

Country Risk Report

Country Focus: South Africa and Brazil
Country Risk Exposure: Domestic Economic Agent, Agricultural Sector
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Table of Content

I. Introduction	2
2. Country profiles	2
3. Macro-economic risk	3
4. Legal, policy, and regulatory risk	5
5. Political risk	7
6. Sociocultural risk	8
7. Exogenous and systematic risk	9
II. Comparison and Conclusion	10
III. References	12
IV. Appendix	16

I. Introduction

This country risk report is written for two domestic actors, one located in Salvador, Brazil and the other one in Durban, South Africa. Painting the picture, the two actors are currently studying Global Economic Governance and Public Affairs at CIFE. Nearing graduation, they are debating on possible job prospects. One option for both of them is to go home to their respective home countries and take over their parents' agricultural business. Having taken Mr. Bouchet's class on Global Risk and Governance, the two actors know that this decision is not only linked with domestic risks but also with various global risks. In order to make an informed decision, they are conducting an extensive risk report, starting with an overview on the country profiles. Subsequently, the following risks are taken into account: macroeconomic and exchange rate risk, legal and regulatory risk, political risk, sociocultural risk, and finally exogenous, environmental, and systemic risk.

2. Country profiles

a. Brazil

Brazil is the largest country in South America and is the ninth-largest economy in the world with an annual GDP of \$2.08 trillion. Even though Covid-19 has plunged the economy into a deep recession causing the national GDP to drop by 4.1 percent in 2020 (Empresa de Pesquisa Energética, 2022), the Brazilian economy has shown resilience in the recovery process and will likely pick back up by the end of 2023. According to the data from Instituto Brasileiro de Geografia e Estatística (IBGE) released on March 21, 2023, the unemployment rate rose to 8.6 percent in the final quarter of 2022 with a youth unemployment rate of approximately 26.3 percent for the population aged between 18 and 30 years old. Transparency International (2022) gave Brazil a score of 38 in the Corruption Perception Index and they are ranked number 94 among the 180 countries. Brazil is one of the world's giants in mining, agriculture, and manufacturing. It has been ranked the second-largest producer of biotech crops in the world since 2019, producing mainly soybean, cotton, and corn. Brazil's agriculture and food sector accounts for 33 percent (OECD, 2020) and its strong and rapidly growing service sector contributes almost 65 percent to its GDP. Although the nation is still fighting against corruption which stunted growth and may ruin the confidence of private investors, there is still a potential for a prosperous economic outlook due to its large and diversified economy with abundant natural resources (Lloyds Bank, 2023).

b. South Africa

South Africa, a culturally diverse and geographically remarkable nation, has faced a number of economic and social challenges in recent years. As the second largest economy in the continent behind Nigeria, South Africa has an annual GDP of USD 399.02 billion and a GDP PPP of USD 990.03 billion, with a per capita GDP of USD 6,490 and a per capita GDP PPP of USD 16,090. The nation's debt levels are relatively high, standing at 72.3% of GDP (IMF, 2023).

South Africa has faced challenges in controlling inflation, with its rate currently stabilizing at around 7%. The high unemployment rate of 34.7% remains a pressing issue for the country's policymakers. In terms of ease-of-doing-business, South Africa ranks 84th out of 170 countries, with a score of 67.

Despite these economic hurdles, South Africa has managed to achieve a Human Development Index (HDI) score of 0.713, with a life expectancy of 65 years (United Nations, 2021). However, the country continues to grapple with gender inequality, as indicated by a score of 0.405 (United Nations, 2021). South Africa was also ranked 72th out of 180

countries by Transparency International in the Corruption Perception Index, with the score of 43 (Transparency International, 2022).

The agricultural sector only accounts for 2.5% of the country's GDP and employs around 5% of the total workforce (World Bank, 2022). Nevertheless, South Africa is the continent's leader in agricultural biotech research and development and was the first on the continent to authorize transgenic crops (a type of genetically modified crop) for commercial use. This field is seen as a tool for tackling development issues including improved health care and food security (Roux et al., 2021).

3. Macro-economic risk

Brazil

In 2023 Brazil's inflation rate reaches 4.65, this comes after an increase that began in November 2020 and reached its peak in July 2021, with a rate of 9%, pushing inflation to the biggest year-on-year increase since 2003, even peaking the rate during the 2015 crisis.

Food and beverage inflation are almost entirely explained by changes in international prices and movements in the nominal exchange rate. Services inflation is persistent and strongly influenced by labor market slack. Non-energy, non-food goods inflation is strongly related to long-term inflation expectations.¹ This reflects how the current environment has been challenging for businesses as cost of production has risen and demand generally reduced. This in general is not a good sign for the economy as a whole and this has ripple effects on all sectors including the agricultural, however essential agricultural production is less likely to be touched by a reduction in demand (IMF, 2021).

Inflation in Brazil has had a clear effect on the devaluating currency. There has been a depreciation of the Real against the USD, making imports to Brazil more expensive and exports more attractive, and making it more expensive to service the debt in foreign currency. In the case of the agricultural sector, there has been a significant increase in the cost of fertilizer. 86% is imported and due to the pandemic and the war in Ukraine the price has risen. Nevertheless, this increase in price did not affect demand for horticultural products, that continue to grow at a rate of 4 percent per year (Rosaki, 2023).

The current inflation + devaluation that Brazil is experiencing already occurred in 2015 in the aftermath of a severe economic crisis that cyclically repeated itself in 2020. Based on these past trends, we can observe that after this crisis, the devaluation of the Real encouraged Brazil's farmers to put more land into production and increase double cropping and despite weak dollar-denominated prices in global markets, increasing net returns for Brazilian farmers (USDA, 2022).

Brazil has experienced current account deficits in recent years, with the deficit reaching a peak of 1.3% of GDP in 2019. On the import side, Brazil has experienced a surge in consumer goods imports, driven in part by a strong currency and increased purchasing power among Brazilian consumers. At the same time, weak foreign investment has made it difficult for Brazil to finance its current account deficit through capital inflows (IMF, 2021).

The widening **fiscal deficit** and the **heavy public debt burden** have been the most severe issues for Brazil since the 2015-2016 recession, and the pandemic only added to these difficulties. As of 2022 the public-debt-to-GDP ratio was close to 90%. However, the increasing fiscal deficit, coupled with the limited medium-term growth, will force the public debt ratio towards an uptrend again. And considering that President Lula is determined to implement a more **expansionary fiscal policy** and **increase social spending** and investment, the fiscal deficit is likely to deteriorate. Without a credible tax reform and fiscal consolidation plan, it could reach 100% of GDP by 2026 (Coface, 2023).

