

## Deteriorating service delivery and infrastructure constrain SA's agricultural growth prospects

South Africa's agriculture has had a few excellent consecutive seasons. The current 2022/23 season will likely also deliver solid growth again for the sector, although with variation across the different sub-sectors. Favourable rainfall and the sectors' ability to cope with the current load-shedding crisis have supported production. This also means the export performance will likely be robust, especially with a weaker exchange rate that makes South African products more competitively priced in the global market.

Still, this positive outlook and the previous years of strong performance that allow agribusiness to support rural towns and communities have not motivated the provincial governments and municipalities to play a more helpful role in propelling the sector's progress. The challenges of deteriorating roads, water infrastructure, and rising crime that we raised a few years ago persist and, in some cases, have worsened. The summer rainfall that supported agricultural production has also had the downside of exacerbating the damage to the already neglected roads.

This is not a challenge faced only by large commercial farmers that serve a broader clientele but all farmers. The emerging or new entrant black farmers, with limited financial resources, face it more acutely. A case in point is the Eastern Cape, where this past week, dairy farmers in the Ncorha area struggled to receive farm supplements, feeds and diesel because of the poor state of roads. At the same time, they couldn't deliver their produce to the market. This has adverse financial consequences for farmers, workers and communities.

This challenge, however, is not isolated to the Eastern Cape but across the entire country. The roads across the rural towns of the Free State, North West, Limpopo and KwaZulu-Natal, to name a few provinces, are also poorly maintained in bad condition. Compounding this challenge is the reality that South Africa now transports over two-thirds of its agricultural produce by roads, as rail transport has faced its fair share of challenges over the years. This means the higher agricultural output without functional roads does not yield full financial benefit to farmers and agribusinesses, as some have to find private construction at their costs to maintain some roads. This happens while the municipalities often have the allocated financial budget to cover their infrastructure needs but misuse the funds, as so often reported by the Auditor General.

Water is another aspect that various agribusinesses and farmers often raise as a challenge, both from a policy perspective and, more critically, in terms of infrastructure maintenance. There are examples of towns where agribusinesses have had to play a more active role in the water supply. This again takes financial and human capital away from businesses to public service that municipalities should be covering.

Moreover, agribusinesses and farmers also see a rise in corruption and crime. Commercial farming businesses have had to tighten security over the years at their own cost because of lawlessness in rural South Africa. Harvest and livestock theft challenges affect all farmers and are much harder for new entrant farmers without a strong financial position to invest in security and various technical solutions. Again, tightening security comes at a cost, with

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resources having to be shifted from more productive uses to cover for the government's shortcomings.

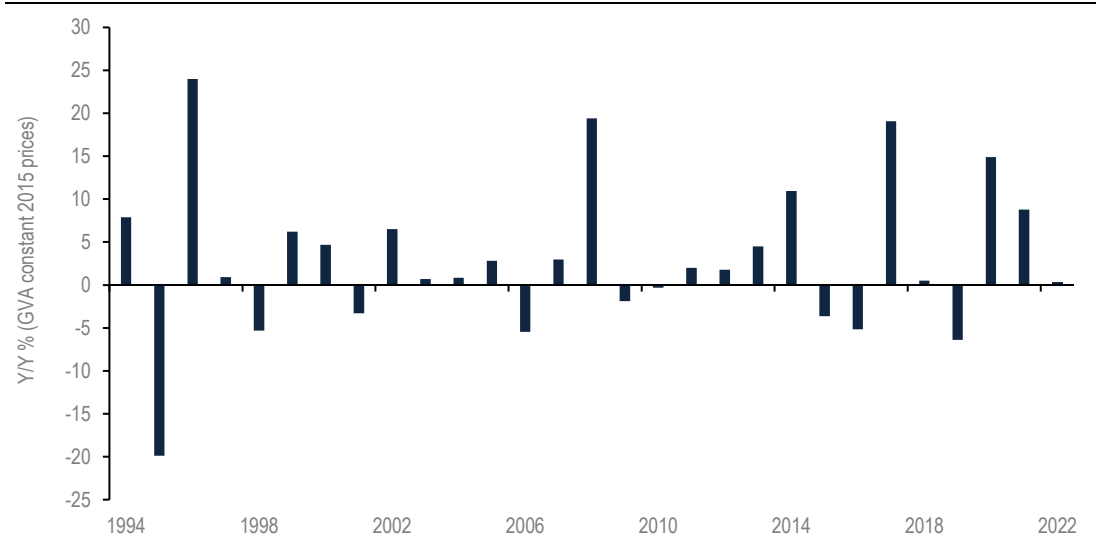
Collectively, these challenges highlight the effects of weak governance across all spheres of government in South Africa. For agriculture, this is a challenging period as the sector is essentially dependent, to an extent, on the proper functioning of all these essential aspects to realize its full potential. The rural towns, which seriously need economic rejuvenation and employment, will struggle to see meaningful economic change without improvements in governance, service delivery and security.

South Africa faces a high unemployment rate, at just under 33%, in the first quarter of 2023. Resolving this unemployment crisis requires that all economic sectors perform optimally, especially the primary sectors with an ability to absorb even the least skilled labour. Agriculture is one such sector, while agribusiness and agro-processing also present various employment opportunities. But all these hinges on effective service delivery and functioning infrastructure.

Notably, the recently launched Agriculture and Agro-processing Master Plan presents practical steps for implementing Chapter Six of the National Development Plan, which further outlined a vision for developing the agricultural sector. Weaknesses of the provincial government and municipalities will undermine the plan's agenda of expanding agricultural output and resolving inefficiencies within the Department of Agriculture, Land Reform and Rural Development. This also means the economic vision for South Africa that President Ramaphosa outlined will be hindered. Therefore, the Presidency needs to increase its focus on monitoring the delivery by provinces and municipalities and work towards capacitating them speedily. Other industries like mining and automobiles also feel agriculture's pains. Public-private sector partnerships can be considered to help tackle some of these challenges. The partnership modalities are outlined in various master plans and need commitment and effective leadership.

Notably, the services of small businesses that exist when large industries thrive also suffer due to the failure of governance. Addressing the local government failures should be a top priority for the Presidency in rejuvenating rural towns and communities that support millions of people and are currently in despair.

### Exhibit 1: South Africa's Agriculture GVA



Source: Stats SA and Agbiz Research