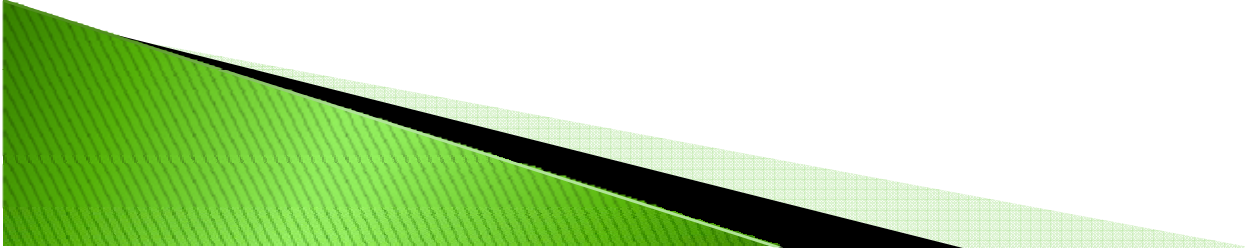


The Eastern Cape Siyakhula- Massive Crop Production Programme

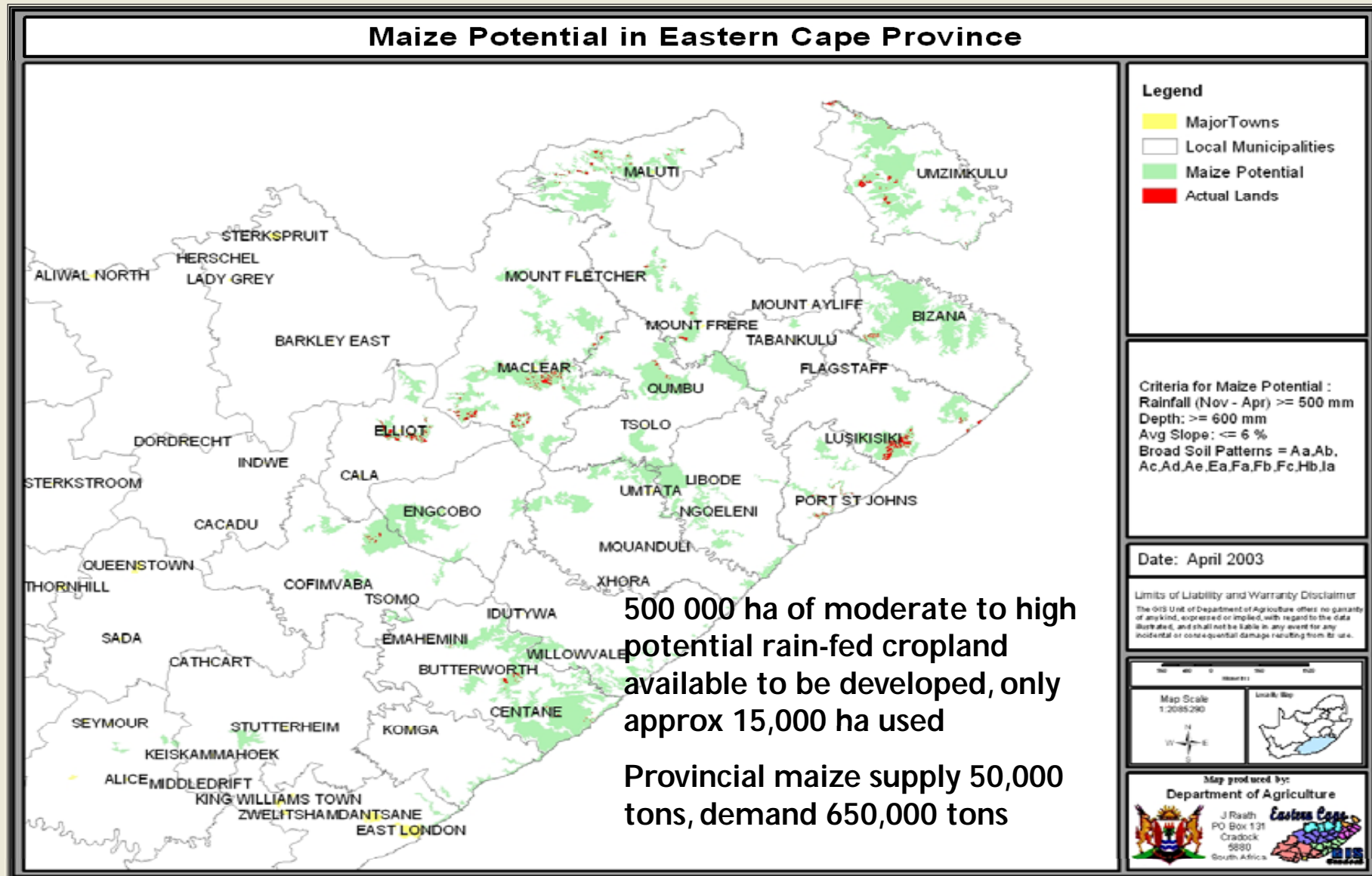
Making Markets Work for the Poor?

