Policy and regulatory constraints to emerging entrepreneurs in agribusiness in South Africa

Report on a project for AGRILINK II

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GLOSSARY

ARDA	Agricultural and Rural Development Corporation
BCEA	Basic Conditions of Employment Act
CPA	Community Property Association
DLA	Department of Land Affairs
ESTA	Extension of Security of Tenure Act
KWANALU	KwaZulu-Natal Agricultural Union
LRAD	Land Reform for Agricultural Development sub-programme of the land reform programme
LSU	Large stock unit
NDA	National Department of Agriculture
NERPO	National Emerging Red Meat Producers Association
PPECB	Perishable Products Export Control Board
PSE	Producer Support Estimate
SAAGA	South African Avocado Growers Association
VAT	Value added tax

EXECUTIVE SUMMARY

The AGRILINK II Project's highest objective is the creation of increased market-driven opportunities through the identification of markets, enhancing capacity to respond to markets, increasing access to capital resources, and reducing policy and regulatory constraints. This report is directed towards achieving the latter result in the spheres of marketing policy issues, environmental issues, the legal status of women under customary law and the extent to which customary or statutory law applies to the status of women, compliance with labour legislation, access to affordable capital and knowledge related to the financial administration. The investigation has focussed on small and medium scale livestock, maize, and fruit farmers in the rural areas of Eastern Cape, KwaZulu-Natal and Mpumalanga provinces (one aloe farmer was also interviewed. A total of 28 interviews were conducted with farmers, farmer associations and service providers (rural finance institutions, agribusinesses, etc.)

In the final section of the report, the major conclusions drawn from the analysis of the interviews are summarised, followed by recommendations. This section is summarised here.

Land issues

In the first part of the analysis, the opinions and experience of respondents regarding access to resources (land, labour and capital) were recorded. The following conclusions were drawn from the analysis of land issues:

- The state does not seem to be a very efficient landlord to the many farmers who lease state land, or when it tries to allocate state land to beneficiaries of the land reform programme. One remedy would be to provide a **targeted programme of support to those farmers who are leasing the land.**
- Farmers complain that not enough land is coming onto the market and when it does, it is priced beyond their reach or sellers of 'good' farms are not prepared to wait for the long period that the process of land reform takes. Thus, **the state should, as a matter of policy, speed up the process of transferring farms to beneficiaries.**
- It seems as if the purpose of a business plan is to obtain a land reform grant rather than to order the farming activities of the recipients of the grant. One of the main reasons is the absence of farmer support programmes, which are either not in place at all, or a case of 'too little, too late'. **This absence of farmer support represents probably the most important policy issue** identified in this research.
- The general view was that the issue of traditional areas is not going away and the **state is going to have to deal with it at some stage**. The most important problems encountered were the inability to use land as collateral, the fragmentation of farms, and the overgrazing on the 'commons'.

Compliance issues

Most of the discussion of labour matters revolved around the implementation of the BCEA, especially the introduction of the minimum wage. The interviews showed that few emerging farmers pay the minimum wage; few could afford to pay those levels of wages; and formal employment practices (contracts, etc.) place an additional burden on small commercial farmers. Farmers responded in a similar fashion on other regulatory issues. Exclusions based on area and population group, etc. reinforce the notion of 'two agricultures' that was inherited from the apartheid state. In many cases legislation provides for temporary exclusions, and these should be used in conjunction with **training and support programmes, a revision of regulations, and**

the provision of support in cases where compliance serves a real purpose.

Finance issues
There is little evidence that any rural financial services institutions in South Africa are able to conduct their business at a profit, or that emerging farmers' access to finance has improved. Nevertheless, the following observations regarding obstacles were made:

- There was a constant criticism of virtually all parastatal institutions, namely that their procedures were slow, bureaucratic, and ultimately ineffective. To this end, **internal procedures need to be revised, and the state appraised in the event that a change is seen as risk enhancing.** This includes the position of first creditor of the Land Bank, an unnecessary addition to the protection received by that institution.
- **More innovative means of setting and charging interest rates, including early payment discounts, state guarantees, and back-loaded interest payments** have been recommended in the past, and should be accepted as a normal part of the land reform programme.
- There seems to be sufficient justification for the state to **investigate at least the feasibility of (subsidised) insurance** against natural disasters for emerging farmers.

Livestock disease control
Most livestock farmers raised the issue of contagious diseases, and problems with the delivery of veterinary services. The suggested remedies were **better control over the movement of people over the border, better control over the migration of buffaloes, and better managed quarantine facilities and procedures.** One example of a regulation that was accepted by farmers was the necessity to brand animals. The fact that the Land Bank would not lend in the absence of proof of registration does not harm the level of compliance.

Marketing issues
One of the more surprising conclusions from this investigation is the lack of concern amongst respondents about access to markets.

Gender issues
Another rather surprising conclusion from the interviews was the absence of any mention of gender issues as an obstacle to emerging farmers' access to resources or the market, despite the fact that a number of interviews were held with women farmers (including a 'female farmer of the year' award winner).

Agribusiness extension services
Another matter that has been confirmed is the adverse consequences of the almost total collapse of the extension services provided by the state, and the importance of extension as part of the farmer support services that are required to make the land reform programme a success.

Environmental issues
Finally, South African laws increasingly require state agencies to police compliance with environmental laws. One clear example was the obligation by financial institutions to monitor compliance as part of their loan servicing. As with other such policies (e.g. VAT compliance, paying minimum wages) opportunistic behaviour by some farmers and the lack of enforcement capacity by the state will serve to merely add to the already high transaction costs of the rural financial institutions.

