

Land: The way forward

Academics Kurt Sartorius of Wits University and Johann Kirsten of the University of Pretoria have developed a model to help small-scale farmers enter the commercial market.

The Sartorius-Kirsten model is an attempt to promote the inclusion of large numbers of small-scale and medium-sized farms in the commercial farm sector in order to transform the demographics of farming in South Africa.

The model proposes that agribusiness processors be linked to small-scale suppliers by way of a unique contracting relationship that will allow this category of farmer to overcome the barriers of entry to high-value cash crop sectors.

The importance of transforming the South African farm sector is emphasised by the turbulent history of a number of post-colonial countries. The problems in Zimbabwe are a vivid reminder of a worst-case scenario for South Africa.

Future disruptions of the agricultural sector, land grabs, political violence, rural lawlessness and displacement are a near certainty unless pro-active steps are taken to address the ownership imbalance.

A skewed ownership pattern has been profoundly influenced by 200 years of systematic legislation that has promoted white commercial farming while simultaneously depressing black farming.

In an attempt to redress this imbalance, a number of farm support and land ownership programmes have been implemented since 1994. However, agricultural land reform changes have failed rather dramatically.

Several reasons, including the wisdom in hindsight, explain why such programmes were doomed to fail. The transformation of land for agricultural purposes requires a package of inputs, of which land is only one.

Prospective farmers need access to finance, technology, markets, infrastructure and a wide range of high-cost farm inputs. Land transformation without these inputs is like giving an individual 50ha of land and a shovel and telling him to become a commercial farmer.

Other reasons for the failure of programmes include the government's preoccupation with time-consuming legislation, lack of funding, and a general lack of widespread agribusiness investment in transformation programmes.

The inclusion of small-scale farmers in the commercial farm sector of developing countries is well-documented and a number of significant lessons can be learned from the literature. There is a need for a well-developed legal system, the active involvement of the agribusiness sector and the adequate representation of small-scale farmers in the bargaining process and ensuing structures.

The lessons suggest that solutions are country-specific; that certain labour-intensive commodities are more suited to smaller farmers; and that trust can be used to reduce the cost of co-ordinating supply relationships.

The Sartorius-Kirsten model, largely based on the institutional economic theory, is the result of a four-year research effort. It suggests that small-scale farmers can be linked to agribusiness by way of long-term contracts with regard to a range of high-value cash crops. The agribusiness partner provides a guaranteed market and also ensures the supply of inputs such as technology, access to finance, access to fertiliser and a range of services.

This allows the small-scale farmer to overcome barriers of entry to high-cost crop sectors. At the same time, the agribusiness partner can configure the contracted farmer with regard to international quality and health requirements.

There has been a widespread increase in contract farming in many developing countries, for both equity and economic reasons.

Contract farming has been widely cited as an important vehicle for development in sub-Saharan Africa. Its rapid growth in developing countries can be partially explained by growing food dependence, the need to generate foreign exchange and because it is a means to industrialise and restructure agriculture.

Contract farming has been seen as a way to modernise traditional production systems, a means to provide missing or imperfect markets, and a vehicle for restructuring the demographics of agricultural ownership.

However, there are a number of problems. First, small-scale farmers are generally more costly to deal with than larger suppliers and in developed countries there is an increasing trend towards fewer, larger farms. Small-scale farmers make larger numbers of deliveries and the quality of supplies from the wider range of suppliers is less likely to be homogenous.

Second, agribusiness is forced into numerous additional transactions with smaller suppliers. In many instances agribusiness could secure supplies at lower cost from larger farmers. Why should agribusiness reduce its profitability by dealing with smaller suppliers?

The South African dilemma is that we need to pioneer a model that contradicts the international trend of larger farms and encourages both smaller farmers and agribusiness to enter into long-term contracting arrangements.

The Sartorius-Kirsten model suggests the following solution. First, smaller farmers are more suited to producing commodities that are labour-intensive, such as organic vegetables, flowers, tobacco, milk, fruit, poultry and pigs. In this regard, smaller farm family labour is often more competitive than larger farms with hired labour.

Second, agribusiness must be supported by the government with regard to the additional costs involved in dealing with smaller farmers. This relief could be offered by way of a tax incentive. Agribusiness could then be set minimum targets for the inclusion of small-scale suppliers.

From the perspective of both farmers and agribusiness, small-scale farmers are better coordinated by a farmers' association. At the same time, the government needs to fast-track land ownership applications, simplify legislation and address the suitability of traditional structures to engage in the modern business sector.

Agribusiness in South Africa has enormous potential to expand small-scale farm supply. In 1996, for example, some 1 860 firms produced outputs valued at R61.8-billion in

product groups such as meat, fish, fruit, vegetables, oils and fats, dairy goods, grains, sugar, cocoa, coffee, nuts and beverages.

The potential to expand the processing value-added sector is further underlined by the fact that 15% to 27% of all fruit and vegetable production is processed by some 79 processors. An expansion of processing will result in higher levels of contracting for the supply of raw commodities.

There are 240 000 small-scale farmers who supply local and regional markets where informal traders make a living. In addition, an estimated three million households, primarily located in the former homelands, produce food largely to meet their families' needs. There is thus a large pool of potential commercial farmers that can be drawn from the small-scale sector in order to expand the value-added crop sector.

So what is the way forward? Clearly some urgent pro-active steps should be initiated.

Government and agribusiness should jointly establish a programme to expand small farm supply in conjunction with addressing land-reform criteria.

This should indicate the volume of supply allocated to small farmers in each of the major processing groups. The government must also ensure that the necessary legislation is introduced to reduce the incremental agribusiness cost of dealing with smaller suppliers.

Government legislation is needed to fast-track land transfers, the acquisition of permits and financial assistance for small-scale applicants.

These measures can be introduced while individual contracts between processors and farmers can be constructed on the basis of the Sartorius-Kirsten model.

The expansion of small-scale farmers in the commercial sector will contribute to changing the demographics of land ownership in South Africa, ensuring that this vital sector of the economy is not hijacked for various political agendas.

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