

# STRATEGIES FOR THE SUPPORT OF SUCCESSFUL LAND REFORM: A CASE STUDY OF QWA QWA EMERGING COMMERCIAL FARMERS<sup>1</sup>

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## ABSTRACT

*Beneficiaries of Land Reform programs and new farmers entering an intolerant agricultural environment with challenges unparalleled to previous challenges resulted in the need for audacious actions and plans to support these farmers. Liberization of the agricultural economic environment necessitates efficient management principles with no room for error from farmers to ensure sustainability. This article highlights problems and challenges encountered by emerging commercial farmers in the Qwa Qwa region. The lack of production finance and proper extension support experienced by respondents are emblematic of problems encountered by other Land Reform beneficiaries. The need for proper extension programs and structures are highlighted in this paper. The successful execution of the Land Reform program in South Africa relies heavily on integrated and coordinated efforts from all role-players to deliver efficient support programs for newly settled farmers. This can only be achieved by means of visionary actions directed by strong leadership.*

## 1. INTRODUCTION

South Africa is an integral part of Africa and liberation in international agricultural trade increases the importance of South Africa as a staple food supplier in Africa. Not only must South Africa ensure sustainability insofar staple food supplies and food security are concerned but its neighbors increasingly look upon South Africa as the leader in fulfilling the dream of an African renaissance needed for the well being of Africa. Successful African countries during post-colonialism are those supporting and developing a strong agricultural sector (Lamb, 1987).

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<sup>1</sup> Note this study was not aimed at subsistence farmers, and hence emerging commercial farmers are classified in the context of the article as that group of farmers that produce surpluses that is sold through formal market channels, but who are still heavily reliant of government support services, such as extension services.

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Qwa Qwa is one of the former homeland areas identified for agricultural development by the previous government. The responsibility for this task during the 1980's was awarded to Agriqwa, a government parastatal under the Department of Agriculture in Qwa Qwa. Commercial farms, approximately 55000ha were expropriated during the period 1979 to 1986, re-planned and developed with all of the necessary infrastructure needed for sustainable farming. Farm sizes vary from 250ha to 1000ha depending on the potential and type of farm.

Development costs for infrastructure were an average of R100000 per farm with an extension officer to farmer ratio of about 1 to 20. A whole package of support structures and systems were designed and implemented to ensure optimal support considered necessary for sustainable agriculture. Newly settled farmers were relatively successful<sup>4</sup>, however, costs involved to support these farmers were high and since 1994 the newly elected democratic government disbanded Agriqwa because only a small group of people benefited from this project. Because of a major policy shift from the newly elected government after 1994, extension and other support services were scaled down dramatically since then.

## **2. DEVELOPMENT PARADIGMS IN AFRICA**

In order to fully understand the development dilemma faced by the Qwa Qwa emerging commercial farmers one must first consider and understand the development paradigms policymakers and farmers were faced with in the past. This might provide valuable insight into lessons learned in the past in order to improve the future of farmers that are willing to make a contribution to the well-being of their communities and the economy at large.

Agricultural policies in Africa have been heavily influenced by a relatively small group of donor agencies and expatriate thinkers in the allocation of public goods investments (including those affecting agriculture) and in the development of development strategies. The presence of local agricultural specialists has been limited, local institutional development has been weak, and strong government has often been absent. This has led to at least nine qualitatively different dominant agricultural paradigms since the 1960s, all heavily influenced by actors outside Africa. Generally sequential in time, these paradigms, discussed below, have been applied evenly across the region, taking little note of country-specific conditions (Delgado, 1997).

