

AGRICULTURAL CO-OPERATIVES IN A CHANGING AGRICULTURAL ENVIRONMENT

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Agricultural co-operatives' role, task and function have to be seen against the backdrop of the political, economic and agricultural dispensation in South Africa. No enterprise or group of enterprises may distance themselves from macro changes occurring on political, social or economic levels in a country. In order to give perspective to the future role of co-operatives, it is necessary that brief attention be given to these facets.

Before discussing these aspects in detail, the overriding question should be asked: *What is the actual situation regarding food production in the world and how important is the role that agriculture plays in the South African economy? A few thoughts in this regard follow:*

ARE WE ENTERING AN ERA OF WORLD FAMINE?

Thomas Malthus (1766 - 1834) propagated the so-called maintenance theory in England in 1798, based on his assumption that population growth in the world will increase at a geometric rate, as opposed to an increase in the production of foodstuffs at an arithmetic rate. This would inevitably result in misery and famine, which would automatically inhibit a further increase in human numbers. His theory has been disproved for nearly two centuries, mostly due to accelerated food production arising from improved technology, cultivation practices, mechanisation and not least, fertilizing practices.

Malthus' theory, which has been brushed aside as invalid for so long, has now again crept unnoticed on to the foreground, as is evidenced by the following:

- One out of every five persons (20%) of the world's population is suffering from hunger - that is approximately 1,14 billion people. In Africa this percentage is significantly higher;
- This situation is deteriorating daily as the world's population increases at a rate of 2% per year (90 million persons), as opposed to an average increase in food production of 1% per year;
- It is estimated that the world's population will double over the next 60 years, and that the demand for food will triple;

- The world's grain stock levels as a percentage of consumption (stock consumption ratio), is at present at its lowest level in several decades, with the price levels of grain at an historical high;
- It is estimated that only 4% unutilised, arable agricultural land remain in the world in which food production can be stimulated (Africa excluded);
- In South Africa the population growth is in the region of 2,5% per year, as opposed to a rate of 1,5% for the rest of the world;
- Without taking into account the likely effect of Aids, the population of our country will be 48 million by the year 2000, whereas this figure will increase to approximately 84 million by the year 2020.

What, however, is the relevance of the above to the South African situation?

- All the above statistics and trends indicate that the imbalance between the availability of food and the number of people in the world as well as in South Africa will deteriorate in the future.
- South Africa will find it increasingly difficult to provide in its own food requirements, whereas supplementing it by means of imports will become more difficult due to international pricing, a weakening R-exchange rate and an inability of the balance of payment to accommodate this import burden.
- The per capita buying power of a large part of local consumers should increase considerably, which will stimulate the demand for food, with further upwards pressure on prices. It is estimated, for instance, that for each 3% increase in the per capita income of the plus minus 16 to 18 million undernourished people in South Africa, an increase in the demand for food of 30% will result.

THE IMPORTANCE OF AGRICULTURE IN SOUTH AFRICA

Many of the changes currently occurring are not directly aimed at co-operatives as such, but more specifically at the farmer and the agricultural industry. The destiny of the co-operative and its farmer members being inextricably interwoven, it is inevitable that matters affecting the farmer member will also influence the future conduct and success of the co-operative.

A period of drought, followed by a year or two of agricultural prosperity, has again served to strongly emphasise the importance of agriculture in the economy of our country in a practical manner. Economists often state that the growth rate for the coming year, as measured against the GDP, is dependent on the success of the agricultural sector.

I am convinced that most of you present here today, need not be convinced of the importance of agriculture. To summarise in a nutshell some aspects of agriculture's CV, a few statistics are provided:

- As an employer: ± 1 million workers, with 6 million dependants, are provided for; R1 million in agricultural output generate an employment co-efficient 3,75 times higher than the rest of the economy, or phrased differently, for each R1 million output 67 persons are employed in the agriculture as opposed to 18 workers per R1 million output elsewhere in the economy;
- Capital assets in agriculture amount to \pm R70 billion;
- Multiplier effect : the ripple effect of agriculture renders an additional R600 000 in the rest of the economy for every R1 million production output. In forward and backward integration 58% of the value of the agricultural production is processed further in the secondary sector and means of production in the primary production process (pesticides, animal feed, fertilizer and agricultural machinery) amounted to approximately R5,41 billion in the past year;
- Agricultural production was a net earner of foreign exchange in 9 of the 10 years since 1985.