¹ Graph 1 in appendix

As of March 2023, the Copom (Monetary Policy Committee) decided to maintain the Selic rate at 13.75% p.a. The Committee judges that this decision is consistent with the strategy for inflation convergence to a level around its target throughout the relevant horizon for monetary policy, which includes 2023 and, to a larger degree, 2024.² Without compromising its fundamental objective of ensuring price stability, this decision also implies smoothing economic fluctuations and fostering full employment (BCB, 2023).

Labor market data indicates that Brazil's recovery from the pandemic-induced recession has been slow, with only around one-third of the jobs lost being recovered by April 2021 (IMF, 2021). Unemployment rates among youth, Afro-Brazilians, and women remain high, with female labor force participation being much lower than men's. Additionally, the pandemic's impact on the country's skilled labor supply has raised concerns about the potential rollback of the gains made in improving the Human Capital Index in the last decade. Despite the government's efforts to support **informal workers** and businesses during the pandemic, the informal sector continues to play a significant role, representing around 40% of workers. Despite great progress in eradicating child labor and forced labor, these issues are still of major concern, remaining at 4.6% in 2019, especially concerning children aged 15-17 (IMF, 2021).

Horticultural products, which include fruits, vegetables, flowers, nuts, and spices, have grown at a rate of 4 percent per year since 2002. Between early 2016 and March 2020, Brazilian stock markets experienced a significant period of growth and optimism, referred to as "remarkable exuberance." (Wheatly, 2022). During this period, the benchmark Bovespa stock index surged to all-time highs, with investors optimistic about Brazil's economic recovery and reforms agenda. However, the COVID-19 pandemic and falling oil prices led to a sudden crash in global stock markets, including Brazil's. In March 2020, the Bovespa index lost over a third of its value, marking one of the sharpest falls in the index's history. The crash was fueled by widespread uncertainty and panic in the markets, as investors worried about the impact of the pandemic on Brazil's economy and the ability of the government to respond effectively.

South Africa

On March 30th of 2023, the South African central bank (SARB) surprised the markets by executing a 50 basis point increment on interest rates, reaching 7.75% and is currently expected to further raise rates by 25 basis points in May. Rate increases are a blunt instrument that may effectively reduce inflation, but, as of today, they are failing to achieve their purpose in South Africa. This is because the country's inflationary pressure, especially in relation to food prices, is coming from a variety of factors, including currency weakness and local power shortages. Currently, inflation is hovering at 7%, whereas the SARB's goal range is between 3-6%.

In the fiscal year 2022/23, the country's public deficit continued to decrease as a result of a combination of fiscal consolidation initiatives (which were primarily aimed at reducing the public wage bill), higher-than-expected revenue collection from corporate and personal income taxes and favorable commodity prices for exporting goods, as well as customs charges. The budget for 2023–2024 maintains its tough policy stance and deficit reduction objectives. Revenue, however, is anticipated to be affected by the deteriorating economic

² The SELIC rate is the benchmark interest rate that the Central Bank of Brazil charges on loans to commercial banks, and it affects the cost of borrowing money for individuals and businesses throughout the country. The COPOM has decided to maintain the SELIC rate at this level because it believes that doing so is consistent with its overall goal of achieving inflation targets. Specifically, the COPOM aims to converge inflation to a level around its target in the "relevant horizon" for monetary policy, which includes the years 2023 and 2024.

climate. Deficit reduction will depend on expenditures remaining within target, which seems unlikely in the absence of new, significant tax proposals. Fiscal pressures will remain high due to elevated social pressure to raise wages, and the energy crisis may result in additional emergency spending. South Africa's debt is almost 80% domestic, ZAR-denominated, and has a long maturity period. As a result, it is less vulnerable to interest rate increases and currency devaluations. In spite of this, debt repayment costs account for around 16% of spending (or 5.2% of GDP). Providing direct assistance to struggling SOEs may further increase their debt load (Coface, 2023).

Furthermore, since 2013, the South African Rand (ZAR) has been on a constant decline against the US dollar, currently, 1 ZAR equals 0.054 USD. In the following years, repayments on foreign debt could become more costly and import costs could also rise (OECD, 2023)³.

The current account shifted back to a slight deficit in 2022 after two years in a row in surplus. In 2023, the deficit is anticipated to increase further. Because import costs (especially for food and fuel) are still high and export prices (especially for mineral commodities) are falling, the trade surplus is projected to continue to shrink (Coface, 2023).

Digression: South African agricultural trade

Due to favorable production circumstances and rising commodity prices, South African agricultural exports rose for the third year in a row in 2022 (UNCTAD, 2022). These have led to an increase in the value of agriculture (and agro-processing) exports, which now account for an average of 11% of all exports from South Africa, up from 9% a decade earlier. Currently, South Africa exports around half of the value of its agricultural products. South Africa's agricultural exports totaled USD 12.8 billion in 2022, an increase of 4% from the year before (WTO, 2022). Over time South Africa has managed to maintain its status as a net exporter of agricultural goods and in 2022, South Africa's agriculture recorded a record trade surplus of USD 5.5 billion. Nonetheless, imports continue to be considerable, averaging USD 6.6 billion over the last five years and amounting to USD 7.2 billion in 2022 (UNCTAD, 2022)⁴.

4. Legal, policy, and regulatory risk

Brazil

Risk regulation has emerged as a new paradigm side by side with traditional economic regulation since the 1990s and the government plays an important role in this risk management issue. Brazil is a member of the World Trade Organisation (WTO), since 1995 (Decree No. 1,355/1994) and the Food and Agriculture Organisation of the United Nations (FAO), a constitution that was ratified in 1965 and promulgated in 2012 (Decree No. 7,752/2012). Ever since the creation of the Programme for the Strengthening of Institutional Capacity for Regulatory Management (PRO-REG) in 2017, Brazil has seen a huge improvement in its regulatory agenda because the program focus on the quality of regulation conducted by the federal administration which coincides as well with the OECD Review of Regulatory Reform of Brazil to ensure better law and improve the quality of country's regulatory management system in institution, tools and, policies.