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<sup>4</sup> *That is, there were limited problems in terms of sustainable and profitable farming.*

- Commercialization via cash cropping (1910-70). This was primarily a growth strategy, focusing on raising productivity in areas of comparative advantage through technical assistance, extension, and capital transfers from abroad and began under colonial rule and took off in earnest after the Second World War, during times of improving world commodity prices. Under this paradigm, agriculture was viewed as a source of resources for industrialization.
- Community development (1955-73) and participatory development (and later integrated rural development) entered development ideology in Africa around the time of preparation for decolonization. Community development placed increased emphasis on the schooling, skills, and health of agricultural laborers and promoted cottage industry.
- Basic human needs (1970-79) paradigm argue for a direct approach to meeting the basic needs of the poor. Smallholder farmers and food production rather than export cropping, more for distributive than for growth objectives were the focus area.
- The basic human needs strategy was the regional integration in industry, national self-sufficiency in food paradigm (1970-79) and runs concurrent with the basic human needs paradigm. The post-1973 deceleration in growth of world trade and appreciating real exchange rates discouraged export production and resulted in increased food imports. These paradigms of the 1970s viewed agriculture as a resource pool, much as the cash croppers did, but provided no new incentives for increased production.
- The structural adjustment and demand management paradigm (1980-84) were based on World Bank structural adjustment programs. Export agriculture and emphasis on indirect economic mechanisms were the focus of this paradigm. The structural adjustment programs focused on correcting the artificially distorted price incentives in favor of producers and on devaluation and fiscal austerity measures.
- Supply shifters in agriculture (1973-89) reemerged, focusing on boosting food production.
- Regional integration, with food first (1973-89), a reinvention of regional integration in industry, came as a reaction to the rising world agricultural prices and continuing growth of food imports.

- Macroeconomic adjustment with programs to mitigate the impact on the poor led to structural adjustments focusing on equity with growth since 1985.
- The current post-cold war paradigm is sustainable development and it is still developing.

Successful agricultural development coupled with an increased life quality is the result of effective extensive services in governments of Sub-Sahara Africa (Wellard & Copestake, 1993) and according to Binswanger & Deininger (1995), profitable agricultural enterprises depend heavily on sufficient and effective extension services. Agricultural extension services need well-trained agricultural extension practitioners. It is estimated that more than 75 percent of the 150,000 extension staff who currently work in ministries of agriculture, parastatal agencies and non-governmental organizations (NGOs) in sub-Saharan Africa do not possess university degrees. Most of them receive training only in technical agriculture, with very little exposure to the important human side of agriculture, including communication, rural sociology, problem-solving and critical thinking skills, and the capacity to work as a team. This contributed toward the unsuccessful attempts of governments in Africa to revitalize the agricultural sector in the rural areas (Swanson, 1990). Ineffectiveness of extension services or technology transfer efforts in many cases can be attributed to the lack of coordination, lack of clear leadership and the absence of links between research and the target group namely the farmers (Eponou, 1995). What matters most for economic development in Africa is the capability of rural people to be efficient producers given their natural resource base (Lindley, Van Crowder & Doron, 1996). Economic and social development, and the benefits that accrue such as improved nutrition and health, require an educated populace. No country has become developed without well-educated people and a strong agricultural base that provides food security. Good educational systems will not solve all of the problems, but they are a prerequisite for sustained agricultural production and economic development (Lindley *et al*, 1996).

The core focus of the South African Agriculture strategic plan in its attainment towards its vision is based on its strategic goal namely, "To generate equitable access and participation in a globally competitive, profitable and sustainable agricultural sector contributing to a better life for all" (Strategic plan for South African Agriculture, Nov.2001). The three major elements of this strategic goal focus on strategies for equitable access and participation, Global competitiveness and profitability and sustainable resource management. This

paper address issues contained in the first elements of the strategic goal, which focus on land reform and support services.

### **3. PROBLEM STATEMENT**

The Departments of Land Affairs (DLA) and Agriculture (DoA) in the Free State Province successfully managed to transfer approximately 45000ha of the Qwa Qwa farms with title deeds to the former lessees during the period 1998 to 2000. Emerging farmers were awarded long-term mortgage loans to purchase farms, but production capital ought to be sourced on the open market. Because of their financial position and high risk in accordance with traditional financing criteria, most of them were unable to negotiate any production capital. The result of this state of affairs is that nearly half of the farmers who were awarded Land Bank loans could not honor their yearly obligations for the past three years since they could not produce enough crops and/or livestock to generate sufficient funds. This in turn threatens their title deeds by possible insolvencies, in an area where farmers have proved to be able to farm in a sustainable and profitable manner.

