“A RAINDROP IN THE DROUGHT”

Report to the Multi-Stakeholder Task Team on the Drought

Agri SA’s status report on the current drought crisis

February 2016
The agricultural sector in recent times, on the back of severely sub-normal rainfall and heat waves has met head-on with the drought. Having to see animals die of hunger and fertile soil disappear in dust storms requires resilience and emotional strength of a very special kind.

It is often stated that droughts occur gradually. This has led to farmers often being accused of not having planned properly for drought disasters despite having had the time to do so. I will respond to this by saying that the current drought is of such intensity and magnitude that it was beyond the planning ability of any farmer, regardless of his or her resource-base. While South African farmers compete in a fierce global environment and have often been described as some of the best in the world, both in terms of planning and production, the disaster that we now face is such that farmers cannot and could not cope with it as part of normal risk-planning.

Agri SA has had a number of engagements with key players in the public and private sectors primarily through the Multi-Stakeholder Task Team on the Drought established with the aim of finding solutions to our current crisis. The work of the Task Team highlighted the plight of South African farmers and brought to light the dire consequences of an ailing agricultural sector.

This report is the culmination of a rigorous information-gathering exercise (which will continue as real-time data becomes available) and is aimed at providing a baseline for cohesive planning for the financial survival of distressed farmers during this difficult time.

As farmers, we have been touched by the outpouring of support from all corners of South Africa. We are propelled by the belief that the agricultural sector belongs not only to the farmers of our country, but to every South African, regardless of class, gender or race. It is with this in mind that we urge our counterparts in government and business to carry on with their support efforts and to continue to work closely with farmers as we recover from this disaster.

I wish to thank all stakeholders that have participated in compiling this report as well as members of the Multi-Stakeholder Task Team on the Drought and trust that we will, in the coming months, be able to devise suitable remedial measures to also deal with the after-effects of the drought.
An overview of the South African Agricultural Sector

- **Surface Area Usage**: 12% of the surface area can be used for crop production, with only 22% being high potential.

- **Commercial Farming Units**: Approximately ±40,000 commercial farming units in South Africa.

- **Labour in Agriculture**: 897,000 farmworkers (Stats SA Q3 2015), accounting for between 4 - 5% of total employment.

- **Net Farm Income**: R77,063 million in net farm income for 2014/15 (July to June).

- **South Africa's Production**:
  - 17% of total meat in Africa
  - 8% of wheat in Africa
  - 17% of maize in Africa

- **Farming Debt**:
  - Total farming debt for 2014/15 (July to June) is estimated at R125,712 million, an increase of ±9% from R115,118 million in 2013/14.

- **Growth in Agricultural Sector**:
  - Q3 2015: -12.6%
  - Q2 2015: -19.7%

- **Value of Investment in Fixed Improvements**

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“A raindrop in the drought” Agri SA's status report on the current drought crisis – February 2016
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This report to the Multi-Stakeholder Task Team on the Drought broadly aims contribute meaningfully to the national discussion on South Africa’s drought crisis as it pertains to the agricultural sector. The broad aims of this report are firstly to outline the effects of South Africa’s drought crisis and secondly to present proposals regarding the actions necessary to effectively support farmers as they recover from the crisis.

The current drought has had a devastating effect on South African agriculture. The existence of drought-induced recessionary pressures on the agricultural sector during 2015 was confirmed by Statistics South Africa which reported year-on-year declines in seasonally adjusted sectoral Gross Domestic Product (GDP) for all of the first three quarters of 2015 (-18% in Q1, -19.7% in Q2 and -12.6% in Q3).

The maize crop having been reported at a level of 9.9 million tons in 2015 (a tonnage already significantly below the norm) contributed greatly to the reported decline in sectoral value-add.

The severe drought has fastened its grip on the agricultural sector resulting in:

- natural grazing becoming seriously depleted leading to the forced slaughtering of livestock, livestock deaths due to fodder unavailability and increasingly questionable prospects for veld recovery in 2016
- reduced plantings of summer cash crops, particularly in the western regions. The Crop Estimates Committee (CEC) has estimated that the area of maize planted for the 2016/17 season could total approximately 2 million hectares, 25% lower than the area planted in the 2015/16 season
- extremely high temperatures especially in December 2015 and January 2016. These above-normal temperatures have affected pollination in a number of areas (including irrigation areas) and will likely result in lower yields
- a looming grain deficit especially toward the second half of 2016 resulting in maize import requirements of up to 3-5 million tons. This will undoubtedly place pressure on South Africa’s balance of payments.

The Multi-Stakeholder Task Team on the Drought was established on 10 November 2015, to consolidate the views and efforts of stakeholders in the agricultural value chain that have been affected by the drought. Members of the Task Team include:

- Agri SA
- Agbiz
- African Farmers’ Association of South Africa
- Transvaal Agricultural Union
- Department of Agriculture, Forestry and Fisheries
- National Disaster Management Centre
- Industrial Development Corporation
- Land Bank
- Banking Association of South Africa
- South African National Consumers’ Union
- National Chamber of Milling
- South African Red Meat Producers’ Organisation
- Grain South Africa
In addition to the direct impact of the drought situation on the agricultural sector, general economic indicators also currently point to an aggravated situation. Upstream economic activity i.e. input providers have already been hard hit due to the lack of purchasing power in the agricultural sector; a situation that is likely to worsen given the import propensity of suppliers and a depreciating local currency. Inflationary pressures inter alia resulting from drastic increases in food prices could result in further increases in interest rates impacting negatively on the debt service costs of farming enterprises and further restricting access to credit in the sector.

