

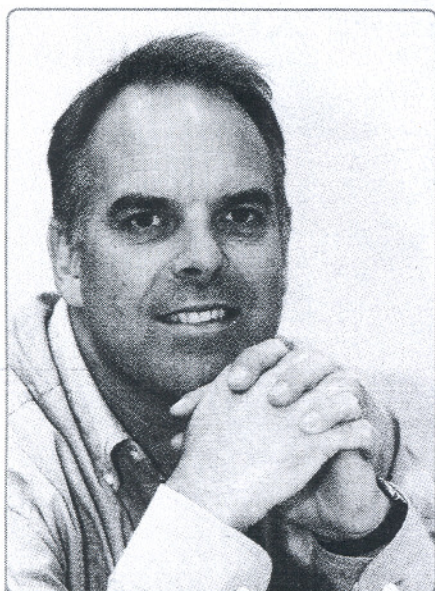
AGRIBUSINESS: *key to farming's solutions*

The private sector leaves supporting emerging farmers to government, while government leaves it to the private sector to find ways of dealing with small producers that make good business sense. We need an incentive system that will help us build on contract arrangements already in place, writes Prof Johann Kirsten.

THE RECENTLY PUBLISHED AGRIBEE Transformation Charter puts a great deal of responsibility on South Africa's agribusiness sector, as the charter's scope includes any enterprise which derives its turnover from:

- the primary production of agricultural products,
- providing inputs and services to enterprises engaged in the production of agricultural products,
- the beneficiation of agricultural products, whether in a primary or semi-beneficiated form,
- the storage, distribution, and/or trading and allied activities related to non-beneficiated agricultural products.

During the recent review of the implementation of the Strategic Plan



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for South African Agriculture, questions were raised about the extent to which the private sector, and specifically agribusiness, had contributed to transformation, to increasing black farmers' participation in the mainstream agricultural economy,

'Government should see agribusiness as an important partner in empowerment.'

or increasing general black ownership of agribusinesses. Though many agribusinesses have taken positive action, no documented proof could be provided to the critics.

Given government's poor record of providing support services to land reform beneficiaries and black farmers entering the commercial farming economy, it seems agribusiness has a real duty to help.

It doesn't make sense for the Department of Agriculture to continually design new and parallel systems when there's already a useful and well-endowed network of delivery points and depots across the country.

The easiest solution is to leverage existing agribusiness networks to service black farmers and make them part of the mainstream agricultural economy. Small incentives and strong partnerships

with government departments can help roll out advice, inputs, markets and technology to these farmers.

The basic premise is that government should see agribusiness as an important partner in the empowerment process, and in optimally leveraging scarce resources.

The challenge for government is to design a programme to encourage agribusiness to engage with black farmers at a much higher level than they are now. Consider the social returns of a vibrant and growing rural economy, with farmers committed to producing for a secure and non-exploitative market.

What holds agribusiness back?

Agribusiness should be persuaded to increase procurement from smaller farming enterprises by sharing start-up and high administrative costs with government.

As the buyers of farm produce, agribusinesses represent the market for virtually all farmers. However, the extra effort and costs of managing large numbers of suppliers deters them from dealing with small farmers – the effect on the bottom line raises concerns about return on equity and growth in shareholder value.

Agribusinesses are wary of opportunism on the part of contracted farmers, who often see them as a source of free inputs and skills. On the other hand, there's an unequal balance of power in most supply chains, where farmers are tightly managed and have little autonomy.

So, there's perceived opportunism on both sides, and a lack of trust. This lack of trust is only to be expected given our history. The challenge is to get around it.