### **4. METHODOLOGY**

Emerging farmers on the 114 farms in the Qwa Qwa area were targeted for this study. Seventy-two farmers were identified as Land Bank clients, however, all farmers were targeted for this study and sixty-five out of a possible ninety-two farmers could be interviewed at the hand of a questionnaire constructed to, amongst other things, determine personal profiles, production patterns, financial data, contributing factors towards financial problems and perceptions concerning possible solutions.

### **5. DATA PROBLEMS**

It was evident during interviews that financial record keeping was lacking. All Land Bank debts and arrears has been verified with the Land Bank but not all the data could be verified due to the fact that most transactions performed by these farmers were cash transactions with no records thereof.

## 6. RESULTS<sup>5</sup>

Results obtained from the study indicated a low priority for extension services as a contributing factor towards financial problems. Important however, is the fact that respondents regard extension support as a prerequisite for long term sustainability, second on their priority list (Table 1).

**Table 1: Measures needed for long-term sustainability**

Nr	Measures	Respondents	Frequency	Ranking	%
1	Ensure sustainable markets	55	14	4	25%
2	Good extension support	55	34	2	62%
3	Appointment of mentor farmers	55	29	3	53%
4	Changing of farm practices	55	6	5	11%
5	Increase livestock numbers	55	37	1	67%
6	Sourcing of finance	55	34	2	62%

### 6.1 Income and expenditure patterns

The major farm income stream is from crop production, accounting for 51 per cent of total income from farming activities. Beef and milk income account for 26 per cent and 14 per cent, respectively of total farm income. Other lesser products make up the rest of farm income earned. Expenditure on crop production represents 75 per cent of total capital outflow, and if compared with the income stream, financial feasibility of crop production compared with beef and milk production is under suspicion. Most of the original farm plans were designed to enable farmers to farm with both livestock and cash crops. Out of all of the respondents 76 per cent indicated that they practice mixed farming with only 15 per cent concentrating on livestock farming. This is in contrast with 40 per cent of respondents who indicated that they would actually prefer only livestock farming.

### 6.2 Financial ratios

Table 2 shows the financial ratios for the target group. Average debt amounted to R261 135, with assets amounting to R558 800. Hence, a capital ration of 2.13:1. This is very close to the critical norm of 2:1. This is quite concerning given the level of risk experienced by these farmers.

<sup>5</sup> The completed questionnaires also yielded results on the personal profiles of respondents, ownership, etc, but due to a lack of space these results are not discussed in this article. It can be obtained directly from the authors.

**Table 2: Average balance sheet & liquidity ratios**

Nr	Ratio		Norm	Result
1	Total Debt ratio	Total liabilities / Total assets	< 50%	47%
2	Leverage ratio	Total liabilities / Own capital	< 1:1	0.65:1
3	Current ratio	Short term assets / short term liabilities	> 2:1	0.44:1

Cognizance should, however be taken of the fact that no proper land market exist which could affect land values negatively, and hence asset values. The leverage ratio is at acceptable levels. Of real concern is the current ratio of 0.44 to 1, i.e. for every R1 of current liabilities these farmers only have R0.44 current assets. This is indicative of the poor liquidity status of respondents. The fact of the matter is that this situation could lead to insolvencies given the net capital ratio, i.e. liquidity problems could easily lead to solvency problems.

It should also be noted that the result indicated farmers tend to pay their medium term debt first before they attempt to pay mortgage installments. Arrears insofar mortgage loans are concerned account for 20 per cent of the total value of mortgage loans, whilst only 10 per cent of the total value of medium term loans is in arrears. It became evident during discussions with respondents that a belief exists among certain respondents that it is against their tradition that land (read: title deed) can be taken away in order for someone else to obtain that land. This tradition or belief, if it exists, could threaten the principle of land ownership in a free market system, and hence could jeopardize the land reform process. Furthermore, the fact that this issue was mentioned might explain the fact that farmers tend to firstly pay off their medium term debts because they don't believe that their title deeds might be endangered because of default payments.