Data collection process
Quantitative and qualitative research methods were used to gather the information contained in this report. Notable sources included:
- Agri SA affiliates (nine provincial affiliates and 24 commodity groupings) who participated in a survey regarding the status of agriculture, as at 10 January 2016, in the provinces in which they are based and in the context of the commodity groupings that they represent
- Agbiz, which collated data from agribusinesses and commercial banks regarding the financial liability of farmers
- Department of Agriculture, Forestry and Fisheries, which provided information regarding government-led drought relief efforts and funding

Figure 1: What the drought means for farmers and consumers

<table>
<thead>
<tr>
<th>Typical farmer</th>
<th>Average consumer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Heightened credit default risk</td>
<td>11% food price inflation by end 2016*</td>
</tr>
<tr>
<td>Loss of asset base (Livestock)</td>
<td>Strained incomes</td>
</tr>
<tr>
<td>Farm worker lay-offs</td>
<td></td>
</tr>
<tr>
<td>Reduced income Over 12bil in the maize industry and approximately R2 billion for cane growers</td>
<td>Price of maize meal 47% higher**</td>
</tr>
</tbody>
</table>

* South African Reserve Bank, Monetary Policy Statement, February 2016
** Bureau for Food and Agricultural Policy, Policy Brief on the 2015/2016 Drought, February 2016
South Africa is in the grip of what has been described as the most severe El Niño-induced drought in decades. This has led to official declarations of disaster in all but two provinces as indicated in Figure 2 below.

Figure 2: Overview of areas in which drought disasters have been declared

The South African Weather Service (SAWS) indicates that most models are currently showing the continuation of a strong El Niño episode towards the late-summer season despite widespread rainfall in the past two weeks. It is expected that this episode will start to gradually subside during the autumn and early winter seasons. As a result, it is highly likely that South Africa will continue to experience consistently dry and hot conditions toward the late-summer season. While extreme rainfall events may still occur (as is the norm for the summer season), climatologists have warned that on the whole, rainfall totals that are well below the norm are likely to continue in the coming months.
Conditions in provinces

Drought continues in many provinces. The Department of Agriculture, Forestry and Fisheries has reported that veld and livestock conditions remain poor in the majority of areas. It is further reported that irrigated crops are currently under stress due to a lack of sufficient water and high temperatures. The levels of major dams are generally low with restrictions being imposed on irrigation in a number of areas.

Many dry-land farmers could not begin planting in the normal planting window in most areas due to a lack of soil moisture. An increase in the number of veld fires has also been reported in the Free State, Limpopo, Northern Cape, North West, Mpumalanga and Western Cape provinces. Severe thunderstorms caused extensive damage in Gauteng, Limpopo and the Free State. Furthermore, significant livestock mortalities have been reported in a number of provinces.
Despite its declining contribution to South Africa’s GDP over the past four decades, the agricultural sector remains a key player in the country’s economy. While a decline in rainfall has had an initial adverse physical impact on primary agricultural production, drought shocks also have a range of second-round effects given the strong linkages that exist between the agricultural sector and other sectors of the economy.

Using various data sources including the South African Reserve Bank, Statistics South Africa, the Department of Agriculture, Forestry and Fisheries and various agricultural commodity organisations including Grain SA and the South African Cane Growers Association, this section aims to highlight some of the economy-wide implications of the current drought.

This is done noting that the shock will not only have an adverse effect on the financial position of farmers, but also that of government, consumers, organisations that do business with farmers and those that rely on the agricultural sector for key inputs. These linkages are summarised in Figure 3 below.

Figure 3: Economic impact of the drought
2.1 The effect of the drought on agricultural output and production expectations

South Africa is particularly vulnerable to the effects of drought as a result of the importance of dry-land agricultural production. It is estimated that 83% of South Africa’s maize, 53% of the country’s wheat crop and 73% of sugarcane are produced under dry-land conditions. Commodities that comprise the agricultural sector have been affected by the current drought to varying degrees depending on their dominant geographical locations and commodity-specific physiological requirements.

The table below summarises the current impact of the drought on a number of key commodity groupings as assessed by Agri SA and various commodity organisations. It should be noted that the table presents the current situation and that rainfall conditions in the coming months may cause a shift in the categorisation of some commodities.

Figure 4: Summary of drought impacts on commodities

<table>
<thead>
<tr>
<th>Current impact of the drought on production</th>
</tr>
</thead>
<tbody>
<tr>
<td>Severe</td>
</tr>
<tr>
<td>Maize</td>
</tr>
<tr>
<td>Wheat</td>
</tr>
<tr>
<td>Oil seeds</td>
</tr>
<tr>
<td>Sunflower</td>
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<tr>
<td>Soybeans</td>
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<tr>
<td>Groundnuts</td>
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<tr>
<td>Sugar</td>
</tr>
<tr>
<td>Potato</td>
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<tr>
<td>Beef and sheep</td>
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<tr>
<td>Poultry</td>
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<tr>
<td>Pork</td>
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<tr>
<td>Dairy</td>
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<tr>
<td>Forestry</td>
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<tr>
<td>Fruit</td>
</tr>
<tr>
<td>Citrus</td>
</tr>
<tr>
<td>Table grapes</td>
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<tr>
<td>Game</td>
</tr>
<tr>
<td>Wool and mohair</td>
</tr>
<tr>
<td>Wine</td>
</tr>
<tr>
<td>Cotton</td>
</tr>
<tr>
<td>Tobacco</td>
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<tr>
<td>Ostrich</td>
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<tr>
<td>Vegetables</td>
</tr>
</tbody>
</table>
In the following sections we highlight the broader effects of the droughts on specific agricultural commodities.