Norma Tregurtha
2nd Economy Project
30 September 2008

Overview of the presentation

- ▶ Why agricultural markets fail in rural areas;
 - ▶ Description of the Siyakhula/Massive Programme and its implementation;
 - ▶ Macro-level impact of the programme
 - ▶ Meso-level impact of the programme on the performance of markets
 - ▶ Summary
 - ▶ Lessons learnt
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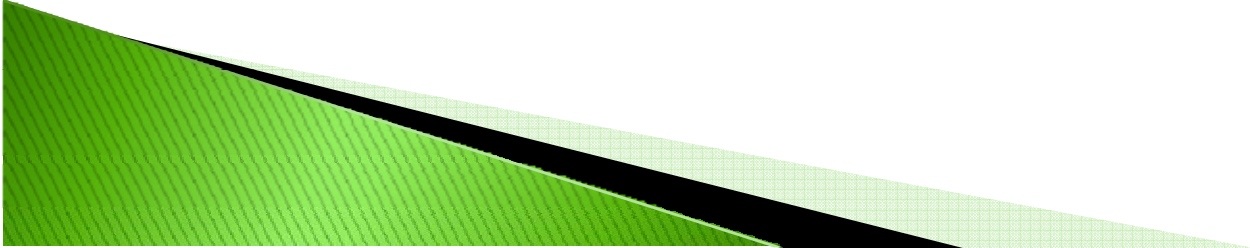
Maize Potential in the Eastern Cape



500 000 ha of moderate to high potential rain-fed cropland available to be developed, only approx 15,000 ha used

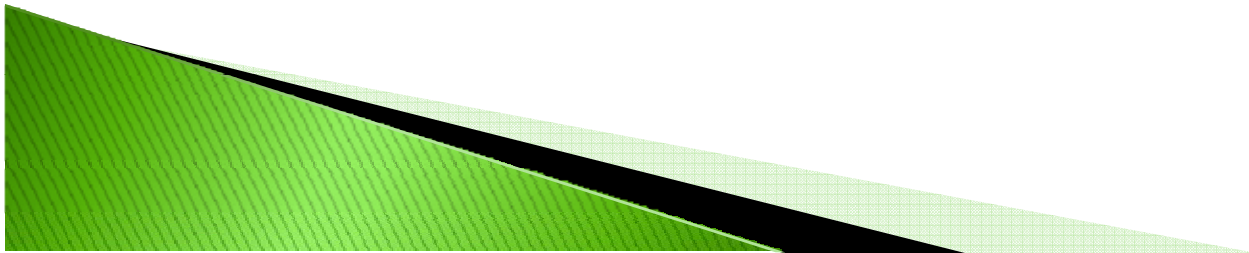
Provincial maize supply 50,000 tons, demand 650,000 tons

