

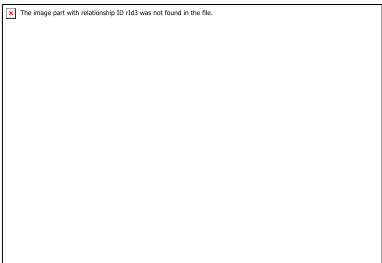
Economic Viability

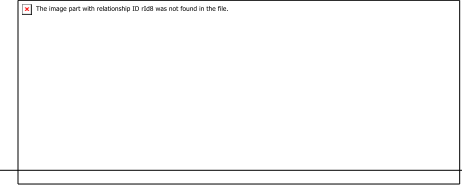
What this means for sustainable agricultural enterprises and how it can be analysed

Economic Viability: Common brainstorming

How would you describe an economic viable farm / agricultural enterprise?

What topics do you think of?



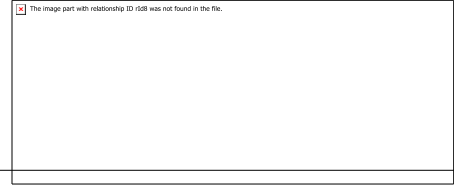


Sustainability generally encompasses three dimensions:

- Environmental
- Social
- Economic

How are these sustainability dimensions related to the **production factors** of a farm?

- Land
- Labor
- Capital

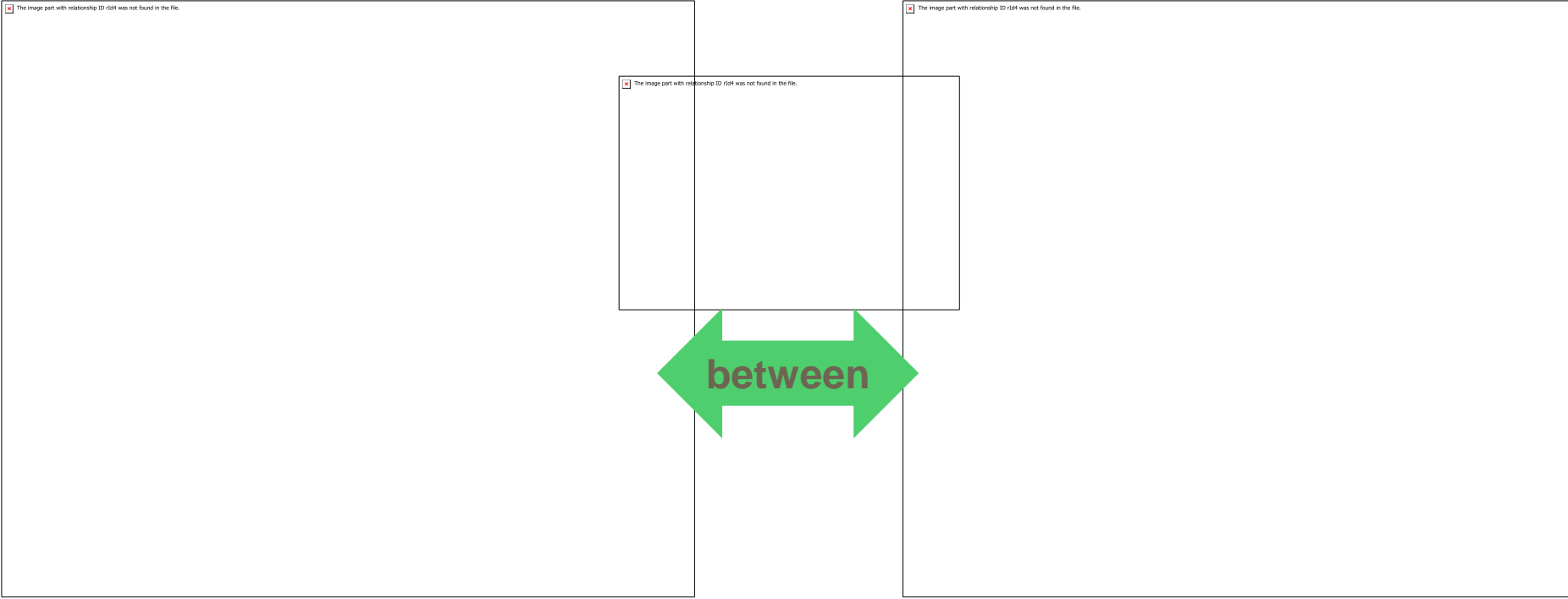


Which economic models are found in agriculture?