However, when it comes to the agriculture sector, Brazil still has low levels of domestic support for its farmers. For instance, about 60 percent of the country's municipalities had no rural insurance contract or other agriculture risk management tools due to scarcity and difficulty of access (Souza, et al., 2020). In 2022, the Brazilian government released a

³ Graph 2 in appendix

⁴ Graph 3 in appendix

program to increase the national production of fertilizers and reduce the country's dependence on imports abroad. It will serve as a guideline for the development of the domestic fertilizer market over the next 28 years. Around 85 percent of the fertilizers used in Brazilian agriculture currently come from imports, thus the plan seeks to reduce the quantity to about 45 percent by 2050 by focusing on the use of new technologies, sustainability, and mineral inputs.

Nevertheless, the country still has issues with land ownership despite having all of these regulatory policies in place. The government authorities can expropriate land in the name of social interest and for public use whenever they see fit according to the General Expropriations Law, Article 2. Research done by NGOs such as ANCOP and Conectas estimates that around 250,000 people have been evicted from their homes because of new public works and about 2,260 families, many of them indigenous, were displaced in March 2020 alone due to the dismantlement of the Monte Horebe informal settlement on the outskirts of Manaus, in the Brazilian state of Amazonas (Ionova, 2022).

Indigenous communities have been facing the ongoing encroachment of their traditional lands for agricultural and mining interests. These unlawful appropriations often result in deforestation, pollution, and destruction of sacred sites which leave a devastating impact on the communities. In the Amazon forest, deforestation rose by 14 percent in March of 2023 compared to the previous year (Grattan, 2023). This reveals that the forest suffered from the lack of governance, enabling the Agricultural mafia to take control. They usually commit illegal and violent activities, utilizing their economic and political powers to intimidate local communities.

South Africa

South Africa is known for its solid institutions and the independence of its judiciary (Coface, 2023). Additionally, the country has a well-established banking regulatory framework. The banking capital requirements in the Banks Act, passed in 1990, and its subordinate legislation, together with the exchange control regulation enforced in South Africa by the national treasury, meant that South African banks were largely shielded from the 2008 global financial crises (Gagné & Allen & Overy LLP, 2022).

Shifting towards our sector of interest, a lot has been accomplished in recent years regarding the introduction of new crops, including the eradication of pricing inefficiencies and unequal land ownership distribution that have afflicted significant portions of the agricultural industry since apartheid (Roux et al., 2021).

In order to foster incentives for the biotech industry, South Africa implemented a National Biotechnology Strategy in 2001. This was superseded in 2014 by the South African Bio-economy Strategy, which aims to adoperate biotechnology in industry, health care, and agriculture (South African Government, 2023). As previously mentioned, South Africa leads the continent in agricultural biotech research and development and was the first African country to authorize transgenic crops (a type of genetically modified crop) for commercial use (Roux et al., 2021).

In the past few years, a number of new policies were put in place in the sector:

In March 2021, the “**Agri-Industrial Fund**”, which amounts to 1 billion ZAR (67,6 million USD), was established to aid Black farmers and entrepreneurs in growing, expanding, acquiring, and integrating enterprises in prioritized value chains. This would boost the growth and expansion of the agriculture industry. Additionally, it seeks to accelerate the redistribution of land and boost exports. Another relevant project that was put into place is the “**Land Distribution for Agricultural Development Programme**”. The objective of this program is to provide grants to previously disadvantaged individuals to obtain land for

agriculture. These allowances correspond to a sum between a minimum of ZAR 20,000, to a maximum of ZAR 100,000 (around USD 5,500) (South African Government, 2019).

In conclusion, it must be reminded that South Africa is a member of the: World Trade Organization (WTO), Food and Agriculture Organization of the United Nations (FAO), International Plant Protection Convention (IPPC), and the Office International des Epizooties (IOE)/World Animal Health Organisation; and as such, the country is bound to their rules and regulations (South African Government, 2019). It is also important to note that South Africa has entered into various international trade agreements.

5. Political risk

Brazil

Corruption remains one of the biggest challenges in Brazil and threatens social and economic stability in the country. Operation Car Wash (Operação Lava Jato) is the most well-known corruption scheme in history. It comes from the initial focus on money laundering through a network of gas stations and car washes in Brasília City but led to a larger-scale investigation into corruption and money laundering in Brazil that began in 2014 (The Wilson Center, 2020). The operation was first focused on the state-owned oil company Petrobras, but quickly expanded to other areas including politics and business, uncovering a vast network of kickbacks and bribes including the involvement of Brazil's former president Lula.

Furthermore, the country is deeply divided politically, with significant differences in opinion and ideology between different segments of the population. For instance, the 2022 election was a highly contentious contest between two controversial figures: Jair Bolsonaro and Luiz Inácio Lula da Silva. Bolsonaro won his first term as president in 2018 after running on a right-wing, conservative nationalist platform by promising to tackle corruption and crime and increase economic growth. However, while he was in office, there were weakened gun laws, degraded protections for the LGBTQ+ community and reproductive rights, and a federal spending cut in education. Bolsonaro has been named the Organized Crime and Corruption Reporting Project's 2020 Person of the Year for his role in promoting organized crimes and corruption (OCCRP, 2020). Lula, on the other hand, was previously elected as president twice in 2002 and 2006. However, he was convicted of money laundering and corruption in 2017 associated with Operation Car Wash. He was sentenced to 22 years in prison but was later released in 2019 after the Supreme Court annulled his charges after uncovering bias in his case, allowing him to run for president again in 2022. The election ushered in unprecedented political violence between the two parties resulting in violence and attacks (Bergengruen, 2022).

South Africa

Turmoil and civil unrest are steadily dominant problem of South Africa. From the Apartheid struggles up until the 1990s towards the Zuma riots in 2021, political risk and violence have seen constant movements. Most recently, the rising costs of living and energy security have brought many people on the streets in coordinated and violent **protests** (Allianz, 2023). The Marsh political risk report (2023) declares a medium-to-high risk in the category of strikes, riots, and civil commotion. 3.3 Billion USD of damage through looting and arson were reported during a protest wave in 2022 (Al Jazeera, 2022). The economic cost of violence, as stated by the Institute for Economics & Peace (2022c), for South Africa lies at 14% of GDP leaving it at place 20 out of 163 (1 being the most costly). Protests are most often linked to corruption struggles and have most recently been connected to the domestic electricity crisis. Public sector **corruption** continues to play a major role in South Africa. Corruption scandals involving the current (Ramaphosa) as well as former president (Zuma). Interestingly, even

after the uncovering of a corruption scandal involving Ramaphosa he still managed to run for president and win. This indicates how deeply rooted corruption is in the country. Dodging an impeachment vote in December 2022, he nevertheless remains under investigation. The CPI states 44/100 (Transparency International, 2023a, 2023b).