Constraints to agricultural and market development in poor rural areas

- ▶ Daunting set of generic and often mutually reinforcing problems which include:
 - poor infrastructure eg roads and telecommunications;
 - lack of a well developed and diversified monetary economy;
 - thin or missing markets for agricultural inputs, outputs and finance;
 - an agricultural business environment characterised by weak information (on prices, on new technologies, and on other potential market players);
 - difficult and weak contract enforcement;
 - high risks (not only in production and prices but also in access to inputs and markets and in enforcing contracts);
 - high transactions costs - the costs that buyers and sellers incur in *protecting themselves against risks* of a transaction failing (due to the absence of suppliers or buyers) by *searching* for and screening potential suppliers or buyers and their goods and services, then negotiating and contracting with them, and *monitoring and enforcing* their adherence to the contract.
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Challenges particular to small scale agricultural production

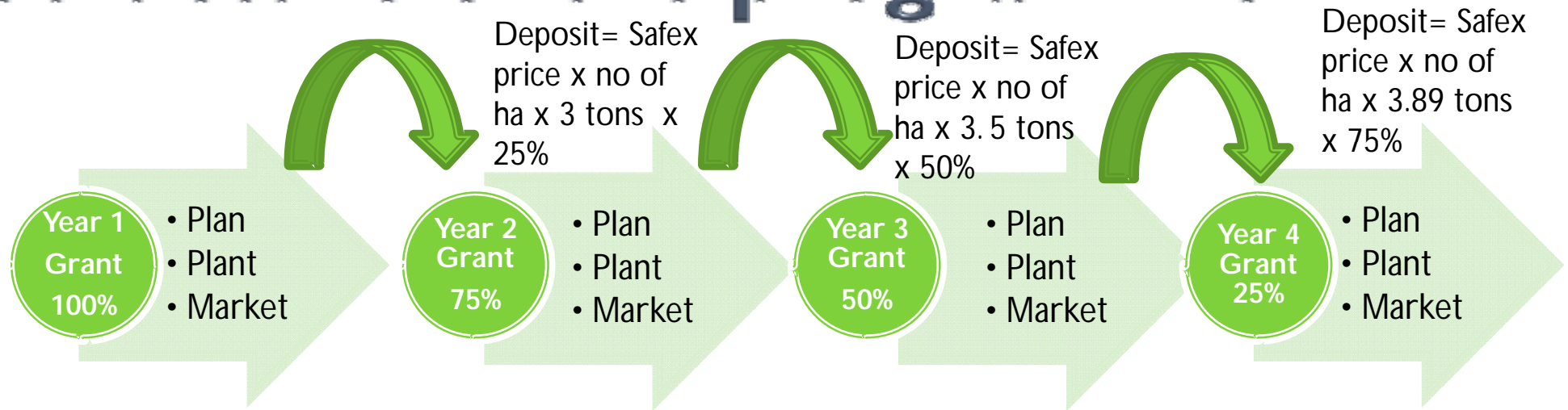
- ▶ Production and sales cycles which are long by the standards of other small businesses (exacerbating climate, pests, prices and transaction risks) and leading to significant seasonality in labour use, cash flow, food availability and prices;
- ▶ Technical progress and land pressure increase farmers' needs for inputs, but these individual input purchases are small scale (and therefore face high transaction costs) in situations where markets are poorly developed and risky;
- ▶ Significant shares of output are for subsistence, generating welfare but not cash, so sales of outputs often fail to fully cover purchased input and labour costs;
- ▶ Land is the basis of agriculture, and tenure arrangements affect farmers' ability to borrow, to expand or to exit with a lump-sum, via land market transactions, and also influence incentives for land improvement.
- ▶ Under-cultivation in the EC? All of the above plus lack of skills development, livestock for financial security, migration (younger population), low profitability etc.



Objectives of the Programme

- ▶ Siyakhula/Massive is a pilot programme and was designed to form the foundation of the province's agrarian reform initiative with the objective of introducing *systemic change* in the structure and performance of the agricultural economy.
- ▶ Aims of the programme include:
 - Enhanced food security
 - Promotion of black economic empowerment in the agric sector
 - Stimulating private sector development and markets especially in the rural areas – input supply, mechanisation, credit and farmer support services
 - Promote environmental sustainability through encouraging conservation farming
- ▶ It was structured in such a way as to have an immediate impact and therefore required a relatively large budget to do the programme on scale, R 250 million for crop production component and R 250 million for the mechanisation component.
- ▶ *“When fully implemented there will be 800 tractors with the associated equipment, which will yield 160,000 tons (40,000ha) of maize providing food for over 1,2 million people per annum, valued at R 352 million.”*

Structure of the programme



Land

High agronomic potential
Economic size
Infrastructure



Mechanization Scheme

Access for rural contractors to interest-free loan (repayable over 5 years) to buy equipment.