Household expenditure consist 49% of total non-farm expenditure with an average of R1 437 per farmer per month, with education, medical expenses and transport, as the other major non-farm expenditure items. Farmers earning other non-farm income are significantly better off insofar their net worth is concerned if they are evaluated separately. Net worth for farmers with other income streams is an average of R411 700 whereas the net worth for farmers with no additional income is R208 119.

### **6.3 Reasons for financial problems**

Weather conditions that prohibited farmers to harvest wheat during 1998 and 1999, carry-over debts from the former Agri-Eco, the lack of support systems and the inability of respondents to negotiate production capital contributed toward liquidity problems. The lack of sufficient production capital was cited as the main reason for respondents' financial difficulties, followed by the lack of support systems. However, cognizance should be taken of the fact that respondents concentrating on livestock production experienced less financial problems than crop farmers. Stock theft and the lack of extension and veterinary support were regarded as the main constraints toward successful livestock farming in the area.

## **7. A PROPOSED WAY FORWARD**

### **7.1 Re-arrangement of financial structure**

The balance sheets and financial ratios calculated for the target group indicates that re-arrangement of their financial structure is a viable short-term solution to their liquidity problems, i.e. to enable them to pay installments on mortgage loans. In the past respondents sold off medium-term capital assets, such as implements and livestock, to pay annual installments on mortgage loans instead of negotiating settlement agreements with creditors. This seriously impedes on their capacity to produce the next season. One often wonders why people involved in development neglect the basics of proper enterprise management. In other words, no successful business operates without a detailed business plan that takes into account specific internal and external factors of the business; so why should it be different with farmers in this area. Also, "communal" business plans are not the answer, i.e. successful commercial farmers don't share a common business plan. Hence, a prerequisite for re-arranging the financial structure of these farmers will entail detailed business plans tailor made for each farmer's specific circumstances, which will form the cornerstone for negotiations with creditors. Furthermore, debt arrangements and business plans should also take into account the need indicated by farmers to shift production activities away from crops toward livestock farming. However, vitally important will be creditors' perception to what extent these farmers will "honor" the business plans. This perception will to a large extent be influenced by factors discussed below and also highlighted in Figure 1.

## **7.2 Obtaining production finance**

As was shown in section 5 the major problem experienced by the target group investigated is their ability to obtain production finance, especially with regard to crop production. In this regard financiers are not alone to blame if one consider that financing of crop production is:

- (i) risky,
- (ii) there is no guarantee that proper production practices are used,
- (iii) the total lack of technical support services and
- (iv) the level of tacit knowledge and core competencies.

But, traditionally financiers in the past put a high premium on balance sheet figures and less on the repayment ability of debtors, especially when it comes to agriculture. Fortunately, the changing environment within agriculture resulted in the review of financing criteria and models in agriculture. For example, input cost insurance coupled with implementation and monitoring of "good practice" agricultural principles and marketing contracts are entrenched in modern financing models. However, emerging commercial farmers, or at least the target group, were to a large extent excluded from the benefits derived from the new approaches to financing, since financiers still perceive them as high risk clients largely as a result of the lack of proper support systems (this issue is discussed in more detail below).

Nevertheless, it is imperative that emerging commercial farmers adopt and implement the requirements set by new financing models, i.e. make use of input cost assurance coupled with good agricultural practices and have a proper marketing strategy in place.

It is proposed that the target group should follow a model based on the same principles. Not only will this improve their ability to source needed production capital, but it will also provide them with the opportunity to apply proven methods to acquire production capital, as well as the dynamics involved. As important is that they will have partners that could transfer vitally important information in respect of technical production issues and marketing.

