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# **Small-scale agriculture and government support in South Africa: identifying moral hazard, opportunistic behaviour and adverse selection in the process**

by

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# Presentation outline

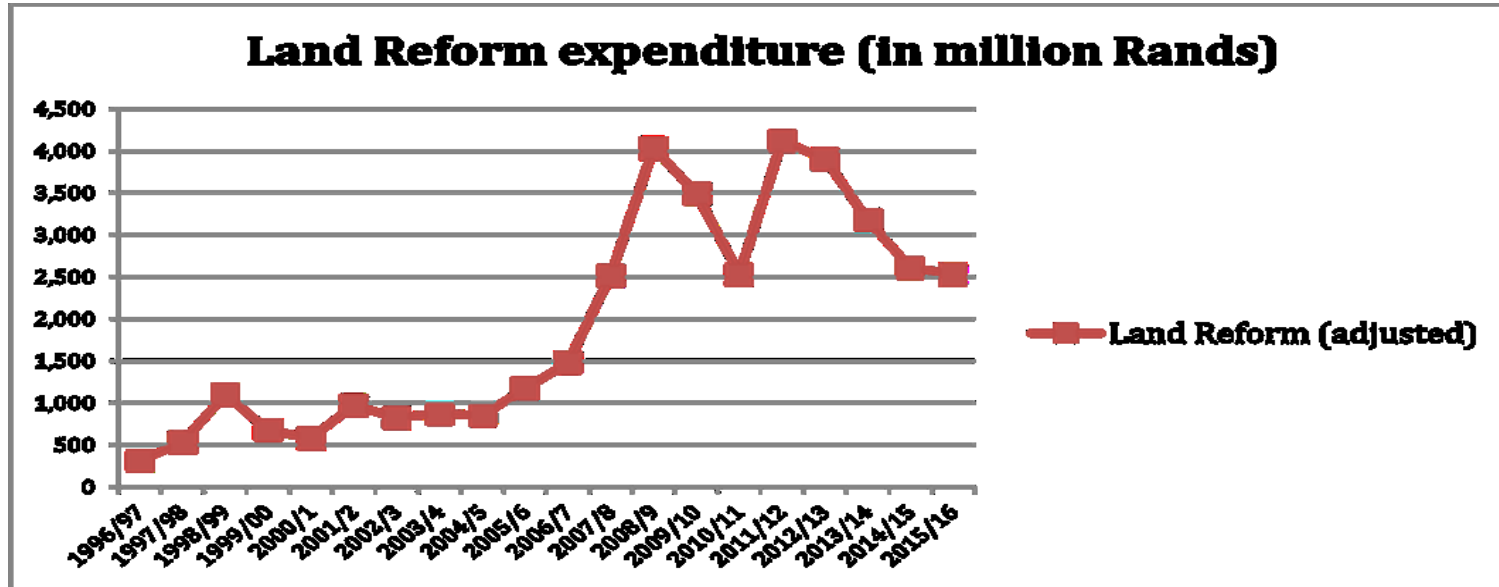
- 1. Introduction
- 2. Methodology
- 3. Theoretical basis of moral hazard, opportunistic behaviour and adverse selection
- 4. Identifying typical behaviour explained by the theories in South African small-scale government support
- 5. Conclusions, policy implications and gaps for further research

- ❑ In the post-apartheid South Africa, agricultural support has been largely focused to small-scale farmers.
- ❑ The support manifest through an array of initiatives with the largest expenditure being in Land Reform and CASP
- ❑ Land Reform have 3 pillars— Restitution, Tenure and Redistribution
- ❑ CASP support ranges from:
  - 1) information and Knowledge management,
  - 2) technical and advisory assistance,
  - 3) marketing and business development,
  - 4) training and capacity building,
  - 5) infrastructural development
  - 6) and financial support

# Introduction

Province	2004/05/	2005/06/	2006/07/	2007/08/	2008/09/	2010/	2011/	2012/13	2013/14	2014/15	2015/16
Eastern Cape		47 552	20 100	90 018	111 310	164 000	164 000	197 209	216 390	249 389	263 490
Free State	1 432	21 088	20 727	40 985	58 822	106 102	106 102	126 829	140 274	166 539	171 367
Gauteng	7 182	5 727	6 479	25 329	33 844	28 089	28 089	48 016	55 759	82 331	84 091
KwaZulu-Natal	38 397	46 270	20 100	88 037	117 762	164 691	164 691	183 726	202 522	226 161	222 155
Limpopo	22 996	41 786	41 708	84 309	108 483	139 233	139 233	192 243	208 020	261 844	247 894
Mpumalanga	15 759	23 629	15 186	39 761	70 892	103 554	103 554	114 829	130 289	169 684	171 664
Northern Cape	7 674	13 148	17 005	28 028	49 232	75 630	75 630	424 999	371 539	135 509	117 763
North West	26 875	33 594	68 108	67 676	84 684	121 126	121 126	155 277	165 198	191 897	169 740
Western Cape	14 932	17 206	12 799	40 963	57 640	82 383	82 383	91 863	106 376	146 985	164 150
<b>Total</b>	<b>147 517</b>	<b>250 000</b>	<b>222 212</b>	<b>505 106</b>	<b>692 669</b>	<b>984 808</b>	<b>984 808</b>	<b>1 534 991</b>	<b>1 596 367</b>	<b>1 630 339</b>	<b>1 612 314</b>

# Introduction



- Source: Kepe & Hall, 2016
- Despite this increasing expenditure on these 2 programs, impact has been very minimal (Aliber & Hall, 2012).
- Reckless expenditure and supporting few farmers have been reported.
- Growing literature points the cause to information asymmetry, among other factors.

