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A QUARTERLY PUBLICATION BY THE NATIONAL AGRICULTURAL MARKETING COUNCIL

THE NAMC LAUNCHES
CONTRACT FARMING
TRAINING

WHITE DRY BEAN
MARKET CONTRACT DEAL

*AGRICULTURAL
COMMODITY
PRICE AND FORECASTS*

FOOD SAFETY,
ETHICAL,
ENVIRONMENT
STANDARDS AND
COMPLIANCE





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PREFACE

This is the first edition of the Agri-preneur publication from the National Agricultural Marketing Council (NAMC). The Agri - preneur aims to communicate business related information among smallholder farmers. Agriculture is a business and therefore this edition was designed to share information on business developments and to update farmers on the dynamics of current and future market. Smallholder farmers face several challenges in their business environment which negatively affect the marketing of their commodities. Through this publication the NAMC will communicate research findings and business practices that address smallholder challenges, including development in the agricultural sector. It is believed that this publication will assist smallholders to develop strategies, adopt models, and be part of the value chain by marketing commodities that meet quality standards and are safe for consumption.

Presented in this publication are the following topics: (1) Contract farming training, (2) White dry bean market contract deal, (3) Food safety, ethical trade and environmental standards, (4) Basic commodities price watch and forecasts, (5) the National Red Meat Development Programme (NRMDP) and (6) The impact of climate change on agricultural production.

By Prof Victor Mmbengwa

Manager: Smallholder | Market Access Focus Area

THE AGRI-PRENEUR: A QUARTERLY PUBLICATION BY THE SMALLHOLDER MARKET ACCESS UNIT OF MERC



1. The NAMC launch contract farming training

By Sydwell Lekgau

The National Agricultural Marketing Council (NAMC) through the smallholder market access unit has launched training on contract farming on the 11 of November 2014 in the Eastern Cape Province. The training was in Middledrift town at Fort Cox Agricultural College and was facilitated by Sydwell Lekgau and Lindikaya Myeki (see Picture1).



Picture 1: Lindikaya facilitating contract farming training at Fort Cox College

Training on contract farming among smallholder farmers was influenced by research which was conducted by the NAMC during 2012/13. The research was conducted to due to the growers, retailers and processors requests with regard to contract farming arrangements that were dishonoured by all the parties. Contracts that are not respected have a very serious implication to both sellers and buyers as the product traded in the markets are attached to the business unit of the parties in the contract. For example, when the product is contracted, it means a shelf space has been reserved for the growers. The situation becomes difficult when the contracted product is not delivered to the market or less is supplied. This can lead to the loss of customers in the market.

On the other hand when the producer delivers the best quality product in the market but she/he receives less revenue it is also a concern more especially if there was a contract in place that state quantity, quality and pricing of the commodity.

The issues mentioned led to the investigation on contract farming and the study revealed the following contract farming issues, from the farmer's perspective the study revealed the problem of side selling of the contracted products, delivery terms and conditions not respected amongst the others. On the side of the buyers, the study revealed the problem of unequal power relation which led to the changing of terms and conditions in relation to quality standards, volume and payments arrangements. The study further revealed a knowledge gap which existed among smallholder farmers with respect to contract farming.

Having established the contract farming issues in the agribusiness environment including knowledge gap among farmers, the NAMC guided by the Chairperson and Council members developed a contract farming manual. The purpose of the manual is to transfer skills through capacity building program and to address the knowledge gap that exists particularly in the use of contracts. The manual further seeks to create awareness and to empower farmers on contracting farming. This was to ensure that farmers conclude business transactions that are fair and can lead to better livelihood and repayments of credit which is often required in the production of agricultural products.

