



AGRIPRENEUR

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**Smallholder
farmers' poultry
production**

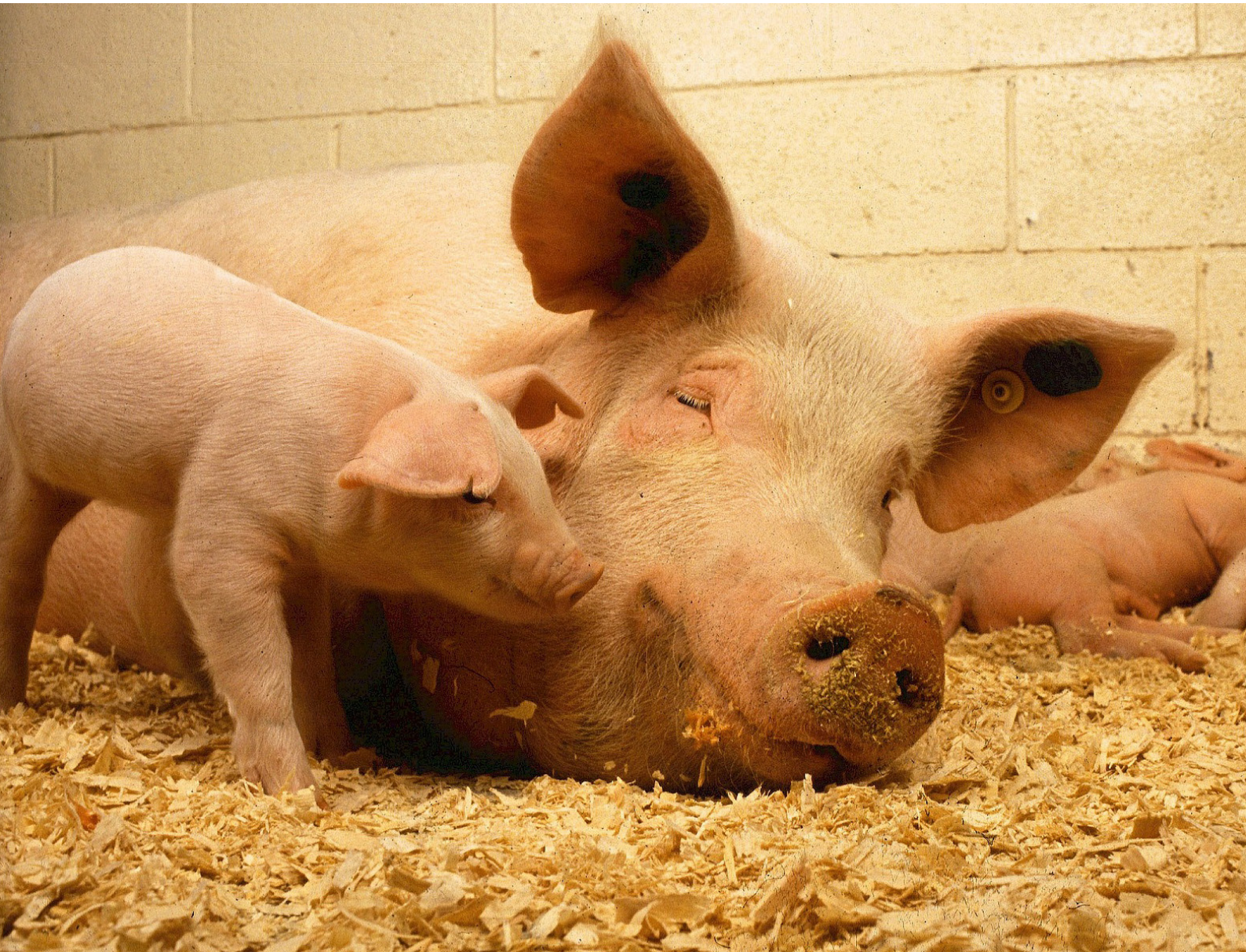
**South African
Wine Industry
Transformation Unit**

Limpopo farmer upholds the family farming tradition





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THE AGRIPRENEUR QUARTERLY:

