

Profitability the prerequisite for sustainable agricultural production

Fanie Brink, an independent agricultural economist, has delivered a paper on sustainability of agricultural production at the Annual Women in Agriculture and Agro-processing Summit in Centurion, Pretoria. He says: “The single most important factor that determines the sustainability of agricultural production to provide food security to any country is the fact that it can only be achievable if the production of food is profitable. This is and should be the main objective of the agricultural industry.”



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He said this fact is also true in the processing and value-adding to agricultural products because there is no other way to achieve this objective that can improve the lives and livelihoods of all the people in the world.

It is very important that the preservation of the environment and natural resources should be cared about and used responsibly, but we will never get away from the fact that the profitability still remains the prerequisite for the sustainability of production. Unprofitable production is without a doubt the main reason why many countries in the world, especially in Africa, are still experiencing huge poverty and famine despite the financial support of many donors to the agricultural industry. It is, therefore, very important to understand how profitability can be created and sustained in the agricultural industry.

Drivers of profitability

“There are basically two drivers of profitability. The first one is generally known as the input/output price ratio, in other words, the relationship between the prices that farmers pay for their inputs and the price that they receive for their products.”

In the agricultural industry, a long term trend exists that the prices of inputs increase at a faster rate than the prices of the products produced. The main reason for this phenomenon is mainly the fact that all the input suppliers base their prices on the total production costs of their products plus a profit margin. The government is also responsible for higher production costs because of the regulation of fuel prices, electricity tariffs and minimum wages.

Brink said the agricultural industry, unfortunately, does not have a price mechanism such as the input suppliers because the prices of agricultural products are determined by the market forces of supply and demand. Farmers are, therefore, price takers and not price makers as the input manufacturing industries.

Another problem is the fact that the demand for food is inelastic which means that decreases in the prices of agricultural products do not result in proportional increases in the demand for food.

The second main driver that also has a big impact on the profitability of any agricultural enterprise is the efficiency with which the inputs used in the production process can be converted into specific outputs. This specifically refers to the number of inputs required to produce one unit of an output and also plays a very important role in the profitability and sustainability of production.

“The best technology is, therefore, critically important to significantly improve the efficiency of the agriculture. It should also be increased through continued research and new technological developments in order to enable producers to increase their outputs with the same number of inputs or to produce the same number of outputs with fewer inputs. This is actually the only way that the efficiency of production can be improved.”

Profitable and sustainable production necessary for industry to contribute to economy

Brink said it is also very important that agricultural production must be profitable and sustainable for the industry to make a meaningful contribution to the economic growth of the country. This is also true for the other industries in the primary sector of the economy, (forestry, fisheries and mining) and the industries in the secondary sector, (processing, manufacturing, retailing, transport and other), as well as the services industries in the tertiary sector, (such as medical, legal, communication, banking and financial services), which should also be profitable to make very significant contributions to economic growth.

“This is, in fact, the only way how economic growth is created in almost all the countries in the world,” he said.

It is to a large extent the responsibility of the government to support and enhance the profitability and sustainability of the agricultural and all the industries in the economy if it wants to create economic growth. The government determines the political and economic policy of the country and it must create an environment that is conducive for each industry to make a larger contribution to the economic growth.

It will never be possible to get away from the fact that economic growth is driven and created by profits which mean that growth is in effect dependent on the profitability of the economy.

“There should also be no doubt that the producers, together with the manufacturers and service providers on the supply side, and the consumers on the demand side of the economy are the biggest and most important creators of economic growth, prosperity and progress in the world,” according to Brink.

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