Policy and regulatory constraints to emerging entrepreneurs in agribusiness in South Africa

1. Purpose and scope

The AGRILINK II Project's highest objective is the creation of increased market-driven employment opportunities. The Project achieves this objective through the identification of markets for small and medium-scale agribusinesses, enhancing small and medium-scale agribusiness capacity to respond to markets, increasing small and medium agribusiness access to capital resources, and reducing policy and regulatory[1] constraints to small and medium-scale agribusiness development. This report will be directed towards achieving the following result, as specified in the AGRILINK II Project Performance Monitoring Plan:

Intermediate Result 5.2.4. Reduced Policy and Regulatory Constraints to Small & Medium Agribusiness Development

In addressing this broader objective, the more immediate purpose of the current investigation is to identify and address key policy and regulatory constraints at both the macro and micro level that stand in the way of full participation in the agricultural and agribusiness sectors by poor rural people in South Africa.

Policy and regulatory constraints in the following areas, *inter alia*, will be identified:

- Marketing policy issues cover current market practices and laws within South Africa, as well as agricultural export policies in conformance with South African legislation and international agreements.
- Environmental issues, including policies governing or affecting soil quality and conservation, such as Schedule 4A of the Constitution, and the National Environmental Management Act, 1998 (Act No.107 of 1998), and water resource quality and quantity for emerging farmers in terms of the National Water Act, 1998 (Act No. 36 of 1998).
- The legal status of women under customary law and the extent to which customary or statutory law applies to the status of women in relation to agribusiness, agricultural land and other related agricultural areas.
- Compliance with existing labour legislation and minimum wage requirements, and relevant legislation should be examined by the consultant to determine whether they represent constraints to the development of emergent agribusinesses.
- Access to affordable capital at commercial rates is a key policy issue. This will require an analysis of agribusiness capital requirements, including land purchase or long-term lease, input supplies, equipment and the cost of labour, as well as the cost of compliance with all government requirements in the relevant statutes. A related issue is the structuring of production and capital finance loans at reasonable interest rates and repayment terms by the major agricultural finance institutions, and their requirement for "traditional" collateral.
- Knowledge related to the financial administration of their agribusiness is lacking on the part of emerging farmers. Agribusiness extension services have been designed in the past

[1] In US usage, the word regulatory refers broadly to all kinds of legislative and executive actions, while under parliamentary government it refers more narrowly to the regulations promulgated in terms of legislation passed in parliament. The broader definition is used here.

to support large, commercial white farmers. Constraints in agricultural extension policy need to be identified in order to develop policy conducive to providing effective provincial agricultural extension services for emerging farmers. In this context, policy and regulatory constraints to the transfer of agricultural skills from competent commercial farmers to small and medium-scale emergent agribusinesses should also be explored.

There are in principle four classes of obstacles to participation by emerging black entrepreneurs in the agricultural and agribusiness sectors of the South African economy, namely physical and institutional barriers, and regulatory and policy obstacles. Physical barriers deal with the geography of poor rural areas, which are often remote, and not well served by transport and communications infrastructure. Institutional barriers on the other hand deal with a wide range of issues, from customs and culture (e.g. customary land tenure) to organizational matters (e.g. weak implementation capacity on the part of the state). These two classes of obstacles will not be discussed further in this report even though they may have a material effect on the future prosperity of the rural poor.

Regulatory barriers are also encountered in many different guises. These affect participants' access to the market for resources (land, labour, capital), for production inputs (including financial services) and for produce, whether they are farm commodities or value-added products. Their origin can be the legislature at national or provincial level, the executive at national, provincial or local level, and the judiciary. They can, in fact, even originate from the international obligations of the state.

Policy barriers mostly originate from these regulatory constraints, as they arise principally from the interpretation of the legal and regulatory framework by those charged with responsibility for implementation of development projects and programmes. These two classes of constraints form the focus of this investigation.

The **second focal point** of this investigation is the broader agricultural sector. While most people who live in the rural areas of South Africa are poor, and while most of the poor in South Africa live in the rural areas, the agricultural and agribusiness sectors form the most important economic activity in the rural areas, and have the greatest potential for providing livelihoods for the poor. In this regard, the focus of the investigation was on the problems faced by farmers, as seen by the farmers themselves, or through their representative organisations and service suppliers. Hence, agribusiness issues, as opposed to farm issues, are discussed only when farmers themselves are involved in other stages of the supply chain.

The **third focal point** of this investigation is geographic. While per capita incomes are lower in the rural areas when compared to urban incomes throughout the country, the differential is particularly great in the Limpopo, Eastern Cape and KwaZulu-Natal provinces, and within these provinces (as elsewhere in the country) the severest poverty is found in the former homeland areas.

The **fourth focal point** is the particular subsectors of agriculture under investigation. Here, the analysis deals with the livestock, citrus, and maize subsectors, as well as a niche product (aloes). These were selected in discussions with the AGRILINK II project team, based on a prior assessment of the policy and regulatory barriers in these subsectors, the budgetary and time constraints facing the investigation, and the prevalent agricultural activities in the selected provinces.

This report starts with a brief overview of the situation facing entrepreneurs in the small and micro enterprise sectors of agriculture and agribusiness in the country, followed by a note on the methodology used. In the main part of the report, the focus is on barriers in access to resources (land, labour, and capital) in section 4, on barriers faced in the production process (section 5), and on barriers encountered in the process of marketing in section 6. The report is synthesised, and recommendations made, in section 7.

2. Background

The South African agricultural economy has been extensively liberalised in two phases since the early 1980s. In the first phase (roughly 1979-1991), the 'rules of the game' were adapted to make the sector more market-friendly, but the existing institutional infrastructure was kept in place. The most important features of this institutional landscape were:

- The 22 Control Boards set up under the Marketing Act of 1968 and its predecessor legislation, dating back to the 1930s. These Boards controlled the 'marketing' of more than 80% of total agricultural output, and often included monopoly powers over imports and exports;
- The Land and Agricultural Bank, originally established in 1912, and the Agricultural Credit Board, an entity within the Department of Agriculture (now the National Department of Agriculture). These institutions were empowered to provide loans at subsidised rates, a function that they fulfilled until the early 1980s, after which time they were used by the state to reschedule and write off debt in times of 'emergency' (droughts, floods, etc.);
- The growing edifice of the homelands agricultural establishments characterised by a wide array of parastatal development corporations, agricultural banks, marketing boards, etc.
- The scrapping of apartheid land legislation in 1991 through the Abolition of Racially Based Land Measures Act, and the beginnings of the land reform process.

