

**A critical analysis of agricultural contracts with  
smallholder farmers in South Africa: A case study of  
Winterveld region**

**by**

**KILLIAN BANDA**

**Submitted in partial fulfilment of the requirements for the degree  
of  
MSc Agric (Agricultural Economics)**

**in the**

**Department of Agricultural Economics, Extension and  
Rural Development**

**Faculty of Natural and Agricultural Sciences**

**University of Pretoria**

**Pretoria**

**June 2012**

## DECLARATION

I Killian Banda declare that the thesis, which I hereby submit for the degree of MSc. (Agric) Agricultural Economics at the University of Pretoria, is my own work and has not previously been submitted by me for a degree at this or any other tertiary institution.

**Signature** .....

**Date** .....

## **DEDICATION**

To Mercy and Rufaro.

## **ACKNOWLEDGEMENTS**

I would like to express my sincere thanks to my supervisors: Dr. E. Biénabe and Prof. J.F. Kirsten for their valuable professional assistance, time, patience and dedication which made this study a success.

I would also like to express my sincere thanks to Dr. W. Anseeuw for his professional assistance and leadership throughout this study. Sincere thanks are extended to my team members, Dr. S. Freguin and Mr. A. Derembwe for their professional assistance and support. Sincere thanks are also extended to Mrs. Zuna Botha for her help in the editing of this document.

I would also like to thank the National Agricultural Marketing Council (NAMC) for granting me the funding for this study.

Lastly I would like to thank all the people whom I did not mention by name for their encouragement and support throughout this study.

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**Killian Banda**

**Degree:** MSc Agric (Agricultural Economics)  
**Department:** Agricultural economics. Extension and Rural Development  
**Supervisor:** Dr. E. Biénabe  
**Co-supervisor:** Prof. J.F. Kirsten

## **ABSTRACT**

Contractual arrangements have been viewed as institutional arrangements ideal for improved market access for smallholder farmers. However, certain questions remain unanswered, such as whether the smallholder farmers benefit from them and how? Do contractual arrangements empower smallholder farmers or not? And do contractual arrangements lead to improved gross farm incomes for smallholder farmers or not? From these questions, three hypotheses were developed and tested, which are: Contracting lowers smallholder farmers' market price risk and therefore improves market access; contracting improves smallholder farmers' farm incomes; and contracting improves smallholder farmers' capacity to access external resources (financial credit, technical and extension services).

This thesis characterised agricultural contractual arrangements in the Winterveld region, which ranged from implicit to explicit contracting. These contractual arrangements were characterised based on the general description of the contractual arrangement, the nature of the contract (formal or informal), contract negotiation, price discovery and payment structure, responsibilities of the contracting firm and farmers, contract enforcement and conflict resolution and opportunities and threats associated with the contractual arrangement.

The study used a case study approach and interviewed a total of 50 smallholder farmers and three agribusiness companies. Most of the data were qualitative in nature with significant

quantitative data on prices and yields. Only smallholder farmers who were actively involved in marketing their produce for the season 2009/2010 were interviewed, using a structured questionnaire. Agribusiness companies were interviewed using semi-structured questionnaires. The technique of triangulation was employed to validate data from the three primary data sources, which were key informants, smallholder farmers and agribusinesses transacting with Winterveld smallholder farmers. Literature on contract farming was explored and the main objective of the study was to show how contractual arrangements affect smallholder farmers and how best can they be used to mainstream smallholder farmers into formal agricultural markets.

Results from the qualitative analysis showed that non-land assets endowment are sources of pre-selection bias and in some cases are determinants of being contracted. However there was no positive relationship between owning non-land assets and contracting. Some contractual arrangements, like the marketing specification public tenders' contractual arrangement, are well designed to minimise farmers' price risk. However, others, like the marketing specification valencia contractual arrangement, do expose farmers to market price risk.

There was a significant difference in farm gross incomes between contracted and non-contracted farmers. It is however so that there were different levels of skills, management and enterprise mix between them. In some cases, for instance in the marketing specification valencia contract and marketing specification leafy vegetables and navels contracts, contracting does enable farmers to access external resources. However, having access to external resources also depended on the farmers' innovativeness and social networks and the information available to them.

From these results, the thesis concluded that contractual arrangements are not a panacea for improving smallholder farmers' market access, therefore other alternative marketing channels for smallholder farmers have to be explored. Market outlets such as hawkers had very low transaction costs, which makes it easier for smallholder farmers to enter such market channels, but there is very low public support in such market channels. Furthermore, it is not always the case that contracting prices are superior to other prices in alternative markets. Some farmers in non-contractual arrangements in some cases realised superior prices for their produce.

Based on the study findings, this thesis proposes key government interventions in eliminating information asymmetries and development of a public framework on contracting where necessary. Information asymmetries in particular can be reduced by deployment of effective and well trained agricultural extension personnel in smallholder farming areas. Also, a public framework on contracting reduces information asymmetries as well as guarding against unfair business practices against smallholder farmers.

Furthermore, due to the heterogeneous nature of produce from smallholder farmers, exploration of urban supply chains characterised by cultural diversity and low income consumers might result in improved market access for smallholder farmers. The thesis also proposes further research on the policy environment in which agricultural contracting takes place in South Africa. This could help in creating better policies which may foster increased formal market access by smallholder farmers.

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## ACRONYMS

AgriBEE	Agricultural Black Economic Empowerment
CDW	Central Distribution Warehouse
CGA	Citrus Growers' Association
CIRAD	French Agricultural Research Centre for International Development
DAFF	Department of Agriculture, Fisheries and Forestry
Euro-GAP	European Good Agricultural Practice
FNB	First National Bank
FPM	Fresh Produce Market
GDP	Gross Domestic Product
GI	Gross Income
GM	Gross Margin
GSSC	Gauteng Shared Services Centre
HACCP	Hazard Analysis Critical Control Points
ISO900	Standard Organisational Management System
JFPM	Johannesburg Fresh Produce Market
MCC	Magaliesberg Citrus Company, Ltd
NAMC	National Agricultural Marketing Council
NDA	National Department of Agriculture
QACCP	Quality Analysis Control Points
SADC	Southern Africa Development Community
SMS	Short Message Service
SPSS	Statistical Package for Social Scientists
TFPM	Tshwane Fresh Produce Market
TV	Television
TVC	Total Variable Costs
UN	United Nations
USA	United States of America
WCP	Winterveld Citrus Project
WUFA	Winterveld United Farmers' Association

## CONVERSIONS

5 morgen  $\approx$  4.3 hectares

10 morgen  $\approx$  8.6 hectares