2.1.1 Maize production

As indicated in the introductory comments of this report, the area of maize planted is, as estimated by the CEC\(^1\) 25% lower than the area planted in the previous season and 43% below the 10 year average area planted (2006/07-2015/16). With above-average temperatures expected for the rest of the production season, coupled with continued dry conditions, Grain SA also foresees a negative impact on maize crop yields. A combination of these factors will result in an estimated total maize harvest of just 7.4 million tons in the 2016/17 season which is 25.2% lower than the already drought-suppressed maize crop of 2015/16. Climatic conditions could further reduce this projection. Figure 5 provides a comparison between the estimated maize harvest for 2016/17 and the average tonnage of maize harvested over the past 10 seasons.

2.1.2 Sugar cane production

The sugar industry, has been affected by drought conditions since the 2014/15 season where significant reductions in cane production were reported. In the 2015/16 season, the South African Cane Growers’ Association estimates that sugar cane production will decline from an annual norm of over 19 million tons to 14 million tons. Cane production has decreased in all sugar cane growing areas as indicated in the figure below, with some areas such as Amatikulu and Darnall recording the most significant declines in production.

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\(^1\) The CEC is responsible for South Africa’s official crop forecasts for summer and winter field crops estimates.
2.1.3 Livestock production (beef and sheep)

In the livestock industry, below-normal rainfall has almost depleted natural grazing veld, placing feed supplies for the upcoming winter season in a precarious position. With limited grazing capacity, farmers have been attempting to keep nucleus herds alive amidst escalating feed prices. There are currently no accurate statistics on beef and sheep losses but the Red Meat Producers’ Organisation (RPO) estimates that over 40 000 cattle had died as a result of the drought by the end of 2015 in Kwa-Zulu Natal alone. According to the Red Meat Industry Forum (RMIF), increases in red meat slaughter rates of 23% (cattle), 37% (sheep) and 12% (pigs) were reported from November 2015 to December 2015. Given the drastically reduced plantings of summer crops, it is expected that livestock farmers will remain in a tight position as fodder is likely to be in short-supply in the upcoming winter months.

Livestock farmers have also been adversely affected by having to move their livestock to other camps with favourable grazing conditions. Not only do the transport costs put additional pressure on their farming operations, but many farmers also have to contend with the risk of physical livestock injury and stress-induced livestock abortions. This is in addition to the reduced calving rate that is a common occurrence in drought years.

2.2 The effect of the drought on sales of inputs to the agricultural sector

The agricultural sector is an important purchaser of the products and services of other sectors, which contribute to the manufacturing aspect of GDP. Several industries including manufacturers of livestock feed, seeds, fertilisers, insecticides and other chemicals can be regarded as being wholly reliant on the agricultural sector. The Department of Agriculture, Forestry and Fisheries estimates that farmers spent R118.2 billion on intermediate goods and services in the period July 2014 to June 2015. In addition, the department estimates that sales of tractors, agricultural machinery and other implements amounted to R10.6 billion during the same period.

The decline in agricultural production as a result of the drought will inevitably influence activity in these input sectors. The South African Agricultural Machinery Association (SAAMA) has already reported that as at January 2016, yearly tractor sales were down 11% and sales of combine harvesters declined by 30% as a result of the drought.

Producers of seeds have also reported severe increases in unsold maize seed stocks that will not be fit for resale in the next production season.

What Agri SA affiliates had to say...

<table>
<thead>
<tr>
<th>WC</th>
<th>FS</th>
<th>NC</th>
<th>NW</th>
<th>MP</th>
<th>LMP</th>
<th>GP</th>
<th>KZN</th>
<th>EC</th>
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</thead>
<tbody>
<tr>
<td>Good</td>
<td></td>
<td></td>
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<tr>
<td>Moderate</td>
<td></td>
<td>Moderate</td>
<td>Poor</td>
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<td>Poor</td>
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Survey date: 10/01/2016
2.3 The effect of the drought on export volumes

South Africa is currently a net exporter of agricultural products and the sector is an important earner of foreign exchange. The estimated value of agricultural imports for 2014/15 amounted to R62.6 billion while the value of exports reached R82.8 billion in the same period.

South Africa’s main export crops are citrus fruit, wine, table grapes and apples, pears and quinces, all of which are largely produced under irrigation conditions. Exports of these commodities are expected to remain strong in the coming year, provided that water restrictions that limit the availability of irrigation water are not imposed in key production areas and normal temperatures prevail. Exports of these commodities will be further boosted by the current weakness of the rand against major currencies.

While not significant relative to horticultural products, South African maize exports have played a key role in ensuring food security in the Southern African Development Community (SADC) region. South Africa is the largest producer of maize on the African continent and it is estimated that in a normal production season, 40% of the maize traded in SADC is of South African origin. Over the past 10 seasons (2006/07 to 2015/16), South Africa has on average had in excess of 1.5 million tons of maize available for export, bringing in approximately R3.5 billion per year.

Given reduced plantings and harvests, Grain SA has forecasted a significant reduction in maize exports to 630 000 tons, mainly to surrounding countries in the 2015/16 season. Using the average value of maize exports over the past 10 seasons as a basis to estimate the loss in export revenue in 2016/17, the direct influence of reduced maize exports on the balance of payments is estimated to be R4.7 billion. There will also be longer term implications on the balance of payments as levels of maize exports are expected to remain sluggish in 2017/18 (even if normal harvests should prevail) as inventory replenishment takes place. Figure 7 illustrates South Africa’s move from a net export position to a net import position with respect to maize.