With the developed manual, the NAMC facilitated the process of training farmers in the nine provinces of South Africa. The first province to respond to the training request was the Eastern Cape (EC) Department of Agriculture, Rural Development and Agrarian Reform. Hence the first training was launched in the EC. Approximately 40 farmers, 12 Economist and 15 extensions staff from all the Districts in EC attended the training. Chapters covered in the manual were on the importance of contract farming, market linkages models, factors that lead to success and failure of contracts, the contracting process, negotiation, contract design, implementation and contract management. Lastly the training also covered

topics on disputes resolution with regard to the parties in contracts.

Contract farming training was the first of its own kind and it addressed interrelated business functions and operations with the producers interacting with one another including group discussion as shown in Picture 2. One of the farmers from Zingisa Honey Bee Co-operative said, "since I came here it rained enough but the question is who will plant"?. The farmer was actually encouraging farmers to use the knowledge gained during the training to advance their business. The Department of Agriculture was also delighted to receive training on contract farming given several challenges that farmers had with the contractors.



Picture 2: Sydwell facilitating contract farming session among the producers at Fort Cox College

2. White dry bean market contract deal

By Sydwell Lekgau and Phistos Mashamaite

As part of the linkages to established markets, the NAMC has identified a market for dry beans. This identification emanates from a series of communication with the processors in the agribusiness industry to open their doors for smallholder farmers. Opening of the doors for white dry bean supply will go a long way in assisting farmers to supply the good quality products that yield the best market price more than most of the commodities that are traded in the stock markets.

Dry bean is relatively a new commodity to most of the smallholder farmers in South Africa. The

commodity is mostly imported from the world markets, however the quality of the imported product according to the processors is not very good. With the quality standards issues, the South African processors have found it important to produce the products locally. Dry bean pilot project was conducted in the Mable-Hall area during 2013 production season. The project was a success with the obtainment of expected yield. This increased the interest of the processors to procure more stock from black growers hence there is call for smallholder farmers to produce white dry bean. As part of the negotiation to produce bean from smallholders, the NAMC, Limpopo Department of Agriculture (LDA), Limpopo Economic Development Agency (LEDA) and the processor had a contract farming session with the farmers (see Picture 3) to discuss the contract and the business relationship going forward.



Picture 3: Inception meeting on contract farming between the processor, LDA, LEDA, NAMC and farmers

2.1 What are the requirements to enter into the dry bean market contract?

The following aspects are required to be part of the contracting deal:

- Centre pivot irrigation infrastructure
- Proximity to processor's facilities
- More than 15 hectares of land
- Enough water for irrigation of the crop

In addition to the requirements mentioned climatic conditions must also be best suited for the crop. The areas suitable are Mable –Hall, Bela-Bela and Polokwane only.

3. Food safety, Ethical trade, Environment standards and Compliance

By Sydwell Lekgau

Consumers around the world including the South African consumers of fruits and vegetables are increasingly seeking good quality products that are safe and nutritious. The consumers want to know where the products come from, the production mechanisms used, the safety and the hygiene of the products. In addition, consumers want to know the labour that produces the products and lastly the sustainable use of resources (example, soil and water) and the environment which produced the products. These demands by the consumers are mostly reflected in the market environment through different products standards and compliance. With the increasing market requirements and integration of smallholders into the value chain, it appears that in the next five years many agricultural producers of fruits and vegetables will not trade their products in the market place without proper documentation or simply a certificate.

On the demand side, analysis in the fruits and vegetable industry show that expenditure on fruit and vegetables increased by 15.3% and potatoes alone increased by 7.6% (DAFF, 2014). These figures suggest that consumers are increasingly purchasing fruits and vegetables and would like to have more quality of the commodities that include the elements of food safety and environmental standards. However, if the fruits and vegetables cannot be found domestically, the likelihood is that of importing the commodities from the world market in order to supplement the local stock.

