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Capital- and Market-access constraints in Land Reform projects; Three case studies from Mpumalanga (INCOMPLETE DRAFT)

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2. Background and Introduction

The systematic failure of post-settlement support in South African land reform has been identified as a major contributing variable to the approximated 50 percent failure rate[1] of new land reform projects. In spite of this dismal record, government increasingly finds itself under immense political pressure to speed up land reform efforts in order to meet preconceived reform targets, and have embarked on the Proactive Land Acquisition Strategy (PLAS) for this purpose. It therefore becomes imperative that post-settlement support be prioritized if the failure rate of land reform is to be reversed. Without systematic and comprehensive post transfer support it is highly unlikely that most land reform projects will succeed in improving the quality of life of participants and make significant contributions towards transformation in rural South Africa.

Sharing the concerns of many key stakeholders in the Land Reform programme, The Rural Action Committee of Mpumalanga (TRAC-MP) launched the Mpumalanga Management and Mentorship Pilot Programme (MMMPP) in January 2003. By working on six diverse land reform projects, the MMMPP sought to develop experience and lessons in post transfer support strategies that could be shared with policy makers and shareholders to develop appropriate

[1] Tregurtha, Norma. Fifteen Year review of Agriculture Policies and Support Instruments for the Presidency. ComMark Trust, April 2008

policies and programmes. Staff working on the MMMPP made significant inputs on the Mentorship Policy approved by the National Department of Agriculture in support of their Comprehensive Agricultural Support Programme (CASP) in 2005.

In 2006, TRAC-MP embarked on the "Mentorship Lead Programme" with the aim of strengthening the ability of the Provincial Department of Agriculture to provide the necessary support to land reform projects during their post-transfer phase. This project can be seen as bridging the gap between policy at a national level and implementation support at a Provincial level. Therefore it is envisaged that the Mentorship Lead Programme will significantly contribute towards the ability of the Provincial Department of Agriculture to provide the range and depth of support activities necessary to ensure that land reform projects indeed have a positive impact on the transformation objective in rurual Mpumalanga and South Africa as a whole.

The Mpumalanga Department of Agriculture and Land Administration has since entered into an agreement with TRAC-MP in connection with the Mentorship Lead Programme, where both parties have agreed to work together in order to plan and develop an effective and comprehensive post-settlement support structure aimed at land reform projects with commercial farming objectives through the Mentorship Lead Programme. By incorporating research done and lessons learned during the MMMPP project, and by focussing on roughly 24 land reform cases in Mpumalanga, The Mentorship Lead Programme aims to develop a model and system for post-settlement support that could eventually be extended throughout the province and hopefully act as a useful point of departure for future national and provincial policy on this subject.

It was through TRAC-MP's experience with the MMMPP project that two high-priory constraints were identified to post-settlement success, namely problems related to market access as well as problems with securing production capital. With the initiation of the Mentorship Lead Programme, TRAC-MP therefore approached the Trade and Industrial Policy Strategies (TIPS) to co-undertake strategic research on these constraints in order to formulate strategic recommendations that could be incorporated into the Mentorship Lead Programme.

3. Literature Review

The purpose of this section is to provide an overview of literature that is essential to the understanding of the two high-priority constraints to post-settlement success on which this paper is focused. (…)

3.1 Introduction

In the 2008 annual status report on Land Reform in South Africa, the Program for Land and Agrarian Studies' (PLAAS) Edward Lahiff re-emphasises that:

> "Inadequate support to the beneficiaries of land reform has been a recurring complaint almost since the inception of the programme. Various studies have shown that beneficiaries experience severe problems accessing services such as credit, training, extension advice, transport and ploughing service, veterinary services and access to input and produce markets. … Services that are available to land reform beneficiaries tend to be supplied by provincial departments of agriculture and a small number of NGO's, but the available evidence would suggest that these serve only a minority of projects."[2]

The Rural Action Committee (TRAC) concurs that "...state support for land reform in the post transfer phase remains small, uncoordinated and sporadic at

[2] Lahiff, Edward. "Land Reform in South Africa: A status report 2008" The Programme fro Land and Agrarian Studies (PLAAS). P.37

this point in time."[3] According to Lahiff, most Black beneficiaries of land have "neither been able to increase land productivity not generate meaningful revenue streams. A general survey conducted in 2000/2001 revealed that only 8% of the existing land reform beneficiaries had benefited financially as a result of farming their land."[4]

With regards to the available support services, the Umhlabla Rural Services (URS) study on agricultural support services concluded that the only main instruments of support to agriculture that remain are:

> "the Agricultural Research Council, the Land Bank , the National Agricultural Marketing Council and the Provincial Department of Agriculture—all largely outside the direct authority of the National Department. These institutions are still learning how to deal with the special circumstances and needs of emerging farmers. The result is that the National Department of Agriculture has all but lost direct control over the instruments and institutions with which it could possibly influence agriculture.

The URS admits that the private sector has, to some extent, tried to fill the gap created by reduced State support, but stresses that:

> "these are usually limited to commodity niches such as the outgrower schemes within the sugar industry. While there are a number of initiatives, which are contributing positively, they are nonetheless limited in scope. "[5]

Focussing more narrowly on capital and marketing problems experienced by land reform projects, and the associated post-settlement support initiates that have tried to mitigate these constraints to success, the following relevant literature can be seen as informative for the analysis that will follow.

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[3] The Rural Action Committee (TRAC-MP). Planning document; Project support for post transfer land reform projects in Mpumalanga province (Mentorship lead programme), February 2006, p. 13

[4] Lahiff, E et al (2003) Redistributive land reform in South Africa: A scoping study for the projects methods and Impacts of Land Access and Agrarian Reform (Milagre). Programme For Land and Agrarian Studies. University of the Western Cape.

[5] Umhlabla Rural Services (URS). A study on agricultural support services offered by the private and public sectors in South Africa. 2006

3.1.2 Market-access and marketing constraints

3.2.1 Overview

Of the R1,198 billion worth of agricultural turnover passing through markets in the 2001/2002 financial year, "less than 0.7% was generated by black farmers."[6] According to Vink and Kirsten, one of the reasons for the financial failure of land reform is related to the difficulty many land reform beneficiaries—and the estimated 94,000 Black farmers more generally[7]--have experience in accessing agricultural commodity markets[8].

> "Rural poverty remains critical in South Africa. The multiple and sever constraints on development can only be addressed by raising agricultural productivity, diversifying farm output to reduce risk and a shift toward higher value outputs. Commodity markets are essential in this process."[9]

In the "Settlement and Implementation Support (SIS) Strategy for Land and Agrarian Reform in South Africa, an essential background to the complications in overcoming the above-mentioned constraints is provided:

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[6] Qeqe, N & Cartwright, A. 2004. South Africa's agricultural commodity markets: Understanding the rules of the game in five commodity markets with the intention of creating opportunities for emerging farmers: Executive summary. Cape Town: Surplus People Project.

[7] StatsSA (2002) A Report on the Survey of Large and Small Scale Agriculture. National Agricultural Survey n behalf of the NDA.

[8] Vink & Kirsten (2002) Pricing Behaviour in the South African Agricultural and Food Sector. A Report to the National Treasury (June).

[9] Ellis, F; Kutengule, M & Nyasulu, A (2003) Livelihoods and Rural Poverty in Malawi, World Development, 31(9) pp. 1485-1511 (September) Quoted in Qeqe, N & Cartwright, A. 2004. South Africa's agricultural commodity markets: Understanding the rules of the game in five commodity markets with the intention of creating opportunities for emerging farmers: Executive summary. Cape Town: Surplus People Project.

> “The deregulation of agricultural markets and the dismantling of the former marketing boards have had major implications for small-scale farmers who were least equipped to handle the new marketing environment.
>
> Until 1998, the marketing of most agricultural products in South Africa was regulated by statute, largely under the 22 marketing schemes introduced by the 1937 Marketing Act. The Marketing of Agricultural Products Act, No. 47 of 1996 deregulated agricultural marketing and opened it to world market influences. The National Agricultural Marketing Council (NAMC) was set the task of dismantling existing structures, and managing and monitoring state intervention. The result was that both commercial and small scale farmers were left to deal with the vagaries of the market on their own, while it was clear that the latter were not in a position to survive without state support (DBSA 2005)…
>
> It is extremely difficult for emerging farmers to enter into markets of whatever kind, in particular the chief commodity markets (and within these the major food retailer supply chains), and when they do ‘it tends to be on extremely disadvantageous terms, sometimes terms that can lead to bankruptcy’ (Cartwright pers. comm.).
>
> Kirsten et al’s study of projects in North West revealed that:
>
> While the largest proportion of projects (47%) have not yet marketed any products, amongst those that have, maize and sunflowers are marketed to cooperatives, while the ‘local market’ is the most common market (30%) for other products, followed by auctions, sale at farm gate (which is also a local market) and private buyers (which can also be local buyers). Though agribusiness (Rainbow and Monsanto) is involved, its role is limited and besides cooperatives, projects are left largely to themselves to market their produce in what would be highly competitive markets (Kirsten et al. 2005:60).”[10]

Qeqe and Cartwright made similar observations in an analysis of the South African agricultural commodity markets:

> “In a strictly technical sense, South Africa’s commodity markets are accessible to all producers. The reality, however, is that the ‘rules of the game’ (North, 1989) – that is the social networks, flows of information, tacit skills, financial requirements,

[10] Settlement and Implementation Support (SIS) Strategy for Land and Agrarian Reform in South Africa, Chapter 10 p.328-358. September 2007.

distribution of power and contractual agreements – governing these markets constitute considerable barriers to entry for emerging farmers. With a few notable exceptions, emerging black farmers struggle to gain access to formal, commercial markets and are unable to compete for equitable returns in market transactions. Those emerging farmers that have secured market access are typically not among the poorest of the poor. As such agrarian reform has yet to make a meaningful contribution to poverty alleviation in spite of the potential opportunities."[11]

As discussed earlier, until 1998 the marketing system was a huge 'state-managed infrastructure that had linked co-operatives, agri-processors, marketing boards and marketing agents within the exclusively white "Organised Agriculture" network'.[12] According to the SIS, the intervention included:

> "controlled markets with many commodities regulated on price and marketing, large public sector investment in infrastructure, research and skills development and a beneficial tax dispensation for agriculture. The large scale public sector support resulted in a high level of agricultural production relative to the resource potential (Nel 2006:3).
>
> The Marketing of Agricultural Products Act resulted in the deregulation of agricultural marketing. The aim of the Act was to promote free and open agricultural commodity markets and facilitate access to these markets for new black producers. Cartwright argues that:
>
> In a narrow legal sense the Act achieved this purpose but in practice the Act has had the opposite effect: whilst statutory barriers to black entry of agricultural commodity markets have been removed and financial efficiency promoted (Poonyth et al, 2001), the deregulated and highly competitive nature of current markets has created new barriers for capital-poor emerging farmers. Many of these barriers are related to the cost of information, risk, capital and the role of social networks and quality standards within the new market network. Collectively the barriers account for market failure and contribute to the persistent poverty in rural economies (Cartwright 2004:9).

[11] Qeqe, N & Cartwright, A. 2004. South Africa's agricultural commodity markets: Understanding the rules of the game in five commodity markets with the intention of creating opportunities for emerging farmers: Cape Town: Surplus People Project.