Extension

Dedicated mentoring service provided to Siyakhula/Massive farmers



Input Supply

Production plans vetted to ensure correct quantity and quality of inputs

Supplier selected by farmer

Implementation timeline

2003/04

- Massive Food Production Programme launched - Turbulent start principally due to late transfer of funds from National Treasury to the ECDA which led to late planting and low yields

2004/05

- Only a few farmers made the attempt to pay the 25 % of input costs required to continue in the scheme. Timely transfers of money did not happen due to mixed up in accounts and a scandal involving the MEC. Net result = orders to suppliers were so late that bottleneck problems arose and much of the input did not arrive until Feb.

March
2005 -
Audit

- A large proportion of the sites did not fulfil the criteria (size, rainfall, soil-depth)
- The quality of mechanisation contractor work was unacceptably poor
- Communal farmers are unwilling to give up their individual plot rights
- Production plans were insufficiently completed and followed.
- Understanding of agricultural chemicals (i.e. calibration and application) was lacking by all parties involved
- Planting had been done unacceptably late and should have been stopped
- Minimum tillage had been implemented only in few places and was poorly understood and managed.
- There are problems with fraud, e.g. resale of input

2005/06

- Siyakhula/Massive Recharged – significant improvement in yields
- Conditional Grant Contractual amendments (waiving the first 2 years deposits, Siyakhula and Massive (75%))
- Adherence, support and development (mentorship) to ensure proper agricultural practice
- Minimum Tillage effectively removed as a condition “..due to the lack of experience within the ECDA”

2006/07

- Significant improvement in yields – problems with payment of deposits (61,2% of the deposit amount paid) – ECDA arranged MAFISA loans

2007/08

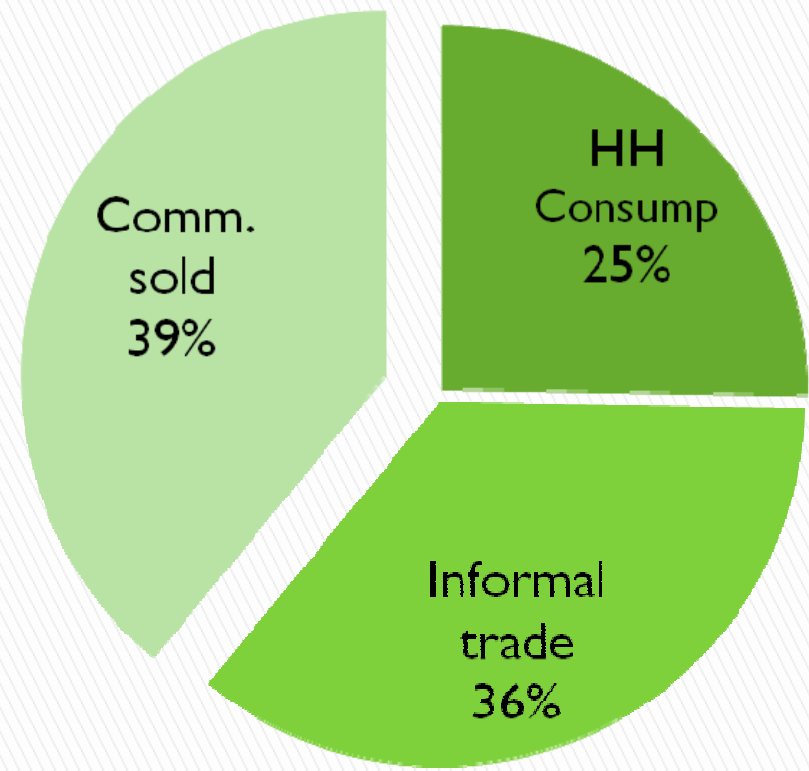
- Yields continue to improve however 4554 ha excluded from the programme due to default in paying of deposits – increasing maize price meant the expected deposits increased sharply (18% of the deposit amount paid by July 2008)