In South Africa, producers within the potato industry have realised the importance of assuring the consumers with the quality of the produce and have established a non profit making company called “PROKON” which is operating in the National Fresh Produce Markets (NFPM). The company makes daily quality checks of potatoes against the standard set for the produce. This service benefits both the producers and the consumers of potatoes as it

ensure that producers acquire feedback of the stock marketed while to consumers it guarantees the product quality. Consumers know exactly what they pay for and producers receive the revenue of their exact quality specification. It is expected that the service will be extended to the fruits and other vegetables industries in the future. However, this will have an implication towards grower's revenue as the service need to be paid by the producers themselves.

Many companies around the world in the fresh produce industry understand food safety protocols and have some sort of a program in place to address the challenge. The South African retailers are not immune to world dynamics with respect to food safety, ethics and environmental sustenance. Although retailers are in competition and differ in products standards, they have come to realise the importance of high products quality and standards compliance which many smallholder farmers do not meet. In attempting to address the issue of standards and compliance to satisfy consumers' demands, the international community together with retailers and gigantic supermarkets came with the so called Global Good Agricultural Practice (G.A.P). However, to many smallholder farmers GLOBAL G.A.P is far reached and many cannot afford to have the certificate.

The retailers around the world, big supermarkets and JHB National Fresh Produce Markets (NFPM) in South Africa have decided to be lenient to the smallholder and have introduced a program of taking the farmers through developmental stages called local g.a.p until GLOBAL GAP is reached. With local g.a.p assessment and audits are made at farms and the onus is on the farmers to establish the level corresponding to the market requirement. Farmers are provided with an entry level recognition that is linked to a particular program owner (buyer). Important to note is that local g.a.p is not a certificate but a stepping stone towards higher level of certification (the Global GAP). With local g.a.p a farmer can assess various markets and can negotiate deals with

established markets knowing that is moving up the ladder. With this development, it is clear that the future marketing of fruits and vegetables within the participating NFPM and retailer's space is not going to be easy for smallholder farmers. Farmers will need to have a recognised documentations or a certificate to trade in the market.

4. Agricultural commodity price and forecasts

By Judith and Sydwell

Worldwide, agricultural commodity prices are determined by the market forces of demand and supply. This has resulted in the farmers being the price takers in the commodities they trade in. Therefore knowing commodities prices in advance is critical to inform the producers about planning and moreover on the market where they could supply their produce. Commodity prices serve as important signals for the sales in the market. In order to alert farmers of the price movement in the future market, commodity forecast are made for the following commonly basic agricultural products: potatoes, onion, cabbage and tomatoes.

4.1 Potatoes

Figure 1 shows trend of potatoes prices as traded in the National Fresh Produce Market (NFPM). Based on figure 1 below the price of potatoes were fairly stable from January to March followed by a slide decline in April. Prices increased from April to September by 35 percent. This is attributed to the fact that from January to October the sales were declining owing to a low stock. When this situation happens the price started to increase. The forecastⁱ price shows an increase of 2 percent for November and December 2014.

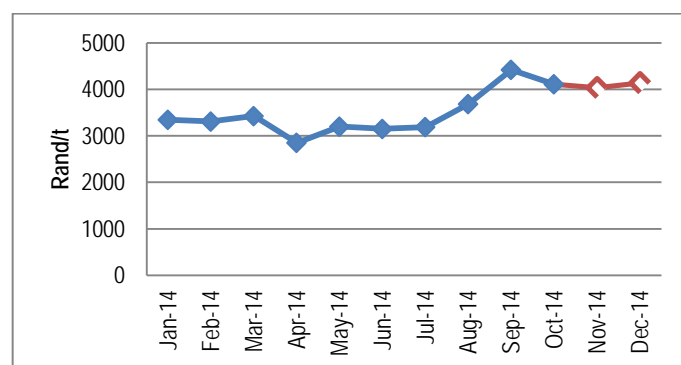


Figure 1: Monthly prices of potatoes and forecasted price
Source: NFPM, 2014

4.2 Tomatoes

The tomato (*Solanum lycopersicum*) is the second most important and popular vegetable crop after potatoes in South Africa (DAFF, 2013). Tomatoes are produced by all categories of farmers in South Africa. ZZ2 is one of the biggest producers of tomatoes in South Africa. The company produces more than 50% of the commercial tomato production. Tomatoes are traded in various markets; however in this article the NFPM pricing of tomatoes is forecasted.