[12] Cartwright, A. Technology and innovation in the Eastern Cape: Lessons from the wool sector. 2004

With the introduction of the Act, government withdrew much of its financial support for agriculture in what was intended to be a multi-lateral compliance with World Trade Organisation statutes agreed upon under the Marrakech Accord; between 1992 and 2001 producer support estimates (PSE) decreased from 31% (some R7.5 billion) to 2.7% (Cartwright 2004:9).

In developing strategies to support emerging entrepreneurs to be able to market their goods, it is important to understand how markets work. As Qeqe and Cartwright (2004:2) have asserted, the allocation of opportunities and benefits in markets

are determined by the 'rules of the game': that is the institutional, social, political, historical, geographical, gender and legal dynamics governing market access and the sustainability of that access. Understanding these dynamics in each particular context, and developing targeted support to emerging entrepreneurs in land and agrarian reform to engage in these markets, is thus the focus of these strategies."[13]

3.1.1 Some conclusions and recommendations

In the Review and evaluation of the implementation of the Strategic Plan for South African Agriculture (April, 2008), a number of recommendations on the subjects of market access and marketing information are worth noting:

"One way of improving market access for small-scale black farmer is to develop marketing infrastructure in rural areas with high concentrations of small-scale farmers...First hand experience gathered from wool and red meat industry has demonstrated how the provision of marketing infrastructure such as sales pens and wool shearing sheds can contribute to improving producers' access to formal markets. The key challenge especially at local government level is to ensure that what ever marketing infrastructure is provided is appropriate and optimally situated to be of benefit to producers. In this regard the National Department of Agriculture has drafted norms and standards for the provision of agricultural marketing infrastructure. The challenge is to ensure these are adopted by all spheres of government.

[13] Settlement and Implementation Support (SIS) Strategy for Land and Agrarian Reform in South Africa, Chapter 10,September 2007.

Another way to improve market access is through improved market information. Here the implementation of the market information service by the DOA is a welcome sign. The reality is that this information is still only available on the internet. At this point in time, the dissemination of market information is solely left to the private sector."[14]

Lahiff considers the integration of products and services from national, provincial, local government and the private sector as crucial to the success and sustainability of land reform projects and the achievement of Land and Agrarian Reform Project (LARP) objectives with regards to marketing and market-access problems:

"The central proposal of LARP is the concept of the 'one-stop shop' that will facilitate the integrated delivery of information and support services by various state and non-state agencies: LARP will facilitate alignment and coordination of agricultural support services available at national, provincial and local level and in the private sector. A One-Stop Shop concept is envisaged to be developed under LARP which consists of service delivery and information centres close to the beneficiaries where initially all financing options and services, both grants and loans, private and public, will be made available to new farmers and where a farm business planning service can be accessed. Other social and economic services to farmers will be added to the service portfolio. (MoA 2008: 23) It is not clear whether or how LARP, which has been adopted as official policy, and SIS, which remains at the proposal stage, will interact in future."[15]

Qeqe and Cartwright make two key conclusions on which their recommendations are based:

"Market access in the deregulated environment can only be achieved through a combination of comparative advantage and institutional support, strategising and negotiation aimed at

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[14] Tregurtha, Norma. Draft of "Review and evaluation of the implementation of the Strategic Plan for South African Agriculture." ComMark Trust, April 2008.

[15] Lahiff, Edward. "Land Refrom in South Africa: A status report 2008" The Programme fro Land and Agrarian Studies (PLAAS).

> promoting this comparative advantage by improving the inherently weak bargaining position of emerging farmers through collective action, the development of alternative outlets, political negotiations, the Fairtrade Foundation, better information, identifying and exploiting weaknesses in the value-chain, capitalising on black economic empowerment sentiment and legistlation and collective transport solutions provide means by which market access could be promoted and sustained. […]
>
> Whilst emerging farmers require greater access to commodity markets, exposure to markets must be accompanied by institutional and technical support in order to prove beneficial. Provision of appropriate support to emerging farmers requires an appreciation of the institutional, social, political, geographical and legal dynamics governing markets."[16]

The SIS strategy makes valuable recommendations for providing support for local market scoping:

> "To overcome the current lack of marketing components in project plans and implementation, it is proposed that market analysis and planning takes place at two levels in municipal areas. Firstly, such analysis and planning must be a requirement within the terms of reference of each project plan that is developed. This would not mean that unrealistic plans with grand marketing predictions are required to be developed, because the TOR demand it. Rather, the plan needs to address issues of marketing of the products – at whatever level is applicable given the products to be produced and the scale of operation – 'to move from a planning mindset that currently asks "what will we get a grant to grow in this area?", or "who can think of something exotic to grow in this area?" to a mindset that asks, "what will we be able to sell in this area?"' (Cartwright, pers. comm.).
>
> Secondly, the farming in an 'area' might typically have a mix of farming activities with farms operating at a commercial level through to farms producing at a 'borderline commercial level' (Nel, pers. comm.). Knowledge of local markets will assist in supporting and guiding production choices of smaller-scale farming operations.

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[16] Qeqe, N & Cartwright, A. 2004. South Africa's agricultural commodity markets: Understanding the rules of the game in five commodity markets with the intention of creating opportunities for emerging farmers: Executive summary. Cape Town: Surplus People Project..

At an area level, therefore, and thus providing information to the spread of project specific plans, it is proposed that a baseline market scoping exercise is undertaken in order to identify opportunities for marketing of produce in local and district markets and in identifying possible market linkages with other markets provincially, nationally and internationally. In essence, a market scoping study would cover the volume of produce traded within the target area, the current sources of supply and the trade characteristics including frequency of orders and the method of settlement (Nel, pers. comm.)."[17]

The SIS makes the following recommendations with regards to assistance with market access:

Drawing in the NAMC, provincial economic affairs facilities and other related institutions:

Although the State's role in agricultural marketing has changed, this does not prevent it from continuing playing a role in support of land reform. In a review of agriculture in South Africa's 'second economy', the Development Bank of Southern Africa says:Improving market access requires a range of interventions by the state. These include the provision of marketing infrastructure (depots, auction pens, telecommunications infrastructure, etc.); information (on prices, markets, buyers, grades, etc.); extension (on technical production issues, quality requirements, and financial and market knowledge); and research (on a wide range of issues) (DBSA 2005:72).

The DBSA asserts, however, that 'it seems as if the responsibility for such interventions has fallen between the stools of the National Department of Agriculture, the NAMC, and the Provincial Departments of Agriculture' (DBSA 2005:72). While this is so, the NAMC has a number of initiatives which are aimed at enabling emerging farmers to get into formal markets. […]

A critical success factor in [recent successful marketing] initiatives was that they tapped into what was already going on in markets and simply made poor people less vulnerable. Drawing from this experience, it appears that significant success is achieved where existing transactions form the initial focus of interventions.

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[17] Settlement and Implementation Support (SIS) Strategy for Land and Agrarian Reform in South Africa, Chapter 10, p. 345. September 2007.

Linking with such private sector initiatives as Commark (which supports the development and maintenance of agricultural commodity markets), each district-level land and agrarian reform sector plan (as discussed here in Chapter 7 and in Chapter 11 of the SIS) will need to significantly address marketing issues, highlighting the various available options. Through the PDoAs, these plans can be used to engage with the NAMC in order to secure support for district-specific initiatives."[18]

With regards to Market linkage services, the SIS proposes the following action:

While the role played by the NAMC in developing or designing marketing schemes is important, its capacity is limited. Developing market linkages is necessary for each land and agrarian reform project on a district- and local-area level. A market linkage facility is therefore one of the services that should be provided by the proposed local-level SIS support centres, in a way that involves the many existing private sector initiatives. There are myriad agencies and support initiatives in the different sectors and any initiative has to draw these into combined planning and action. […]

A good example of such a linkage service in the agricultural sector is that provided by the Promotion of Agribusiness Linkages (PAL) programme. The programme is funded by USAID and is facilitated by ECI Africa. It is managed from a central office, and has offices in five provinces.

The aim of the programme is to help emerging commercial farmers, agri-businesses and investors classified as historically disadvantaged to identify viable business opportunities with commercial enterprises in South Africa and abroad. PAL's approach starts with a sub-sector analysis that disaggregates commodity value chains, thereby identifying specific opportunities and constraints within sub-sectors. It then develops effective interventions for its clients.

PAL starts with the market need rather than the needs of the producer – once the market opportunity has been identified, the clients are identified. This approach focuses on developing sustainable markets and assistance to historically disadvantaged enterprises to enable them to access markets offered by commercial companies and, where possible, to

[18] Settlement and Implementation Support (SIS) Strategy for Land and Agrarian Reform in South Africa, Chapter 10, p. 346. September 2007.

facilitate the establishment of new market outlets where these are non-existent or unable to cope with the volume of available commodities. The thrust of the programme is to ensure meaningful participation by historically disadvantaged individuals in the broader economic mainstream (ECI Africa 2006b:3).

There are a number of important developing land-based initiatives which, with strategic support from the State and linkages with the private sector, could have a significant impact on the success of initiatives on land provided through the land reform programme. These include the production of biofuels, conservation land, tourism and carbon trading. These are new and there is ongoing debate as to whether and how these may provide significant avenues for enterprise development for land reform beneficiaries. […]

New initiatives always require time before there is a proper understanding of how they will impact on already existing practices. Ensuring that local producers are up to date with such developments will be crucial for them to be able to link into these as they emerge.

Local or district SIS services should include such market linkage facilities, either through making the resources available to draw such expertise from the private sector, or specific expertise needs to be drawn in from departments which focus on enterprises identified in the market scoping study, such as those responsible for agriculture, economic affairs and tourism."[19]

3.3 Capital-related constraints

3.3.1 Overview

According to the Settlement and Implementation Support (SIS) Strategy for Land and Agrarian Reform in SA, securing access to sufficient working capital as well as the management of cash flow are major obstacles for emerging farmers and land reform beneficiaries:

[19] Settlement and Implementation Support (SIS) Strategy for Land and Agrarian Reform in South Africa, Chapter 10 p.344-348. September 2007.

“This lack of access to finance and the unwillingness of financial institutions to provide credit are extremely complex and have to do with the following:

- The fact that land and other resources are held in common by institutions such as CPAs and trusts means the transaction costs of recouping the loan if there is default are very high.
- The fact that the participants are poor and thus do not have access to capital other than the grants they may receive through State programmes, which are most often one-off grants. As such, grants do not make recipients any more bankable than they were before.
- The fact that in most land reform initiatives, very few if any of the participants have a positive credit rating and even less experience in higher-level commercial operations in agriculture or other enterprises.
- The lack of products and interest from the financial sector which, while mature and effective on its own terms, fails to reach very many South Africans.
- A continuing lack of clarity regarding the direction and role of the Land Bank.
- A poorly developed micro-credit sector.

The Strauss Commission (1996) investigated the issues related to rural finance, and proposed a package of recommendations, including the closing of the Agricultural Credit Board (ACB), which had provided substantial support to white farmers. The ACB represented the major direct intervention by the State in the provision of subsidised agricultural finance to commercial farmers, especially those in financial crisis. It provided a long-standing safety net to this clientele. Its termination meant that emerging farmers do not have access to the same credit facilities that many of their commercial counterparts and competitors enjoyed while they were establishing themselves.

‘After ten years… black farmers have no access to credit, no access to other financial services, and no access to grants other than those available under the land reform programme – and the Land Bank, which was supposed to be charged with the responsibility of supplying the financial services required to develop smallholder agriculture, will now once again concentrate on lending to established commercial farmers (DBSA 2005).’

