

Institutional economic analysis of raisin production and marketing in South Africa: Learning from Eksteenskuil raisin producers

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Background

- SA agriculture has long history of state intervention
- Laws and regulation created skewed access to land and participation to agricultural economy and growth
 - Dual agriculture (Kirsten and van Zyl, 1998)
- Since 1994 government committed itself to decrease rural poverty through upliftment of emerging farmers (Letsoalo and van Averbek, 2005)
 - Why focus on emerging farmers?
 - potential to contribute to rural development by providing food security, income, employment opportunities (Speelman *et al.*, 2007)



Background

- Implemented number of programs, amongst others:
 - land reform and other rural development projects
 - AgriBEE
- Despite numerous efforts to integrate emerging farmers into mainstream economy few success stories do exist
 - (“Land reform failure rate may be 50%” (Lahiff, 2008))



Problem statement and objectives

- **Problem statement:**

- Despite the high rate of failure there are success stories
 - What are they doing differently to make them successful?

- **Overall objective:**

- Investigate production and marketing of raisins by Eksteenskuil producers

- **Specific objectives**

- To investigate
 - **how** Eksteenskuil raisin producers operate in the value chain (how transactions are organised), and
 - **why** they operate the way they do (institutions that determine the way transactions are coordinated)



Data

- Primary data
 - Discussions with key role-players
 - Input suppliers
 - EAC
 - SAD
 - Questionnaire survey
 - personal interviews

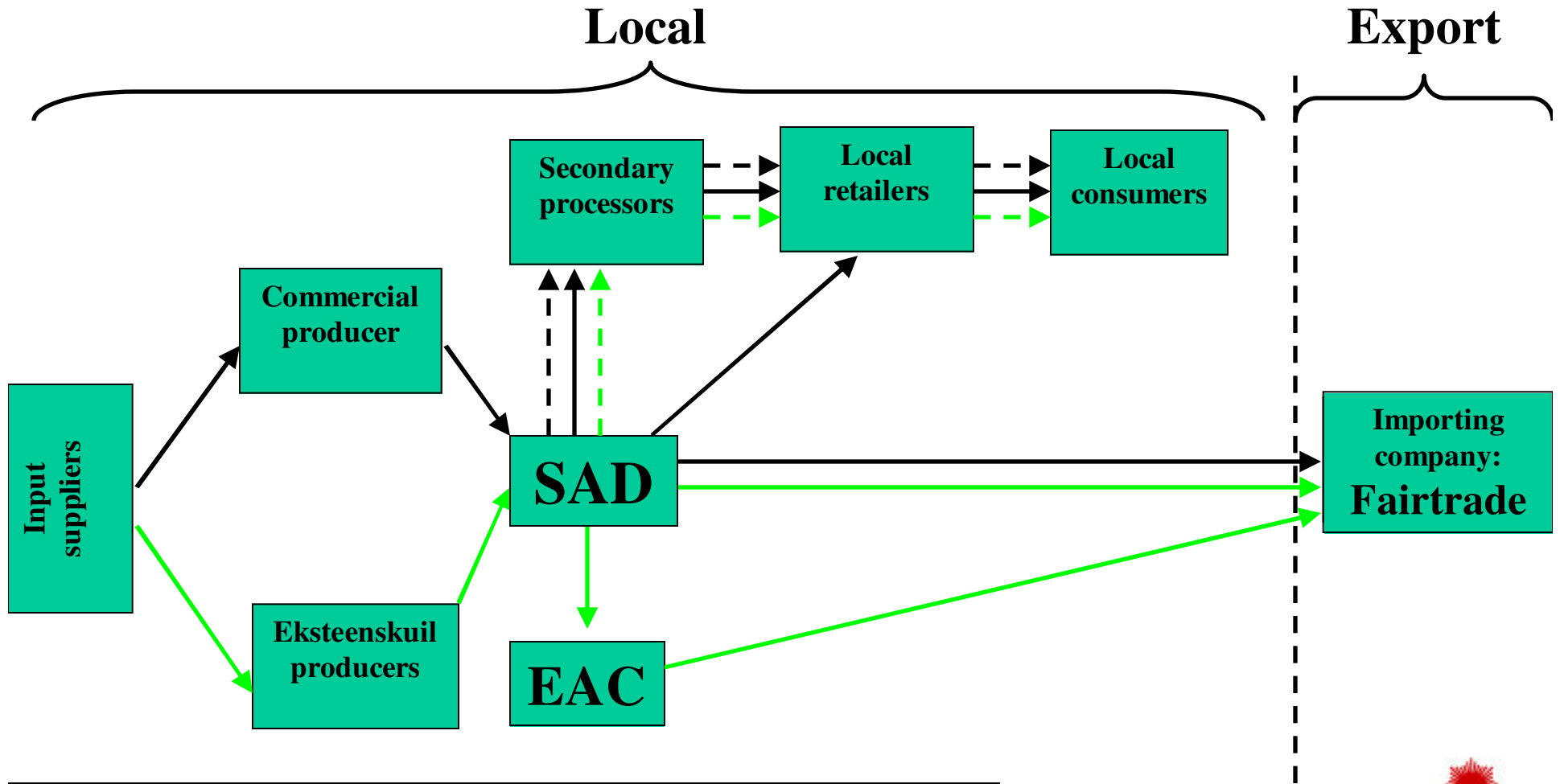


Procedures

- **Value chain analysis**
 - To understand
 - the flow of the physical product from input supplier to end consumer
 - the flow of value from the consumer to the input supplier
- **New Institutional economic theory**
 - To investigate
 - the rules and regulations that determine the way transactions are organised (Institutional environment)
 - the way transactions are governed given the rules specified in the institutional environment