Figure 2 shows trend of tomatoes prices as traded in the National Fresh Produce Market (NFPM). Generally, the price of tomatoes per ton increased immensely from the period of January until May 2014 as shown in figure 5. The increase was 38% followed by decrease of 35 percent from July to October 2014. The price increases is attributed to low stock while the decline is due to more stock available in the market. The forecast shows that prices will increase from October to November by 19 percent and stable movement to December.

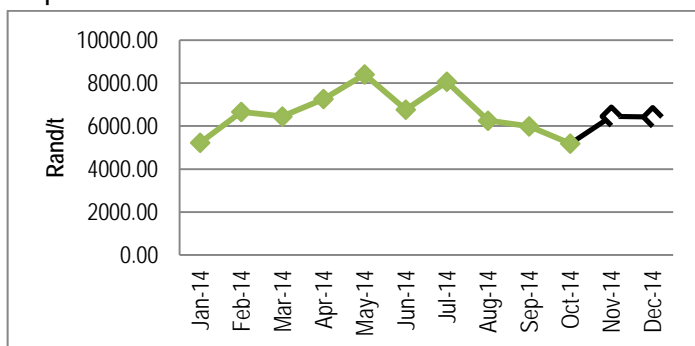


Figure 2: Monthly price of tomatoes and forecasted price
Source: NFPM, 2014

4.3 Cabbage

Cabbage is a leafy green biennial, grown as an annual vegetable for its dense-leaved heads. Cabbage belongs to a class of vegetables called Brassica, also known as cruciferous vegetables because their flowers are cross-shaped. Other crucifers are broccoli, kale, cauliflower and Brussels sprouts (DAFF, 2013). Cabbage is 90% water and an excellent source of minerals, Vitamin A and C and the B vitamins.

Figure 6 below shows that the prices of cabbages were fluctuating between R1500 and R2500 per ton from January to October 2014. The price rose by

23.6 percent from March to April due to the declining stock, followed by a stable price in May then dropped again in July 2014. The prices rose from September to October and the forecasting shows that the prices may drop by 9 percent in November then 2 percent in December 2014.

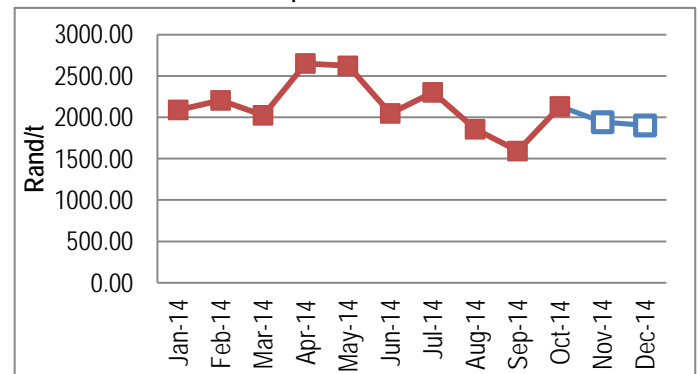


Figure 6: Monthly prices of cabbage and forecasted price
Source: NFPM, 2014

4.4 Onions

Onions are the third most popular vegetable in South Africa, after potatoes being first and tomatoes being second (DAFF, 2013). Onions are mostly used to add taste in food.

The trend shows that prices of onions increased from January to February 2014 as exhibited in figure 3. The increase is attributed to low stock in the market. The onions are mostly available in the market around May hence the price were fairly stable in March and April 2014. The market saw an increase until May 2014. Since May the trend shows price decreasing until October due to increasing stock coming to the market. The forecast shows a fluctuating trend that the price will increase by 12% and followed by a decrease of 7 percent from November to December. This may be a result of supply of stored onions sold at this season.