These institutions were part of a political, economic and social system aimed at maintaining the separation of the 'two agricultures', and at supporting white commercial farmers. Throughout this period black farmers were systematically deprived of even the few opportunities that had existed in the past. Some emerging farmers were able to secure a livelihood on projects operated by parastatal development corporations, but these were never successful from either a technical or a human development point of view, and were hideously expensive.

The second phase of policy change started after the democratic elections in 1994. The main result of this phase has been that the edifice of control has been swept away, while processes to merge South Africa's 'two agricultures' once more were put in motion. The main features of this phase include:

- An almost total withdrawal of direct state support to agriculture (resulting in a Producer Support Estimate or PSE of less than 3%) and a budgetary allocation to agriculture that has been halved in real terms since 1985, while state funding of research has declined considerably since 1994;
- A start to the land reform programme characterised by a focus on the needs of poor farmers, and a slow pace of implementation; this resulted in a redesign of the programme to better accommodate the needs of emerging commercial farmers. However, it is not yet clear whether these changes have been successful;
- A reorientation of the Land Bank (and the abolition of the Agricultural Credit Board) to

better serve the needs of black farmers. However, there is little evidence that this has been successful on any large scale;

- The reorganisation of the former homeland parastatals, including liquidation, mergers, refinancing, etc.;
- The creation of the provincial departments of agriculture. Again, the results have been mixed, and in the poorer provinces (including Limpopo and the Eastern Cape) large budgets are spent almost entirely on salaries and wages, with the result that extension services have all but collapsed.

When one listens to the stories of the emerging farmers of South Africa, some of which are recounted below, it is easy to understand why they think that they are caught in the middle of these larger forces that are shaping the agricultural sector. Commercial farmers have reacted to these changes in different ways, and many have been able to exploit the new opportunities in the domestic and international markets successfully, even though others have found the going more difficult. Some emerging farmers have been remarkably innovative in finding new opportunities, but they have not been able to exploit these with as much success as established commercial farmers (lending credibility to charges against development agencies such as the World Bank for assuming a supply side response will be forthcoming when domestic or international markets are deregulated). Hence, emerging farmers often argue, with some credibility, that they also 'deserve' the kind of support given to their white counterparts over many decades of interventionist agricultural policies to allow them to accumulate the wherewithal to manage the risks inherent to agriculture in the harsh environment of this country.

3. Method

This investigation was based entirely on the responses gained from face-to face interviews with selected farmers and representative farmer organisations. As is always the case with this type of research, the results need to be interpreted with caution, as they are in no way representative of the problems facing emerging farmers, even in the provinces and commodity areas selected for the investigation. Further, the answers are likely to be skewed towards the views of the farmers and institutions interviewed. As the latter do not include officials from the national and provincial agricultural and land reform authorities, their views are not reflected. Nevertheless, this type of research is best at gaining a more in-depth insight into the problems facing those who were interviewed. As such, it does provide the basis for recommendations that should serve to facilitate market access for emerging farmers throughout South Africa.

The two exhibits in Appendix 1 provide information from the 28 interviews with upwards of 30 respondents and respondent groups that were interviewed during the three-month period of the research (December 2002 to February 2003). The Table below summarises this information.

Table: Summary of interviews conducted

Province	Commodities/organisations	Number of interviews
National	Finance, Producer Association	2
Eastern Cape	Livestock, Citrus, Aloes	7
Eastern Cape	Finance, AGRILINK II, Agribusiness	3
KwaZulu-Natal	Maize, Cotton	6
KwaZulu-Natal	AGRILINK II, Finance, Producer Association	3
Limpopo	Livestock, subtropical fruit	4
Limpopo	Producer Association, Finance, Parastatal	3
		28

4. Issues in access to resources

4.1 Land

South Africa is in the middle of implementing a comprehensive land reform that consists of programmes for redistribution, tenure reform and restitution. The redistribution programme is implemented principally through the Land Reform for Agricultural Development (LRAD) sub-programme. In this sub-programme, successful applicants receive a grant that ranges from R20000 per individual (i.e. a household with more than one adult can receive more) to R100000, depending on the size of the own contribution, which ranges in turn from R5000 (which can be in the form of sweat equity) to R400000. Tenure reform has included legislation on labour tenants, on protecting farm dwellers from unlawful evictions and on setting up Community Property Associations, but has not yet changed the nature of access to land in areas under the jurisdiction of traditional authorities. Finally, restitution is guaranteed for those who lost land rights due to segregationist and apartheid laws from the time of the promulgation of the Land Act of 1913 and who apply for restitution. It is evident that a claim on a farm for restitution will affect its market value.

None of the respondents in this study commented on issues regarding restitution or the Labour Tenants or Extension of Security of Tenure (ESTA) Acts, hence the focus here is on their comments on land reform in general, and on the redistribution programme. These are presented below in no particular sequence.

Some of the farmer respondents lease their land from the state, but **the state does not seem to be a very efficient landlord**. The following stories were told during the interviews:

- In one case, a cattle farmer in what used to be Bophuthatswana (now in Limpopo province) has leased a farm from the state since 1984. The lease agreement lapsed in 2000 and has not been renewed by the provincial government, thus the farmer has not paid rental for the past two years. Part of the delay in transferring the land is an outstanding land claim whose validity still has to be verified by the state. This farm was part of a block of some 25 farms whose operators face the same uncertainties with respect to land access and ownership.
- A second farmer from the same area who leases land from the Department of Land Affairs has also not had the land transferred due to land claims that have been instituted in the area. Three different parties have claimed this land and there is much uncertainty about the future of these claims. In this case the farmer benefits from the low rental charged by the state.