Programme Results

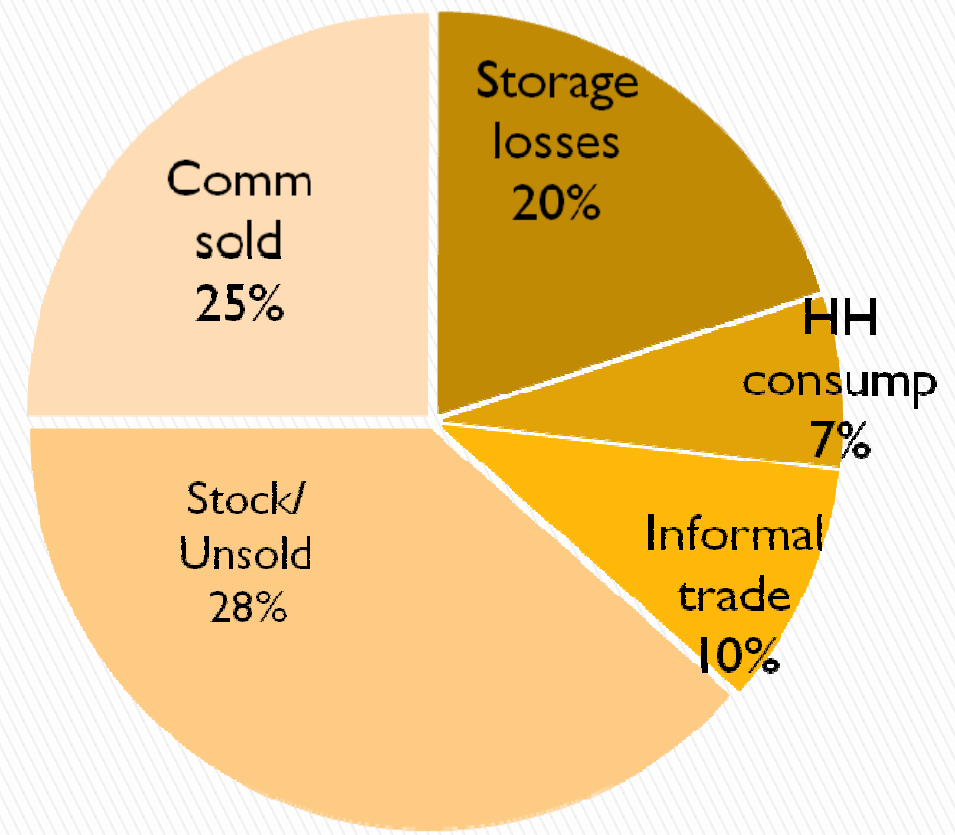
Year	Budget Used R millions	Projects	Area (ha)	Yield (tons per ha)	Price of maize per ton	Value of the crop R millions	Prod costs R millions
2003/04	41	192	9000	1			25.7
2004/05	50	247	12000	1	1500	18.0	36.0
2005/06	69	413	15000	3	700	31.5	52.5
2006/07	40	424	15000	3.5	1100	57.8	60.0
2007/08	39	356	13133	3.75	1700	83.7	56.5