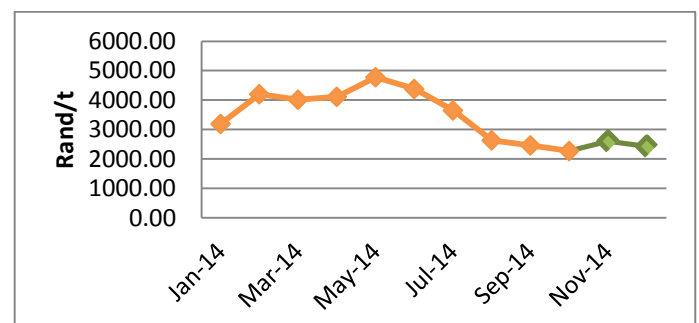


Figure 3: Monthly prices of cabbage and forecasted price
Source: NFPM, 2014

4.5 Conclusion

South Africa is self sufficient in these selected vegetables. They are produced and the surplus gets sold to other countries. Mostly the prices are influenced by demand and supply of the products. As these selected vegetable are consumed throughout the year and are form part. The producers always ensure the availability of these vegetables due to their daily demand. The forecast is based on general production and consumption behaviour trends holding other factors constant.

5. The National Red Meat Development Program (NRMDP) living up to its name:

By Lindikaya Myeki and Sydwell Lekgau

The National Red Meat Development Program (NRMDP) was first launched and piloted in the Eastern Cape in the early 2005. Hence it was formerly known as the Eastern Cape Red Meat Development Program. The program was established after a comprehensive research which confirmed the overwhelming desire of smallholder farmer's development in the area of livestock. Before the establishment of the program, farmers had the following challenges: unknown quality standard of livestock, skewed age of the stock, lack of marketing skills, and many where at the distance to markets and resources particularly infrastructure remained the major problem.

Establishment of the NRMDP was to ensure that smallholder farmers stock is improved so they can participate actively in the formal red meat market. With the NRMDP smallholder farmers use their own resources (cattle's) to exploit market opportunities that would have not being easy to obtain. The NRMDP provide smallholder farmers with a series of activities. These activities are shown in shown in Figure 4. They include administrations and feeding of animals, training of farmers in various fields (Raring of animals, selection on quality breeds), conducting of auctions where animals are normally marketed, indabas and farmers days.



Figure 4: The NRMDP activities

At the centre of the NRMDP is the Custom Feeding Program (CFP). The CFP is a rural feedlot where animals are fed until they are ready for the market. Livestock taken to the CFP are mainly those that are intended for the market hence farmers can take one or two animals to be fed for the sale in the future market. As the demand grew to improve the livestock in the EC more CFP were established in the other areas of EC and to other provinces. In the EC is the Fort Cox (see Picture 4), Ncora, Lower Hakuwa, Kamastone and others



Picture 4: Fort Cox, Customer Feeding Program

Currently, the NRMDP has spread through South Africa with CFP in Northern Cape and in the Kwa-Zulu Natal. Limpopo CFP and other provinces will soon follow. The NRMDP is living up to its name because of its positive significant impact in the promotion of market access and better incomes for

communal cattle farmers in South Africa. The success and growth of NRMDP in South Africa seems to suggest that the provision of infrastructure has a potential to promote market access. In addition, in a long run the growing unemployment, food insecurity, level of poverty and beef imports can be addressed through the NRMDP.

However, the NRMDP further calls for sponsors and support from various developmental stakeholders in South Africa and elsewhere in the world.