The representative from the National Emerging Red Meat Producers Organisation (NERPO) confirmed the importance of the problem of leased land for emerging farmers. The organisation was aware that many farmers had been leasing a farm for as much as 15 years, and had submitted a request for first preference to buy the land. However, the process was seen as being extremely slow. This was ascribed to a lack of coordination and to rivalry between the Department of Land Affairs and Provincial Departments of Agriculture, with everyone wanting to play a role in determining who would acquire title to these properties. The effect of this confusion is that the farmers who are farming on this leased land cannot develop the properties, furthermore 'squatters' occupy some of these farms and, because the farmers do not have legal title, they cannot have them evicted. In a number of cases farmers don't even have a lease agreement as they were simply put on the farms as caretakers without formal agreements under the old homeland governments. In the Transkei the issue of squatters is most problematic.

Members of the Northern Livestock Association (whose meeting we attended) emphasised that the LRAD policy is not the most important issue they have to content with in terms of land access, rather the issue of State land, leases and land claims need to be resolved. Fortunately, a representative from the provincial Department of Agriculture informed the members that the government is in the process of preparing new interim lease agreements and that farmers should prepare themselves to start paying farm rentals once more. It seems that a number of farmers had requested that leases be renewed even if only annually, to provide some security of tenure. Earlier in the meeting a member raised the point that local squatters were vandalising boundary fences and doing as they pleased on leased farms, as they were aware of the tenuous land ownership/lease situation in Nwanedi.

Uncertainty about tenure affects investment decisions of these farmers no less than those of their contemporary white commercial farmers, and the respondents identified a range of factors that create uncertainty. In the case of the first farmer who leased land from the state mentioned above, the lease agreement with the state specifies that he can only run cattle. When he acquires title, he plans to plant 50 hectares of lucerne, 100 hectares of tomatoes and a further 100 hectares of pasturage, as he has sufficient water. As mentioned, however, there was an outstanding land claim on the farm, and the restriction on the lease agreement meant that the investment would not take place. The second farmer who leases land from the state and who faces a land claim noted that there are camps on the farm, but these are not adequately planned. He argued that if he were to acquire ownership of the property, he would reticulate the water better so that he could use the farm to plant stock feed. In his case, the lease, which he has held since 1981, used to be renewed every five years, but is now renewed annually, which also affects investment decisions.

Some respondents commented on **LRAD and governments' (in)ability to deliver**. One noted that the biggest problem faced by black farmers was land availability. In his view the LRAD programme is not really addressing the problem quickly enough or on a large enough scale, primarily because not enough land is coming onto the market and when it does, it is normally priced beyond the reach of the farmers. The AGRILINK II officer in KwaZulu-Natal shared this opinion. She noted that not enough land was coming on to the market KwaZulu-Natal, especially sugar cane land along the north coast for which there was a high demand. When land in this area was put on the market, it was normally marginal land close to urban settlements and/or communal areas, and when prime land became available it was usually very expensive. The discrepancy between the market value of the land (asking price) and the productive value of the land is so great that Land Bank did not view such projects as viable.

A maize farmer in KwaZulu-Natal who already has his own farm believed that this was too small to generate sufficient income to support himself and his family. A year ago, one of the members of the farmers association told him about a farm in the area that was coming up for sale. This farm was selling for R750000 and was 605 ha in extent, has a large river running through it, electricity and arable land. A body was formed to try and access a land reform grant and negotiations were entered into with the seller. However, when it became clear to the seller that he would have to wait 9 months for the project to go through and for him to receive his money, he sold at a lower price to a cash buyer. Six months later they experienced a similar situation. The respondent remarked that land reform beneficiaries couldn't buy any of the "good" farms, as sellers will not wait for their money. In his view the implementation of land reform projects needs to speeded up.

A Community Property Association (CPA) in the Eastern Cape told that their farm was financed through a land reform grant. At the time of buying this land the group consisted of 20 members, however this has dwindled to 11 as some members have lost interest in the project and/or found alternative employment. While these beneficiaries have exited this scheme they have been forced to leave their contribution in the project. The respondent described that the group was constrained when it came to selecting a farm that they could afford, as they did not want to take on additional members. The result was that they ended up buying a farm with a poor resource base and which will take a very long time, if ever, to generate sufficient income to provide for the needs of the farmers.

Another respondent claimed that most of the new emerging farmers entering the avocado industry were doing so because of successful land claims. A case in point was the seven or eight Banareng farms in Limpopo province, for which the State paid R42m. These were transferred to groups of beneficiaries who did not have the expertise to manage them. After a disastrous season the provincial Department of Agriculture wanted to bail them out with a grant and called in the South African Avocado Growers Association (SAAGA) to assist with a management plan. SAAGA worked out a spray programme that had to be implemented, as it was the flowering time. However, the spray programme was not timeously implemented, ensuring another poor harvest. The respondent pointed out that these farms used to be viable businesses and the DLA, by not ensuring proper project management structures were in place, contributed to their decline.
The land system is overly bureaucratic and legalistic. A cattle farmer from the Eastern Cape, who has an agricultural diploma, bought a farm in 1993, which he paid for in full. However he is yet to receive the title to the land and his purchase price was (is?) kept in trust with the Ciskei Agricultural Bank, where it is still lying and not earning interest. When the new government came into power in 1994 there was a moratorium on the transfer of land and a number of investigations, including the Heath Commission, to determine who owns what in the former homelands. This farmer has been trying for the past 8 years to get some finality in respect to the title deed. The Department of Land Affairs, however, cites two reasons why he has not yet received title for his farm. The first has to do with the fact that a company registered in London was given a servitude to tap the milkwood trees in most of the southern Peddie area. This company no longer exists; however, a Supreme Court application has to be made to set aside a servitude. The second reason has to do with the fact that no detailed Surveyor General documents exist to identify the exact boundaries of the farm, and the farm needs to be resurveyed because it is made up of remainder portions from a number of farms.