The **energy crisis** is largely linked to the deeply corruption-ridden SOE Eskom, the country's energy provider. The scheduled blackouts or "load shedding" has reached new extremes in the past year with up to twelve hours of power outages per day (CNN, 2023). It is addressed in more detail below.

The Marsh (2023, p. 8) report summarizes the country's problem adequately by indicating that "the prevalence of social instability (...) could undermine the country's economic potential." For a domestic actor risks materialize mainly in the destruction of property through violent protests, influences in conducting business through the high degree in corruption and impediments of through the power outages.

Digression: load shedding

For years South Africa has faced struggles with reconciling electricity supply and demand. What was in 2008 originally planned as a quick fix to prevent uncontrolled blackouts in the country, quickly evolved into a full-fledged corruption crisis of the state-owned entity Eskom. Most recently power cuts of up to 12 hours per day have caused large-spread frustration within the population (Coface, 2023; Labuschagne, 2022; Naidoo, 2023)⁵. The corruption paired with an aging infrastructure at Eskom results in declining quality of live as well as impaired business activity. Christo van der Rheede, executive director of Agri South Africa explains that the agriculture industry suffers from load shedding in various ways from irrigation and conveyer belt movement to cooling storage and security systems (Arnoldi, 2023). Greenpeace suggests to counteract that problem with renewable energy such as solar panels. Such could be implemented for individual companies to ensure energy supply. However, critique is held due to the difficulties in obtaining solar panels as well as a lack of information and subsidies from the government (Igamba, 2023).

6. Sociocultural risk

Brazil

Brazil has a diverse population with a complex ethnic and racial makeup. Social stratification is pervasive, leading to inequalities in access to resources and opportunities. This socio-economic divide has led to high crime rates, especially in urban areas, and created a sense of insecurity among the population. In addition to crime and violence, Brazil also faces risks related to natural disasters such as floods, landslides, and droughts. These risks are often concentrated in the country's poorest and most vulnerable communities, exacerbating existing social inequalities (Allianz, 2023b).

This is reflected in the GINI index of the country that measures inequality. Reaching its most positive peak in 1993 where it reached 60.9, progressively the index had been decreasing, showing greater inequality, reaching an all time low in 2020 with a score of 48.9 and growing again in 2021 with 52.9 (World Bank, 2022). One of the key drivers of inequality in Brazil is unequal access to education, healthcare, and other basic services, which can limit opportunities for those born into less privileged backgrounds. Additionally, Brazil's history of slavery and discrimination against Afro-Brazilians has contributed to persistent racial disparities in income and wealth. Brazil's informal sector, which accounts for a significant portion of the labor force, also tends to have lower wages and fewer benefits, exacerbating inequality (The Economist, 2022).

⁵ Graphs 4 and 5 in appendix

In 2003 under Lula Da Silva, Brazil has implemented social policies aimed at reducing inequality, including the Bolsa Familia program, which provides cash transfers to poor families, and the expansion of access to education and healthcare. However, progress in reducing inequality has been slow, and the COVID-19 pandemic further exposed and exacerbated these disparities (The Economist, 2022).

South Africa

As is well known, South Africa is the country with the largest **inequality** in the world with a GINI-coefficient of 63. And while the pandemic contributed largely to the problem of inequality, the problem is not new. South Africa has been occupying the first place on the GINI index for years now. The index measures the distribution of income among individuals or households (World Bank, 2014). While the richest 10% have a share of total income of 67%, the poorest 50% share is only 5%, a trend that has been progressively increasing since the end of Apartheid. The wealth distribution is even more severe as 10% of the population possesses 86%, while share for the bottom 50% is negative, meaning they are indebted (World Inequality Lab, 2022)⁶.

The **ethnic fragmentation** of the Apartheid regime in South Africa is not only a legacy of the past but continues to live on. Torn between a racially, ethnically, and tribally “blind” system and cultural assertiveness and appreciation the country remains largely divided (Deng, 1997). In fact, the ethnic contribution to inequality (as measured by the GINI coefficient) lies at 41%. Factors such as labor markets, education, household demographics, and location are named as reasons (Hill, 2022; World Bank, 2022). While the Caucasian population is not directly affected by this, the resentment against different races indeed suffers. This is well portrayed in the so-called “South African farm attacks” where white farm owners have been attacked and killed by black farm workers (Cohen, 2020). Pertaining to that, the UNODC (2023) reports the intentional **homicide** rate of South Africa as steadily rising despite a quick pandemic-related cut leaving the country at 41 intentional homicides per 100.000 inhabitants and 2nd worst ranked worldwide. Furthermore, it continuously ranks in the top 3 of worldwide **kidnappings** per 100.000 inhabitants, with a rate of 9.6 in 2017 (UNODC, 2017). The shadow economy takes up about 22% (Medina & Schneider, 2018).

To sum up, the sociopolitical risk in terms of income and wealth equality, as well as ethnic fragmentation and criminality at a high niveau such as South Africa’s, poses enormous risks to our domestic economic agent.

7. Exogenous and systematic risk

Brazil

While Brazil did not receive a strong economic shock from the **Ukraine war**, the country still experienced some indirect effects like high inflation, including a rise in energy prices and fertilizers. Brazil is highly dependent on Russia for a special type of fertilizer called potash which is crucial for soybean production. As a result, the Brazilian Midwest imported a volume 12.5% lower as compared to the same period in 2021 due to a price increase of USD 293.37 per ton (Bravo, 2022).

Brazil is facing both systematic and exogenous risks related to **climate change**. The country's agricultural sector, which is highly dependent on water availability, could be significantly impacted by changes in rainfall patterns and increased drought. The energy sector, particularly its hydropower generation capacity, could also be affected by rising temperatures and extreme weather events. Exogenous risks include increased frequency and severity of

⁶ Graphs 6 and 7 in appendix

natural disasters, which can have significant impacts on the country's economy and social fabric, as well as on the health and well-being of its citizens (World Bank, 2018).