A PUBLICATION BY THE SMALLHOLDER MARKET ACCESS RESEARCH UNIT OF THE NAMC

PREFACE

W

elcome to the twenty-first edition of the Agripreneur publication of the National Agricultural Marketing Council (NAMC). Through this publication, the NAMC seeks to create a platform where agripreneurs and farmers, mainly smallholders, can share their knowledge and skills, challenges, experiences and insights with one another. It is believed that this publication will assist smallholders in learning from one another, developing strategies, adopting models, and becoming part of the value chain through the marketing of commodities and products that meet market standards and are safe for consumption. Agripreneur also serves to promote and profile aspects of South African agriculture as a brand. Each issue features good stories that will hopefully convince the reader to #LoveRSAagric.

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Kayaletshu Sotsha

Extending the integrated commercial poultry production sector is not a catalyst for the inclusiveness and growth of the South African poultry industry.

EDITOR'S NOTE

Poultry farming in countries such as India, Brazil and South Africa, among others, is dominated by few large producers that make up the largest share of total production, with hundreds of thousands of smallholder producers contributing a small share (often less than 30 %). The smallholder farmers often do not actively participate in the mainstream value chain, despite some government attempts to provide initiatives that seek to address the imbalances. This has been the case in South Africa, where government initiatives such as the Comprehensive Agricultural Support Programme (CASP) and others have not had the desired impact.

Valdes et al. (2015) noted that vertical integration tends to be the favourite strategy for the few big producers to lower production costs, improve productivity growth and increase profitability. This is evident in South Africa, where the few companies that dominate poultry production tend to be vertically integrated. Louw et al. (2017) suggested that the net return in poultry farming increases with the improved efficiencies that are often subject to the level of investment in sophisticated technologies and the scale benefits.



Smallholder producers often face challenges such as limited access to day-old chicks, high feed prices (mainly due to the lack of bargaining power), high mortality rates (mainly due to poor infrastructure and the application of informal risk management strategies), heavy reliance on the informal market (due to lack of marketing infrastructure and low production volumes), and poor cash flow (due to the inconsistent demand and slow sales in the informal market), among others.

Therefore, the contract grower model is sold as a viable tool to link smallholder poultry producers into the mainstream poultry value chain, since the contract grower model reduces transaction costs and provides smallholder producers with the assurance of a regular supply of inputs and guaranteed market access, which provide a regular income, other conditions remaining constant.

Kumar and Panigrahy (2016) noted, however, that the contract grower model requires the smallholder grower to provide land, labour, infrastructure, equipment, water and electricity, while the contractor provides inputs such as day-old chicks, feed, medicines, technical know-how, and market opportunities. The farmer is remunerated for growing chicks, and also receives incentives and is penalised based on the production costs (e.g. feed conversion ratio) and the mortality rate.

The contract grower model accommodates both independent smallholder growers and new entrants into the industry. Although it offers benefits for both parties (the grower and the contractor), it only accommodates the elite group of smallholder producers – those with access to huge capital investment – while entry proves to be very expensive and thus unaffordable for the majority. Currently, South Africa has a few companies (less than five companies in each segment) dominating egg, broiler and feed production and breeding while hundreds of smallholder producers do not actively participate in the mainstream value chain.

Of the 450 contract growers in the country, 50 are black fully-fledged commercial growers, with hundreds of thousands of smallholder producers not standing a chance of ever achieving the contract grower stage of development. In addition, there is no evidence from the country's poultry industry that the model is capable of developing smallholder producers beyond the contract growers.

This implies that extending the integrated commercial poultry production sector alone is not sufficient to achieve the goal of inclusiveness and growth of the South African poultry industry. Hence, transformation initiatives are required that (i) allow for smallholder poultry producers to grow independently; (ii) properly structure the informal market; and (iii) provide flexibility for smallholder farmers to compete in the formal market space when they wish to do so.

This requires, among other things, government and industry support to build the necessary infrastructure in the farmers' localities. Smallholder farmers must be properly organised and well represented in the industry marketing forums, which could be achieved by having an independent body within SAPA to represent the needs of smallholder farmers.