The realization that 'insufficient progress has been made with regard to improving access to credit for smallholder farmers' prompted the NDA to establish the Micro Agricultural Financial Institute of South Africa (MAFISA), a new NDA credit scheme administered by the Land Bank. However, this has yet to have any discernable impact."[20]

3.3.2 Some Conclusions and recommendations

According to the "Fifteen year review of Agriculture policy and support instruments" that was commissioned for the Presidency, the main conclusion to be drawn is that "the changes in financing policy [over the last decade] have had little effect: commercial farmers have had to shift to the commercial banks…and emerging farmers have not gained any appreciable sustainable access to agricultural financing."[21]

The SIS strategy makes the following conclussions with regards to the facilitation of access to capital for emerging farmers and land reform beneficiaries:

> "Most land reform beneficiaries are poor or extremely poor, so access to their own financial capital is, by definition, virtually non-existent. Providing grants to acquire land without providing access to necessary financial and other support for production may result in a loss of that production potential. In most situations, especially in those areas where the cost of land is high, current facilities do not provide a substantial grant facility for production capital, nor are there sufficient facilities to obtain credit at a level and rate that poor people can afford. Targeted strategies should be developed to address the various kinds of capital needs."[22]

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[20] Settlement and Implementation Support (SIS) Strategy for Land and Agrarian Reform in South Africa, Chapter 10 p.333-334. September 2007.

[21] Tregurtha, Norma. "Fifteen year review of agriculture policy and support instruments." ComMark Trust, April 2008.

[22] SIS, Chapter 10 p.348. September 2007.

One of the SIS' proposed recommendations concerns the skillful utilization of grants by viewing grants as equity and by providing timeous access to them:

> "A key problem that has been raised in many forums and reports is that grants for production or infrastructure are not provided in time, meaning that production is interrupted when the new owners take over the land. At the same time, such grants cannot be used as equity, through which the new owners can acquire credit. Given the income levels of most land reform beneficiaries, such grants are their only form of equity.
>
> […]
>
> **Reducing how much of the grant is sunk into buying the land**
>
> A key factor highlighted in a number of reports is the high price of land in South Africa. The market price is generally substantially higher than the productive value, meaning that much of the grant that people get in the land and agrarian reform programme is consumed by buying the land. Drawing from various opinions, it is therefore proposed that different approaches to acquiring land be sought in each district so that grants are put into production and other requirements, rather than into the purchase of land. In order to address the problem that 'many projects end up with an untenable debt burden, which jeopardises their sustainability', Agri-Africa Consultants proposed that, rather than simply increasing the size of the land acquisition grant across the board, other strategies could be employed which would free up more capital for production.
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> To this end, it is recommended that ways be found of circumventing the need to sink such a large proportion of the scarce capital in land at the inception of a new farming enterprise. This will include measures such as:
>
> - State purchase of land and the transfer of the land into some sort of state entity, where the ownership gets transferred to the beneficiaries over time as they pay for it out of farming profits;
> - The registration of long-term leases over land, where the state can use a proportion of the LRAD grants to subsidise the rental in the initial phases. This will also mean that such leases are recognised as contributing to land reform targets;
> - The innovative use of other forms of 'lease to purchase' instruments;
> - Additional rewards for active members among the beneficiaries, e.g. by withholding a proportion of the shares at the start of the project in order to make additional shares

available to the more active and committed participants (such an arrangement could replace the sweat capital system currently in place);

- Greater emphasis on encouraging part time farmers to get involved in the land reform programme;
- More active use of state, especially municipal, land in the land reform programme (Agri-Africa Consultants 2005:71).

In a similar way, Renosterrivier farmers made the following suggestion:

An option could be for the state to buy the land and make it available to new entrants with an option to sell or transfer it to the beneficiaries based on the achievement of certain milestones and objectives (Renosterrivier Private Sector Initiative 2007:14).

DLA is currently looking at such concepts as part of proposals on adjusting the size of grants. Various options are being explored, including the outright acquisition of land for the very poor (regardless of the price) through the PLAS strategy in which the State will proactively acquire land and transfer it to specifically identified people. It is anticipated that these proposals, if implemented, will go a substantial way to address these problems.

In each district […]it is proposed that such specific strategies are addressed in order to identify the best mechanism for that particular context. It will be important, however, to ensure that any possible savings on land acquisition, or delayed payment, are geared towards the provision of capital/grants for productive aspects of enterprises to be developed on the land."[23]

With regards to access to credit, the following recommendations are made:

"While the need for collateral to secure loans is important, so is the ability to repay. There is an enormous problem with the repayment of loans due to low returns (linked in part to poor farm management and assessment of agricultural risk) and to the pressing needs of group members for a cash payout at the end of the year.

As discussed above, access to credit for people engaging in enterprises on land that is held by a group or community is notoriously difficult. ECI Africa found that the major lending

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[23] Settlement and Implementation Support (SIS) Strategy for Land and Agrarian Reform in South Africa, Chapter 10 p.349. September 2007.

institutions require the following to be in place to enable serious consideration of an application for credit:

- The involvement of a risk-exposed private partner, who preferably controls the majority of voting shares, and who additionally brings the skills, technology and marketing links to the enterprise.
- An appropriately geared debt-equity ratio, which avoids over-burdening the venture with debt, and which covers the bank's loan exposure
- Realisable security/collateral to cover the bank's loan in the event of default
- Some kind of separation in the borrowing entity – variably expressed by different bank respondents – between the issue of land ownership and the management of the enterprise for which finance is being sought (ECI Africa 2006a:50).

In many of the high-value initiatives in land reform, mechanisms are being found to address the requirements of DFIs. Such enterprises are obtaining access to credit, as evidenced by share equity schemes and joint venture initiatives.

At the lower end of the market, however, there are limited options. Access to such credit is provided by small-scale facilities and MAFISA. According to URS, the Land Bank has currently capped the facility at R25 000 and 'is acting as a poor custodian of the funding by reluctantly distributing it and not making emerging farmers aware of the funding' (URS 2006:6). What this means is that there are currently limited facilities for small-scale access to credit."[24]

The SIS also proposes the reconceptualisation of grants as capital to fund equity in small enterprises:

"The primary constraint in terms of access to finance is not actually the problem of access to loan capital; that is a secondary problem. The real issue is the lack of capital or equity with which such loan finance could be leveraged, and that is a problem rooted in the asset poverty of the target constituency (Philip 2003:17).

Seeking different ways of enabling poor land reform beneficiaries to access finance requires finding alternative mechanisms that 'reconceptualise grant inputs as capital to

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[24] Settlement and Implementation Support (SIS) Strategy for Land and Agrarian Reform in South Africa, Chapter 10 p.350. September 2007.

fund equity' with the contiguous support mechanisms that have been highlighted elsewhere in this document.

LRAD grants are being used in this way in certain projects where larger loans are being obtained through the Land Bank and other commercial finance institutions. But at the smaller-scale level, it seems that the CASP and MAFISA facilities are not using this approach.

It is proposed therefore that a different approach to the utilisation of all grants is introduced to enable recipients to realise the best financial value. Whether grants come from CASP, the NDA's LandCare programme, LRAD, various Restitution programmes or from departments such as those responsible for economic affairs and tourism, should all be thought of as equity and mobilised to leverage further funds.

Importantly, however, the use of grants in this way needs to be done carefully because, as the Human Sciences Research Council cautions, the ability of the borrowers to repay is a key constraint:

It is well known that small-scale producers struggle to service debts out of agricultural incomes, and thus are often further impoverished by debt rather than empowered by it (DBSA 2005).

Any utilisation of grants in this way should therefore err on the side of caution as:

It is also important to consider the element of risk, as different options carry different degrees of risk, and poor communities may be better advised to err on the side of caution rather than choose options that might promise higher returns but involve a greater degree of risk (PLAAS 2007:17)."[25]

Improving the Land Bank's roll-out of its current products:

"The establishment of the MAFISA programme from funds drawn from the old Agricultural Credit Board was initially greeted with enthusiasm but 'for all intents and purposes, a year after it was launched, MAFISA is not in operation' (URS 2006:13). At the

[25] Settlement and Implementation Support (SIS) Strategy for Land and Agrarian Reform in South Africa, Chapter 10 p.350. September 2007.

time of writing this report, a review was reportedly under way of the factors impacting on the slow roll-out of the programme. Its findings have not yet been made public."[26]

The SIS also recommends engagement with banks to develop creative alternatives in the context of improved support arrangements:

"Banks are generally reluctant to lend to enterprises that are owned by a group or a community, primarily due to the difficulty of obtaining the primary asset, the land, if there is a default on the loan. The land, in these circumstances, is therefore not considered as collateral.

The banks have, however, developed alternative ways of reducing the risk in such ventures through insisting that there is a risk-bearing partner with expertise involved in the venture and that:

- In most cases, production finance needs to be backed up by a strong balance sheet, healthy and realistic cash-flow projections and either a signed supply contract or relatively secure markets.
- Integration into a sub-sector through active participation in industry associations and through engaging with marketing agents is an important success factor.
- There is some assurance that a consistent supply of a high-quality product is produced and marketed and that the farming enterprise is managed by someone with experience (ECI Africa 2006a:48).

The options or products that such banks have developed, particularly for the lower end of the market, are, however, limited. It is proposed therefore that, led by senior officials with a clear understanding of economics and finance from DLA, NDA and the Land Bank engage with DFIs to develop appropriate financing mechanisms and to assist emerging entrepreneurs to obtain access to credit within the context of increased support programmes (as proposed throughout this document) and within the context of the grants being made available in the form of equity."[27]

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[26] Settlement and Implementation Support (SIS) Strategy for Land and Agrarian Reform in South Africa, Chapter 10 p.350. September 2007.

[27] Settlement and Implementation Support (SIS) Strategy for Land and Agrarian Reform in South Africa, Chapter 10 p.351. September 2007.

Developing appropriate institutional arrangements for access to credit and to attract investment

One of the reasons that finance institutions are reluctant to provide credit to group or community-based enterprises on land is the cumbersome nature of the legal entities that may be seeking such capital. Besides the need for financial institutions to develop different products which address the needs of land reform entrepreneurs at the different levels, it is important that institutional arrangements within land reform projects are adapted or new ones developed to make the investment in such enterprises and the provision of credit to them more attractive. In its contribution to the SIS Strategy, ECI Africa said:

Universally, stand-alone CPAs and community trusts were seen as being too risky to deal with in view of their broad-based ownership structure, the high transactions costs associated with any commercial association with them, the consequent risks to the bank or investor, and the low/no collateral value of the underlying land asset, given the impossibility of repossessing and selling the land unfettered in the event of default (ECI Africa 2006a:51).

Drawing from interviews with a spread of institutions, ECI Africa (2006a) identified a number of aspects that entrepreneurial institutions should address, including:

- a mechanism which makes it more attractive for the members to invest their money in the enterprise;
- a mechanism to reduce the existence of free-riders or the risk of capture by elites in the community or group;
- the ability to include outsiders with expertise; and
- the separation of the enterprise from the general land management components.

ECI Africa (2006a) investigated one particular option – a unitised trust. In this concept,

CPI members would qualify for equal allocations of units, implying equal benefit and voting rights – although these allocations may be traded over time at prices determined by the audited value of the enterprise(s) controlled by the Unitised Trust. Under this arrangement, whatever method(s) of land use is selected, returns, including capital gains, will accrue to unit holders, and management will remain accountable to voting unit holders. These arrangements in no way interfere with the CPI's ownership of the underlying land asset. On the contrary, they are conducive to the enhanced conservation and effective development of the land as the interests of the members of the CPI and the unit holders (initially one-and-the same) are fully aligned and best served by the mechanism of transparency, accountability and tradability that underpin these arrangements.