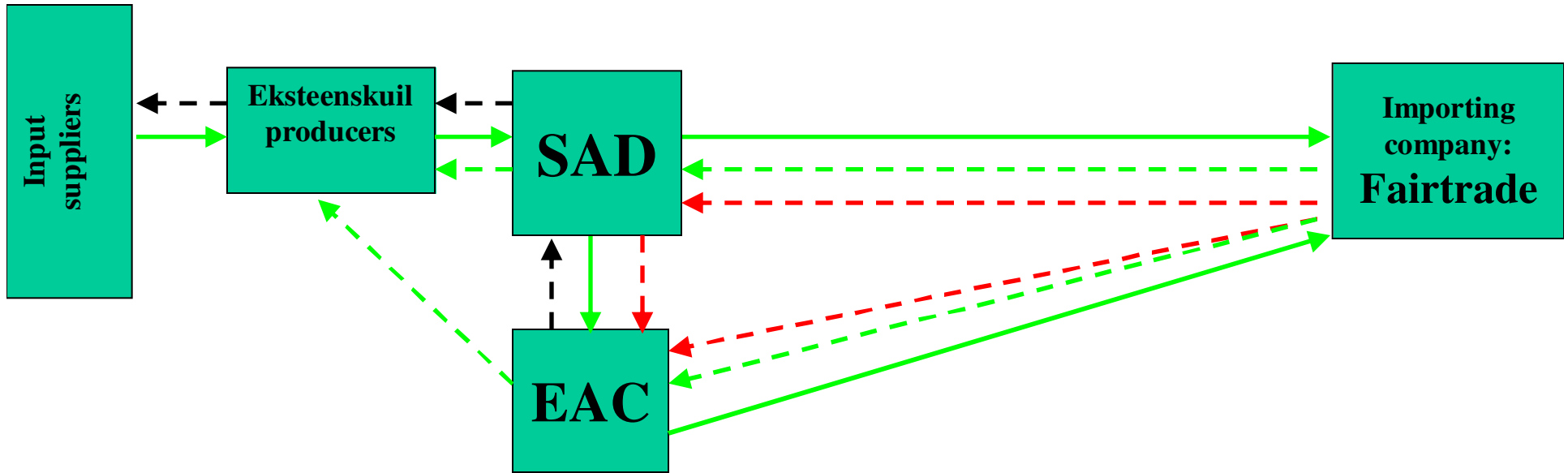
Results: Value chain map for raisins







- Choice grade raisins from commercial farmers
- - -→ Industrial grade raisins from commercial farmers
- - -→ Industrial grade raisins from Eksteenskuil farmers
- Choice grade raisins from Eksteenskuil farmers



How does the Fairtrade transaction work?



-  Flow of choice grade raisins from Eksteenskuil farmers
-  Normal prices paid for transaction
-  Fair price paid for fair trade raisins
-  Fairtrade premium paid for fairtrade raisins



Institutional environment providing “rules-of-the-game”

- Formal rules and regulations specific to Eksteenskuiil
 - **Land tenure**
 - TRANCRAA (Transfer of Certain Coloured Rural Areas Act) process
 - Completed in November 2005
 - Property rights to be transferred to farmers
 - <10% of interviewed farmers have Title Deeds (as at June 2009)



Institutional environment providing “rules-of-the-game”

– FLO standards

- Generic standards for Fairtrade producers
- Specific standards for dried fruit
- Specifications for spending Fairtrade premium
- Have to be complied with to deal with Fairtrade mkt
 - Compliance give EAC access to fair price and Fairtrade premium
 - EAC gets audited annually by FLO
 - Failure to comply leads to suspension



Institutional environment providing “rules-of-the-game”

– Formal rules related to EAC

- Constitution
- Guidelines to follow when using implements of EAC

– Relationship with SAD

- Code of conduct
- Contract between EAC and SAD specifying who may deliver under EAC



Governance structure used by Eksteenskuil raisin producers

- **Transaction cost economic theory**
- Transaction cost is caused by
 - Bounded rationality
 - Opportunistic behaviour
 - Attributes of transaction
 - Asset specificity
 - Physical asset specificity = more in processing
 - Dedicated assets = vines > 30 years
 - Temporal specificity = due to biological nature
 - Transaction frequency
 - Low transport capacity causes high frequency
 - Even higher from SAD down stream
 - Transaction uncertainty
 - Adverse weather conditions (Exogenous)



Governance structure used by Eksteenskuil raisin producers

- Alternative modes of governance
 - Described along continuum
 - spot market → hybrid → vertical integration
- Transaction between EAC members, SAD and Fairtrade
 - ✓ Hybrid mode of governance
 - contracts provide safeguard;
 - To certain extent, farmers still can react autonomously on mkt signals

Conclusions

- Lessons can be learned from Eksteenskuil raisin producers
 - Emerging farmers can successfully participate in mainstream economy
 - Can even obtain competitive advantage
- EAC, SAD and Traidcraft play major role in success of Eksteenskuil raisin producers
 - Key role players in an industry has major role to play
- Regular audits ensure that farmers comply with strict requirements
 - Monetary reward serve as incentive
 - If they don't comply, accreditation gets suspended
 - Strict control may be important



Conclusions

- In terms of sustainability, EAC may investigate possibility of converting to New Generation Coop
- Initial results suggest emerging farmers need to be driven through incentives and strict control, rather than hand-outs
- In addition to govt meeting its responsibilities, private sector too has a definite role to play to sustainably integrate emerging farmers into mainstream economy



THE END