Figure 7: Net trade (Maize)
2.4 The effect of the drought on import volumes

In the 2014/15 season, wheat and meslin, rice, poultry, and palm oil accounted for the highest proportion of imports in terms of value. Import volumes of these commodities are expected to remain strong despite the current rand weakness. South Africa’s net importer position with respect to wheat is forecasted to worsen as the CEC estimates that wheat production will decrease by 12% to 1.5 million tons in the 2015/16 season as a result of dry weather conditions around the Swartland areas of the Western Cape. This will lead to an increase in imports of wheat, from 1.8 million tons in 2014/15 to 2 million tons in 2015/16. These imports will come at a cost of approximately R5.5 to R6 billion.

In a normal production year, South Africa is self-sufficient with respect to maize. However Grain SA estimates that as a result of the drought, South Africa will need to import an unprecedented 3.8 million tons in the 2016/17 season at a landed cost of approximately R3800 per ton between May 2016 and April 2017. This estimate is made up of 2.7 million ton of yellow maize that may be sourced from a variety of countries and 1.1 million tons of white maize which is in short supply in the global market. Should South Africa find adequate supplies of maize on the global market, imports of the commodity will have a direct impact of approximately R15 billion on the balance of payments in the latter part of 2016 and the start of 2017.

2.5 The effect of the drought on inflation

As at 18 February 2016, the white maize spot price closed at R4937/ton while the July 16 contract month price for white maize closed at R4891/ton, 93.3% higher than a year ago. Figure 8 below indicates that the spot price for white maize was trading well above import parity prices (domestic prices are much higher than world prices, even when taking transport and currency factors into consideration). This reflects the scarcity of the commodity on the global market. The spot price for yellow maize closed at R3638/ton and the July 16 contract month prices were closed at R3447/ton (an 47% year on year increase).

Figure 8: Spot prices of USA white maize delivered in Randfontein

![Figure 8: Spot prices of USA white maize delivered in Randfontein](chart.png)
Grain SA estimates that South Africans each consume approximately 78kg of white maize in the form of maize meal (pap) per annum. The record high price of white maize will undoubtedly result in higher prices for selected food prices, particularly maize meal. This trend of rapidly increasing food prices has already commenced. For example, in November 2015, the average price of super maize meal, as reported by Statistics South Africa, was 19% higher than in November 2014. It is estimated that there is a three month lag between domestic commodity price movements and maize meal price changes given the long value chain of maize meal. The aforementioned 19% maize meal price increase corresponds with an 85% year on year increase in white maize prices.

The year on year effect on food prices in the current year is expected to be even greater given the more pronounced maize commodity price shifts. The requirement to import between 30% and 50% of South Africa’s white maize requirements in months to come will also place increased pressure on maize meal prices given the drastic depreciation of the rand against major currencies. A similar trend will be observed with respect to the prices of meat products such as chicken and pork where feed costs (largely yellow maize) represent roughly 60% of total production costs.

At an aggregate level, Barclays Africa estimates an average food price inflation of 8.1% in 2016, with a peak of approximately 10% year on year by the end of the year, noting that crop prices may cause food inflation to edge upwards as the year progresses. Given that the prices of food and non-alcoholic beverages represent 15% in the CPI weighting structure, changes in the prices of food and non-alcoholic beverages have an important impact on the CPI.

2.6 The effect of the drought on employment

The agricultural sector, as the main employer in rural areas, employs 897 000 people, which represents 4.2% of the South African labour force. The sector is considered to be labour intensive as agriculture in South Africa employs more people per unit of value created than the mining and manufacturing sectors. While this bodes well for job creation in good production years, it also means that the sector will shed more labour per unit decrease in the value of production. The majority of workers in the sector are employed in the horticultural, wine, animal production and sugar industries of the Western Cape, Limpopo and Kwa-Zulu Natal. The maize industries in the Free State and North West, which have borne much the brunt of the drought are highly mechanised and less reliant on hired farm labour.

While some shedding of labour by maize farmers can be expected due to reduced farm incomes, the impact of this on overall employment levels is unlikely to be significant. With respect to the sugar industry (which is predominantly in Kwa-Zulu Natal), the South African Cane Growers Association estimates that more than 6 500 seasonal jobs would be lost as a result of decreased cane production. These job cuts would mainly affect cane cutters and other harvesting staff who would not be employed because of the low crop yield. No significant job losses are expected in the horticultural and wine producing industries provided that irrigation requirements are sustained.

Survey date: 10/01/2016

What Agri SA affiliates had to say...

To what extent have your members communicated the need to release permanent farmworkers as a result of prevailing drought conditions?

- To a great extent: 27%
- To some extent: 23%
- Very few members have reported this need: 50%

*The agricultural sector employs 4.2% of total labour force whilst contributing only 2.5% to GDP. Labour force to GDP ratio of about 1.7:1. NOTE: In 2010 the mining and manufacturing sectors maintained labour force to GDP ratios of 0.2 and 1 respectively.*
2.7 The effect of the drought on the financial viability of commercial farmers

Drought events increase the financial liabilities of farming enterprises and to the extent that relief efforts are introduced, put strain on fiscal resources. Total farming debt as at the end of June 2015 amounted to R125 billion having increased at an average annual rate of 14% from 2005. With many farmers in the summer rainfall areas being unable to plant or facing severe livestock losses, it is likely that liquidity in the sector will deteriorate as a result of the drought. Weaker solvency of farming operations, a likely shift from long-term to short-term debt and higher nominal interest rates will also contribute to this financial strain. The overall debt to asset ratio, currently at 33% (having increased from 21% in 2005) will likely increase even further as has been observed in previous drought periods.

