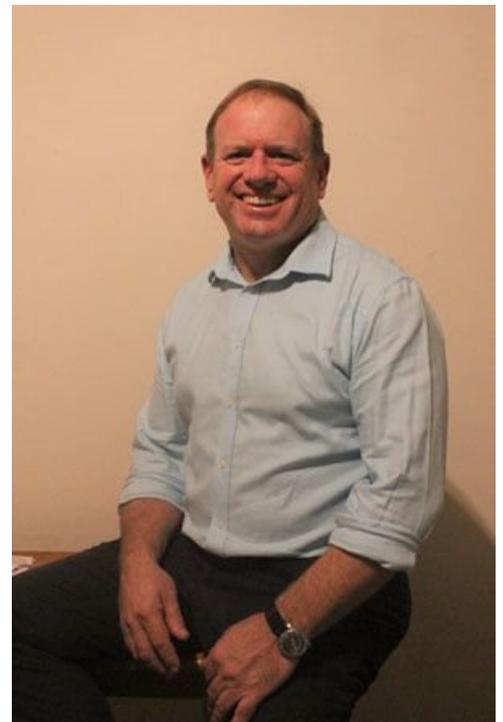
Agricultural sectors most affected by the pandemic

What we know now is that agriculture has once again showed its resilience and has come through with flying colours. This is not to say that the sector did not have trouble. When taking a closer look wine, tobacco and floriculture were among the hardest hit by the ban on sales during the various stages of the lockdown.

As a result, economic activity was down significantly in these sectors and, as expected, employment fell dramatically. In the case of the Western Cape, agricultural employment fell to just under 137,000 in the third quarter of 2020, which is the lowest level since the last quarter of 2014. To put the impact on the wine sector into perspective, Distell chief executive officer, Richard Rushton says that the tax loss from the first six-week ban on alcohol sales alone came to R15,4bn. This does not take into consideration the direct losses to the industry.

Sadly the long-term damage will be immense – wine farms, restaurants, glass container manufacturers and taverners are all facing an uncertain future.

Sector performance and confidence exemplary



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However, the good news is that against the backdrop of a contracting economy, and despite the difficulties encountered in agriculture, the overall sector performance was exemplary. There is no doubt that agriculture is the shining star in what can only be described as a disastrous year from an economic perspective. South Africa's agriculture gross value-added experienced another strong showing in the third quarter and expanded by 18,5 % q/q on a seasonally adjusted and annualised basis. This follows an expansion of 19,6 % q/q in the second quarter and 35,9% q/q in the first quarter.

With another solid performance expected for the last quarter of the year, Agbiz estimates that the gross value added by South African agriculture could expand by at least 10% on the previous year. The likes of BFAP are more bullish at 13%. Based on the first three quarters, the upper-end estimation seems very likely. This is all on the back of a large harvest in all major agricultural subsectors, specifically field crops and horticulture.

South Africa had its second-largest grains harvest in history this year and generally field crops fared well. In the case of horticulture, the fruit harvest across the board was respectable. The citrus industry was the standout performer, noting a 13% year-on-year increase in available supplies for export markets in 2020.

With positive sentiment returning to the sector the Agbiz/IDC Agribusiness Confidence Index rallied in the fourth quarter to 61, which is the highest level since the third quarter of 2014, says Agbiz's Wandile Sihlobo. The index recording is also 10 points above the 2020 third-quarter index of 51, which was recorded at the peak of the pandemic.

This was when the confidence level was recovering from what can be considered an unfavourable index recording of 39 in the second quarter. A level just above the neutral 50-point mark implies that agribusinesses are only marginally optimistic about business conditions but the improvement in sentiment is notable. Following on from an eventful, yet positive 2020 for agriculture, and with a favourable weather outlook for the summer rainfall production areas, we look to 2021 with optimism.

Emerging risk factor with far-reaching consequences

In the short term, there is one significant risk factor that could have far-reaching consequences for the sector and the country. The current funding crisis looming over agriculture is of concern and, if not resolved, it could potentially have a greater impact on the sector than Covid-19. Farmers, agribusinesses and intermediaries who require financing from the Land Bank will continue to encounter difficulties in accessing such funding due to the bank's current long-standing liquidity challenges. The recent ratings downgrade will only compound matters at the Land Bank.

The impact will also filter through to the commercial banks and will structurally increase the cost of credit, not only for the government but also for all South Africans and businesses. It is therefore imperative that the country rebuilds its credit rating, but this is largely dependent on the government urgently committing to much-needed economic reforms to spur inclusive growth.

Private investments, blended funding models and masterplans

Agriculture has the potential to be a catalyst for this growth, and building on the strong platform laid in 2020, 2021 could well be another stellar year. The summer producing areas are some way into their planting season and another good season is anticipated. This could lead to a softening in grain prices but on the balance of things a good maize crop is good for South African agriculture and bodes well in curtailing food price inflation.

The increase in earnings from export horticulture is set to continue. This is because of the expansion in new areas planted over the past few years and the uptick in yield as the trees come into production. There is significant private investment going into packing, processing, cold storage and logistics infrastructure. But this needs to be matched by the government. Improvement to road, rail and port infrastructure is crucial to cater for the anticipated increase in export volumes. Along with the investment in infrastructure, improved market access is a critical success factor going forward for all export crops.

Other government initiatives, such as the agricultural master plans and the blended fund scheme, require participation and commitment by all stakeholders. While the partnership between government and the private sector can prove tricky, it is

vital in building an inclusive sector. It is estimated that there are between 800 000 and 1 million small-scale farmers. How we find solutions for this group of farmers will require commitment and innovation and, in many instances, a fresh approach.

One such example is the announcement by Microsoft SA of an investment of up to R40 million in South Africa's agriculture sector. This investment is aimed at driving sustainability in the sector for smallholder farmers and Microsoft SA will partner with local tech companies to develop innovative solutions to challenges faced.

Policy developments

On the policy front, the recent approval of the Preservation and Development of Agricultural Land Bill by cabinet aims to provide for a 'fair and balanced approach in the use of agricultural land' in the country. The bill proactively protects agricultural land for food production through the establishment of protected agricultural areas in which high potential agricultural land will be delineated for agricultural purposes and low potential agricultural land will be permitted for non-agricultural uses. This is a positive development and needs to be applauded and supported.

The funding crisis aside there are several key challenges and structural constraints that require urgent attention. These are: land reform, water reform, climate change, investment in infrastructure (water, electricity, transport and logistics), access to markets (new and existing), access to finance and food waste.

Increasing need for partnerships to solve challenges

Solving for the above partnerships will be key and in many instances, the solution requires like-minded partners who have the best interests of the sector at heart to work together. One such success story is the partnership between FoodForward SA, Agri SA, the Citrus Growers Association and Nedbank. With up to 30% of food in the food value chain wasted, it made sense to partner with FoodForward SA on their Second Harvest programme. The recovery of food not only supports the alleviation of hunger but also contributes to sustainability with every ton of food recovered contributing four tons of savings in greenhouse gases.

Possibly the most important, in a South African context, is the need to transform the sector with a focus on inclusive growth. Our agriculture sector is world-class and is the lifeblood of our rural economies. The importance of maintaining this competitive positioning cannot be underestimated, but it must be seen in the context of building a transformed and inclusive agricultural sector, which is not only transformed but also remains vibrant, sustainable and internationally competitive.

ABOUT JOHN HUDSON

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