While the specific arrangements of the unitised trust do not overcome the problem that the most important asset of a land reform community, the land, has no collateral value, it does address a number of the other problems which constrain investment and access to credit – the elimination of free-riders and the reduction in transaction costs of the investor or lender.

Overall, the ECI Africa proposal has relevance for a particular scenario – where budding entrepreneurs are seeking innovative solutions. But it has limited relevance to a typical Restitution project where the group as a whole need a lot of support to get production going.

Anton Cartwright (pers. comm.) has observed that the early share equity schemes were established utilising such trusts which, while having similar features, 'do not work when things are not very profitable – on the contrary a "run on the trust funds" is often the most likely outcome'.

The establishment of such sophisticated business entities does, however, increase transaction costs to the community or group and requires significant support for effective operation. In a review of the proposed unitised trust, the Legal Resources Centre has sounded a note of caution in this regard, saying that one would require a fairly sizeable commercial enterprise to justify the costs and efforts of setting up such a unitised trust.

[…] It is critical that the most appropriate business entity be identified during the planning and preparation process, and the specific need for attracting investment or acquiring credit must be a significant component of any project assessment. While some general principles apply to all projects, the unique needs of every enterprise must be taken into account when doing development and business plans.

The most appropriate business vehicle should be identified in the planning phases so that it can be included in the planning terms of reference. It is proposed that every SIS service unit includes staff with expertise in finance, business entities and so forth to guide groups in identifying the most appropriate entity to achieve what the community or group wants to do.

As discussed in Chapter 8, however, the choice of legal entity is far less important than the ability to run the enterprise effectively. Cartwright (pers. comm.) has suggested that 'it is just the vehicle… and in most cases it has been the driver that is inadequate… and of course the road has been treacherous!' It is clearly necessary to provide enterprises with the support they need. This has been dealt with in detail in Chapter 8."[28]

1.1 General Conclusions:

According to Lahiff (2008), the emergence of new strategies such as LARP and SIS suggests that the relevant departments at national level have grasped the pressing importance of comprehensive and co-ordinated support and are open to innovative solutions.

"The challenge now is to overcome the multiple bureaucratic obstacles that exist at local and provincial levels in order to ensure that support services are appropriate to the requirements on the ground and actually reach the people that need them most."[29]

In an international comparative study of strategies for settlement support provision, Susan Tilley stresses the following with regards to the conceptualisation of 'post-settlement support':

"International experience shows that support provision to land reform beneficiaries cannot be viewed simply as a narrow or technical issue and requires the involvement of a wide range of active and committed players, including community members, non-governmental organisations (NGO's), social movements, local government, a range of government departments and international agencies…In order to develop a strategy that supports sustainable development outcomes and builds on the needs and rights of beneficiaries, settlement support cannot be viewed as a component that is to be added on towards the end of a land reform process. Neither is it a discreet event. Rather, it is an integral part of the entire process of land reform through the planning, transfer and post-

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[28] Settlement and Implementation Support (SIS) Strategy for Land and Agrarian Reform in South Africa, Chapter 10 p. 348-352. September 2007.

[29] Lahiff, Edward. "Land Reform in South Africa: A status report 2008" The Programme fro Land and Agrarian Studies (PLAAS). P.39

transfer phases. This implies that there can be no clear division between the planning, implementation, capacity development and settlement processes or between 'pre-settlement' and 'post-settlement.'"[30]

[30] Tilley, Susan. "International comparative study of Strategies for settlement support provision to land reform beneficiaries." Program for Land and Agrarian Reform (PLAAS), August 2007.

4. Research Purpose

The overall purpose of this research study is to gain a more detailed understanding of what facilities exist for the provision of capital (investment and production) and markets/market linkages for post transfer land reform projects. As such the Research Study has four broad research objectives:

- To gain a broad overview of the existing capital and marketing facilities available to land reform projects in Mpumalanga Province.
- To understand the challenges faced by land reform beneficiaries in accessing both finance and markets.
- To examine untapped opportunities that may exist for land reform beneficiaries.
- To offer recommendations to both land reform projects as well as key role players around the issues of market access and capitalization.

The attached table provides indicators for each of these objectives:

Objectives	Activities	Indicators	Means of Verification	Resources
To gain an overview of the existing capital facilities and markets available to land reform projects in Mpumalanga Province.	Identification of agencies that provide market access and capital. Interview agencies. Compile Interview Reports Contact again if uncertainty exists	All key agencies (as listed below) are indentified and interviewed during October 2008. Interview reports completed before end of October	List of role players available. Copies of interview reports.	Travel and subsistence.
To understand the challenges faced by land reform beneficiaries in accessing both finance and markets.	Identification of relevant projects with experience in marketing and capitalization. Interview key staff members on each project to compile case studies. Follow up interviews if necessary to clarify any issues.	3 projects selected and interviewed in September 2008. Interview reports compiled by 3rd of October. 3 case studies drawn up before the end of October	Short list of selected projects. Interview reports. Case Study Reports	Travel and Subsistence.
To examine untapped opportunities that may exist for land reform beneficiaries.	Identification of key role-players. Scheduling of appointments. Conducting interviews Compile interview reports	Role-players identified before end of September. Faxed confirmation of appointment end of September Interview Reports	List of key role players and contact details. Fax Interview Reports	Travel and Subsistence.

	Follow up if necessary for clarifying questions.	compiled by mid October 2008. Revised interview reports by 3rd week of October.	Final Interview Reports	
To offer recommendations to both land reform projects as well as key role players around the issues of market access and capitalization.	Compilation of research Report Distribution of research report to key role players. Discussion of findings at different forums Revise the research report after receiving inputs from roleplayers.	Research Report finalized before the end of October 2008. Research Report distributed in November 2008. Research report presented at TIPS workshop 31st of October.	Draft research report Final Research Report Published Research Report	Transport and Subsistence. Printing Costs.

5. Research Methodology

Each of the objectives of the Research Study requires a specific methodology:

In terms of understanding the existing facilities the study will make use of existing materials as well as semi structured interviews with people who are involved in capitalization and marketing

The second objective requires detailed interaction with a number of communities to hear from beneficiaries first hand what their experiences were. The information gathered from these interviews will be combined with data already available for each project to compile a case study of each project.

In the third objective, key role players involved with Capital Provision, Market Access and support to Land Reform beneficiaries will be interviewed to determine what opportunities do indeed exist and whether there are any significant constraints to their access.

Finally the fourth objective will be a combination of information collected above as well as information gathered from literature on the subject- both national and international. These will be used to make recommendations on the issues of capital and market access by land reform beneficiaries.

6. Study Findings

The following section summarizes the major findings of the research and draws heavily on both the land reform case studies that were developed and the interviews that were held as part of this research project. Copies of the case studies and interview summaries are included in the annexure.

6.1.1 Market Access

Currently there is no state support for land reform projects in terms of information on potential markets for their produce. Land Reform beneficiaries find out about markets and prices from neighbouring farmers, local co-operatives and from the media[31]. According to those interviewed there are four broad markets available for their projects:

- On farm sales: Where buyers come to the farm and purchase produce directly from the producers.
- Local Sales: That is the supply of local traders, retailers or wholesalers by transporting produce to local market outlets.
- National Sales: Taking produce to large markets, mainly city deep in Gauteng, where fresh produce is sold on to retail stores.
- International Sales: Goods purchased by local marketing agencies and exported oversees.

All of the above have their pros and cons as explained below:

On Farm Sales: Pro- it is on a cash basis and does not require transport costs. Furthermore the producer does not carry large expenses in terms of the preparation, packing and storage costs of the produce. Pricing of the goods on farm are as a result of these savings relatively lower than other markets.

On Farm Sales: Con- this type of market is erratic and irregular. There is very little security in terms of this form of market since either the buyers come to the farm or they do not. Producers relying on this market run the risk of producing goods that do not get sold, resulting in losses. There is also a security and theft risk of having cash payments made at the farm level. Seldom is all the produce sold in this manner and there is often excess produce that is not sold at the farm. This still then requires the farmer to transport the surplus to another site.

Local Sales: Pro- Transport costs are relatively lower than other off-farm markets. Opportunities exist for establishing a longer term agreement with a local buyer. It is

[31] "Living Land", and SABC 2 production, was specifically mentioned on several occasions.

easier to get feedback on quality issues, and a producer has a better knowledge of how much the local buyer will purchase and when. This enables more forward planning to take place. Supply to local informal sellers is an option that many local producers do go for in terms of surplus produce. Prices from informal sellers are reasonable and it is normally done on a cash payment basis.

Local Sales Cons- These markets tend to be small and access is very challenging as most of the local market opportunities are already taken. There is intense competition to secure these local markets from other local producers of the same goods. This may lead to a price war and ultimately a drop in profitability. Some local retailers have already entered into supply agreements, through their National Officers, with National Suppliers who distribute to all their shops, franchises or branches.[32] Many of the larger retail stores such as SPAR do not enter into formal contracts with local suppliers. This places local producers at risk since other producers may jump the que and supply the store before your produce is ready. In addition the producer must clean, package, cool and transport the goods to the retail outlet at their own expense and risk. A further challenge is delays in payment may be as long as six weeks.

National Sales-Pros: Normally sales to a national distribution group are on the basis of a firm agreement and this allows the producer to schedule and plan production more effectively. National markets are normally capable of handling large volumes so the producer can sell all the produce at one point at one time. This saves on travel and time.

National Sales-Cons: An emerging producer may not be able to supply on a scale required by a national buyer. There can be very strict quality and packaging requirements which are costly. Transport to a national market is expensive. Competition for these types of contracts is tight. Prices offered at a national level may not be as high as those offered locally or in the informal sector.

International Sales: Pros- The prices that a producer receives may be higher, especially if the produce is to be sold under the fair trade banner. Normally

[32] For example, SPAR receives 80% of its fresh produce from *Freshline*. Only 20% of its goods are sourced locally.

international sales would be based on a long term agreement, giving the producer some security for future production. Normally this would involve the supply of a large quantity of produce allowing the farmer an opportunity to expand, forward plan and specialize in a specific crop(s).

International Sales: Cons- Could be adversely affected by changes in exchange rates, trade policy and other external" shocks. Competition remains tough for such markets. Globally the "going Green" movement discourages the transport of goods over long distances (carbon footprint). Compliance with *Eurogap* and /or other quality standards is costly and requires a high level of management. Timeframes for repayment are also lengthy up to 120 days in some cases.

6.1.2 Challenges faced by land reform beneficiaries in accessing markets

Based on the above review it is clear that land reform beneficiaries face numerous challenges when attempting to establish a market for themselves. These challenges may be real or perceived but nevertheless have a real influence on the approach taken by the project members to production and marketing. From the interviews and case studies the following are described as some of the key challenges faced by land reform projects in terms of securing access to markets:

- Information: There are very few sources of information available to emerging farmers about markets, prices, conditions and trends. The fact that in all three case studies reference was made to the farmer next door and a television programme indicates the scarcity of market information. Currently the Provincial Department of Agriculture distributes pamphlets to municipal service centers on a bi-weekly basis to inform beneficiaries of market information.[33] Similarly, private sector retailers do not distribute information widely on what produce they need. As in the case of the SPAR, local producers approach the SPAR themselves for this information. Commodity Groups such as Cape Span do provide support and information

[33] The actual impact and circulation of these pamphlets remains unknown. The Mpumalanga Department of Agriculture has communicated its intent to conduct a review of this service in the near future.

to their members about market trends, access, quality requirements, pricing and volumes.