South Africa

The **war of aggression in Ukraine** has drawn attention to a serious problem born of globalization and systemic interconnectivity of the world. Not only has the war brought about terror, human suffering, and questioned state sovereignty but it has also led to dangerous spill-over effects of the economies. The regional crisis of war actions led to a global crisis in commodities, i.e. food and energy (as well as fertilizer products). South African farmers are especially hit through their demand in fertilizers. Between 2021 and 2022 the price has doubled (Worldbank, 2022) leading to difficulties as the country imports around 80% of its fertilizers (Joubert et al., 2022). Above mentioned current account deficits and budget gaps run the risk of magnifying through the (indirect) effects of the war. Moreover, an already instable electricity system domestically (*see digression on load shedding*) does its part on exacerbating the exogenous energy crisis and its impact on (agricultural) business.

The **ecological threat** report of the Institute for Economics & Peace (2022a) paints a dire picture. With the highest risk score possible (5/5) the country faces risks in the domains of water, food, natural disasters, and population growth.⁷ Water risk are mainly attributed to the threat of flooding afflicting the country. Especially the area around Durban has been severely hit by deadly floods in 2022. Not only did they cause large societal devastation but also economic downturns due to large (car) factory damages.

The risk of **terrorist attacks** is comparatively low at 1.5/5 as compared to other sub-Saharan African countries. In 2022 no incidents occurred in the country, including no fatalities, injuries or hostages as reported by (IEP, 2022b). Between 2000 and 2020, 186 incidents were reported with mainly less than ten, and often zero, casualties (University of Maryland, 2022). To sum up, for the domestic farmer from Durban external risk weighs heavily on the decision of running a farm in Durban. Not only the Ukraine war has large negative impacts on the risk assessment through the volatility and unpredictability of fertilizer prices. But also in terms of climate change, especially floods, the impact on the risk assessment of running a business are severe.

II. Comparison and Conclusion

Since November 2020, Brazil⁸ has experienced a higher-than-expected inflation rate which caused a supply chain disruption and led to an increase in demand, and prices of fuel and commodities. The Covid-19 pandemic, moreover, revealed the country's historically slow reform implementation, which prolonged the progress of recovery in the labor markets due to the pandemic, even further. Brazil still faces a high youth unemployment rate, as well as women and Afro-Brazillians. On a positive note, despite all negative developments the farming business proves sturdy in times of crisis. Similarly, South Africa⁹ also faces the same issue when it comes to inflation. The country central bank's decided to combat this by raising interest rates to 7.75% but the measure failed due to inflationary pressures from various factors such as currency weakness. It has been on a constant decline against the US dollar since 2013 which could potentially lead to an increase in the cost of foreign debt repayments and imports. Yet, the agricultural business is relatively unaffected by negative changes and even accounts for increases in exports for some years now.

⁷ Graph 8 in appendix

⁸ Graph 9 in appendix

⁹ Graph 10 in appendix

Overall, the macroeconomic and exchange rate risk is rated medium for Brazil and low for South Africa.

Both countries have been a member of the World Trade Organization and the Food and Agriculture Organization of the United Nations. Brazil has seen improvements in its regulatory agenda with the creation of the Programme for the Strengthening of Institutional Capacity for Regulatory Management (PRO-REG), but land ownership still remains an issue due to the lack of governance and agricultural mafia. South Africa has a well-established banking regulatory framework and solid institutions which incentivize the biotech industry. Similar to Brazil, the country has introduced new policies to aid farmers and entrepreneurs in growing their enterprises, implementing new technological tools, and moving toward a more sustainable future in agriculture.

Therefore, the legal challenges for both countries are measured at medium risk.

Brazil has multiple political risks due to a huge gap in political division and corruption such as Operation Car Wash which uncovered a vast network of kickbacks and bribes including the involvement of Brazil's former president Lula. Meanwhile, South Africa is facing turmoil and civil unrest, as well as several corruption scandals, one regarding the energy crisis linked to the SOE Eskom, involving both current and former presidents. The issue of Eskom also led to load shedding resulting in a decline in quality of life and business activities within the country.

The political risk is measured as “high” for both countries.

Brazil faces sociocultural risks linked to inequality in the country, racial discrimination, and a large degree of labor in the informal economy. However, agricultural businesses are likely to profit from this due to easy-to-find and low-paid workers as well as the dodging of taxes. As the country with the highest GINI-coefficient in the world, South Africans suffer large inequalities. Furthermore, the country faces a high rate of homicides and kidnapping, as well as ethnic fragmentation and cultural assertiveness which contribute to inequality and pose significant challenges to economic development. However, the farming business of the GEGPA student is likely to not suffer from this sociocultural situation.

Sociocultural risk for Brazil is rated low while it is rated medium for South Africa.

When it comes to the Ukraine war, both countries have experienced indirect effects such as inflation and a reduction in import volume. While Brazil's effects are relatively low, South Africa faced more severe consequences, especially impacting farmers through fertilizer prices. The country faces significant ecological risks such as flooding and natural disasters, as well as the unstable electricity system that exacerbates the energy crisis' impact on the agricultural industry.

Therefore, the exogenous risk is indicated as low for Brazil and high for South Africa.

Conclusion

Both countries have faced many challenges such as corruption, high unemployment rate, inequality, political and civil unrest, and slow progress in the implementation of fiscal reforms. These issues were only exacerbated further by the Covid-19 pandemic and the Ukraine war, threatening the development of both countries. Rating the risk for the agricultural sector for our domestic actors, Brazil however faces relatively lower risks as compared to South Africa. Thus, as GEGPA students planning to take over our parents' agriculture business, we believe that it would be a smart decision to **invest in Brazil**.