6. The Impact of climate change on Agricultural production

By Thulisile Khoza and Sydwell Lekgau

Agriculture is a risky business, more especially primary agriculture since it is affected by natural factors which are beyond human control. Agricultural production is therefore affected by climate change which is showing its self through shift in weather patterns. Severe heat, floods and droughts are the example of climate change which directly affect agricultural production. Too much rainfall will lead to floods (see Picture 5) which will negatively affect agricultural production as the yields will be wiped away. More heat will burn the commodities under production especially if dry land is used for production. For commodities under irrigation more water will be used leading to increased cost of production. Human practices such as chopping down of forests can also lead to climate change as the regions will be warmer.

Climate variability causes inconsistency in production, this inconsistencies leads to less volume of agricultural production than expected. As a consequence, fluctuation in the prices of agricultural commodities will occur and these serve as a disadvantage to farmers participating in the market. Given the negative impact of climate change in South Africa, the NAMC has found it important to interact with smallholder farmers in the affected areas of Giyani to understand how climate change has affected their agricultural production.



Picture 5: Impact of climate change on agricultural production

6.1 Climate change stories of smallholder farmers in the Giyani Municipality

Text box 1: Farmers sharing their views and experience on the effect of climate change on their agricultural production.



Text box 1: Mr. T Maluleke & Mr. J. Maluleke Mr. T Bilankulu

From the left is Mr. J Maluleke and son Mr. T Maluleke who owns a 5ha vegetable farm in the greater Giyani Municipality. According to the farmers they experienced high rainfall areas during February and March 2014 which was ineffective because it attracted pests and diseases. The rainfall has further led to rust and spoilage of the crop.

Mr. J Maluleke said, "Too much water has a negative impact on tomato production". He mentioned that the production yield was low; therefore they did not produce the quantity they promised to supply the market. A low return on

investment was received due to the negative impact of climate change because the produce quality was not of good quality. Currently the farmers are experiencing high temperatures reaching the maximum of 40°C which is beyond the average daily mean recommended for optimum growth, yield and quality of tomatoes. According to the Department of Agriculture Forestry and Fisheries (Undated) hot, dry winds cause excessive flower drop while continuous moist, rainy weather conditions result in the occurrence and spread of diseases which is why it is recommended that tomato be grown in dry areas under irrigation.

Mr. Tinyiko Bilankulu a vegetable farmer who specialises in tomato production from the greater Giyani municipality was also interviewed. Mr. Bilankulu made mention that during autumn of the current year high rainfall was experienced which affected the timetable for pest management and weed control. Labour input had to be increased which led to more input cost. The rain caused rust, cracking and over ripe. The markets were forced to reduce the price because the produce was not of good quality. High percentage loss was experienced because most of the produce did not meet the market standard and some were even rejected by hawkers.

6.2 Mitigation strategies

Giyani is a dry area which is good for tomato production, the only problem is that the temperatures are beyond the average daily mean of 20°C and 30°C and there is inadequate water supply within the area. Therefore, even if the plant receives water in a form of rain or irrigation the water does not penetrate into the soil which makes water absorption by the plant difficult, leading to decline in percentage flowering and production volume. Smallholder farmers with the objective of obtaining large portion of profit from the harvest should tap into the tunnel system because they will be able to control the temperature. Crop rotation is essential to reduce the build-up of pests and diseases.

6.3 Climate change recommendation

Smallholder farmers should have reliable information on future weather estimates. This will assist farmers on the varieties of the crop to be grown. A drought tolerance variety is also recommended this will help to reduce production risks. Necessary information on climate change need to be made adequately available and assurance should be made that the information reaches all categories of farmers. A mechanism should be put in place to assist smallholder farmers in acquiring knowledge on how to measure climate variables themselves and make informed decisions on the commodities to be produced. There is a need for the development and implementation of effective adaptation measures in order to mitigate climate related risks. Awareness of the impact of climate change should be raised because not all farmers are well informed on the variability of climate change as well as measures to be employed towards adaptation.

7. References

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ⁱIs the prediction of future prices which can assist farmers in the decision making and planning of their commodities.

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