- Lack of secure and long term contracts: The absence of a long term or secure contract increases the risk that producers may not sell the goods that they produce. Furthermore the price that they may obtain for their goods is unknown making it very difficult to project profitability of one good as opposed to another.

- Transport Costs: These remain a significant restriction on the ability of a single relatively small supplier to access more lucrative markets in other areas. This is particularly the case since many markets require refrigerated transport. Such vehicles remain expensive to purchase.

- Quality Controls: The ability of a small scale producer or emerging commercial enterprise to maintain sound quality controls is a challenge that often leads to a loss of market access when taking over a contract from the original land owner. Whether it is a perception or is indeed a factual case, buyers are more hesitant to purchase agricultural produce from emerging farmers for fear of disease or concerns about quality.

- Economies of scale: Emerging farmers are often producing small amounts of agricultural produce. As such they battle to secure national or international contracts that require a large supply of produce.

- Consistency of production: In one of the case studies it was observed that production occurs in a sporadic fashion with planting or production taking place when funds are available to buy inputs. This inconsistency of production leads to a loss of market as buyers go elsewhere where they know that they can get a consistent supply of the correct amount of produce.

- Packaging Costs: The costs associated with preparation of the produce for the market is also problematic in that different buyers require different packaging and may have different conditions regarding preparation, cleaning of produce and transport standards (i.t.o. refrigeration). It is extremely costly for an emerging producer to have the equipment and packaging material required by various buyers on hand at all times. In addition charges from regional pack-houses or abattoirs coupled with transport costs further erode the profitability of produce grown by emerging farmers.

6.1.3 Market Opportunities for land reform beneficiaries:

Given the information on the advantages and disadvantages of different markets and the challenges facing emerging farmers, it is safe to say that the issue of market access needs to be given more priority in the land reform programme and particularly as one interviewee indicated, this should happen at the pre-settlement stage. Taking into consideration the challenges faced by beneficiaries in accessing markets, and based on the interviews conducted, it is apparent that information on market opportunities remains scant at a project level. This in itself is a challenge that needs to be addressed to enable land reform beneficiaries access to markets. Considering the resource (human and capital) that typically affect land reform beneficiaries at the onset of their projects, it is likely that strategies that focus on on-farm sales as well as supply to the local market will remain the most viable and lucrative opportunities available to such projects. Obviously there will be exceptions where land reform beneficiaries take over existing marketing agreements (for national or even international buyers) or through the assistance of a commodity organization or strategic partner, manage to secure a national or international supply contract. Nevertheless it is safe to assume that for the majority of the projects, the market should be sourced as close to the farm as possible to minimize costs and risks.

6.2.1 Access to Capital:

Access to capital in terms of the land reform programme comes chiefly from three sources, grant funding, loan funding from the state or Parastatal body and loand funding from accredited private lending institutions.

6.2.1.1 Grant Funding

There are a variety of grant funding options available to land reform beneficiaries from both the Department of Land Affairs as well as the National Department of Agriculture in the form of CASP grants administered by the Provincial Department. The following are the most significant grants available to beneficiaries of the land reform programme:

- Land Reform for Agricultural Development (LRAD) Grants: For participants of the redistribution programme, grants are provided to individual emerging farmers who meet the approval criteria. The amount of the grant depends on the amount of own contribution provided by the applicant and range from R 20 000.00 where the applicant can only contribute their "sweat equity" to R 100 000.00 where an applicant contributes R 400 000.00 of their own capital or agricultural assets towards the project. Loan finance is considered as own contribution. A more flexible application of the LRAD grant allows the balance of the LRAD grant, after purchase of immovable property, to be used for the acquisition of moveable assets as well as for production purposes.

- Settlement and Land Acquisition Grants (SLAG). Although not commonly used as part of the Redistribution Programme these days the SLAG was set at R 16 000.00 per beneficiary household and could be used to purchase immovable property as well as moveable property.

- Redistribution Planning Grants, either from SLAG or LRAD, beneficiaries are provided an additional 9% that can be used for planning purposes. This includes activities such as compilation of business plans which could be used to leverage additional funds, dispose of the balance of the SLAG or LRAD Grants or for loan finance (This depends on the quality of the business plans produced).

The Restitution Programme provides claimants with the following grant opportunities:

- Restitution Settlement Grants: currently set at R 6595.00 per claimant household these funds can be used for planning purposes or to cover costs associated with the actual physical resettlement on the land.

- Development Aid Grants: Set at 25% of the value of the restored lands, claimants must have a business plan and approval from either the Regional, Chief Land Claims Commissioner or the Minister, depending on the size of this grant (Section 42 C memorandum). This grant can be used for the purchase or development of physical infrastructure and moveable assets as well as operational costs.

- Compensation grants of 25% of the value of the restored lands, for the loss of beneficial occupation, if the claimants cannot resettle on their lands due to it being a protected area, forestry or urban lands. These grants should be used for the development of physical infrastructure, maintenance and operational costs of the project.

- Comprehensive Agricultural Support Package (CASP). Funded by the National Department of Agriculture after being approved by the Provincial Department of Agriculture, CASP grants are available for six key support areas, namely; information and knowledge management, technical and advisory assistance and regulatory services, training and capacity building, marketing and business development, on-farm and off-farm infrastructure and production inputs, financing support and finally risk management. Whilst most CASP applications so far have focused on requests for on-farm infrastructure, specific grants could be applied for to cover operational costs as well as for marketing assistance.

6.2.1.2 Loan Funding from the State or Parastatal Body

Currently there are two prime bodies providing loan funding for land reform projects in the Province, the Land Bank with three regional offices, and the Mpumalanga Agricultural Development Corporation (MADC) with a Provincial Office in Nelspruit. The Micro Agricultural Finance Institutions (MAFISA) initiative is also included in this section.

- The Land Bank offers finance for both capital purchases (land and movables) as well as production costs. Loans for capital purchase could either be in the form of long term mortgages (15-25 years) with an interest rate of prime (15.5% minus 5%). Medium term loans can also be used for capital purchases as well as production costs and are currently set at between 18.25% and 20%. Land Reform beneficiaries have a discount of 0.24% for these loans. The Land Bank also offers short term production loans (up to 18 months) with the same interest rates as medium term loans. All Land Bank loans use interest rates which are Nominal Annual Compounded Monthly (NACM) and there are no transaction costs associated with these loans. Interest rates are not fixed for the period and may change based on fluctuations in the money and capital markets. The Land Bank accepts a range of sureties against its loans. These include: Covering Bonds over fixed and moveable assets, notarial bonds over moveable assets, cessions over produce, insurance policies or unpaid share capital (of co-operatives) and suretyships. Applicants must compile their own business plans and cash flow projections which are then evaluated by staff from the Local Land Bank Offices and if approved are submitted to the National Office of the Land Bank in Pretoria for final approval. Once a year projects are visited to assess risk. Turn around times for loan applications should be about three months.

- The Mpumalanga Agricultural Development Corporation (MADC) also provides loan finance to land reform projects and has three distinct financial products: Production Loan Facility for seasonal or annual loans, mainly for production purposes. Revolving Credit Facility which is also a short term facility (3-12 months) to fund operational costs and a Business Loan for the establishment of enterprises. The Business Loan is for a period of 1-8 years and can be used for capital purchases as well as production costs. The MADC applies an interest rate of prime minus 2% or 13.5% at present. The MADC also considers a range of sureties for its loans in the form of mortgage bonds and cessions.

- Even though not currently operational, the Micro Agricultural Finance Institutions of South Africa (MAFISA)[34] will hopefully emerge as a viable lender to land reform beneficiaries in the near future. MAFISA's purpose would be to provide micro and retail agricultural financial services to economically active rural poor people on an affordable, diversified and sustainable basis. This plan stemmed from the insufficient success in bringing financial services to previously disadvantaged individuals in the agricultural sector.[35] The Department of Agriculture has allocated R1 billion of funds to be utilised by MAFISA, whose vision it is:

  "to empower the micro and small scale agricultural sector entrepreneurs and farmers to improve their livelihoods and develop their businesses."

  Borrowers would borrow at concessionary rates of 8% on maturities of up to two years. The Participating Institutions[36] would receive funding for their loans from MAFISA at a concessionary rate. The spread is intended to cover the participating institution for its expenses in underwriting the loan and taking the credit risk. Maximum loan size for an individual farmer is R100,000, although farmers can group together to from a micro-cooperative and combine their respective lending limits.[37]

  A pilot program was set up to test the waters in the Limpopo, Eastern Cape and KwaZulu-Natal provinces from March 2006 until March 2007. During this pilot phase, a total of R41 million was granted in loans to 5,170 farmers. The exact percentage of loan defaults remains unknown, but it is expected to be roughly 40% or more.[38] Only one of the three eligible participating development finance institutions (PDFI) participated in the pilot program because MAFISA could not

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[34] Officially launced by the President of South Africa n the State of the Nation address to Parliament in May 2004

[35] National Treasury of South Africa. Review of Development Finance Institutions: Micro Agricultural Finance Institutions of South Africa (MAFISA), Final Draft. June 2007

[36] Mafisa is envisioned to work through a series of "franchisees" of participating Institutions.

[37] Ibid

[38] Ibid

facilitate the transfer of funds from Land Bank to the PDFI's, and only one was willing to temporarily self-fund. In addition, only two of the seven eligible branches of Land Bank participated. According to the DOA, Land Bank failed to perform most of the tasks required under its agency agreement during the pilot phase. "There is a clear problem of confidence in using Land Bank, the most obvious candidate given its supervision by DOA, as an agent or the primary intermediary."[39] Vink et al concluded that "neither Land Bank nor Mafisa are efficient in fulfilling the objectives of access to land financing and agricultural production financing as they are being managed and operated at this stage."[40]

In a review of the National Treasury, it is stated that the "difficulties in establishing an innovative program of this nature from scratch can be appreciated, and a degree of caution in testing the business model before committing to institutional infrastructure shows an appropriate prudent use of public monies. However, it is now three years since the President's commitment was made, and only R41 million of an ear marked R1 billion has been deployed."[41]

6.2.1.3 Loan Funding from Accredited Private Lending Institutions

Three of the biggest banks in South Africa provide loan finance for agricultural enterprises; these include ABSA, FNB and SBSA. Representatives of the banks interviewed expressed concerns about the risks associated to projects where land is held in communal ownership. Furthermore the transaction costs of lending to land reform beneficiaries are considered high. In all cases the banks determine the risk profile of the applicant and project and set interest rates accordingly. Banks are more in favour of using a cession over produce or bonds over moveable assets than on immovable property because of the communal nature of ownership on land reform

[39] National Treasury of South Africa. Review of Development Finance Institutions: Micro Agricultural Finance Institutions of South Africa (MAFISA), Final Draft. June 2007.

[40] Vink, Nick; Coetzee, Gerhard and Howell, John. National Treasury of South Africa. Review of Development Finance Institutions: Phase 2: The Land Bank and Mafisa. September 2007

[41] Ibid

projects. Banks strongly advise the use of strategic partners or external management on projects where experience and skills are lacking.