Remember that we are not out of the woods yet. Continue to play your part. Wear a mask, maintain social distancing and practise the highest possible level of hygiene.

Enjoy the reading!

LIMPOPO FARMER UPHOLDS THE FAMILY FARMING TRADITION

By: Khanyisa Tyelela

In an area drained of young people migrating to cities in search of a better or more fast-paced life, Sipho Moagi stands out from the crowd.

While many of his peers have joined the constant flow out of rural Limpopo – contributing to the 10 % increase in rural/urban migration from 2009 to 2019, according to StatsSA – Moagi stubbornly remains on his family's land.

Moving to “the big city” was not even a temptation for the 36-year-old, who says he's never had aspirations beyond toiling the soil he was born onto, Rock Hill Farm in Tzaneen, Limpopo – the same piece of agricultural land that his grandfather cultivated in the 1930s and passed down to his son, who then passed the family business onto Moagi. “I was born and bred on a farm,” he says. “I grew up having a passion for farming and decided to pursue it as a career in 2015.”

For Moagi, taking over the family farm is also a moral stance to preserve his family's proud legacy. His family defiantly farmed their land throughout the dark years of apartheid, when black land ownership was an anomaly due to the 1913 Native Land Act that limited land ownership to 7 % and saw thousands of black families forcibly removed from their land.

While Rock Hill Farm had stayed true to its roots of producing nutritious vegetables grown in Limpopo's rich red soil, when Moagi took over the reins from his ageing parents five years ago, he quickly realised that times have changed, and so too must the business.



Figure 1: Mr Sipho Moagi

Facing the fact that he was up against commercial vegetable farming versus his parents' small-scale farming operation, Moagi sought help from the SAB Foundation's Tholoana Programme run by business incubator Fetola. “I went to Fetola because I did not have any idea of business management skills, particularly with cash crop production,” he explains.

Moagi's predicament is not unique in South Africa. The Black Farmers' Association of South Africa (BFASA), which has 50 000 subsistence and small-scale farmer members, was formed in 2015 specifically to address the unique challenges facing small-scale farmers, including climate variability, lack of appropriate agricultural infrastructure, a shortage of skills due to high rural-urban migration, high levels of soil degradation, and the constraints of competing on an equal footing with commercial farmers that have the competitive advantage of owning the land they farm.

This is why BFASA's main mandate is championing land ownership, as the association reports that lack of ownership amongst subsistence and small-scale farmers is one of the biggest inhibiting factors to sustainability.



Figure 2: Mr Moagi's employees



Figure 3: Mr Moagi's employee

Moagi, fortunately, does not have the extra challenge of not owning his land, but like all small-scale farmers, he battled to bring his business to profitability. This started to change after he participated in the Tholoana Programme. "After receiving one-on-one mentorship, I now know how to take my family's values of producing quality produce and make it profitable."

Moagi now sees himself as part farmer, part entrepreneur, and is embracing social media marketing and taking every opportunity to attend business forums and sales and marketing workshops.

This new approach to his family tradition is beginning to pay off. The father of three now employs two full-time and two part-time staff and several more during harvest time. His market has also grown beyond local hawkers to include direct sales to households and feeding schemes.

While much has changed in his five years at the helm of Rock Hill Farm, Moagi says his family's age-old business ethos remains the same: "We continue to provide quality vegetables at a reasonable price. That will never change as long as I'm alive."

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Smallholder farmers' poultry production: THE STORY OF PABALLO MOTUMI

By: Kayaletu Sotsha

The poultry industry plays a critical role in employment creation in the economy and is ranked among the top four largest employers in the agricultural sector. According to the South African Poultry Association (SAPA), the industry's gross turnover was around R12,27 billion at producer level in 2018, representing an increase of 14 % year-on-year when compared to 2017, while a total value of R17,80 billion was estimated at retail level.