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IV. Appendix

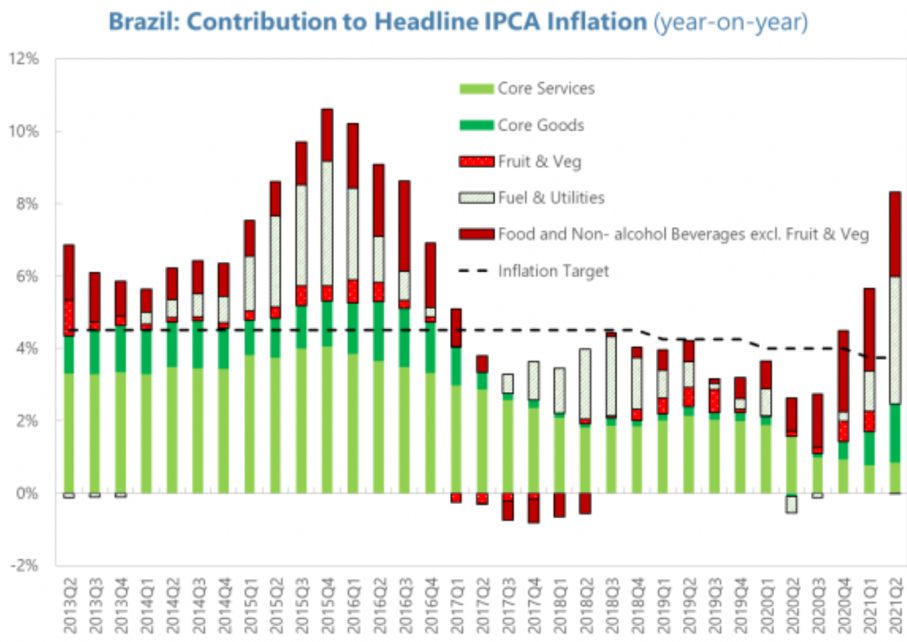


Figure 1: IMF, 2022

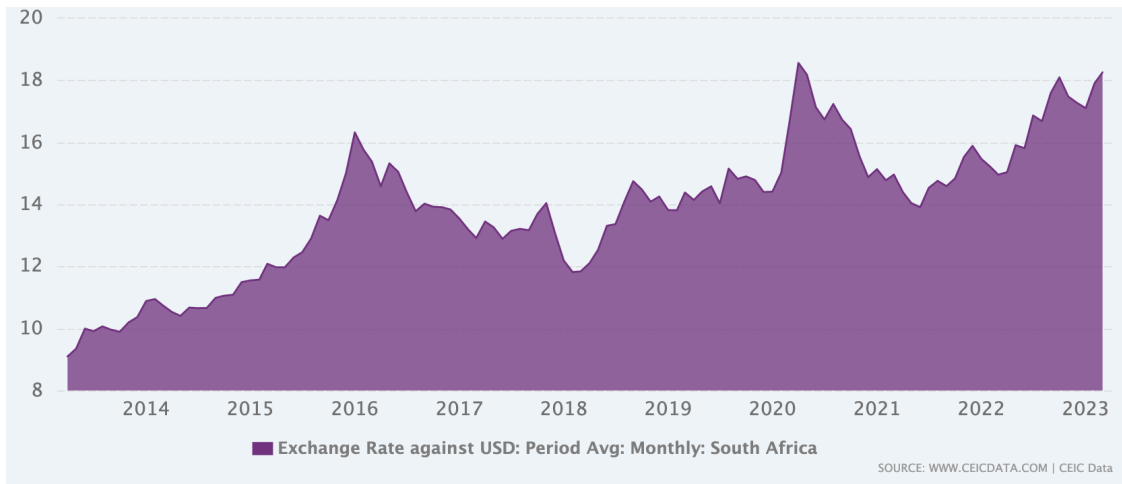


Figure 2: ZAR exchange rate against USD (2013-2023)

