

Overcoming systemic challenges to transform South Africa's agricultural sector

By [Gert Schoonbee](#)

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According to the recently launched 'BFAP Baseline Agricultural Outlook 2019-2028', South Africa's agricultural sector needs to do more to support the targets of transformation, jobs, growth and land reform that have been set by the National Development Plan (NDP).



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Speaking recently at the report's launch, Professor Ferdi Meyer, a board member of the Bureau for Food and Agricultural Policy (BFAP), said that the future of the country's agriculture sector would be dependent on government and industry making the right policy and investment choices.

He said that there were four critical policy issues, namely, land reform and farmer support which includes policy certainty and property rights; infrastructure and technology, including water infrastructure; increasing access for local farmers to the major international agricultural markets; and the development of statistical baseline information to understand activity within South Africa's agricultural sector in terms of the entrants of small black farms (generally deemed those of about one hectare of land) and transformation.

This last point is underscored in an article written by Wandile Sihlobo, head of agribusiness research at the Agricultural Business Chamber (Agbiz), wherein he states that it is unclear how far transformation has gone in South African agriculture. He writes that a lack of data on the entry-level of black farmers in South Africa requires more research to inform agricultural development policy.

Public, private sector collaboration

What is clear is that the transformation of South Africa's agricultural sector needs a combination of effort and support by both the private and public sector. As Meyer states, it will take "specific and well-coordinated actions and plans of the public

and private sectors, with real capital and people to drive inclusive agricultural transformation and transfer of land in a just and sustainable way." He concludes by saying that there is no lack of plans; what is needed now is a greater emphasis on implementation.

There has been very little activity in terms of the development of significant transformative initiatives in South Africa's agricultural sector. While it could be argued that the lack of policy certainty has put the brakes on the sector's willingness to invest in transformation initiatives, there are a number of other challenges which include (but are not limited to) the following:

- An acceleration in the trend towards larger mega-farmers as the only real sustainable agricultural business model, which can be to the detriment of the larger communities within which it operates;
- The ongoing challenges for small agri enterprises (whether in primary production or services) to compete or collaborate meaningfully with larger enterprises and remain sustainable;
- The need for scale as the prevailing competitive advantage to enable commercial farmers through the adversities of droughts, floods, market excess and many other unpredictabilities;
- A limited pool of large, well-known black institutional investors in the agricultural industry to provide a credible voice about what sustainable transformation in the sector should look like;
- Radically reduced the predictability of cash flows and income due to continual environmental, market and climate changes; and
- Limited opportunities for local communities (arguably having to choose between participating in the trend towards urbanisation, or remaining unemployed and in poverty with a dependence on social grants).

In responding to these challenges, the market tends to hone in on a specific challenge and find a solution for that particular aspect. For example, a common perception is that although commercial banks are providing support for small "black entrepreneurs" arguably this might not lead to broader social and economic sustainability given that support is for smaller projects. Furthermore, there is no distinction between the evaluation of sustainable Agri products which require sophisticated skills, infrastructure and large amounts of starting CAPEX, and other agricultural initiatives which are less capital intensive. This could lead to many missed opportunities.

Collectively there is the need to lean into the current realities of farming in South Africa and find innovative ways to embrace and leverage these challenges. What this will require is a substantial mind-shift. When considering strategies to develop farming sustainability, it is doubtful that the notion of "profit above all" will work over the long term. The sector now requires strategies that shift towards broader community inclusion and social value creation.

In this context, a "profit for purpose" model becomes a compelling alternative. But what

does this mean?

There is no one definition of "profit for purpose" but in the main, this refers to businesses that are led by a mission to achieve social, community and environmental benefit through trading and by channelling a portion of their profits toward their mission. This is the business model that has been applied in a partnership initiative between family-owned farming enterprise Schoonbee Landgoed and black-owned investment firm, Thebe Investment Corporation, which has launched a farming initiative for the commercial production, packaging, marketing and sales of table grapes and citrus in the Limpopo Province.



Transforming SA agriculture through Change

3 Sep 2019



The initiative, known as Project Change, is grounded in the spirit and principles of the National Development Plan. It consists of two recently developed farms with existing income as well as a further acquisition of just under 400 hectares of additional land with recognised water rights for further citrus and grape development, and three primary healthcare and educational facilities for the surrounding communities which will be deployed by mid-2020. It is anticipated that over 1,200 new jobs will be directly created through the initiative with an estimated impact on 8,000 jobs throughout the complete value chain in the country. Significant funding via the Land Bank supports the project.