However, the growth of the poultry industry is inhibited by structural issues, among other things. For example, in the broiler sector, the top seven companies produce a combined total of over 70 % of the total broiler production, with hundreds of smallholder farmers contributing less than 30 %. In contrast, there are about 12 large commercial producer groups, which account for at least 60 % of the egg market share.

As a result, production varies in scale from a typical basic production system in the household backyard (0 to 499 hens) to large-scale commercial egg producers (more than 50 000 hens). In comparison, smallholder producers place about 1 000 broiler birds per cycle in a sector where the production of 40 000 birds per cycle is considered to be small-scale production (Louw et al., 2017). This situation is exacerbated by the fact that the few big players are vertically integrated along the value chain – a situation that may lead to monopolistic behaviour where these players control the entry of other players into the industry.

In addition, the combination of scale benefits and the magnitude of investment that goes into poultry production also determine the achievement of an optimum level of production and efficiency. In this case, a sizeable amount of capital and skills is required and is often necessary for start-up businesses.



Figure 4: Paballo Motumi



Figure 5: Informal chicken housing structures

Figure 6: Indigenous chickens



It becomes unaffordable for small producers to participate in the mainstream value chain. Hence, small producers remain at the bottom, where they use lower production technology and are orientated to supply the informal market.

Paballo Motumi is a smallholder poultry producer from Kuruman in the Northern Cape Province. Her venture into poultry began in 2019 and was inspired by fellow young farmers and the fact that she was unemployed. In addition, while assisting her in making a living, she believes that her business will create jobs for local unemployed youth.

For the business to take off, it was aided by Paballo's husband who injected some capital to build infrastructure and buy the necessary equipment. The business is currently being operated in their backyard, using three chicken housing structures (two for broilers and one for layers). The two broiler structures have a capacity of 300 birds, while the layer structure has a capacity of 200 chickens in a cage. Paballo also keeps indigenous chickens that roam around freely without using the housing structures.

Like any other poultry operation in South Africa, the main cost driver in Paballo's business is the feed. The reason for the high feed cost in the country's poultry industry is that the country imports about 90 % of its soybean meal requirements (SAPA, 2018).



Figure 7: Selling spot

The business employs two permanent workers and five occasional workers. Paballo's vision of creating job opportunities for local unemployed youth is manifesting right here.

The chickens and eggs are sold into the informal market and the marketing is done on social media platforms.

The business faces several challenges, including lack of access to chicks, poor on-farm infrastructure, lack of access to marketing infrastructure (slaughter and storage infrastructure) and inconsistent demand in the informal market, which is exacerbated by the inconsistent access to chicks. The combination of inconsistent access to chicks and inconsistent demand for chicken in the informal market makes it difficult to plan for each cycle, which has a negative effect on cash flow.

In addition to capital requirements, Paballo says she needs training to improve her knowledge base and skills in poultry production, marketing (including securing contracts with big buyers), and business management in general. She plans to take her journey one step at a time, while simultaneously absorbing as much information as possible and sharing such information with her fellow farmers in order to build her network and knowledge base.

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Figure 8: (From left to right) Mrs Grace Kgomongwe (farmer), Mr George de Kock (general manager) and Mr Simon Murukhu Moatswi (farm manager)

THE MOATSWI TRUST FARMERS

share their experiences in the broiler contract grower venture

By: Kayaletu Sotsha

The Moatswi Trust farm is a 931-hectare family farm situated in Paardevallei on the outskirts of Zeerust. The land was acquired in 2006 through the Land Redistribution for Agricultural Development (LRAD) programme. The then Department of Rural Development and Land Reform (DRDLR) assisted by financing 36 % of the purchase price. The venture started as a cattle-farming enterprise, as the farmers were passionate about rearing livestock, but capacity eventually became a challenge. At the time, the farmers were concerned about their limited ability to make a living off the farm, leading them to explore additional viable options. It is for this reason that the farmers ventured into a broiler contract grower model in November 2014.

The idea behind becoming contract growers was driven by the desire to turn the farm into a commercially viable and financially stable business. The vision is that the farm will grow to be an active participant in the mainstream value chains of the agricultural sector and be able to create sustainable jobs for the local people.