During drought periods, it can be expected that farmers will experience constrained cash flows as farm revenues are diminished but operating costs remain high. The decline in farm incomes will result directly in lower government tax revenues. Government revenue will also be negatively affected (albeit indirectly) by the lower profits of business enterprises related to the agricultural sector (a number of businesses including major food processors have already reported poor quarterly financial results as a result of higher raw material costs – maize). In addition, government expenditure on drought relief efforts is expected to rise and significant fiscal provision will have to be made to aid the sector’s recovery. Given South Africa’s tight fiscal position in light of already expected lower tax revenues as a result of poor economic performance, the additional allocations towards drought relief will add to South Africa’s current fiscal strain. Depending on how the National Treasury “juggles” competing priorities, the drought may significant increase real government expenditure or have a negative impact on the budget deficit.
3. The effect of the drought on small-holder and subsistence farmers

Varying degrees of vulnerability to drought conditions occur within the agricultural sector according to the size and nature of one’s farming operation. In the case of South Africa, small-holder and communal farmers have proven to be more vulnerable to droughts given their concentration in less favourable climatic regions, their lack of resources and their reliance on own-production for household food security.

In drought conditions, newly-established small-holder farmers and communal farmers are likely to face a much greater loss of assets and household savings in relative terms, widening the gap between them and large-scale commercial producers. Agri SA and its affiliates conducted a series of interviews with small-scale farmers around the country to assess the real effect of the current drought on their livelihoods and operations. The results of those interviews are presented below.

Mr Tshaneo Mathidi
(Interview date: 27 January 2016)

Mr Mathidi, a small-scale commercial farmer operates in the Vhembe District of Limpopo on communal land. He also owns a farm in the same district. As a result of dry conditions, excessive heat and a lack of moisture, he suffered an 80% flower loss on his 27 ha citrus farm during flowering. The situation has also been exacerbated by the drying up of rivers and boreholes dried up in the area and surrounding areas.

The livestock which he rears on communal land are reportedly in a very bad condition. Mr Mathidi indicates that while he normally sells 40 weaners a year, he has been forced to sell 30 of his breeding stock due to drought. For these animals, Mr Mathidi realised lower income as the animals sold were already in a poor state. “This winter I’m not going to get any weaners, breeding stock has been reduced and cows didn’t fall pregnant because there was no fodder” said the farmer. During the interview, Mr Mathidi indicated that the provincial department of agriculture was in the process of assessing his situation and had offered to provide assistance.

Mr Koos Mtikkhulu
(Interview date: 26 January 2016)

Mr Mtikkhulu is a small-scale commercial grain farmer in Senekal (Free State) who normally plants around 100 hectares of maize and 200 hectares of sunflower. He had prepared his land by October 2015 but could not plant last year due to drought. Following some rain at the start of January 2016, the farmer decided to plant 60 hectares of maize. Heavy rains came down about a week later (before germination) and unfortunately all seeds in the ground were washed away as a result. Mr Mtikkhulu indicated on the date of the interview that he had not received any help from the state as yet.

Mrs E. Maklaar (Interview date: January 2016)

Mrs Maklaar is an irrigation farmer under the Sandvet Irrigation Scheme. She was supposed to have planted 50 ha of sunflower of which 37 ha would have been under irrigation. None were planted at all. There is no water available under the Scheme and it has not rained sufficiently in recent weeks. The farmer indicated that the little rain that did fall was too little to even consider any planting.
4. Risk analysis

In this section we will highlight some of the key risks associated with the management of the current drought. The figure below depicts the seven primary risks associated with this process – these risks have been analysed according to the probability of occurrence and the impact, as well as the overall measures to mitigate these.

Figure 9: Risk analysis

The major priority risks are discussed below as well as their mitigation measures.

Risk 1: Government provides insufficient funding

- Livestock deaths and instances of crop failure have escalated as a result of the current drought. Thousands of farmers, particularly small-scale and communal farmers, have become increasingly vulnerable to dry conditions that in many instances threaten to severely impact on their livelihoods and household food security. For this reason, government (in line with the requirements of the Disaster Management Act) has in recent months pledged to provide drought relief assistance during the drought and have made some provisions for such support in the national and provincial budgets. While farmers have welcomed these provisions, a concern remains that funds provided for the purpose of drought relief have been grossly inadequate.
Most provincial governments have completed assessments of the effects of the drought and have estimated the funds needed to sufficiently support vulnerable farmers in their provinces. These estimates are provided in column 1 of the table below. Column 2 sets out the funds that provinces have allocated towards drought relief from their own provincial budgets while column 3 indicates the allocations that provinces have received (in kind via grant reallocations) from the national government. As indicated in column 4 of the table, significant funding shortfalls remain, meaning that provincial governments have not been able to effectively provide the support needed by farmers. In many provinces, funds allocated for drought relief in December 2015 have already been depleted, leaving vulnerable farmers without financial support.

According to the data available we already have an allocation shortfall of R3 786 150 230 for the potential allocation as at December 2015.

Much of the funds provided have been allocated to small and communal farmers with the exclusion of commercial farmers. The situation is of such gravity that should this allocation continue, many commercial farmers would be out of business by year end. This is clearly not an acceptable situation.