The above exceptional performance of agriculture was achieved despite the fact that we, in comparison with most other producing countries, are subject to many limitations/impediments, such as:

- Only 13% of South Africa can be regarded as potentially arable land, with a generally low soil fertility;
- Climatological: Cultivation is being carried out under extreme climatical variations;
- Limited and expensive internal transport, whereas connecting routes, communication and power supply lag far behind those of our overseas competitors;
- Limited surface and subterranean water sources;
- Natural fish sources and forests are fast being depleted;
- The phasing out of government subsidies and scaling down of protection against imports, leaving many producers defenceless;
- The productivity of semi-skilled and unskilled labour is low, as is that of capital employed;

- The years of isolation have left us with outmoded technology;
- The low per capita income of a large part of the population placing a damper on food prices and therefore on acceptable profit margins in the agriculture and food processing sector.

The world food shortages mentioned above and the importance of agriculture in South Africa provide the backdrop against which changes with an impact on agriculture and co-operatives have to be judged. The agricultural sector is changing dramatically and co-operatives have therefore arrived at the cross-roads in terms of redefining its role and function in a co-operative business format.

What are the most important changes taking place and how do they impact on co-operatives?

THE IMPACT OF POLITICAL CHANGES ON AGRICULTURE IN SOUTH AFRICA

Political change has a dramatic influence on all facets of the South African business, and also on agriculture. Areas influenced by these changes are, inter alia, labour, market deregulation, freer imports and exports as well as liberalising of the economic dispensation. There is a significant shift in emphasis in agriculture, from a regulated capitalistic dispensation to the social reformation and the upliftment of underprivileged communities.

The dominant role played by the Government in agriculture via the Department of Agriculture, statutory agricultural institutions, agricultural marketing boards and others, have recently disappeared, or are being phased out. The binding factors in agriculture and the importance of agriculture within the government dispensation are changing and agriculture is increasingly being forced to fend for itself.

The previous dispensation was characterised by an approach where risk, decision-making and execution were devolved ever upwards from ground level via organised agricultural structures, agricultural co-operatives, via the marketing boards and the National Marketing Board to the Department of Agriculture. This was a collective, cohesive approach.

With deregulation in a freer market dispensation, the apex of the triangle has now been freed, diluting the binding forces, resulting in the power base no longer being a collective one but now one vesting in the individuality of each farmer and each co-operative. This implies that the responsibility and risk of decision-making is now being devolved downwards, to where each farmer and co-operative has to take responsibility for his own conduct and decisions.

These changes in emphasis necessitate a totally different approach by co-operatives regarding their functioning, as the regulated and binding environment in which they felt comfortable, no longer exists.

DEREGULATION AND FREE MARKET COMPETITION

Other than that which the farmer was used to, his grain marketing can no longer be handled collectively via his co-operative and the marketing boards. As fixed prices are no longer available, he has to establish his products' prices in the market-place and he is therefore exposed to the normal market forces of supply and demand. Even the international market now influences and dictates prices and the member's co-operative is powerless to establish a price collectively on behalf of its members, as world markets exert such a large influence. Even if co-operatives were to join forces, it would not make much of a difference, as they would still be unable to cement its members together via grain marketing as in the past.

CHANGED PROFILE OF THE CO-OPERATIVE MEMBER

Simultaneously with the influence of the changed political and economic dispensation, as well as deregulation, members displayed a change in attitude towards the co-operative. Previously the member enjoyed protection and safety in structures such as organised agriculture and his co-operative. Collective conduct is now being subjected to change brought about by economic realities and a freer market dispensation. These liberties offer opportunities to the member which, with technological changes, greater mobility and sophisticated communication aids place him squarely in the arena of full competitive entrepreneurship. The farmer's entire approach of the past, namely that someone had to act as guardian and protector, is now changing. In the process he is feeling increasingly distant from and independent of his co-operative.

The farmer's claims on and requirements of his co-operative have also changed. The entire philosophy of co-operatives centred on being less luxurious, delivering only the most necessary products and services. The member, however, expects a greater variety and diversity of products, better services and infrastructure and the co-operative therefore no longer has a differential advantage over his most important competitors in the business sector. This is increasingly forcing the co-operative to run its business along the same lines as its competitors.