1. Conventional (short term profitability) and closer to linear economy
2. Green economy: linking economic topics with resource efficiency/use
3. Circular economy: self-reliance, optimisation of resource use (environmental aspects)
4. Resilience: being able to adapt to stressors from climate change, innovation

Economic models in agriculture:



Source: Ellen MacArthur Foundation. <http://www.ellenmacarthurfoundation.org/education>

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Source: Econexus /Agropoly BD 2013

Conventional farms are characterized by:

- being market oriented (rather than subsistence oriented)
- capital intensive
- high-external-input agriculture:
 - Seeds, fertilizers, pesticides and high yield animals
 - non renewable resources (fossil fuels and other minerals)
- low crop diversity
- pollution and waste
- less involved with end-consumers of farm products

Transition

As markets gain relevance in agriculture, farms are transitioning from “traditional” (closer to a circular economy) to “conventional” (closer to a linear economy) models, making them:

- more (short-term) profit oriented
- more competitive
- depend on fewer crops
- neglect the value of non-marketable environmental resources
- vulnerable to risks (unforeseen weather changes and pest incidences, fluctuations in world prices)
- Small farms cannot survive the structural transformation

“It is a fundamental error to suppose that farming is neither a business nor a profession. It is a business which requires the highest business talent, it is a profession which requires the best technical skill.”

Harvey W. Wilson

in

The Lure of the Land.

Nowadays we are talking about AGRI-PRENEURS

Can farming be seen as a business?

Economic viability depends on economic and non-economic factors:

- Economic factors:
 - Economic returns (Profitability)
 - Financial constraints (Liquidity)
 - Uncertainty of returns (Stability)
- Non-economic factors:
 - Productivity of soils and other environmental resources (natural capital)
 - Social and environmental costs and benefits (externalities)

Can farmers be considered investors?

Farmers must decide on how to invest their **economic resources**:

- Land - On which crops or animals? Keep farming it or sell
- Labor - In the farm or work/study elsewhere?
- Capital - In the farm (new technology) or obtain capital revenues from bank or other investments
- Environmental resources (natural capital)

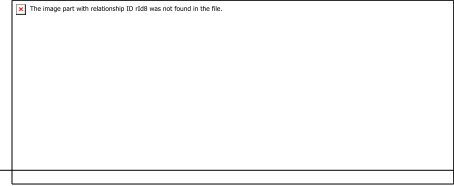
... taking into account how their investment compares with other investment alternatives during the same **time span!**

Can farmers be considered investors?

A farmer must decide how to invest its **non-economic** production factors:

- **Soil fertility:** deplete or conserve organic matter?
- **Water:** invest in efficient irrigation systems?
- **Other natural resources:** conserve beneficial insects?
- **Social:** reinvest in community? Pay fair wages?

Under today's farming economic model, any attempt at achieving **sustainable agriculture is governed by economic viability.**

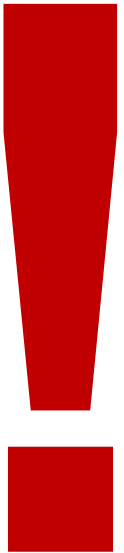


Any farming model (sustainable or not) must guarantee:

- 1. Profitability:** it is more profitable than the alternatives
- 2. Liquidity:** it does not involve large initial outlays (own capital investments) nor liquidity and finance problems
- 3. Stability:** its returns are not very uncertain compared with the alternatives.

... it is up to the **farm manager** to set short-term or long-term economic goals to its farming enterprise!

Take-home messages



- The concept of economic viability should not be considered in a merely economic and short term perspective.
- It has to be linked to sustainability issues
- Economic aspects should be considered in a long term perspective and not at as a short term issue
- It is related to farm management