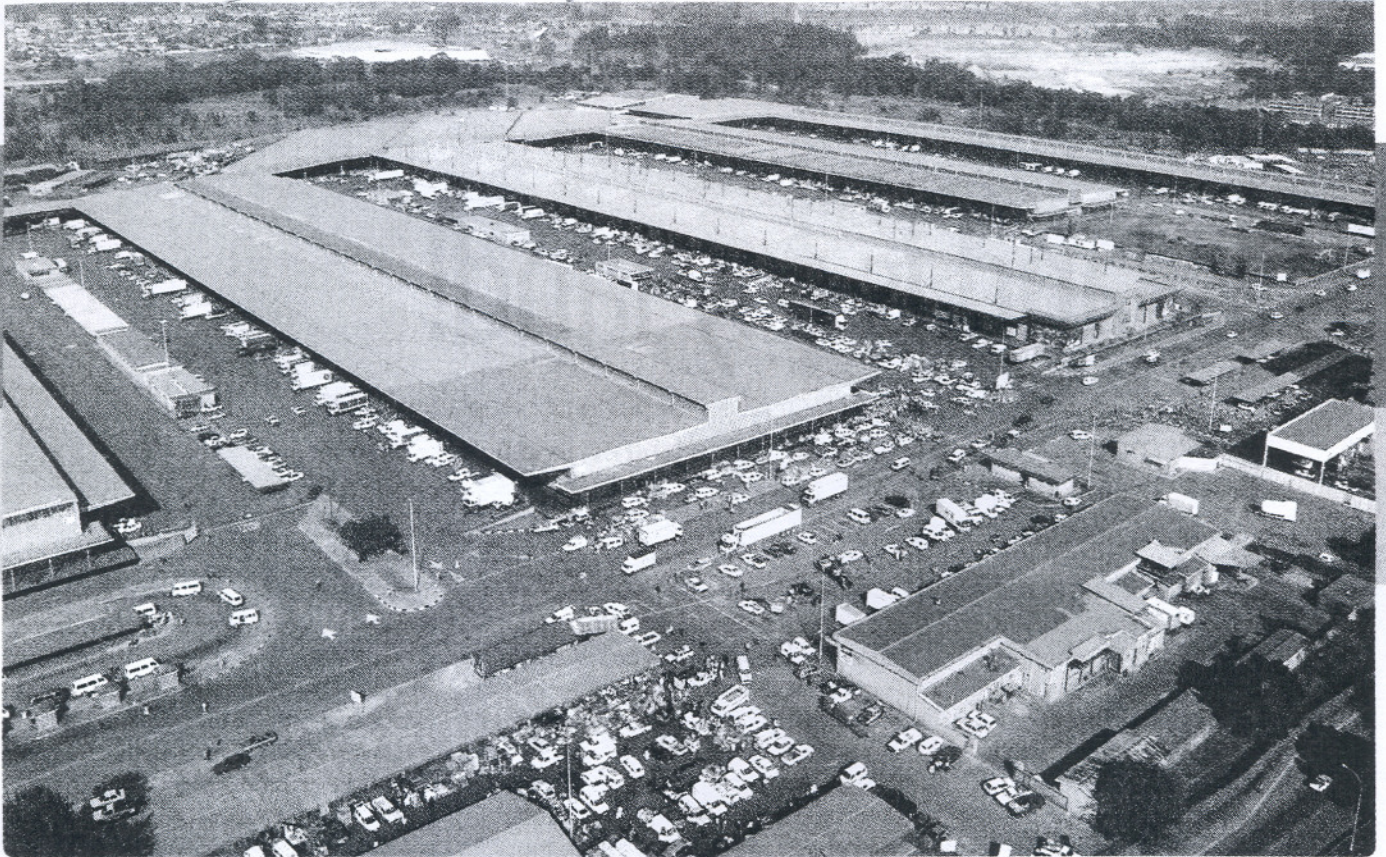
Contractual arrangements

As agricultural market structures evolve,

- It's senseless for government to set up structures for services agribusiness already provides.
- Incentives are needed to make it profitable for agribusiness to deal with the many small producers.
- Contracting arrangements can be used to good effect.



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The Johannesburg Fresh Produce Market, where private market agents use municipal facilities. Partnership between government and private agribusinesses could help small producers enter mainstream markets.

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agribusinesses are resorting to a variety of contractual arrangements (growing programmes, production contracts and marketing agreements) to secure supply, and more produce is bypassing spot markets. Often these arrangements are only made with larger (mainly white) farmers.

A recent survey by Vermeulen, Kirsten and Sartorius (published in *Agrekon* in 2008) estimates retailers and processors source almost 60% of total fruit and vegetable production through these types of contractual arrangements.

These arrangements are an institutional response to market imperfections regarding credit, insurance, information, production factors, and raw materials, so they could be advantageous to both farmers and agribusinesses.

Preferential procurement and AgriBEE

The AgriBEE scorecard uses preferential procurement to enhance transformation. Here, government recognises that agribusinesses can play a critical role in establishing black commercial farmers and entrepreneurs at all levels in the value chain.

It's vital that black farmers are guaranteed access to the market agribusiness and retailers represent.

Firms that contract with black farmers may achieve compliance points for preferential procurement, enterprise development and skills transfer.

Contending with high transaction costs

Several studies show that high transaction costs in production, processing or marketing exclude poorer farmers from lucrative enterprises.

In developing countries, these transaction costs typically arise because market prices don't fully reflect the true costs and returns. Participants in the process often have unequal resources, and market solutions may be unavailable.

Often agribusinesses are deterred by the high transaction costs of sourcing from many small producers, which increase business risk.

Bridging economic dualism

South African agriculture still faces the dual realities of a highly commercialised and industrialised commercial farming sector coexisting with an emerging small-scale developing sector. The integration of these economies needs to be promoted.

Developing states tend to be interventionist in advancing economic development. In an economy that includes a mature industrialised component, it's equally necessary to encourage this segment to constructively engage with the developing segment through contracting.

Providing safety nets

Emerging producers have to fend for themselves in a globalised economic

Accelerating sustainable land reform

It's well-acknowledged that land reform delivery needs to be accelerated.

Securing market access for new farmers could advance land acquisition or production on transferred land.

Lack of post-settlement support to beneficiaries can derail land reform projects. Markets and the private sector don't engage with such initiatives, deferring responsibility to the state. Contracting with the private sector for market access, capacity building and other services may be invaluable.

environment that's insensitive to their circumstances and can be harshly punitive in response to mistakes.

Appropriate contracting arrangements could soften the penalties through shared risk, and by providing economic safety nets that let producers learn by experience without their mistakes leaving them destitute.

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