A farmer who is a beneficiary of the land reform programme provides another example of this problem. In order to access sufficient start up capital to purchase the farm; he co-opted three other members at the start. One of these members has subsequently died and the other two have withdrawn, and the farmer interviewed is in the process of buying them out. In commenting on group size, the respondent pointed out that the farm generates sufficient revenue to adequately support one household and not four as was originally proposed. However, our respondent has not yet received the title deed to his land. The document is in King Williams Town with the lawyers. To the best of his knowledge, the respondent believes that this has to do with fact that one of the original members of the group died.

Another farmer who has had problems with legal matters owns a small aloe farm in the Hertzog region, which he bought in 1993. While he has paid for the land in full, the property has not been transferred to his name, as the lawyers require the signature of his wife to affect the transfer (he was originally married in community of property, but his wife deserted him and her whereabouts are unknown). He now has to divorce her in her absence, at which point title to the farm will be transferred to him.

Another example is provided by a maize farmer in KwaZulu-Natal, who purchased his farm for cash in 1994, but only received title in 1999 due to the fact that the farm had belonged to the seller's grandmother and had to be transferred to the seller's name and then on to him.

Two spokespersons for CPAs told the interviewer that they knew that the CPA was 'registered in Pretoria'. The interviewer noted that there was some confusion as to what were the legal requirements of this registration process. The respondent pointed out that they were trying to maintain records for the farm and keep minutes of all the meetings, but that nobody from the government had visited the farm, not even to provide extension support.

The AGRILINK II officer in the Eastern Cape confirmed that a large number of farmers are leasing land from the Government in the former Ciskei area, and in many cases the rental paid over the years exceeds the value of the properties. While the Department of Land Affairs has expressed a willingness to transfer the land and has started with the process, it has been hindered by the fact that in many cases these leased farms need to be surveyed before they can be transferred (no surveyor general diagram exists). Furthermore a number of these lease agreements have lapsed. The Department of Agriculture is supposed to be collecting the rentals, however due to a number of technical problems (there was no safe and no registration books) it has not done so.

The AGRILINK II officer in KwaZulu-Natal was also of the opinion that the process to validate land claims is slow and complex and it seems as if the authorities are unable to allocate sufficient resources to expedite the process. Furthermore, she argued that people are still submitting new claims even though the deadline passed at the end of 1998, and described the new claims as a "never-ending story".

The AGRILINK II officer in the Eastern Cape, who noted that the main legal/regulatory issue in the province concerns state land and the fact that there is no clear policy about how to deal with its disposal, confirmed this problem of **weak administration of former Trust land**. Currently the Department of Land Affairs (DLA) has power of attorney over the former Trust areas of the province, however he is of the opinion that the national and provincial government lacks the political will to allocated and transfer these properties. He illustrated this with an example of a large tract of high quality land outside of Queenstown (8000ha in extent) consisting of 15 farms owned by the State. Two years ago the government invited parties to indicate an expression of interest to buy these properties, but nothing became of these offers. In the interim large numbers of squatters have moved on to these properties and the infrastructure has become vandalised in the process.

A number of respondents commented on the problem of **overcrowding on land**, as noted above. In terms of the land reform policy, more than one respondent noted that experience has taught the Department of Land Affairs (DLA) that large group projects are not institutionally sustainable. However, the evidence from respondents shows that people will move to land that is unoccupied, or where the farmer leases the land and is unable to evict them. There is evidence that that settlements are being created at places where there are limited employment opportunities, because the farmer as tenant has fewer rights than the squatters. Another respondent, who faced a situation where there are 21 families on her land, feared that the government's plan to provide them with piped water would worsen the problem. She did not see the logic of encouraging human settlement on prime agricultural land, especially when the only income those households earned was in the picking season, as they were too far away from possible full-time employment opportunities.

Land can generally not be used as collateral, which restricts farmers' access to capital. The respondent from the Eastern Cape Rural Finance Corporation (Uvimba) was of the opinion that this was one of the most pressing issues in the Eastern Cape province. This problem can be traced back to the previous governments of the Ciskei and Transkei that never actually transferred land to farmers. Typically farmers were identified and land leased to them with 10-year renewable leases. Since 1994 nobody has really looked at these lease agreements, even if some have expired (i.e. not been renewed), and title has not been transferred. From a financing perspective this situation changes the risk profile of the client as firstly there is no security of tenure (i.e. assurance of remaining a going concern) and secondly the farmer has no collateral to act as security for loans.

A respondent who is involved in the citrus industry pointed out that the area is high quality agricultural land, and that emerging farmers from this area should be able to deliver the highest quality citrus, as water has never been a limiting factor. Since the late 1980s, however the volumes coming from this area have been declining primarily due to the age profile of the trees and the fact that no replanting has take place. Ulimocor, which owned and operated the farms, was liquidated by the provincial government in 1996 at which point the local citrus co-op Katco had to support the farmers. In 1997 there were 22 farms, but currently only 12 are operational. The farms have been abandoned as farmers could not raise the necessary production capital to continue farming, and in the absence of title deeds they can no longer borrow.

A second citrus farmer noted that, while she has title to her house and the surrounding 6ha of land, she does not have title to the citrus orchards (22ha of a 53ha portion of land) that belong to her family Trust, which she manages with her son after her husband passed away a few years ago. Part of the problem of title has to do with the outstanding debt the Trust has with CAB (now Uvimba). She has negotiated with DLA, the provincial Department of Agriculture and Land Affairs and Uvimba through the group (Alice Kat Citrus Development Trust) but now feels she needs to take on the battle personally as she wants to begin with a replanting programme of 5ha, but will only do so if she knows her investment is secure.