Risk 7: Government has insufficient infrastructure to deal with the current situation

In the past, most of the drought relief efforts were driven by the Agricultural Credit Board (ACB), but this institution has since been shut down. This has caused a serious lack in government capacity to deal with the current situation and has led to a number of concerns, namely:

- Lack of promptness with respect to relief efforts
  - Many small-scale farmers who have been able to access drought relief have complained that relief efforts are introduced too late, when significant losses have already been incurred. Farmers in Kwa-Zulu Natal serve as an example: While the province had been experiencing severe drought since 2014, leading to thousands of livestock losses by small-scale and communal farmers; drought relief interventions were only introduced in December 2015.

<table>
<thead>
<tr>
<th>Province</th>
<th>Provincial funding request</th>
<th>Equitable share allocation by province</th>
<th>CASP allocation</th>
<th>Anticipated shortfall</th>
</tr>
</thead>
<tbody>
<tr>
<td>FS</td>
<td>R 102 500 000</td>
<td>R 10 550 000</td>
<td>R 29 000 000</td>
<td>R 62 810 000</td>
</tr>
<tr>
<td>KZN</td>
<td>R 142 000 000</td>
<td>R 69 000 000</td>
<td>R 45 000 000</td>
<td>R 28 000 000</td>
</tr>
<tr>
<td>LP</td>
<td>R 51 000 000</td>
<td>R 3 000 000</td>
<td>R 51 000 000</td>
<td>R 3 000 000</td>
</tr>
<tr>
<td>MP</td>
<td>R 71 000 000</td>
<td>R 1 800 000</td>
<td>R 33 600 000</td>
<td>R 35 600 000</td>
</tr>
<tr>
<td>NW</td>
<td>R 3 400 000 000</td>
<td>*</td>
<td>R 33 900 000</td>
<td>R 3 366 100 000</td>
</tr>
<tr>
<td>NC</td>
<td>*</td>
<td>R 7 600 000</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>GP</td>
<td>R 140 000 000</td>
<td>R 21 000 000</td>
<td>R 12 800 000</td>
<td>R 106 200 000</td>
</tr>
<tr>
<td>EC</td>
<td>R 127 980 000</td>
<td>*</td>
<td>R 339 770</td>
<td>R 127 640 230</td>
</tr>
<tr>
<td>WC</td>
<td>R 62 800 000</td>
<td>R</td>
<td>R 62 800 000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>R 4 097 280 000</td>
<td>R 113 429 770</td>
<td>R 205 300 000</td>
<td>R 3 786 150 230</td>
</tr>
</tbody>
</table>

* Information not available or not confirmed
Risk 2: Lack of support with operating expenses, debt restructuring and drought recovery

The current drought has resulted in significant revenue losses in all sub-sectors affected. As a result of drought-induced decreases in tonnages harvested, a total decrease in gross revenue of R1.93 billion is estimated for growers of sugar cane over the drought period (taking 2014/15 and 2015/16 into account). For maize farmers, the drought-induced loss in revenue is estimated to total R12 billion for the 2015/16 marketing year.

While farm incomes have decreased, the operating expenses of farmers have remained high and debt service costs have increased significantly since 2014. This is a particular concern for newly-established farmers who have not built up sufficient reserves. Even established farmers have increasingly reported difficulties in meeting electricity cost obligations among other commitments. While farmers have indicated that they would endeavour by all means to retain permanent workers, many have indicated a decline in their demand for seasonal labour in line with reduced production expectations.

It is also a reality that many farmers will be left in a position where they will be unable to meet their debt obligations and will subsequently not be eligible for production financing in the coming season should climatic conditions improve. Despite these difficulties, state-led interventions to date have not addressed the severely constrained cash flows of farmers (in a time of constrained credit) and the need for farmers recover to a position that will allow them to commence with production when normal rainfall conditions resume.

Risk 6: Socio-economic decline

A major risk is the decline of rural communities due to commercial and small farmers not being able to produce and economically sustain themselves. Causes of this would be far reaching and would include the closure of farm schools, complete collapse of rural economies, major job losses and poverty.

Other risk factors that remain critically important in the medium to long term include:

- Risk 3: Food security risk
- Risk 4: Job losses
- Risk 5: Erosion of tax base
5. Recommended actions

While of the some risks highlighted in the preceding section simply require greater alignment between farmer needs and interventions, other risks require more creative solutions and a commitment to invest, over the medium term, in the recovery of the sector. Agri SA is of the view that the current challenges being faced farmers cannot be left to farmers alone. Given the macro impacts of the drought as well as the long-term financial implications on farming enterprises as highlighted in the preceding sections of this report, a clear state response is required.

Following extensive consultations with various farmer organisations, agribusiness and banks; Agri SA has compiled a breakdown of the estimated financial investment required from government and related institutions to ensure the financial survival of farmers both during the current and in the period following the drought crisis.

It should be noted that these estimates were concluded with a recognition of the unpredictability of weather events and the possibility for improved or deteriorating rainfall conditions. For this reason, the breakdown proposed makes provision for financial assistance required under three scenarios: a worst case scenario, a medium case scenario and a best case scenario.