The value formerly attached by members to the building of a large and financially sound co-operative enterprise for the benefit of their descendants has faded. This is mostly due to the fact that their successors will probably no longer be related/descendants. Unlocking value in the hands of current members has become a more important consideration.

CHANGES IN THE NATURE AND CHARACTER OF THE CO-OPERATIVE ITSELF

From a previous point on the free market and the relaxation of regulation and protection it follows that the co-operative is no longer the collective instrument or mouthpiece of its member as it used to be. It has now developed an own business identity with own entrepreneurial requirements. In order to survive, an urgent need for own capital emerges. This was formerly not as important due to State assistance by means of supported loans from the Land Bank, guaranteed storage remuneration and regulated product handling. These privileges have largely disappeared. The co-operative must therefore adapt its traditional character to be able to function as a competitive business entity.

New legislation has resulted in demarcated geographical boundaries being blurred and it is now possible to conduct 49% of business turnover with non-members. This results in stronger national competition from other companies, as well as other co-operatives. Increased international competition can also be expected from companies involved in food processing and the supply of farming/requisites. In order to enable the co-operative to maintain itself in this environment, it feels itself less bound to the traditional co-operative principles which are no longer in tune with the demands for economic survival. The co-operative therefore has to review its business focus and the demands and realities of a modern business enterprise. In this business context the co-operative is seriously handicapped by an unsatisfactory capital structure in comparison with other companies.

QUO VADIS CO-OPERATIVES?

The foregoing culminates in the fact that the member will develop ever growing needs in terms of the provision of means of production, marketing of products, support services and further processing of the farmer's products, similar to that being done by agro-companies. Due to inherent restraints in its present business form, together with the limitations of its structure and funding dilemma, the co-operative will have difficulty in meeting these demands. The co-operative, therefore, will have to pursue the profit principles

applicable to an ordinary business enterprise, namely a sound capital structure, good customer service, dynamic personnel with entrepreneurship and it will also have to embrace a culture of dynamics and affectivity.

The separation between the member and its co-operative will thus only widen as the co-operative is forced away from its co-operative character, becoming more similar to the trading sector in its endeavours to meet the demands of its members.

The state's approach to co-operatives, as is clear from the LAPC document, will probably result in large commercial co-operatives finding it very difficult to continue with their existing structure and functioning. Co-operatives will be forced to return to the classic theory of development, upliftment and privilege as well as free membership and the one-man-one-vote principle.

Should the authorities insist on co-operatives returning to being a co-operative in the true sense, it will force the co-operative to either comply with such a demand by regressive reformation, or to become a true business entity. My contention is that the large co-operatives will have little choice but to follow the road of restructuring. The true co-operative function will, in accordance with governmental preferences, then find substance in rural areas as small "welfare" co-operatives which will become the government's vehicle used in its aim towards social upliftment/and economic empowerment.

To summarise : commercial co-operatives will still have a large role to play in rural areas, with primary emphasis on agriculture. It will only be able to execute this function effectively in a new enterprise form, outside the format of the co-operative form of enterprise. This action will, however, force co-oper-

atives to only deliver profitable products and services, thus eliminating cross-subsidisation.

The co-operative will therefore have to concentrate on profit and capital apart from its customer service focus, which need not necessarily have to be in conflict with, but can be complementary to one another.

SUMMARY

The foregoing indicates a good future for agriculture, offering numerous challenges and opportunities giving rise to optimism, but it is subject to the following:

- The South African government will have to follow a longer term vision in respect of the importance of own food production, commercial agriculture and the role of co-operative business enterprises in rural areas.

Popular short-term and politically inspired decisions should be tempered by hard economic realities.

- The importance of self-sufficiency in food supply as opposed to food security must be realised.
- Effective and fair protection will have to be given to local agriculture and a definite policy should be followed, whereby food exports are stimulated while food imports are carefully and sensitively limited.

The aggression and viciousness to which agricultural co-operatives are currently exposed to by way of policy statements and a multitude of legislation (of which you are aware daily) is not to the advantage of economic growth and investment trust in agriculture and will therefore place a damper on the sustained provision of our own food supply.

That a large capacity of improvement exists, is clear from the foregoing. It offers opportunities and challenges for the South African farmer wishing to face the future with innovation and a spirit of enterprise.