## **7.3 Support services**

The "magic" link to attain production credit and resolve the problems of the target group investigated is their access to timely and sufficient support services. According to Wellard and Copestake (1993), successful agricultural

development coupled with an increased life quality is the result of effective extensive services in governments of Sub-Sahara Africa. Binswanger and Deininger (1995) go further by stating that profitable agricultural enterprises depend heavily on sufficient and effective extension services. It should be clear from the evidence and recommendations made this far that availability of support services will be vital for existing and future farmers in the Qwa Qwa area. This becomes even more important if one considers the lack of a production history amongst the target group and their risk profiles, as well as the requirements of possible financiers.

Hence, it is suggested that a scientifically developed extension program addressing the needs of this group should be developed and executed by well-trained extension officers. Furthermore, such a program should be conducted within groups to be cost-effective. This would also further the principle of collective responsibility required by stakeholders. Cognizance should also be taken that this is largely a homogeneous group insofar as age and previous farming experience is concerned, and hence group dynamics can play a major role in the adoption of new technologies and ideas. Such an extension program should have two focus points namely:

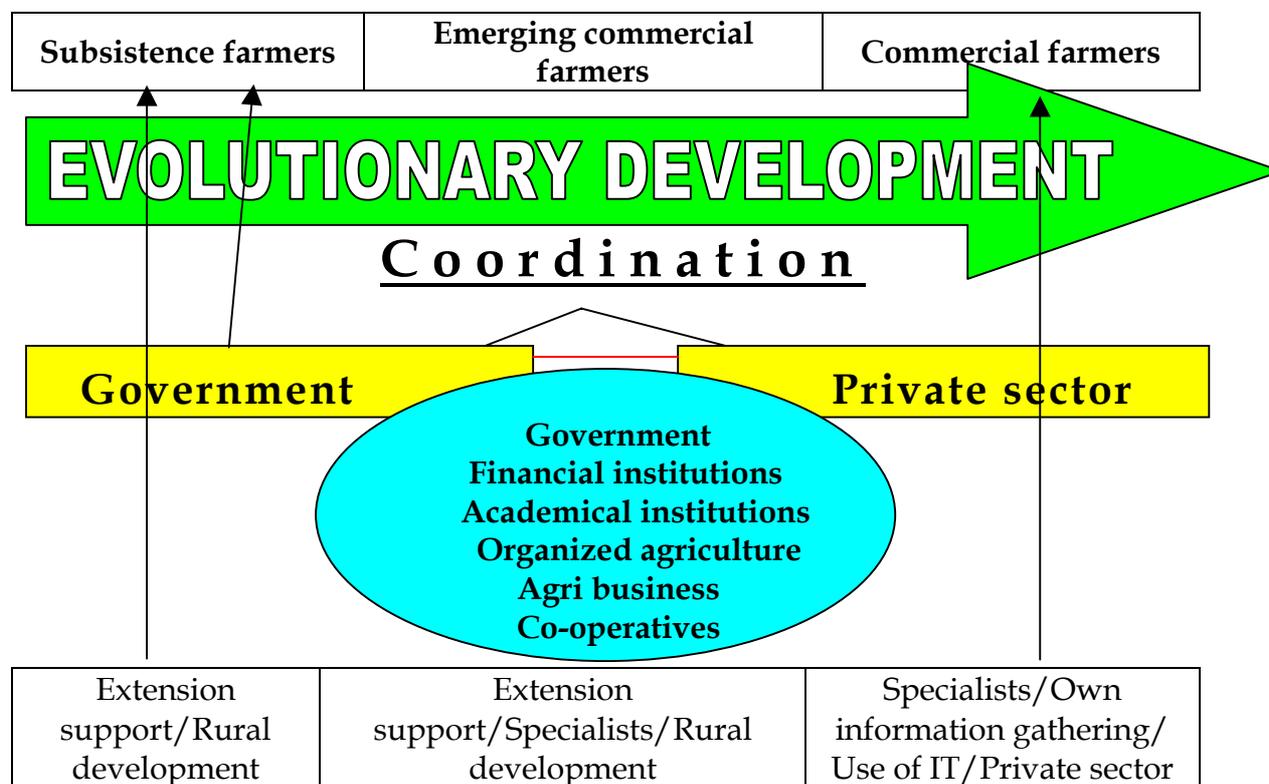
- (i) financial management to empower farmers for new challenges in the free market system, and more specifically their attitude towards debt and their responsibility as landowners, and
- (ii) technical issues to adhere to requirements set by crop insurers and other stakeholders.