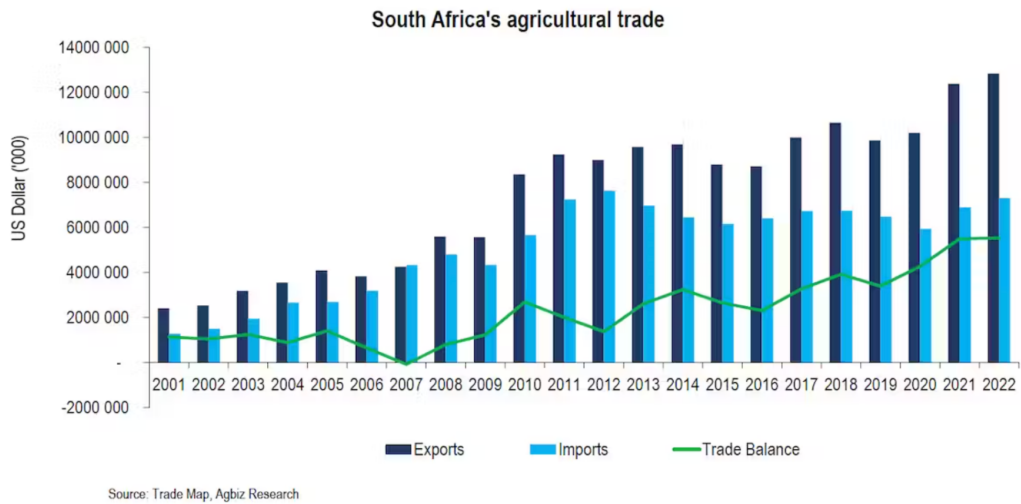


Figure 3: South Africa's agricultural trade

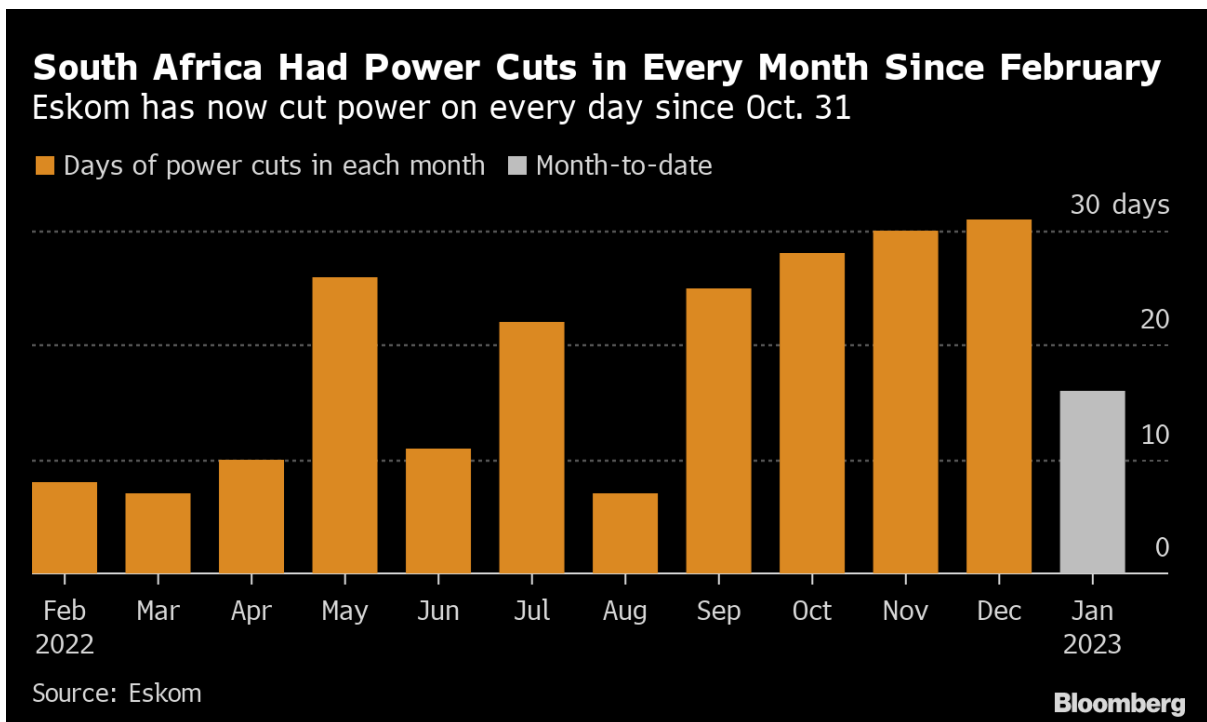


Figure 4: Naidoo, 2023

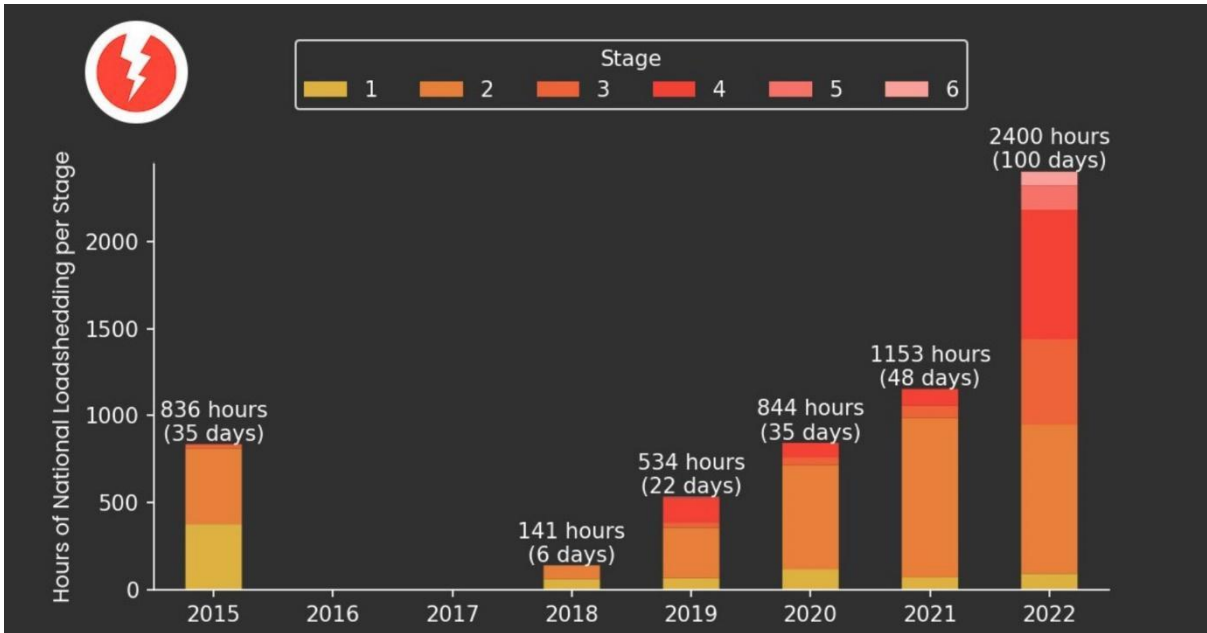


Figure 5: Labuschagne, 2022

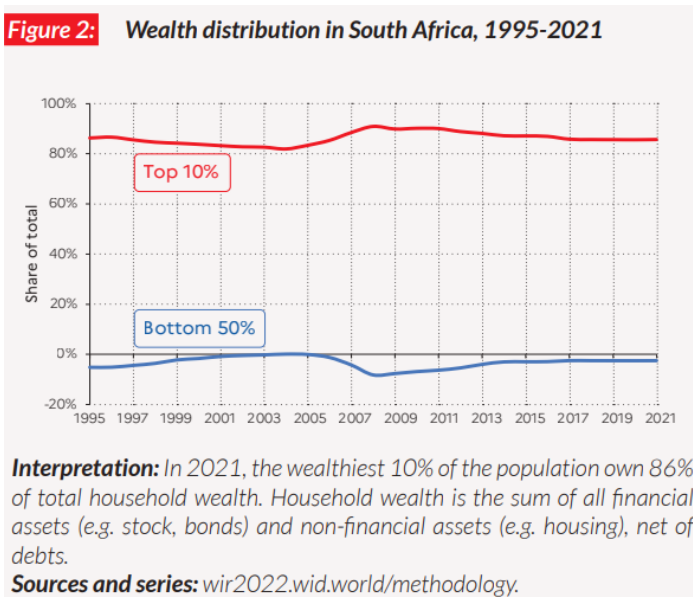
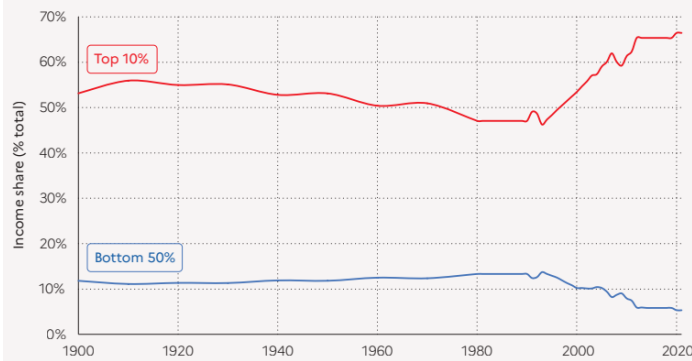


Figure 6: World Inequality Lab, 2022

Figure 1: Top 10% and bottom 50% income shares in South Africa, 1900-2021



Interpretation: The Top 10% income share is equal to 67% in 2021. Income is measured after the operation of pensions and unemployment insurance systems and before income tax.