<table>
<thead>
<tr>
<th>Best case scenario</th>
<th>Medium case scenario</th>
<th>Worst case scenario</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Above-average rainfall from March-August 2016.</td>
<td>• Average rainfall from March-August 2016</td>
<td>• Below average rainfall from March-August 2016 (drought conditions continue)</td>
</tr>
<tr>
<td>• Good distribution</td>
<td>• Fair distribution</td>
<td>• Early frosts</td>
</tr>
<tr>
<td>• Late frosts</td>
<td>• Late frosts</td>
<td>• Extensive water restrictions in key irrigation areas</td>
</tr>
<tr>
<td>• Limited water restrictions in key irrigation areas</td>
<td>• Some water restrictions in key irrigation areas</td>
<td></td>
</tr>
</tbody>
</table>

The proposed structuring of the financial assistance under the various scenarios should mitigate against excessive strain on South Africa’s fiscus while at the same time ensuring the continued survival of thousands of farmers and farm workers in distress.

With full cognisance of South Africa’s current fiscal position and drawing lessons from countries around the world, we recommend that consideration be given to the provision of financial assistance to farmers in distress as presented in Section 5.1.
5.1 Holistic drought relief package

We propose a holistic approach to drought relief, focussing on the short term as well as the long term interventions necessary. We’ve made provision for farmer assistance in line with two objectives:

**Objective 1:** Assisting farmers in severe financial distress to survive current drought conditions

**Objective 2:** Facilitating drought recovery for other distressed farmers in disaster-declared areas.

**Figure 10: Holistic drought relief framework**

### Objective 1: Assisting farmers in severe financial distress to survive current drought conditions

**Intervention 1.1 State guarantees for outstanding and overdue farmer debt**

We recommend a 50% state guarantee to help farmers that have been unable to honour their debt obligations from the 2015/16 season and thus have carry-over debt (overdue) that will need to be refinanced.

We estimate that after the 2015/16 season, R4.96 billion of carry-over debt will be accrued to farmers. We recommend that government make provision to guarantee 50% of this debt thus resulting in state guarantees amounting to R2.48 billion in the 2016/17 fiscal year.

**Intervention 1.2 Subsidising the purchase of feed and fodder for a period of six months for farmers currently hard hit by the drought**

**Intervention 1.3 Helping farmers in severe financial distress for six months to retain farmworkers by means of a wages cash grant**

### Objective 2: Facilitating drought recovery for other distressed farmers in disaster-declared areas

**Intervention 2.1 Providing soft loans for farmers in severe financial distress who will not be able to access production credit for 2016/17**

**Intervention 2.2 Providing an interest rate subsidy for herd rebuilding for livestock farmers (up to the average herd size/stocking rate for the business over the last three years)**

**Intervention 2.3 Providing an interest rate subsidy to assist commercial crop farmers in financial distress with the purchase of inputs for the new season**

**Intervention 2.4 Direct cash grant/provision of inputs to small-scale farmers in serious financial need**

**Subsistence farmers (Up to 5 LSUs)**

**Small-scale farmers (Up to 20 LSUs)**

**Commercial farmers (Up to 30 LSUs)**

- R3.3 billion
- R2.8 billion
- R264 million

**Level of subsidy for feed and fodder**

- 90%
- 80%
- 70%
- 60%
- 50%
- 40%
- 30%
- 20%
- 10%
- 0%
Intervention 1.3 Helping farmers in severe financial distress for six months to retain farmworkers by means of a wages cash grant

Our estimate is that about 120 000 farmworkers are currently employed by farmers in severe financial distress. There is a strong likelihood that these farmers will not be in a position to retain permanent workers currently employed.

We propose that distressed farmers be provided with a wage cash grant of R1330 per month (50% of the minimum wage for farmworkers) per permanent worker for a period of six months. This amounts to R958 million.

Objective 2: Facilitating drought recovery for other distressed farmers in disaster-declared areas

Activities to be considered:
- Herd rebuilding
- Inputs for crop farming

To qualify for the support specified in this document, farmers must:

a) Demonstrate that the business has experienced a significant financial impact over at least a two year period

b) Provide evidence that the business is experiencing a significant financial impact. This may include:
   - Large reductions in the net cash flow
   - Large reductions in production and/or yields
   - Large reductions in operating margins
   - Increases in drought-related operating expenses
   - Large reductions in livestock numbers through forced sales or deaths
**Intervention 2.1 Providing soft loans for farmers in severe financial distress who will not be able to access production credit for 2016/17**

Our estimate is that about 2000 farmers are currently in severe financial distress and will not be able to access credit in the coming season or afford the cost of credit.

We recommend that funds be made available through the Land Bank or IDC to provide soft loans with the following terms:

- A maximum loan amount of R2 million per farmer will be applicable over a maximum term of five years
- Only the interest portion of the loan and 20% of the capital (amortised) will be payable for the first three years, thereafter interest and capital will be due
- A maximum interest rate of 4% be applicable to such loans OR that an interest rate subsidy of four percentage points on new loans taken up by farmers in severe financial distress
- These soft loans should only be available for farmers in disaster-declared areas that can prove financial distress

Assuming 2000 farmers in financial distress @ R2 million each = R4 billion of loan funding to be made available. Including the credit subsidy, an additional R160 million would apply.

**Intervention 2.2 Providing an interest rate subsidy for herd rebuilding for livestock farmers (up to the average herd size/stocking rate for the business over the last three years)**

We propose that an interest rate subsidy of five percentage points be made available for distressed livestock farmers for the purposes of rebuilding their herds following the drought. The following assumptions were made:

- Assumption: 20% of the national cattle herd lost or sold prematurely at a loss as a result of the drought
  - 2 800 000 cattle lost due to drought
- Assumption: 30% of the national sheep herd lost or sold prematurely at a loss as a result of the drought
  - 6 360 300 sheep lost due to drought
- Assumption: 40% of the national goat herd lost or sold prematurely at a loss as a result of the drought
  - 794 800 goats lost due to drought

In the medium case scenario, we assume that only 60% of farmers that have lost livestock as a result of the drought will meet the qualifying criteria for assistance. At the current price of replacement stock for beef, sheep and goats; the interest rate subsidy of five percentage points would amount to R980 million.