The spokesperson from Ithala argued that from a financier's perspective communal land ownership affected their ability to help emerging farmers in two ways. First, farmers are not able to offer their land as collateral, and second, their historical lack of land access has meant they have not managed to accumulate capital. This increases the risk to the lender. As a result, they prefer to lend to entrepreneurs who have been in some type of business (shops etc.) where they managed to accumulate some capital.

Our respondent cotton farmer has farmed on communal land since 1987. He currently has 11 ha under cotton and plans to extend this by an additional 7 ha in the coming season as he can access additional land. He does not find the communal tenure system to be restrictive, as he claims that if he needs additional land he can approach the local authority and take the matter up with them. He believes his tenure is secure in practice, as land is normally allocated to an individual for life and the use right of this land is normally transferred to one's heirs. However, he agreed that the real problem with communal tenure is that it cannot be used as collateral. This forces farmers to select crops where contracting agreements can be entered into. In the case of cotton this would mean entering into a contracting agreement with a cotton gin that provides production loans/inputs as part of the agreement.

A maize farmer from the communal areas of KwaZulu-Natal argued that the biggest constraint he faces is lack of access to land. While he doesn't have a title deed he does have a Permission to Occupy agreement for the land assigned to him by the traditional authority. He also rents land from other people in the community. He noted that, although he doesn't have any formal lease agreement, everybody in the community knows which land in the area he rents. In his opinion, he did not have a problem with security of tenure, although he did note that his real problem was that the land he farms is not contiguous, which makes the management of his business more difficult.

The AGRILINK II officer in KwaZulu-Natal argued that **the problem of traditional areas is not going away and that the government is going to have to deal with it at some stage.** She realised that this is a very sensitive issue in the province and to resolve it you "need a brave government". However, farmers do need proper ownership and this will help prevent things such as overgrazing etc. The Manager of the Land Bank in Tzaneen, who preferred to use the term developing farmers rather than "emerging or black", shared this view. In his opinion, the bulk of these farmers (90-95%) farm on communal land. Aside from security of tenure issues this communal farming system presents a number of other problems, including i) overgrazing and soil erosion problems ii) livestock improvement through interbreeding iii) cattle grazing on crops due to lack of fences (camps) and/or broken fences and iv) theft of crops by other residents as there is no access control.

4.2 Labour

Farm workers worldwide are in an especially vulnerable position. They work in a sector characterized by low and unstable earnings, and by seasonal employment peaks. They generally live in physically remote areas or even on farms, which increases the costs of organising, hence decreases the probability of being able to establish successful unions. Those that live on farms are also far removed from general government services such as water and electricity, schools and other amenities, hence they become dependent on the farmer for such services. Finally, farm workers in large parts of Latin America, in the United States and in Southern Africa often come from a different ethnic group to that of the farmer. Thus, they are often socially marginalised as well, and then suffer from the expected consequences, which include alcoholism, sexually transmitted diseases, high infant mortality rates, low life expectancy, illiteracy, etc.

These tendencies are familiar to those who know commercial or 'settler' agriculture in Southern Africa. Throughout the region a proportion of farmland (ranging from as much as 87% in South Africa to less that a fifth in Swaziland, Malawi, etc.) is farmed as large-scale commercial 'estate' enterprises using hired labour. More specifically, this includes a model of family farms using hired labour in the erstwhile British Colonies that is unique in the extent of its labour intensity. South Africa, for example, with no more than 50000 such farms, has more permanent farm workers than the entire United States.

Nevertheless, these farms in South Africa have been turning to a smaller and relatively more skilled work force over the past decade, led by the deregulation of agriculture and the relatively fast rise in the wages of less skilled workers in the economy at large. The result is that the farm labour force has declined by at least a third over the past decade, and is still declining. These changes are having an effect throughout the region as well, with large numbers of 'illegal' workers on farms in the border areas of South Africa, reminiscent in many respects of the situation in California. Yet while those permanent farm workers who remain in employment are relatively better off, seasonal workers are in many respects worse off.

The South African government reacted to these changes by initiating a sectoral determination for agriculture under the Basic Conditions of Employment Act in 2001. The results are to be implemented with the full force of the law in March 2003. The most important provisions of these regulations are the minimum wage (R800 in areas contiguous to the main population centres, and R650 in the rest of the country, with an allowable deduction of no more than 10% each for in-kind payments of housing and food), written employment contracts, and regulations ordering hours of work, overtime pay, casual and seasonal workers and youth employment.

One thing is clear from the interviews, namely that hardly any of the farmers had formal contracts with their workers, or paid wages that were near to the minimum wage. The following reactions were recorded:

- A cattle farmer in Limpopo Province employs eight people whom he currently pays between R450 and R500 per month per person, which, in his view, is as much as he can afford to pay. He has no written contracts with his workers and does not conform to all the conditions of the Basic Conditions of Employment Act (BCEA).
- A farmer in the Eastern Cape currently employs 3 people. He doesn't have a formal contract with his workers and he currently pays them between R350 and R400 per month.
- Another respondent in the Eastern Cape employs two workers on a full times basis, and pays them R300 per month plus milk and fresh vegetables. This farmer was aware of the minimum wage applicable to agriculture, but stressed that his business was not profitable enough to carry such a heavy wage burden. The workers are not registered for UIF and he has no formal contract with them.
- A CPA in the Eastern Cape reported that they did not employ any workers *per se*, but divided the unemployed members of the association into groups of 3 who rotate fortnightly as the labour force. Each of the workers gets R150 per 2 weeks and have to use that money to buy food and as spending money. As soon as the CPA is on their feet they want to keep some members as full- time workers and pay them a living wage – the current arrangement is seen as an interim measure.
- A citrus farmer in the Eastern Cape reported that she has five permanent workers, 3 of whom used to work for the parastatal (Ulimocor), who used to run the project. She pays them R600 per month and noted that it will be difficult to add anything to that to meet the minimum wage requirement. She hasn't registered these workers for UIF and tries as far as possible to adhere to the BCEA, which she does not view as particularly onerous. She pointed out that her late husband took out retirement policies for the permanent workers on the farm and paid 50% of the premium, however, the workers asked for this to be stopped, as they wanted a higher cash wage. He hires about 52 pickers from the neighbouring location to help with the harvest. These are casual workers, in the most casual sense, as they arrive daily and get paid piece rates.
- An aloe farmer who employs 5 people on an informal basis currently pays his workers R20 per day (R400 per month). He notes that when he formalises his processing business he will also attempt to formalise this employment relationship. He argued that rapid fluctuations in the aloe price made planning very difficult, which meant that it would be difficult for him to comply with the minimum wage.
- A government-owned subtropical fruit farm in Limpopo, which originally had 27 full-time workers, which had been reduced to 12 through early retirements, retrenchments and natural attrition, was hampered by the Agricultural and Rural Development Corporation's (ARDC) policy not to hire additional workers. They do hire a significant number of seasonal workers, whom they source from two nearby villages. The workers had recently received notification of an increase in wages, with farm worker salaries increased from