Marketing of the Crop

2004/2005
13000 tons

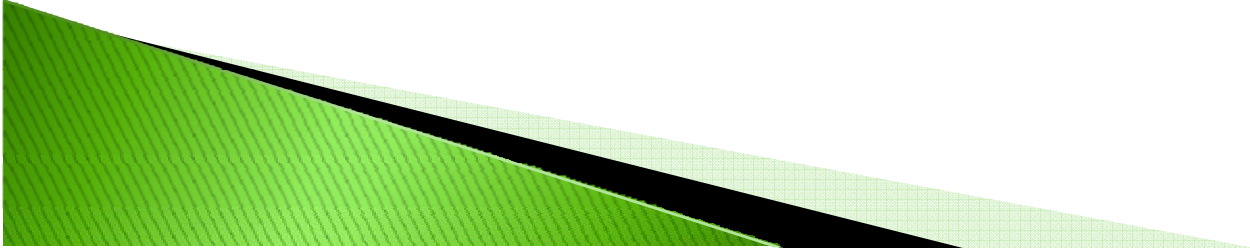


2007/2008
49 000 tons

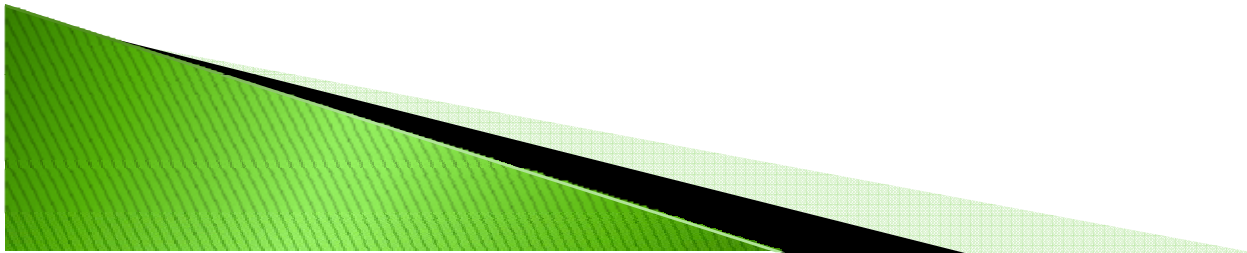
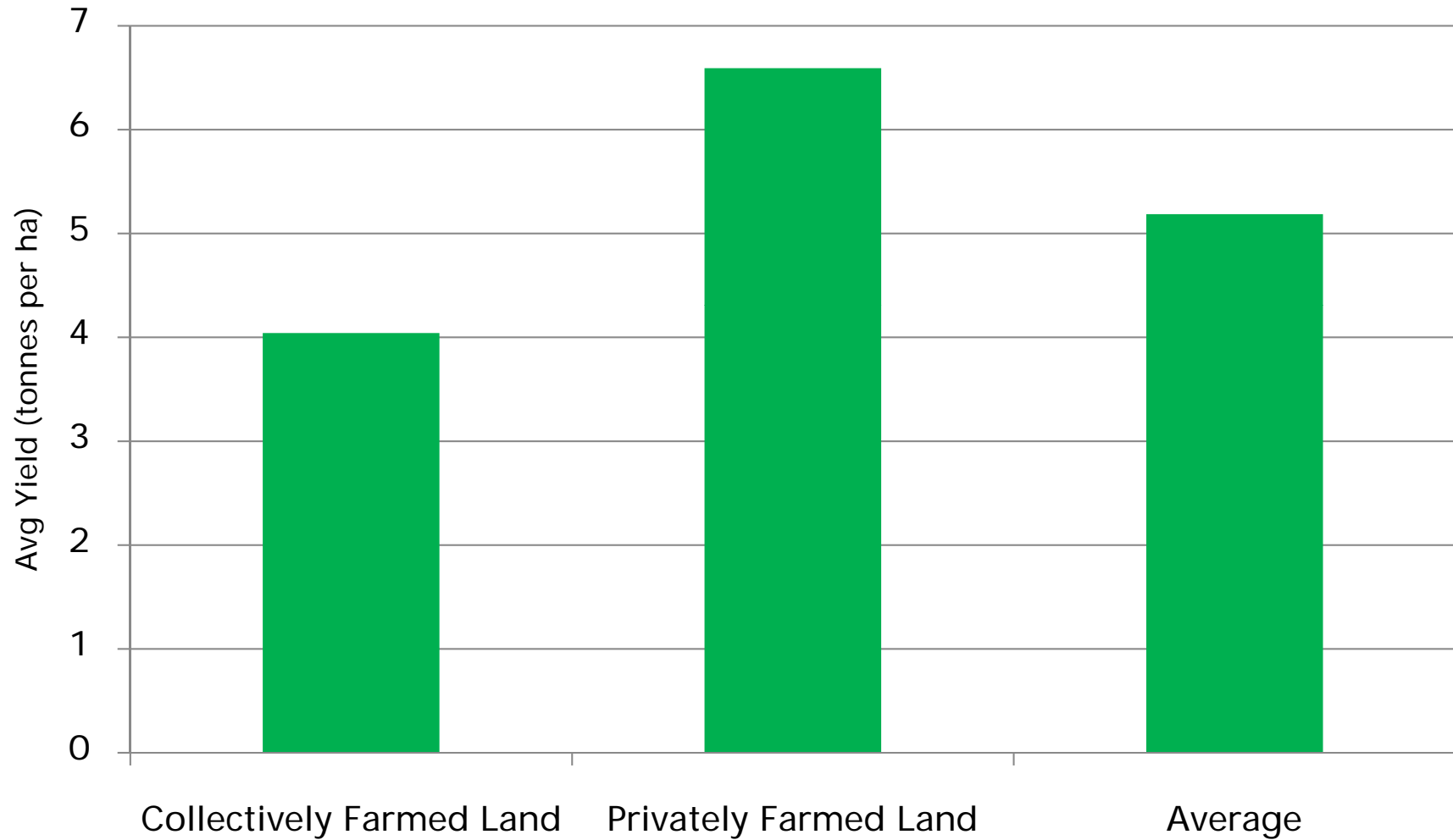