Added to this, Eponou (1995) states that ineffectiveness of extension services or technology transfer efforts in many cases can be attributed to the lack of coordination, lack of clear leadership and the absence of links between research and the target group, namely the farmers. Efficient extension support is possible only with proper coordination between all role players (Hayami & Ruttan 1985; Van Zyl, Kirsten & Binswanger, 1996)

### ***7.3.1 Proposed support model to ensure revitalization of Qwa Qwa emerging commercial farmers***

Figure 1 shows a holistic framework that would cater for the needs of all possible role-players concerned, and encompasses the issues discussed in sections 6.1 to 6.3. Figure 1 is divided into three distinct levels, namely subsistence (level 1), emerging commercial farmers (level 2) and commercial farmers (level 3). At each level the degree of involvement by government and

private sector role-players are different. Figure 1 suggests that the sole responsibility for extension support on the subsistence level should reside with government. However, some subsistence farmers have the potential, and in fact develop into emerging commercial producers, that are depicted in the middle of Figure 1.



**Figure 1: Evolutionary support process in developing agriculture and extension priorities**

The majority of emerging farmers that benefited from the Land Redistribution and Development (LRAD) scheme can also be categorized as emerging commercial farmers. Extension support to this group of farmers should be in the form of an alliance that includes government, private sector, academic institutions and commercial farmers initiatives.

Important to note is that the provision of extension support extend over both levels 1 and 2. The reason for government also extending its function to level 2 is because this group of producers is not ready at this stage to enter the commercial market insofar technology gathering and adoption, as well as management skills are concerned, yet they do not qualify as subsistence farmers targeted by international and governmental support and extension programs. As they move towards complete commercialization (level 3) the

extension support functions performed by government could be transferred to the other role-players.

In conclusion, Figure 1 shows a simplistic framework that encompasses the role of government, the proposed involvement of other role players (financiers, risk bearing agencies, NGO's, agribusiness and Co-ops) and the formation of alliances between government and other role players in order to provide the necessary support for emerging commercial farmers to overcome their problems. This framework also entails a risk-bearing portfolio that is acceptable for all concerned, i.e. as farmers graduate towards commercialization risks are reduced to levels that are acceptable for the private sector.

## **8. CONCLUSION AND IMPLICATIONS FOR EXTENSION SERVICES**

- Strong leadership is necessary to direct the process of co-operation and the development of new financing models and structures. Government, financiers, risk bearing agencies, agribusinesses, other role players, as well as farmers should plan innovatively to develop new models according the needs of emerging commercial farmers. Principles such as "good practice" agriculture, collective responsibility, and efficient support services should be entrenched in financing models. The link between these principles should be an efficient extension support system.
- Implications for extension services are as follows:
  - Government should not adjust extension and development policies purely as a result of prescriptions from donor countries or institutions.
  - Initial support to land reform beneficiaries are crucial and should be intensive.
  - Private sector and other role players should participate actively with the support of land reform beneficiaries to ensure sustainability.
  - Extension to this group of farmers requires a high level of technical knowledge. The level of technical knowledge within government extension services is questionable and technical expertise from the private sector should therefore be utilized.
  - Extension officers should act as facilitators to coordinate support actions to emerging commercial farmers.

- Support services should include all aspects needed for sustainable production. Extension support, mechanization, availability of production credit and linkages with sustainable markets are some of the major elements needed in such a support program.
- All role players should work in concert together to ensure efficiency in the support program.

Finally, the model suggested in this article could be a useful tool to assist and support the land reform beneficiaries since the problems experienced by the target group investigated are emblematic of problems encountered by other Land Reform beneficiaries.

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