Sources and series: see wir2022.wid.world/methodology, and Chancel and Piketty (2021).

Figure 7: World Inequality Lab, 2022

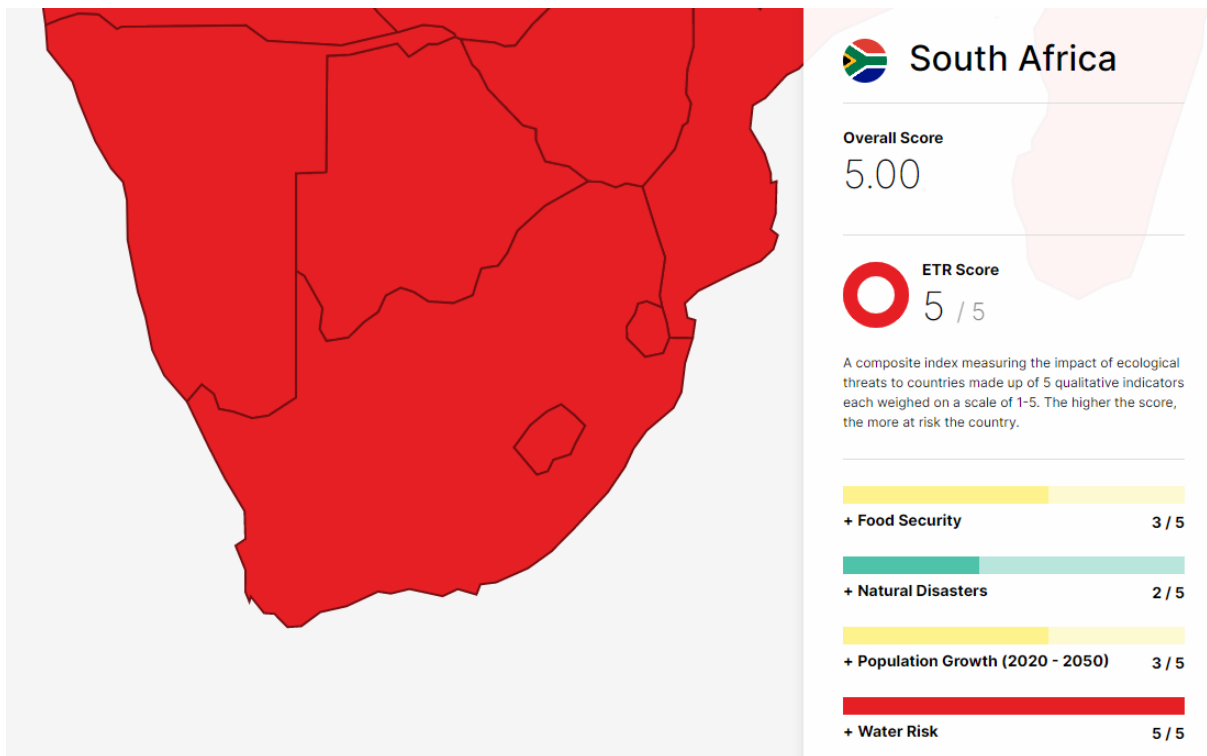


Figure 8: IEP, 2022



Top 10 risks in Brazil

Source: Allianz Global Corporate & Specialty

Figures represent how often a risk was selected as a percentage of all responses for that country
Respondents: 53. Figures don't add up to 100% as up to three risks could be selected

Rank		Percent	2022 rank	Trend
1	Business interruption (incl. supply chain disruption)	34%	3 (29%)	↑
2	Cyber incidents (e.g. cyber crime, malware/ransomware causing system downtime, data breaches, fines and penalties)	32%	1 (64%)	↓
2	Macroeconomic developments (e.g. inflation, deflation, monetary policies, austerity programs)	32%	5 (17%)	↑
4	Changes in legislation and regulation (e.g. trade wars and tariffs, economic sanctions, protectionism, Euro-zone disintegration)	15%	8 (12%)	↑
4	Fire, explosion	15%	4 (26%)	→
6	Natural catastrophes (e.g. storm, flood, earthquake, wildfire, extreme weather events)	13%	2 (30%)	↓
6	Theft, fraud, corruption	13%	NEW	↑
8	Climate change (e.g. physical, operational and financial risks as a result of global warming)	11%	8 (12%)	→
8	Energy crisis (e.g. supply shortage/outage, price fluctuations)	11%	NEW	↑
8	Political risks and violence (e.g. political instability, war, terrorism, civil commotion, strikes, riots, looting)	11%	NEW	↑

Figure 9: Allianz, 2023b



Top 10 risks in South Africa

Source: Allianz Global Corporate & Specialty

Figures represent how often a risk was selected as a percentage of all responses for that country
Respondents: 124. Figures don't add up to 100% as up to three risks could be selected

Rank		Percent	2022 rank	Trend
1	Critical infrastructure blackouts (e.g. power disruption) or failures (e.g. aging dams, bridges, rail tracks)	36%	3 (35%)	↑
2	Cyber incidents (e.g. cyber crime, malware/ransomware causing system downtime, data breaches, fines and penalties)	33%	1 (50%)	↓
3	Business interruption (incl. supply chain disruption)	32%	2 (44%)	↓
4	Climate change (e.g. physical, operational and financial risks as a result of global warming) ¹	27%	6 (16%)	↑
4	Political risks and violence (e.g. political instability, war, terrorism, civil commotion, strikes, riots, looting)	27%	4 (28%)	→
6	Energy crisis (e.g. supply shortage/outage, price fluctuations)	27%	NEW	↑
7	Natural catastrophes (e.g. storm, flood, earthquake, wildfire, extreme weather events)	19%	NEW	↑
8	Fire, explosion	14%	9 (9%)	↑
9	Changes in legislation and regulation (e.g. trade wars and tariffs, economic sanctions, protectionism, Euro-zone disintegration)	10%	7 (15%)	↓
9	Macroeconomic developments (e.g. inflation, deflation, monetary policies, austerity programs)	10%	NEW	↑

¹ Climate change and political risks and violence rank higher than energy crisis based on actual number of responses

Figure 10: Allianz, 2023a