Figure 9: Farmworkers

The journey to becoming contract growers began with the Environmental Impact Assessment in 2010, completed in 2011. The construction of two broiler houses began soon after with the assistance of the Department of Agriculture through grant funding. The construction and general preparations for poultry farming were completed in October 2014. In November 2014, the farmers secured a five-year contract with Supreme Poultry, beginning with the placement of 80 000 broiler chicks.

In January 2019, the Moatswi Trust secured a loan from the Land Bank for the construction of two additional broiler houses with a carrying capacity of 84 000 birds. This has taken the farm's broiler production capacity to 164 000. The contract was subsequently adjusted in the same year (October 2019), allowing the farmers to hit the ground running.

The contractor provides day-old chicks, feed, veterinary services, technical advice and the market, while the farmers provide the land, fully equipped chicken houses, maintenance, and day-to-day operations.

In total, the farm employs 10 full-time workers and 18 casual workers for both cattle and broiler activities.

The farmers believe that the contract allows them to learn a great deal about the poultry industry. They view contract growing as one of the significant links to the poultry industry value chain. However, the key is to raise their own capital to invest in infrastructure and other necessary inputs such as water, labour, electricity, biosecurity provisions and so on. In addition, some other provisions or conditions are required for a farmer to qualify as a contract grower – for example, the strategic location of the land relative to the hatchery and the markets (e.g. abattoirs), as well as the availability and suitability of the access road.

Contract farmers are not immune to challenges. Some of their challenges include lack of control over the quality of inputs received from the contractor (these could influence the performance of the growers in a particular cycle) and competition with cheap imports that put pressure on domestic prices.

The main challenges for new entrants to contract growing include high entry costs and lack of access to land. As such, access to land and comprehensive funding are key areas that need attention from both the government and industry to support new entrants.

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Figure 10: Inside one of the chicken houses



Figure 11: Chicken houses

The South African Wine Industry Transformation Unit (SAWITU) **DOING THE UTMOST UNDER THE LOCKDOWN**

By: Kayaletu Sotsha

The South African Wine Industry Transformation Unit (SAWITU) is an independent body within the South African wine industry, managed by Ms Wendy Petersen. Among other things, the SAWITU serves to cater for the specific needs and requirements of emerging and smallholder wine producers. In other words, the unit serves to promote and advance the transformation agenda within the wine industry, as guided by the National Agricultural Marketing Council (NAMC) guidelines. The main objective is to promote equitable access for and participation of black-owned businesses within the wine value chain. The unit is led by the board, chaired by Mr Tshililo Ronald Ramabulana, who was appointed in June 2020.

The wine industry, which contributes more than R49 billion to the Gross Domestic Product (GDP) and employs some 300 000 people, is one of the South African agricultural industries that have been hit hardest by the COVID-19 pandemic. This follows a temporal ban on interprovincial and international travel during various stages of the lockdown, as well as the temporal prohibition of alcohol sales, which has only recently been lifted. These restrictions seriously affected agritourism and the financial and economic impact on the wine industry was deep.



Figure 12: Ms Wendy Petersen, operations manager of the SAWITU



Figure 13: Mr Tshililo Ronald Ramabulana



Figure 14: Food parcels delivered to beneficiaries



Figure 15: Food parcel package

During this difficult time, the SAWITU embarked on a campaign to support small businesses and farmworkers. The chairperson of the board, Mr Ramabulana, alluded to the fact that such an initiative was central to the SAWITU agenda. Through the campaign, the SAWITU provided emergency COVID-19 relief to 15 qualifying black-owned wine enterprises to the tune of R1,35 million. In addition, 15 black-owned farms received emergency relief to the amount of R450 000. Farmworkers were offered support to the tune of R500 000, as some of them went unpaid during the hard lockdown.

Food parcels were provided to the unemployed and poverty-stricken communities around Wellington, Porterville, Saron, Montague, Rawsonville, Worcester and Robertson. The SAWITU operations manager oversaw the distribution, ensuring that the relief efforts were recorded and that accountable measures were put in place.

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