6.2.2 Challenges faced by Land Reform Beneficiaries in accessing capital

From the analysis of funding opportunities available to land reform beneficiaries it appears that a number of facilities do exist in the Province to leverage loan finance for both capital and production purposes. Nevertheless there are a number of challenges that have been identified by role players and beneficiaries themselves in terms of access to these facilities:

- Access to information on various facilities: Beneficiaries, lacking access to internet and email, have to travel to the banking institutions to gather information of the various facilities, terms and conditions and to submit applications. This could take up to five trips to finalize. In addition none of these institutions have an outreach programme whereby they actively engage with the beneficiaries about their products.

- Length of time from application to disbursements: Whilst the institutions interviewed all indicate relatively short turn around times from application to approval and disbursements, interviewees indicated that they had to wait up to 18 months for the Land Bank to approve their loan application. Such lengthy turns around times are problematic for seasonal production.

- Quality of original business plans: What is considered a business plan by the DLA or the CRLC is generally not sufficient for purposes of accessing loan finance from state, private or parastatal lending institutions. Such institutions require detailed production figures, asset lists, cash flow projects, information on risks as well as profile of the applicants. Credit checks on individual representatives are also undertaken. As such most beneficiaries have to outsource an agent to undertake a detailed business plan at their own cost, over and above the original business plan submitted to the DLA/CRLR for approval of their grants. This is both costly and takes time.

- Group surety: Lending institutions are extremely wary of lending money on projects involving collective or communal ownership of land and apart from the Parastatal or State Lending Institutions, will not accept land owned communally as surety. The private banks also regard these projects as having a high administrative cost as opposed to lending money to private enterprises or individuals.

6.2.3 Financial Opportunities for land reform beneficiaries

Despite the abovementioned challenges, land reform beneficiaries do have opportunities to access both grant and loan funding. Facilities in both the private sector as well as public sector (including parastatals) exist to provide credit for both fixed capital and recurring costs associated with farming. The terms, particularly interest rates, differ from private to public lending institutions, as do levels of support and surety requirements. Due to the lack of implementation of MAFISA at present it is difficult to determine whether this facility would be widely accessed on land reform projects. Considering the risks associated with different interest rates as well as time frames for approvals, beneficiaries may opt for either public or private funding in their project.

7. Analysis of Findings

Forthcoming

8. Conclusion

Forthcoming

9. Recommendations

Forthcoming

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11. Annexure

11.1 Case-study Interviews:

11.1.1Mathebula CPA

Overview:

The Mathebula Communal Property Association is situated 5km outside of Nelspruit along the provincial route R40 towards White River. Mathebula is a LRAD Redistribution project consisting of 37 individual members who have, with the assistance of the Department of Land Affairs, acquired roughly eight hectares of the farm *Kantoen,* which is situated in the Mbombela Local Municipality in Mpumalanga. Mathebula has been in production since 2002.

Overview of Production

Mathebula currently produces poultry and vegetables. Roughly ten thousand chickens are produced per year, where the majority are sold at roughly four months of age. Mathebula's vegetable crops include squash, butternut, cabbage, broccoli, cauliflower, onions, beetroot, tomatoes, spinach, sweet potatoes, green pepper and chillies: none of these individual crops are larger than one hectare. As for input costs, roughly R16, 000 are spent annually per one thousand chickens. The prices garnered for the four largest vegetable crops are as follows: onions, spinach (per bunch) R5, cabbage (per head) R5, Tomatoes (per crate) R30-70. The price at which chickens are sold oscillates between R20-R30 per head. Mathebula receives roughly R25,000 of profits annually from its poultry activities, while vegetables provides roughly R12,000 of profit per annum. According to Mr. (what's Sydwell's last name?) , profits have remained fairly stable throughout the last three years.

Access to Capital

According to Mr…, Mathebula would idealistically need to access R350,000 per annum in order to grow to its full production potential, to acquire much needed equipment, and to pay off its current loans. In the past, Mathebula has acquired two loans: a R110,000 loan from Land Bank in 2005, and a R200,000 loan from the Mpumalanga Agricultural Development Agency (MADC) in 2006. The MADC loan is serviced by a bimonthly payment of R19,200, while cumulative payments of R18,000 per annum services the Land Bank loan. Both loans are currently said to be in good standing with no history of default on any past payments. The MADC loan is expected to be fully repaid by 2010/11. According to Mr…, the MADC loan was approved in approximately two months, while the Land Bank loan required nearly twelve months to approve less than half the amount originally applied for. In both cases, the Rural Action Committee (TRAC) informed and assisted Mathebula in accessing the loans. Mr. … claims to have somewhat of an understanding of loans that could be accessed through some of the commercial banks (ABSA, Standard Bank and Nedbank), and does not report it difficult, hypothetically, to find people and institutions whom could lend to Mathebula. The Mpumalanga Department of Agriculture (DOA) assisted Mathebula in the past by renovating four chicken houses, and Land Affairs assisted with accessing the Land Bank loan. Mathebula has been unsuccessful in applying for grants from the DOA in the past. The lack of capital is seen as a severe constraint to the expansion of production, but a risk-averse approach has led Mathebula to prioritize the re-application of grants (for "a number of years"), where after, if still unsuccessful, it will consider borrowing. Mathebula currently has an up-to-date bankable business plan for this purpose, and reports the ability to approach financial institutions without outside assistance. From the past experience with the MADC and Land Bank, Mr.. is satisfied by the available facilities to loan capital, but however prefers MADC to the high interest and longer approval time of the Land bank.

Market Access:

Mathebula's location close to a busy national road has enabled it to sell all of its products locally. The majority of produce are sold from the property itself, and the remainder is transported to local markets like Nelspruit and Whiteriver where a number of small scale contracts are in place. With regards to chickens, Mr. … reports never experiencing a shortcoming of clients or markets on average. Even though the previous owner concentrated solely on poultry, Mathebula entered into the vegetable market after receiving advice from a local accountant in Whiteriver. With regards to vegetables, Mr. .. reports visits vegetable wholesalers in the region periodically in order to get an indication of current price trends. With regards to poultry, the price for a head of chicken sold by Mathebula is highly dependent on the availability and quality of produce in the surrounding area. This information is garnered through hear-say, mostly from hawkers and customers visiting the farm. Broiler and feed suppliers periodically assist with information on price trends as well. Mr… reports watching the television programme "Living Land" on SABC 2 that contains invaluable information on prices and market trends, and also consults the "Agriplan" manual that was garnered through a TRAC training course. Vegetables and chickens are transported by a bakkie and a rented trailer. Mr. … reports market access as a high priority for further expansion, second only to production capital access.

11.1.2 Noku Development Trust

Overview:[42]

The Noku Development Trust own portion 20 of the farm *Rietvlei* in the *Thaba Chewu* Local Municipality, *Ehlanzeni* District, Mpumalanga. The farm is situated approximately thirty kilometres from the town of *Ohrigstad* on the R 529 road between Ohrigstad and Graskop, and shares its Eastern Boundary with the Blyde River Canyon Nature Reserve, a World Heritage Site.

The Trust consists of 411 households which in turn translate to approximately 1700 individual household members. The Noku Trust purchased their farm under the Department of Agriculture's Settlement and Land Acquisition Grant (SLAG) programme (redistribution).

The total size of portion 20 of the farm Rietvlei is 320 ha. 150 ha are under irrigation, 140 ha are grazing lands and 30 hectares are covered with roads, buildings, a wetland area and natural bush. Only 75 Ha of the irrigable lands are currently being utilized.

In total 140 hectares are irrigable, with the new infrastructure a total of 102 hectares has been put under irrigation.

Overview of Production:

Noku currently produces beef, wheat, sugar beans, lucerne and maize. At this point in time Noku owns 26 hectares of wheat, +-34 hectares of sugar beans, 22 hectares of maize, 26 hectares of lucerne and 150 heads of cattle. With regards to annual input costs, Noku spends R200,000 on wheat, R26,000 on cattle, R200,000 on sugar beans and R20,000 on Maize. Average prices for Noku's products over the last two years where as follows: wheat and lucerne at R1,600 per ton, maize at R1,750 per ton, cattle at R9 per kilogram,

[42] Noku Development Trust document Title? (from Trace) p. 1-3

and sugar beans at R8,500 per ton. Average annual profits over the last two to three years for wheat has been R80,000, for maize it was R80,000, cattle R150,000 and sugar beans R500,000. According to Mr. Mokoena, profit has increased steadily over the last five years (when compared to the last nine years of production).

Access to Capital:

Over the last nine years of production, Noku has never applied or accessed any form of large-scale loan. At the moment Noku only owns money on a four-row sugar bean planter that is being repaid in monthly instalment. Idealistically, and within a low interest rate environment, Mr. Mokoena expressed an interest to borrow R2.5 million. He emphasized, however, that he has always perceived borrowing money as "too risky" when one considers that the land itself might be lost as a result of default. Mr. Mokoena therefore admits to not having much information on the available financial products for his consumption, since he has never been interested to enquire. Noku received a R500,000 CASP loan after officials visited the farm in 2005. The grant was to be used exclusively for building a pump station on the farm. Since all the crops grown on Noku are under irrigation, it is impossible for Noku to expand its activities without an accompanied expansion of the irrigation infrastructure. According to Mr. Mokoena expansion and maintenance of the irrigation infrastructure would be impossible without access to future capital. Noku does currently have a detailed Business plan that it presented to the DOA in 2007 in order to apply for CASP grants to upgrade and repair the irrigation infrastructure on the farm. Mr. Mokoena emphasised his unwillingness to borrow under the current high interest rate figures.

Market Access:

Noku's products are sold nationally as well as locally. Wheat and sugar beans are sold at the Pretoria market while cattle are sold at the Belfast market and Lydenburg butchery, Maize is sold at the OTK co-op in Lydenburg, and lucerne is sold as feed to a local farmer. According to Mr. Mokoena, these markets have remained mostly stable throughout the last nine years. Most of these markets were established through a process of consultation and assistance with neighbouring farmers. Mr. Mokoena gets information on price trends and markets through the markets where he sells, as well as from the "Living Land" television program on SABC 2.All the crops are picked up on the farm by market-agents to be transported to the relevant local or national markets, while trucks are hired periodically to transport cattle to the auction at Belfast. Noku's relationship and market connections via the Ohrigstad co-operative were established in 1999 when business plans were submitted to this institution and 'inspections' were conducted on the farm. Currently all of the maize and wheat produced on Noku is sold through the OTK. Cattle market connections as well as the lucerne contract were established by consultation with neighbouring farmers. Lucerne, cattle and sugar beans where not produced by the previous farmer, but were developed by Noku in consultation with the OTK and neighbouring farmers.

11.1.3 Coromandel Farmers Trust

Overview:

Coromandel is situated 20km from Lydenburg on the Lydenburg – Dullstroom Road, Mpumalanga. The farm measures 1200 Hectares in total, 560 of which are currently productive. This farm has a superb infrastructure with state of the art stabling for over 90 horses, 27 managerial residences and 177 staff houses. In addition it houses a dairy, fruit pack house, workshop, office complex, maize dryer and feed mixer. Following the liquidation of the farm in 1996, the workforce was able to buy the farm through LRAD grants and a Land Bank loan.