2007/2008 figures are a "guestimate"

Land Rental Markets

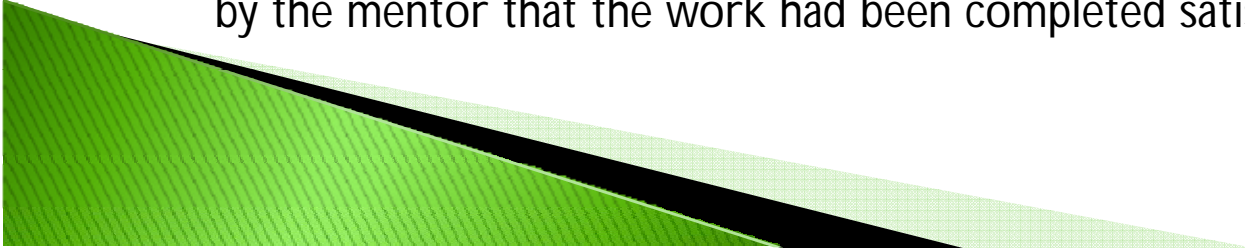
- ▶ Didn't really progress much principally due to lack of demand – while Siyakhula/Massive produced food, it didn't produce cash and thus failed to stimulate entrepreneurial development at the producer level to serve as a catalyst for rental market development;
 - ▶ Slight positive correlation between project size and yield (0.1);
 - ▶ Significant yield difference between land collectively farmed and land that is individually farmed.
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Alfred Nzo – Yield differences



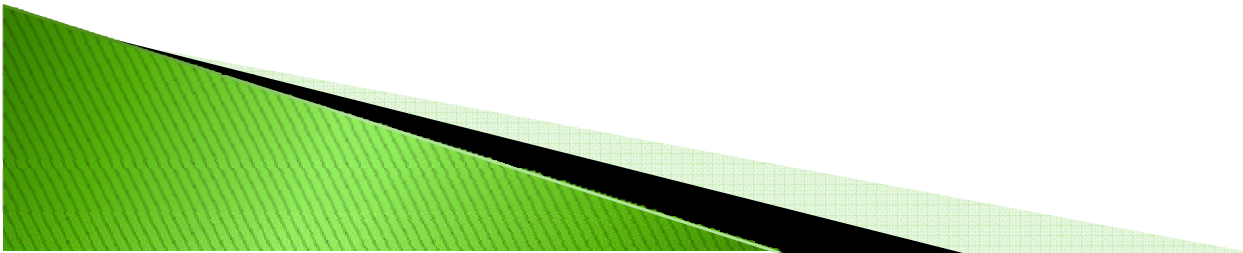
Mechanization

- ▶ 50% of production costs are mechanization costs (R2,245 per ha – R 1,792 per ha excluding VAT and profit);
 - ▶ Mechanization Scheme: interest free loans repayable over 5 years – number of entrepreneurs came forward to take-up the opportunity though they had limited experience of the business;
 - ▶ All contractors, to become accredited, had to complete a 3-week preparatory course by the ECDA on the handling of machinery, crop establishment, mixing -and use of herbicides and minimum tillage practices;
 - ▶ Survey of mechanization service providers linked to the programme found the following:
 - 400 tractors, 76 service providers covering 15,000 ha – significant number of black-owned SMMEs
 - Limited spare capacity
 - More than 50% indicated that they had planted too late
 - ▶ Quality of service issues remained a problem