less the R400 per month to R620 per month in order to comply with the new minimum wage legislation. They also comply with BCEA, a copy of which is displayed in the office. Seasonal workers used to earn R14.50 per day, but the manager is unsure by how much this will increase.

- A milling co-operative, owned by an association of emerging farmers, who employ three people in an *ad hoc* capacity when their mill is operational. The workers are paid close to the minimum wage, but the real issue is the semi-permanent nature of their employment, which they suspect might be in violation of the BCEA.
- Two maize farmers in KwaZulu-Natal recorded that most of the labour deployed on their farms are family members, but that they do hire additional workers. Neither planned to pay the minimum wage, as they argued that they couldn't afford those levels of wages.
- A cotton farmer employs 15 casual workers. He noted that while minimum wages are good in theory, the application is somewhat more difficult, particularly for small-scale growers farming on dryland. Current yields and profitability simply do not allow for minimum wage rates, especially during years of poor rains. In his view compliance will force a number of farmers to cease farming, although the farmer does not yet know what his response will be.
- During the meeting of the Northern Livestock Association the interviewer raised the issue of minimum wages and requested farmers to indicate which of them planned to adhere to the new law – this suggestion was met with peals of laughter, with farmers stating categorically that they could not afford to pay minimum wages. This provoked a lengthy discussion as to how South African farmers were not subsidised while their international counterparts were, and that if the government want them to pay these high wages they must subsidise them etc. The interviewer also noted a high degree of uncertainty about the actual level of the proposed minimum wage.

Industry representatives corroborate these anecdotes. The NERPO spokesperson noted that a number of emerging black farmers couldn't afford the minimum wage, partly due to the size of their farming operations. He pointed out that in a number of cases the provision for accommodation and food is too small, and that this would have a negative effect on food security, etc, amongst farm workers. He also noted that most emerging red meat producers do not adhere to the Basic Conditions of Employment Act. They don't have contracts with their workers and working arrangements could be described as informal. In most cases the employment per farm was no more than 2 or 3 herders. The AGRILINK II officer in the Eastern Cape shared these views, as did the AGRILINK II officer from KwaZulu-Natal. She claimed that BCEA and minimum wages are one of the thorniest issues that emerging farmers have to contend with. In her view, minimum wages don't present such a problem for successful farmers, especially for their permanent workers. She noted that in the case of sugar, however, large numbers of seasonal workers are used, drawn from the surrounding communal areas. The wage rates paid to these workers are market determined for an area and formalising these workers and their wage rates will be much more difficult.

Likewise, the Kwanalu spokesperson was of the opinion that none of the emerging farmers in the province could afford to pay the minimum wage, and that they did not believe the BCEA was being adhered to by these farmers. The Kwanalu representative noted that emerging farmers are not unaffected by labour legislation, as any legislation has a ripple effect, and in that province the distinction between commercial and emerging farmers was not always clear.

A further opinion came from the spokesperson of the Avocado Growers Association, who pointed out that minimum wages would be difficult for the industry to apply and noted that emerging farmers would struggle with this because avocado production typically suffered from alternate high and low bearing years, which required that fairly advanced cash flow management systems and product diversification strategies be in place.

Nevertheless, there was one respondent (with a permanent labour force of two workers) who had formal contracts and who paid above the proposed minimum wage. However, during harvest he employed more than 50 seasonal workers, sourced from the surrounding villages. In their case he practices what he termed the "old style" of labour management, with workers working after hours to bring in the harvest and pack the fruit if necessary. He claims his workers have an appreciation of the importance of getting the crop to market and are comfortable with his style of management.

Minimum wages and the BCEA were not the only problems encountered. A respondent from the citrus industry in the Eastern Cape noted that a number of citrus farmers in the Kat River area inherited unionised workers from Ulimocor (i.e. they had to take them on whether they wanted to or not). These workers have continued to place pressure on the emerging farmers who cannot really afford to pay formal sector wages and supply formal sector working conditions. One result was a strong wage differential between former Ulimocor and non-Ulimocor workers.

4.3 Capital

Farmers and bankers to farmers in all parts of the world face one of the most perplexing economic problems. Farming is characterised by high capital needs relative to the low returns from farming, by lumpy and intermittent incomes, and by a long gestation period between the time that costs are incurred and income is received. For farmers, this often means dependence on loan finance for their costs of production. For bankers, it means high risks, and hence a greater need for expensive risk-management techniques such as collateral, risk pooling, conservative lending criteria, etc. These all lead to high transactions costs.

Governments worldwide have addressed this problem through various means. In South Africa the Land Bank has been charged with responsibility for lending to agriculture and, since 1994, with a special responsibility for emerging commercial farmers. There are also parastatal companies in some provinces, such as Uvimba in the Eastern Cape, that conduct the same type of business. However, there is no evidence that any of these institutions are able to conduct this business at a profit, or that the farmers' access to finance has improved. It is also not often clear to what extent the obstacles encountered by emerging farmers are institutional (inherent to the nature of the business), or to what extent they are the result of regulatory or policy decisions. In this regard a number of important observations were made during the interviews.