Production Overview:

Coromandel currently has 181 hectares of maize, 68ha of soya, 24ha of blueberries (out of which 8 is currently productive), 12 cumulative hectares of peaches and nectarines, as well as roughly 360 heads of cattle (out of which 170 produce dairy). As for input costs, Coromandel spends annually R1.8 million on maize, R134,000 on soya, R500,000 on blueberries, R500,000 on peaches and nectarines and roughly R600,000 on milk production. Maize is sold for R1,500 per ton, soya for R2,500 per ton, Blueberries at R67 per kilogram, peaches and nectarines for R15 a box (2.7kg) which generates a profit of R2,3 million for milk, R284,000 for blueberries and R257,000 for peaches and nectarines. Gross annual profit for the 2007 financial year came to R2,5 million, with nett profit coming in at R167,000. According to Mr. Elvis Mkhabela[43], Coromandel's profits have decrease gradually from R500,000 in 2002 to its present level.

Access to Capital:

[43] Coromandel Board of Trustees Chairman

Coromandel has accessed two loans in the past; a R360,000 loan from the MADC in 2006 and a R11 million loan from the Land Bank in 2002. Coromandel has not made any payments towards the MADC loan, and has contributed very little servicing to the Land Bank loan, which has shrunk to R9 million. The Land Bank loan was accessed at the initiation of the Coromandel Trust in order to compliment the 11 million LRAD grant received, and to buy the R22 million property where Coromandel is currently situated. Coromandel was given a twelve month grace period before a monthly fee of R30,000 was charged to service the Land Bank loan. The Land Bank loan was approved after twelve months, while the MADC loan was approved in four weeks. Coromandel was assisted by Ntuli, a law firm in Nelspruit, in acquiring the MADC loan. Coromandel's main and obvious constraint to accessing the capital it is said to need for expansion is its current Land Bank dept of R9 million. Coromandel received a R3 million grant in the past from the DOA in order to upgrade the feeds and medicine facilities for its dairy activities. The capital needed to "restart" the farm is estimated to be roughly R10 million per year. Bankable business plans are said to be in place.

Market Access:

Most of Coromandel's products are sold through the local markets: maize and soya are sold in Lydenburg (Silo) while milk is sold to a Parmalat affiliate. Peaches and nectarines are exported to the Johannesburg market, and blueberries are sold locally (75%) and exported through a market agent internationally (25%). Markets remained mostly similar to that of the previous owner, with the exception of diary which changed from a Clover to a Parmalat contract. Coromandel reports receiving useful marketing assistance and information from neighbouring farmers and from the Lydenburg Silo, which sends marketing information via the internet on a daily basis. Maize and soya are transported to Lydenburg with Coromandel's own tractors, while blueberries, peaches and nectarines are transported via bakkie. Coromandel reports on the need for information on new prospective customers, as well as for ways to by-pass market agents used for selling blueberries.

11.2 Role-player interviews

October 6, 2008

Mr. Tennyson Komape

Current Position: Deputy Director of Farmer Support, Mpumalanga Department of Agriculture and Land Affairs

Previous position: Deputy Director of Marketing, Mpumalanga Department of Agriculture and Land Affairs

Previously, the land reform process has been too narrowly focused on land alone, and did not prioritize the acquisition of movables and equipment before handing over projects to land reform beneficiaries. Then CASP was established to address this infrastructure problem, and has since become more comprehensive in its intention and mandate. However, there remains a constant backlog to the CASP budget, since new projects (and their needs) are added to the original budget every year; the budget remains too small to have its intended reach. The CASP grant is seen by the DALA as an ideal leverage to access future production credit, since it offers training, grants and technical advice to land reform beneficiaries. Again, the 'set-budget' is said to be major constraint on delivering CASP support, since it is not 'needs driven'. Capacity is not a problem, since CASP projects are contracted out on tenders.

The current problems (with regard to capital access) will be overcome partly through DALA's "extension recovery plan", which aims to equip all extension officers with a minimum Junior degree qualification. The aim is to train beneficiaries not only in technical farming skills, but also in management, financial management and other business skills.

DALA's is currently reshaping the structure of its local support centers: It is dismantling its three districts and decentralizing to the Municipal level. In each Municipality, there will be a Municipal Agriculture manager whose staff will asses and profile the needs of the land reform beneficiaries within the municipality. This specified needs profile will then be communicated to the provincial level, as a way of informing the budget. Mr. Komape remains optimistic that the budget will be significantly increased once needs are no longer estimated, but are accurately access at the grass-root level. All profiling of this kind are projected to be completed throughout the province before the end of the current financial year.

Mr. Komape stresses that the DALA remains open to future partnerships with the private, commercial and non-profit sector.

Market access is no longer as big a problem as it was said to be in the past, since supermarkets are now increasingly willing to buy from these farms. The large constraint with regards to marketing on which the DALA is increasingly focusing on, is marketing logistics. Basic marketing training are provided to land reform beneficiaries via extension officers. Mr. Komape is optimistic that the current profiling on needs (which includes training/skills needs) on Municipal level will enable a larger budget for training purposes that in turn enable, among other things, a more comprehensive marketing education for land reform beneficiaries.

With regards to market information, the DALA publishes a pamphlet every second week that contains pricing information, marketing trends and general marketing info from various sources. These pamphlets are available from municipal service centers. However, information on the impact and distribution of these pamphlets were not available (feedback research needed).

The DALA has recently embarked on a pilot program to establish marketing hubs with the aim of, among others, addressing the problems associated with marketing logistics for emerging farmers/land reform beneficiaries. The DALA is currently in discussions with various stakeholders[44] and will establish three marketing hubs for the commodities of vegetables and fruits in the province. The aim is to eventually expand to most commodities throughout the province through a process of learning and expansion. The main idea is to establish ….(benefits of marketing hubs). Platform where the DALA can facilitate and encourage mutually beneficial increased co-operation and co-ordination between emerging farmers. The marketing hubs will be financed publicly while it will be owned by the farmers as a legal entity, with representation by government and professional advisors on the relevant boards. This legal entity will be able to borrow and loan money and will indirectly help farmers access capital….

While these hubs are slowly implemented and rolled out province wide, the DALA will continue to tackle marketing constraints of land reform beneficiaries on a case by case basis.

October 6, 2008

Mr. David Hall

Current Position: Cape Span: Head of Nelspruit office

Cape Span has extensive experience with land reform project support in the Eastern Cape, Western Cape and Mpumalanga. Typical projects are willing seller based shared equity projects where Cape Span offers a broad package of training and assistance, and the overarching intention from Cape Span remains to exit once the project becomes self-sufficient. In these projects, land is usually owned as a joint venture with the community. Funding usually comes from Cape Span, the World Bank, and local government.

[44] MADC, Land Bank, ABSA, FNB, Standard Bank, Agents from fresh produce markets, municipal officers etc.

In the Eastern Cape, and in partnership with Agriseta, there has been much success with training on these joint-venture projects. Training would encompass technical-, managerial-, financial-, social responsibility-, corporate governance-, literacy- and basic skills training. Another aspect of these partnerships is concerned with financial assistance: once land is secured, there is usually a long delay in securing production capital to projects. Cape Span has tried to bridge this by jointly facilitating the acquisition of capital for movable assets.

Cape span also offers 1-year production loans (based on the potential value of the crop), as well as longer term loans for capital investments (new orchards etc). Loan repayments are usually dependent on the success of the market in general, and interest rates are said to be on par with the main commercial banks.

Once a project has been identified (and land has been secured), a specialist entity are brought in to assist with production. This is usually either the previous owner or a specialist that would perform well with the community in the joint venture.[45]

From the perspective of Cape Span, it is far less difficult to establish joint ventures with a willing seller that sells the land to communities who already live on the farm, than to work with land claim scenarios; bigger communities are usually involved, there are more antagonism, and going through government is extremely lengthy without clear lines of responsibility, accountability and service. Cape Span is currently involved with one land claim and 3-4 land restitution cases in the Mpumalanga area.

According to Mr. Hall, the biggest obstacle for these partnerships is to get government participation, with negotiations alone sometime taking up to a year.

Cape Span's motivation for getting involved in land restitution is to ensure that the primary resource of its business does not diminish, to ensure that the restitution process is functional and sustainable, and to ensure long-term success of the business.

Time-scale for projects in the Western Cape has averaged around ten years, with some project still not fully independent after this time period. Cape Span emphasises its willingness to expand to more joint-partnerships, and to incorporate new projects in Mpumalanga.

To get entities like Cape Span more involved, 'care-takership' leases needs to be expanded beyond the current 5 year period, since this is a major disincentive for extensive investment and support in the project, since large capital investments cant be recouped in five years (or less). At the start, much of these projects are in a bad state—they need to be rebuilt etc. The other main concern is the time-period it takes to negotiate and establish these deals/partnerships: willing sellers usually loose interest when private buyers can offer money for the land faster. Mr. Hall emphasises that many deals have been lost in this manner.

Mr. Hall also pointed out that the current Fair Trade trend in markets could be very valuable for emerging farmers and land reform beneficiaries.

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[45] All partners share equity and profits

Mr. Hall emphasised the some of the main constraints to post-settlement success is a lack of marketing expertise and capital, as well as the immense challenge of satisfying the (hundreds).

With regards to the trading- hubs proposed by the Department of Agriculture, Cape span would seriously consider getting involved in these projects if it was to be approached on the topic.

October 6, 2008

Mr. Piet Jordaan

Current Position: Agricultural Economist with Land Bank (Nelspruit office)

Capital facilities available with Land Bank:

- Mortgage loan with special interest rate over 25 years at prime -.5% interest.
- Annual production loan at 18.25 - 20% interest.
- Medium term loans: infrastructure, movables, capital (up to ten years) at 18.25%- 20% interest.

Only real advantage Land Bank has in lending to land reform beneficiaries, is the financing provided to buy farms: +- 16% for commercial farmers, for developing farmers its prime -.24% (small advantage). This is about a 1 - 2% difference from commercial banks.

Land Bank offers no support or assistance to help to farmers in servicing their loan---this is said to be the responsibility of the extension services of the MPU Department of Agriculture. Mr. Jordaan admits that this support is not provided by DALA.

Constraints to lending to land reform beneficiaries:

- Groups are too big (infighting, social problems, management structure---leads to neglect of the farm)
- No maintenance or support provision on a continuous basis.
- Knowledge and skills are not there, leads to neglect and other problems.

The failure of current extension support by government is in stark contrast to the TSB extension services which, according to Mr. Jordaan, works "very well."

According to Mr. Jordaan, the cash that is left over in the bank (after land and movables have been purchased) are often 'misused', not through corruption, but overpay, buying equipment that are not really a priority, etc---financial discipline in general has been a large problem. DALA should be involved straight from the beginning with management, helping with financial discipline, to plan and assist with the budget, cash-flow etc.

According to Mr. Jordaan, Mafisa (which has not yet started) should be ideal for the LRAD projects, since the 8% interest will make a huge difference.

October 7, 2008

Mrs. Jackie du Plessis

Current position: Produce Master at the Crossing Center Spar, Nelspruit

Spar does not provide any form of assistance or advice to local producers; local producers are expected to deliver cooled produce to Spar without formal contracts. All connections with local farmers were established by farmers whom approached Spar (not the other way around). Local producers are expected to deliver sometimes on a days notice, providing its own logistics, packing and transport. At the Crossing Spar, roughly 20% of produce is bought from local producers, while 80% are bought through Fresh Line. Fresh Line has a nationwide contract with Spar that, according to Mrs. Du Plessis, prevents local Spar supermarkets from straying below the 80% purchase line. Mrs. De Plessis stressed, however, that much greater profit have been accumulated through the less expensive local produce, and that Spar would in theory like to double the local purchases to 40% of all purchases. She stresses however, that she does not believe this mutually-beneficial arrangement would be allowed with the current Spar-Fresh Line agreement.

