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Infrastructure investment key to unlocking growth in SA agriculture

Good afternoon

There is consensus amongst South Africa’s agricultural economists that the next frontiers for growth in the sector will be through the expansion of production mainly in the former homelands provinces (KwaZulu Natal, Eastern Cape and Limpopo).² The government land and underperforming land reform farms are also other additional avenues for expansion in agricultural output. The Eastern Cape and Limpopo have been amongst the provinces with the least contribution to the nation’s agricultural fortunes, respectively accounting for 6% and 7%.³ Meanwhile, provinces such as the Western Cape, Free State, Mpumalanga, to name a few, contribute 22%, 10%, and 9% to national agriculture gross value added, respectively. A crucial step for South Africa is to understand why agricultural development has lagged over the past two decades in these provinces on the one hand, while commercial agriculture in other areas doubled output on the other.⁴

There are several reasons which explain this disparity in fortunes, the most notable being lower levels of investment in agriculture and lack of infrastructure.⁵

- Concerning investment, poor land governance (lack of secured tenure), both in the former homelands and some underutilized land reform farms, have been the key impediments which disincentivises on-farm investments, in our view.
- A lack of basic infrastructures such as road networks, rail, silos, irrigation system, water and electricity, has contributed to low agricultural productivity and poor linkages to markets for smallholder farmers.

While an investment can be increased largely through deeper policy reform and improved land governance (secure tenure), infrastructure tends to be more resource-intensive, complex and requiring more long-term planning and coordination from both public and private sector entities. This makes infrastructure a far bigger challenge to improving agricultural sector fortunes for the majority of smallholder farmers.

In an era of consolidation and fiscal prudence, the tightening of very scarce government resources translates to an ever-growing challenge on how to close the infrastructure gap. Unlike the mining sector, where private sector predominantly leads and paves the way in the effort of building public infrastructure, agriculture – particularly smallholder farming – heavily

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² This is a view shared by BFAP, NAMC, Stellenbosch University agricultural economists and Fort Hare University agricultural economists.
³ Stats SA data.
⁴ Abstract of agricultural statistics by the Department of Agriculture, Land Reform and Rural Development.
relies on state-led and government-supported initiatives in developing the required public infrastructure that supports the production and market access.

With government resources stretched, the scope for infrastructure development around areas such as irrigation system, silos, electricity generation and packhouses, which are key for agriculture to thrive, can be entirely led by the private sector. In other essential infrastructures such as roads, rail and dams, the government would ideally take a lead.

But then there is also room for a private-public-partnership approach, specifically for major agribusinesses that are aiming to expand their footprint in these new agriculture growth frontiers (Eastern Cape, KwaZulu-Natal and Limpopo). The approach for this, however, will need to be a bottom-up one, where agribusinesses identify the binding constraints to development in specific areas of their interest and then co-finance infrastructure development aimed at addressing these concerns with the government.

This means the identification of constraints, the design of solutions, as well as project management and execution would involve both parties. Agribusiness will need to take a longer-term view, by providing expertise and finance to help address the bottlenecks to developments that will assist in growing the agricultural sector. Over time, this should increase their return on investment in the agricultural sector.

The spinoffs from infrastructure development and improved land governance (either through long-term tradable leases or title deeds) would result, not only in increased agriculture output but also increase job creation.

Besides the issues impacting the less developed parts of agriculture, commercial agriculture is also hampered by logistical infrastructure constraints. Bottlenecks at the major ports is increasingly an area of concern. Much of South Africa's agriculture sector is now export-orientated, with half of the produce exported in value terms. If production is to be increased, a similar push for investment to upgrade and expand infrastructure at the ports and routes to various ports of the country is required. This is yet again an area where greater collaboration with private-sector players, but also local government authorities, could be beneficial.

In a nutshell, agriculture has the potential to contribute to job creation and economic growth in the post-COVID-19 phase, but this hinge, in part, on the success of infrastructure investment.

Thank you.