# Research problem

- Economics of information theories such as adverse selection, moral hazard and opportunistic behavior can be used to analyse the minimal impact and inefficiencies in the process of supporting small-scale.
- However, literature on this in agricultural economics, especially in S.A context is limited.
- Existing studies (e.g. De Lange and Vink, 2003; Mkhabela (2018) have explored one of these theories focusing on a single specific issue, but not the small-scale support exclusively.

# Objectives

- Therefore, the objectives of this study are threefold.
  - The first is to identify within the smallholder support initiatives, patterns that resembles these phenomenon.
  - The second objective is to discuss implications of this behaviour to smallholder development and limited government budgets.
  - The last objective is to make recommendation on how the manifestation of such behaviour explained by the theories can be reduced as well as identifying areas for future research within this area.

- Approach: systematic literature review with theoretical application
- According to Ford et al. (2011:328) “a systematic literature review is a summary and assessment of the state of knowledge on a given topic or research question, structured to rigorously summarise existing understanding”
- The following research questions were formulated:
  - ✓ What are the largest small-scale support programmes?
  - ✓ To what extent is the small-scale support making an impact?
  - ✓ What are the possible reasons behind such impact or lack of?
  - ✓ Can such behaviour be explained through economics of information theories?



- ❖ Based on the research questions, a four-stage search was done in google, google scholar, bibliographic snowball and SU library databases (e.g SA epublications) with key words.
  1. “largest small-scale” “support programmes” “South Africa”
  2. “Impact” “small-scale farmer” “support programme” “South Africa”
  3. “Small-scale farmer” “minimal impact” “South Africa”
  4. “Adverse selection” and “small-scale support” “South Africa”
- ❖ Thematic analysis is used to summarize the literature survey findings

# Theoretical basis of moral hazard, opportunistic behaviour and adverse selection



- Moral hazard refers to “the tendency of agents who do not bear full responsibility for the cost or risk associated with their actions to exercise less efforts to reduce these costs”.
- while adverse selection implies that “high-risk agents self-select into contracts with more expensive coverage” (de Lange & Vink, 2003).
- Opportunistic behaviour is defined by Williamson (1985) as the cunning distortion of information by agents in order to attain a desired outcome by exploiting the information vulnerability of the other party.
- Bottom line: the foundation of the theories is information asymmetry

# Results: identifying information asymmetry behaviour in CASP & land reform

Theme: Strategic partners/mentors and opportunistic behaviour	References
<ul style="list-style-type: none"><li>○ Strategic partners take advantage of the limited information of beneficiaries and manage the farms for their own benefit.</li><li>○ In other instances beneficiaries find it difficult to rate the quality of the service</li></ul>	<p>Hall and Kepe (2017)</p> <p>Mkhabela, 2018</p>
<ul style="list-style-type: none"><li>○ Theme: Equity sharing schemes and opportunistic behaviour</li><li>○ Equity sharing scheme models in fruit and wine industry largely benefit commercial farmers than the farm workers.</li><li>○ Equity schemes are used as a strategy to save financial struggling commercial farms.</li></ul>	<p>Vaca (2003)</p> <p>Mayson (2004)</p>

# Results: identifying information asymmetry behaviour in CASP & land reform

Theme: Purchasing land reform farms; Moral hazard and adverse selection

- Commercial farmers inflate land prices beyond market price when the government buys farms for redistribution.
- Counteractive argument: findings could not support the notion that commercial farmers inflated land prices
- Quality of land redistribution farms tend to be poorer but expensive

References

Arenstein & Groenewald (2004); Saturnino (2003)

Mbatha et al. (2010)

Garcia (2004)

Theme: CASP spending and moral hazard

- Due to lack of transparency in CASP, beneficiaries cannot assess quality of service given by service providers.
- Here there are potential areas of moral hazards and adverse selection, for example, the intermediary may suggest or sell inputs that are inflated because they know the client (smallholder farmer) can only buy through them.
- Business plans designed by DRDLR are required to buy from emerging agribusinesses which are expensive

References

Business Enterprises, 2013

Hoffman, 2019

# Conclusions, policy implications and gaps for further research



- ❖ CASP and land reform are the largest expenses of small-scale support
- ❖ Impact of these 2 programs on the beneficiaries is minimal
- ❖ There is a hinting emerging literature that supports information asymmetry in the process of small-scale support.
- ❖ This is largely due to the existing loopholes allowing agents to act on their interest in the process of supporting small-scale farmers.
- ❖ Therefore, we recommend that efforts should be made to reduce such loopholes in the design of support programs. These include transparency and accountability.
- ❖ Further research is needed to extended and validate the hinting emerging literature presented here.

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