The majority black-owned initiative took two years to develop as a profit-for-purpose concept with the main imperative being to create an initiative that enables "shared value". The central premise behind creating shared value is that the long-term competitiveness of a company and the health of the communities around it are mutually dependent.

According to the partners, shared value, in this case, begins by giving dignity to workers and community members involved in the project, and this was done by addressing three specific social needs: providing employment for people living in the Loskop Valley and surrounds; supporting worker and wider community health by providing primary healthcare facilities and services; and unlocking human capability and breaking the systemic cycle of poverty through the provision of education and training opportunities to the farm's workers, their children and budding entrepreneurs in the surrounding communities.

What becomes important is to recognise that the concept does not compromise profitability and is not charitable in its format but seeks to be to share the value created in a specific way to address social needs in a sustainable way. This means that the funding mechanisms are – and should be - more aligned with the developmental strategy and nature of these projects.

Addressing the primary healthcare and education needs of the community was never conceptualised as a corporate social initiative separate to the business. Being integral to the entire concept these aspects were "baked" into the forecast commercial model. While this could foreseeably put pressure on the short-term financial returns to the shareholders, it ensures long-term sustainability for all stakeholders. Essentially, while citrus and grapes are the core business of Project Change, the core purpose is to affect change in agriculture through empowerment and upliftment.

From a business perspective, the initiative will have access to the local and international retail markets that partner Schoonbee Landgoed currently services. Around 70% of Change's volumes will be earmarked for export to 60 countries. As a share of global trade, South African exports of citrus and grapes have been increasing over the past decade, with the citrus market share growing from around 4% in 2001 to more than 10% in 2018, followed by table grapes from 5% to 7%.

Purpose farming initiatives

Joint management harnesses Schoonbee Landgoed's skills, market and cultivar access, packing facilities and partnerships while leveraging Thebe's track record in investment management and community engagement.

This project seeks to become a market-leading, black-owned profit-for-purpose farming initiative that is able to service local and international markets with premium products, while at the same time empowering the communities involved in the project through job creation and the provision of education, training, and healthcare services.

The project's profit-for-purpose model has the potential to provide an innovative, long-term model for partnering between established white commercial farmers and black institutional investors while empowering local communities and supporting new entrant (including smallholder) farmers in achieving financial viability.

The concept proved successful in a smaller forerunner project called the Rahlagane Cooperative and otherwise known as Peace Table Grapes. Originally initiated by the Limpopo Department of Agriculture and Rural Development (LDARD) the project was located within one of the communities close to the Schoonbee Landgoed operations in the Groblersdal and Marble Hall region.

It became apparent that a commercial partner was needed to address challenges like the lead-time to secure production capital, expertise to produce world-class table grapes and access to markets with related logistics. The lack of the necessary industry accreditations, working capital and certain minimum infrastructure, common challenges to small farming market entrants, further threatened the viability of the initiative.

To overcome these challenges, the small-scale, predominantly female farming initiative was brought into Schoonbee Landgoed's existing network so as to leverage the technical support, packaging, market access and logistics of the company at a zero-management fee. Being able to market and sell the grapes to premium retailers locally and internationally, while receiving the same logistics rates and service quality that Schoonbee Landgoed receives, had a significant impact on the commercial viability of that initiative.

Peace Table Grapes was a forerunner to Change from two perspectives. Firstly, it enabled Schoonbee Landgoed to learn a lot of critical lessons on how to partner with a different entity, which was then applied when shaping the legal and business model of Project Change. Secondly, it proved that small farmers could collaborate meaningfully with large commercial farmers, and it is anticipated that Change will be a catalyst for more small farmers to collaborate in a similar way through the opportunities that the initiative will unlock.

The profit-for-purpose model is a deliberate shift away from a singular focus on the wealth of shareholders to the long-term health of the company when looking at its wellbeing through the different lenses of financial, social (and environmental) perspectives. Because these aspects are critically interlinked, the agricultural sector's task is to develop holistic business models where these challenges converge into one practical and workable solution. Without this, it will be difficult to ensure the broad and sustained transformation that South Africa's agricultural sector needs.

ABOUT THE AUTHOR

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