October 8, 2008

Mr. Jeff Velelo

Current position: General Manager and Acting Chief Executive officer of the MADC

Previous position: Senior manager, farmer development

The MADC has three financial products, all of which are prime -2%.

1. Production Loan Facility: Seasonal, annual loan.
2. Revolving credit facility: Funds farmers for business opportunity. To improve marketability of produce, short term facility between 3-12 months.
3. Business loan. For establishment of enterprises. Between 1-8 years.

Compared to commercial banks, the MADC (because it is a development corporation) has certain benefits over other lenders, like commercial banks

- Interest rate is lower
- Assistant measures (in addition to the services of the DALA)
    - Provide skills training (if needed)---has budget for training

- MADC knows the area, knows business advisors in the area, know the people who can "cheat us".
- Same language

Security: NAC act has stringent requirements to avoid reckless lending. The MADC uses land, movables and ensure that there is a market for the produce. And non-tangible securities.

On the business loan, if it is a lease project, it must have a minimum lease contract of ten years.

Some of the main constraints to lending to land reform beneficiaries include:

- Can not raise collateral on these farms
- Trust formation: Few people establish a business entity to run
- The large number of people is a major constraint: has to have a business entity with which to interact
- Social conflict

Mr. Velelo agrees with the Information asymmetry between banks and land reform beneficiaries, and believes that the solution lies with the DALA, especially the extension service, because it is the only entity who has the capacity to provide the needed training/information. The DALA should be the liaison/link between the banks and the projects.

The MADC gets between 37-42 million from the provincial government annually (no other source of income). About half of this is for administration to run the MADC, the other half is money borrowed out to farmers. The MADC inherited about 80 million of debt form its preceding entity, the Mpumalanga Development Corporation (MDC). The recoverability on this debt is estimated to be less than 50%. MADC has between 55-60 million of its own debt, but many of the long term loans are said to be approaching maturity age. The MADC is about to sell a number of businesses and land under its possession in the near future in order to help ease its current burden of debt.

Funding from government is seen as very limited and small. MADC has to show away many sustainable and viable projects that are too big in size. Mr. Velelo provided an example of a viable loan application for 40 million (sugarcane), that MADC was unable to finance.

These loans are needed by farmers because farms are bought without infrastructure and movables. Mr Velelo therefore believes that LARP should not just buy the land, but the movables and equipment on the land as well.

Mr. Velelo does not see MAFISA as a viable future mechanism---the target market is not seen as viable and sustainable, since the pilot project repayment rate has been less than half. These should rather be grants, according to Mr. Velelo, otherwise it would be mostly irresponsible lending.

Some partnership projects do exist, for example between UButhle(?) Academy, the MADC and ABSA. The MADC provides l/3 of the needed financing, ABSA provides 2/3, and Buthle academy provides the training.

The initiative for this project came from *Omnia*, where the project in turn agreed to only buy fertilizer from Omnia. Mr. Velelo also mentioned a partnerships with Early Bird, Daybreak and MDC Chicks.

When asked about what will be done with MADC's current burden of debt, Mr. Velelo strongly believed that the Treasury would not write-off the debt in fear of setting a precedent for other development finance organizations in other provinces.

September 16, 2008

Gerhard Coetzee

Head of Microfinance at ABSA

What are the facilities available for land reform beneficiaries in terms of finance?

- Formal and informal sources
    - Formal---public sector---land bank, provincial parastatals, IDC, CASP, LRAD etc
    - Private sector—range of possible financier, value chain approach useful (apart from banks etc)
        - Input suppliers finance (rare) (seed, fertilizer
        - Processing, distribution (commodity groups) finance more often
        - Supply chain financing—Linked market financing (like sugar and cotton financing small farmers) specialized processor
        - Distribution and final wholesale resale (massive)Example: Woolworths
- Banks are biggest agri financiers (+-35%)
- MADC--+-66mil rand portfolio (about 4 years ago). The banks record and debt, however, is dismal---typical supply led situation, very little design to fit into needs of farmers.
- Look up Publication by Coetzee: "Agricultural banks in Africa; the way forward"

The IDC (because more focused on processing side) finances farmers to deliver to processing plants, and therefore offers a more sustainable model. According to Mr. Coetzee, the biggest problem that underlies the problems associated with post-settlement support, is the lack of pre-settlement support: "When you get to post-settlement, it's too late." Questions that need to be asked include:

- How do you protect assets, address livelihood strategies to prepare the beneficiaries for the project?
- What kind of financial strategies can we provide **leading up to** settlement and after?

Mr. Coetzee again emphasized that focusing on the 'before' might be more important that the 'after' of project support.

Mr. Coetzee also emphasized that gathering info on products that are available is not difficult part; the difficult part is to get the commercial sector involved right from the beginning, because the only state financiers that are "worth anything" is the IDC (because they follow a commercial approach).

The fundamental problem can be said to be an information asymmetry:

- You need sources of information that inform decisions of both farming activities and financiers
- The bank need more info on clients (otherwise it looks for govnt guarantees)
- Clients/farmers need more info on bank products---what financial products are available, what they expect from clients

The quest, therefore, is to solve information problems, not to solve financial problems. The big question remains: how is farmers linked to the market (if not linked, no access to finance----interdependence).Turning to commodity groups is not a way to address or bypass this information asymmetry, since they will have the same information questions than the bank (same questions of ability and **willingness** to service the loan).

- Commodity groups can have a powerful role here, if they can control the risks in terms of quality of delivery and consistency of delivery
- TSB example---well positioned to have influence on information asymmetry. Can categorize farmers into risk groups

- Recommendations for action on Mafisa
  - In the short term; divorce from DOA (little knowledge and capacity to run agri fin service and land bank) make it an expert led board (too politically led)---get people with outreach to implement approach for you: the commercial sector---keep agency on its own---but, look at constitution of the board in terms of the influence you allow on it---then work on a basis of outsourcing to institutions who have reach (whoever that is—banks, commodity groups, range of small co-operatives)

Mr. Coetzee emphasized that there is no place in the world where government involvement to act as agricultural financier succeeds sustainably.

Regarding ABSA's current micro-finance initiatives:

- Focus on enterprises with turnovers of R10-70,000 annually----this is bulk of clients
- 200-250 rural and urban ABSA micro-finance outlets over the next 4-5 Years

When asked "what can Provincial dept of Agri do to help with incentive for commercial interest in post LR financing?", Mr. Coetzee emphasized the following:

- Stability of the situation (legal, institutional)
- Ability, skill of people on the farm in terms of the enterprise they want financed
- Access to the right equipment
- What market are they linked to (most important)
- Off-farm income
- Asset and income situation in general

"What Carrot and sticks can the government use to get the private sector interested in financing land reform beneficiaries?"

- Govnt can sweeten the process by taking a risk the private sector does not want to take on its own (while there is a learning process (5 year period))
- Risk taking in government to finance Mafisa farmers
- Govnt need to jack up their non-financial support to the farmers (extension).

October 15,

Mrs. Julian Felix

Provincial Manager: Public Sector/BEE
Mpumalanga Provincial Office
Standard Bank

"What are the facilities available for Land Reform beneficiaries in terms of loan finance at your institution?"

No limit on facilities available. If the project is viable, we would lend to the projects at a sustainable level.

"*What advantages, if any, does your institution have when it comes to lending to Land Reform beneficiaries?"*

We have experience in putting lending structures together which is to the benefit of both the Bank and the beneficiaries.

We also have access to our own group of Agricultural Advisors which assist in determining the viability / sustainability of projects

"What sort of repayment security/guarantee does your institution require when it is lending money to Land Reform beneficiaries?"

No access to security in the form of the land is available, so we would look at securing the income stream of the business.

We would also look at the management expertise of the entity and would rely heavily on the management to make a success of the project. If outside management companies are used, these companies will also be tied in in some way or another.

"Does your institution have any support-mechanisms in place to assist land reform lenders in successfully servicing their loan? Have these been successful in the past? Why or why not?"

We have Agricultural Advisors and agricultural specialist Account Executives who would be able to support and give advice. The advice will however not include technical farming advice but rather financial management advice. Thus the reason we would rely on the management skills of the land reform borrowers and if there is no technical/management skills the Bank would require that the services of a management company be contracted by the land reform borrowers.

"*What are some of the key constraints to lending money to Land Reform beneficiaries?*

Lack in management skills

Sustainability of the project due to high number of beneficiaries per project.

No financial position to fall back on should something go wrong.

"What is prohibiting this market segment from becoming a viable and profitable option for the private sector?"

Lack of effective extension from government (after settlement support)

Low return on assets in the sector in general (low profitability of small scale farming specific)

High transactional cost to do business in this market segment.

"In an interview with Gerhard Coetzee (Head of Micro-Finance, ABSA), he emphasized that the root of the problem can be said to be an information asymmetry between lending institutions and land reform projects: banks have no concrete information on the production potential and viability of individual land reform projects, and land reform beneficiaries have no information on what the banks have to offer, or of their requirements for accessing capital. Would you agree with this statement? Why or why not?"

Standard Bank does have the ability to determine the viability and production potential of a project through our Agricultural Advisors. However, the technical ability of the beneficiaries can often not be proven through documentary evidence or a track record. Projections are often inaccurate and therefore we agree with this statement.

"In your opinion, how could this information asymmetry be overcome?"

Due to this and the fact that land reform beneficiaries does not have information on what the banks have to offer or of their requirements for capital is the reason the Bank would recommend that the services of a mentor / management company be employed to assist them in acquiring the necessary skills to profitably manage a farming business and to acquire the necessary capital needed by the business.

"What can the Mpumalanga department of Agriculture do to address this asymmetry?"

The Department of Land Affairs should make use of strategic partners with local knowledge to be involved in the running the operation. Agribusinesses and commercial farmers with a proven track record and accredited as mentors should be contracted as strategic partners with specific goals and measures on skills transfer.

"In your opinion, what can the Mpumalanga Department of Agriculture do to help land reform beneficiaries overcome the barriers to loan finance?"

Provide technical assistance to farmers.

Speed up the process of grant (CASP) application if applicable.

Align transfers / hand over of projects to beneficiaries with production seasons. It is very difficult to take over during a production cycle.

Work together with other Government departments in order to hand over farms as a running concern and not the land only. Also consider buying shares in existing successful farming businesses instead of looking at land transfers only. There are production factors required other than the land i.e. infrastructure, machinery and equipment, livestock or working capital to make for successful farming.

"What kind of follow up support can the commercial banks give to Land Reform beneficiaries?"

Through our Agric Advisor network, the Bank can assist to identify viable projects that warrant financial assistance on a sustainable basis.

The Bank can assist with financial management of such projects on an ongoing basis.

"Is there any chance in the future that commercial banks can come into agreement with the Department of Agriculture in recognizing Land Reform beneficiaries for loan finance in the future? If not what could be the possible reasons for that?"

Land reform beneficiaries do have access to loan finance currently. The type of finance will depend on the specific project and is subject to competent management skills being in place. Without the necessary management skills any project is doomed from the start, no matter the size/type of loan finance supplied.

To get a better understanding of what can be offered, the Bank should sign a strategic partnership agreement with the department of Agric in Mpumalanga. This would be the starting point for a mutually beneficial relationship with the Bank.