

# Agricultural diversification driving economic growth in KZN

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The agricultural sector in KwaZulu-Natal, South Africa's second largest province by population, is growing at around 12% per annum, compared to single digit growth in other provinces. It contributes around 4% to KwaZulu-Natal's gross domestic product.



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The province is recovering from a severe drought, and indicators point to a normal rainfall for SA's summer rainfall areas which bodes well for production.

It is well diversified with sugar production in the north and south coasts, dairy and irrigation maize in the Midlands region and mainly cattle and commercial poultry production inland.

The province has seen a dramatic increase in the production of macadamia nuts and avos, mainly for export markets.

Significant amounts of "marginal sugar land" are being diversified into macadamia nuts. According to Macadamia SA, 90%

of production is being exported, mainly to China.

However, to establish a macadamia farm is capital intensive. A lot of the smaller farmers will be left out. Economies of scale will play a role in that industry, as it has in the maize industry.

The price for avos – current local municipal market prices varies from R80 to R140 for a 16kg bag depending on the cultivar - is driven by demand, mainly from Europe and the Middle-East, with plans to develop the Far East market.

In terms of the agricultural sector, the province is still growing and there is a significant amount of high potential arable land available, specifically in the tribal areas.

## **Risks facing the sector**

FNB has a substantial market share in the province's agricultural sector and considers it as a very important province in its agricultural strategy. However, agriculture in KwaZulu-Natal is currently facing specific risks.

### **Land reform**

Land reform and expropriation without compensation is one of the key risks. There is very little that farmers can do to mitigate this. 'We have to work around it.'

We consider the new policy on land a risk for agriculture but are not "overly concerned" at this stage. We do expect more clarity around March next year.

### **Climate change**

Climate change and its impact can be mitigated. Following the 2016-2017 drought, farmers have now diversified not only their products but also their geographical areas.

Although small scale farmers are not necessarily able to diversify geographically, they are able to diversify in terms of the crops, and most have already done so to mitigate climate risks. The new challenge is to build economies of scale.

### **Cheaper imports**

From a business perspective, the Durban Port is an important factor for exports, but it also brings cheaper imports. The coastal areas are historically known for sugar production and specifically dryland sugar cane.

The price of sugar has however seen a significant drop, and not only because of lingering effect of the drought. The new sugar tax on beverages has caused a marked decline in the demand for sugar from this industry.

There has also been an increased risk of "cheap sugar" entering the country from South America and increased competition from commercial sugar expansions in Zambia and Mozambique.

Dairy is the second most important commodity in the province. Prices are currently too low. Long life milk (UHT) is imported into SA tariff free, while milk powder and cheese carry tariffs of roughly R4.50 per kg.

Prices, especially in coastal regions, are suppressed mainly because of UHT milk imports from South America and countries like Poland and Slovenia are landed at cheaper prices in Durban, the Western Cape, and Port Elizabeth.

According to the Milk Producers Organisation (MPO), the producer price as a national average is around R4.60 per litre. However, the import parity price for long life milk is around R6.10.

Inland, KwaZulu-Natal is better known for its livestock, but prices took a knock because of the outbreak of foot-and-mouth disease in January this year. The country has excellent poultry farmers, but they are battling dumped products and increasing feed costs.

## **Greater collaboration**

Increased collaboration, especially between smallholder farmers will enhance sustainability and profitability. This could include buying inputs together and having the power to negotiate discounts on bulk sales.

There is something to be said for collaborating on the use of expensive harvesting and planting equipment, although this remains a difficult concept for SA farmers to accept.

There is also the option of contractors – if a group of farmers have a sizeable piece of land, they can use a contractor for certain functions. This cuts out huge capital expenses to buy tractors, harvesters, planters and trucks.

We have seen a move towards this collaborative way of farming – especially in terms of buying input – some are formal and some are informal structures.

## **Precision farming**

The use of technology has been expanding “exponentially” in agriculture. Precision farming is not something new. Each industry has specific technologies to improve productivity and efficiency.

Investment in technology is crucial to mitigate risks. It may be an expensive investment, but it is crucial to stay ahead.

Despite the temporary headwinds, we are confident that the agricultural sector in KwaZulu-Natal is still poised for growth, and an even greater contribution to the country's GDP.

## **ABOUT THE AUTHOR**

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