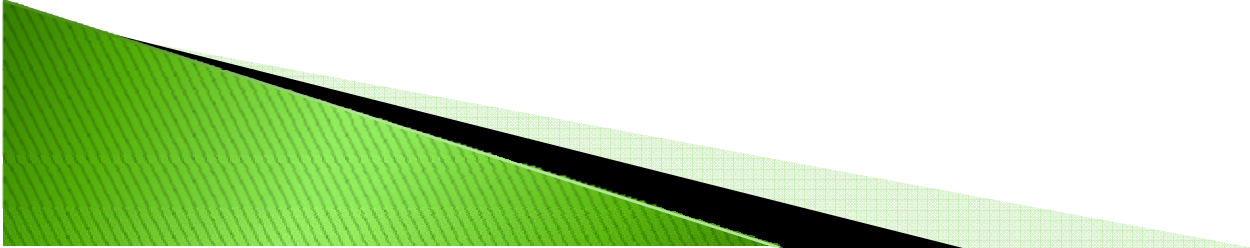
 - ▶ Principal agent problems – in response to this the ECDA introduced a clause into the mechanization contraction from 2006 that had the contractor paid 70% on signature of the farmer that the work had been completed satisfactorily and the balance on receipt of a report by the mentor that the work had been completed satisfactorily.
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Extension Services

- ▶ ECDA Extension services: problems included limited experience in the practice and production management of commercial agriculture, considerable other responsibilities besides Siyakhula/Massive, shared transport etc
- ▶ Introduction of formal mentoring support in October 05 – responsibilities include:
 - capacity building of farmers and government officials,
 - preparation of production and marketing plans,
 - strategic guidance to farmers in order for them to obtain yield targets
- ▶ Paid a basic salary plus a yield incentive bonus = yield/ha x SAFEX price x bonus rate (sliding scale 3.9 – 5 tons per ha 2%, >8 tons per ha 3.4%).
- ▶ Effectiveness of capacity building limited by the high average age of the farming population
- ▶ Limited capacity building of government officials



Input Supply Markets

- ▶ Input supply decision rested with the farmer
 - ▶ Did catalyse investment and stimulate the market. Eg Umtiza is EC biggest input supplier– currently 20% of business originates from government programmes;
 - ▶ Increase in the quantity of suppliers, however the quality of supply response questionable – lack of provision of embedded services;
 - ▶ Poor basic infrastructure increased their costs of input delivery (transport in particular);
 - ▶ Lack of certainty about the size of the programme, its continuity and its timing hampered input market development ;
 - ▶ Trade-off between the medium-term market development objective and the short-term efficiency objective (bulk buying)
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Summary

Aim	Comment
Enhanced food security	Yes enhanced fs for approximately 11,000 households Increase provincial supply of maize by 49,000 tons
Promotion of black economic empowerment in the agric sector	Limited principally due to an inability to generate cash from farming activities
Stimulating private sector development and markets especially in the rural areas – input supply, mechanisation, credit and farmer support services	Some progress made on developing input markets Limited progress on output market development
Promote environmental sustainability through encouraging conservation farming	No

Lessons learnt

- ▶ Supply and demand are equally important - output markets don't spontaneously develop, moreover the programme would have benefited from the introduction of a market risk management strategy;
 - ▶ Market development is a slow process especially when dealing with weaknesses in multiple markets – we are starting to see some market-thickening in input supply, to change track would be ill-advised;
 - ▶ Certainty and consistency are important – for direct project participants as well as service providers, at the same time lessons from implementation also need to be incorporated;
 - ▶ Economic actors are rational and opportunistic – they respond to incentives subject to a low preference for risk;
 - ▶ Considerable investment in costly learning errors has taken place without continued political and financial support there is a danger of this being lost.
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