**R4 billion loan funding**

**R160 million for credit subsidy**

**R980 million**
Intervention 2.3 Providing an interest rate subsidy to assist commercial crop farmers in financial distress with the purchase of inputs for the new season

In the medium case scenario, we are of the view that only 40% of crop farmers will meet the qualifying criteria for assistance. Taking the current input purchase trends of crop farmers into account, a five percentage point interest subsidy for distressed crop farmers would come at a cost of R170 million.

Intervention 2.4 Direct cash grant/provision of inputs to small-scale farmers in serious financial need

It is our estimate in the medium case scenario, 80,000 small-scale farmers will be in severe financial need following the drought. Due to a number of factors that hinder access to credit for these farmers, we recommend that a direct cash grant of R50,000 per farmer be made available through the Departments of Agriculture, Forestry and Fisheries, and Rural Development and Land Reform. Alternatively, the direct provision of free inputs worth R50,000 per farmer may be considered.

With 80,000 distressed small-scale farmers requiring R50,000 worth of inputs each; the total amount required is R4 billion.

R170 million loan funding

R4 billion
Summary of the cost implications of interventions recommended

<table>
<thead>
<tr>
<th>Intervention</th>
<th>Best case scenario</th>
<th>Medium case scenario</th>
<th>Worst case scenario</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intervention 1.2 Subsidising the purchase of feed and fodder for a period of six months for farmers currently hard hit by the drought</td>
<td>R3 733 200 000</td>
<td>R6 302 520 000</td>
<td>R 8 564 400 000</td>
</tr>
<tr>
<td>Intervention 2.4 Direct cash grant/provision of inputs to small-scale farmers in serious financial need</td>
<td>R2 500 000 000</td>
<td>R4 000 000 000</td>
<td>R6 000 000 000</td>
</tr>
<tr>
<td>Intervention 2.1 Providing soft loans for farmers in severe financial distress who will not be able to access production credit for 2016/17</td>
<td>R120 000 000</td>
<td>R160 000 000</td>
<td>R 200 000 000</td>
</tr>
<tr>
<td>Intervention 2.3 Providing an interest rate subsidy to assist commercial crop farmers in financial distress with the purchase of inputs for the new season</td>
<td>R127 500 000</td>
<td>R170 000 000</td>
<td>R212 500 000</td>
</tr>
<tr>
<td>Intervention 1.3 Helping farmers in severe financial distress for six months to retain farmworkers by means of a wages cash grant</td>
<td>R638 400 000</td>
<td>R957 600 000</td>
<td>R1 596 000 000</td>
</tr>
<tr>
<td><strong>Total fiscal outlay required in the 2016/17 fiscal year</strong></td>
<td>R7 119 100 000</td>
<td>R11 590 120 000</td>
<td>R16 572 900 000</td>
</tr>
<tr>
<td>Intervention 2.2 Providing an interest rate subsidy for herd rebuilding for livestock farmers (up to the average herd size/stocking rate for the business over the last three years)</td>
<td>R653 115 400</td>
<td>R979 673 100</td>
<td>R1 299 077 600</td>
</tr>
<tr>
<td><strong>Total fiscal outlay required in the 2017/18 and 2018/19 fiscal years</strong></td>
<td>R653 115 400</td>
<td>R979 673 100</td>
<td>R1 299 077 600</td>
</tr>
<tr>
<td>Intervention 1.1 State guarantees for outstanding and overdue farmer debt</td>
<td>R1 879 570 800</td>
<td>R2 482 452 000</td>
<td>R3 014 406 000</td>
</tr>
<tr>
<td>Intervention 2.1 Providing soft loans for farmers in severe financial distress and will not be able to access production credit for 2016/17 within existing Land Bank/IDC framework)</td>
<td>R3 000 000 000</td>
<td>R4 000 000 000</td>
<td>R5 000 000 000</td>
</tr>
</tbody>
</table>

| Other support for farm worker retention                                      | Not quantifiable  | Not quantifiable     | Not quantifiable    |
| Youth wage subsidy                                                          |                   |                      |
| Training lay-off scheme                                                      |                   |                      |
| Section 50 of the Basic Conditions of Employment                            |                   |                      |
6. Concluding remarks

As we have shown in this report, the drought is not just a crisis for the agricultural sector. On a national scale, all South Africans are affected, and the poor and most vulnerable members of our society unfortunately bear most of the brunt.

This report was compiled with the aim of contributing constructively to the finding of solutions to the current drought crisis. It is evident that actions recommended to holistically respond to the current crisis require all stakeholders to work together like never before and we plan to engage further with the state on the proposals presented. In the holistic plan presented in Section 5, we take into account the long-term impacts of the drought and make provision for the post-drought recovery needs of all farmers.

We also highlight the importance of leaving no farmer behind regardless of the size of his or her operations. For this reason, we clearly set out specific actions to be taken in relation to assisting small-holder and subsistence farmers, along with the actions to be taken in response to the challenges of commercial farmers.

While not the specific focus of this report, the dire impact of the drought on South Africa’s neighbouring countries is of great concern. Undoubtedly, urgent and decisive action is needed from regional structures to prevent a further deterioration of the situation.