First, **the Land Bank's procedures are agonisingly slow, bureaucratic, and expensive to the borrower.** A cattle farmer in Limpopo Province, for example, recounted how he had applied for a loan from the Land Bank to buy cattle. He observed that it was not an easy process and that it took over a year of going back and forth before he was awarded the loan. He had had to prove an excessive amount of security for the loan, including his goods lorries, tractors and the deed over a house that he has in town. Another cattle farmer in Limpopo said that he had paid cash for all his farms. He noted that the Land Bank is not a visible institution in the Limpopo province, that there is a lot of red tape involved in loan applications, and that it operates in much the same way as commercial banks do in requiring that applicants provide normal sureties and collateral. The spokesperson for Kwanalu also commented that banks generally required that application forms be submitted in English, which discriminated against small farmers.

Finally, there is an unexpected story, namely that of a farmers' association that owns a mill, which they purchased with the help of a grant in excess of R330000 from the NDA. Unfortunately the mill was a second-hand machine and they had to use all their working capital for repairs. As a result, they haven't been able to pay farmers who deliver up-front for their maize and consequently struggled to get the volume through the mill to make it cost effective. When they approached the Land Bank for finance, however, the response was that they could only help each farmer as an individual, and then only provided they had collateral, which they do not have, as they farm on tribal land. One result is that they cannot afford the proper equipment to grade the maize. They get around this by the farmers pretending they are going to sell to the local 'white' farmers co-operative and then taking this grading certificate to their co-op. They realise that this strategy is not sustainable in the long run and will become less so when, as anticipated, the volumes increase.

Second, **the Land Bank acts like a commercial bank, with no developmental objectives.** A cattle farmer in Limpopo argued that the role the Land Bank should play is not that of a commercial bank, as it should look at developmental objectives first. When granting loans, for example, it should look at the experience and interest of the borrower, and not their collateral, and it should be more ready to accept a five-year lease as collateral.

Third, and in defence of the institution, **the Land Bank is hampered by its development objective.** According to a Land Bank spokesperson, the Land Bank is able to provide loan finance to communal farmers with no collateral up to the value of R25000 provided they offer evidence of repayment ability and a favourable debt ratio. Some form of title deed or collateral is necessary when this amount is exceeded, especially if the money is required to finance infrastructure (fixed improvement) development such as irrigation. Despite an exceptionally high default rate for communal farmers of over 60% (in Limpopo province), the Bank is forced to service these clients as part of its mandate. These are clients that the commercial banks are afraid to service. The Bank is also seeing an increased number of farmers approaching them to help finance the purchase of state land. While this group is "technically bankable" as they have some collateral, there are a number of other problems, principally related to a lack of management experience and considerable marketing risk. When the old Marketing Act was in place it was easier to provide finance because, firstly, there was product market stability and secondly, it was easier to organise a cession against a farmer's crop, as there were very clear marketing channels that could serve as additional collateral.

Fourth, **the Land Bank is also trying to accommodate its needs to those of emerging farmers.** The manager of the Land Bank in Tzaneen discussed some of the main issues why emerging farmers default on their loans. In his view, the primary reason was their inability to manage the effects of i) natural disasters, ii) crop failure and iii) marketing risks. As a bank they are in the process of setting up an account management function to help guide farmers who are at the point of default. Currently when someone misses a payment they send out a letter, then phone and then visit to ascertain the causes, and, if they are genuine, they restructure the repayment schedule. They cannot really monitor the client until he defaults again at which point there is nothing they can do except call in their security.

Fifth, **even an established institution such as Ithala has difficulty in serving emerging farmers.** When Ithala started as an organisation (1979), their efforts were directed at helping small farmers in the communal areas. However, their strategic focus has changed and they prefer to concentrate their efforts on financing entrepreneurs, largely because their annual funding from the provincial budget has fallen away. To do this, they have to comply with the Banks Act. They currently have a temporary exemption from registration as a bank, yet they comply with these requirements in order to expedite eventual registration. The result is that their minimum loan size is around R50000, although this is only granted in exceptional cases, as they believe that their profitable minimum loan size is around R200000. They are also aware that their withdrawal from the small loans market was only partially filled by the Land Bank, and believe that there is a need for other sources of development finance in the province. Nevertheless, previously 30% of their accounts would be in arrears with a 4% write off, and this has declined to 12,5% arrears with a less than 3% write-off. However, the fact that this was higher than the norm for commercial banks (6-7% for arrears and less the 1% write-off according to the spokesperson for Ithala) was evidence of their acceptance of a higher client risk profile, i.e. of a developmental focus.

Sixth, **some lenders are experimenting with alternative procedures, and subsequently benefit from the lower risks of repeat business.** An Eastern Cape farmer told how he borrowed money from Uvimba without a title deed to pay for the land. They also provided him with funds to build up his herd. Another farmer recounted that CAB originally financed him, while Uvimba is still providing him with a production loan (he has a revolving credit facility). He pointed out that the bank has been sympathetic and have taken other assets for collateral (his bakkie, etc.) A third farmer in the Eastern Cape told how he took a mortgage loan from Uvimba of about R160000 to buy a farm. The terms of the loan were 20 years, but he paid it off in 3 years. Uvimba have intimated that should he require additional loan finance, he could approach them. The Uvimba spokesperson confirmed that, given their development mandate, they have been quite innovative with respect to the types of assets that can be used as collateral. For example they will also accept movable property and 3rd party guarantees.

Seventh, **all banks struggle to determine the optimal interest rate to charge small and emerging farmers.** The spokesperson for the Land Bank in Tzaneen did not believe that interest rates should be subsidised, because this meant subsidising the cost of capital, with the result that capital was not adequately rationed. The interest rate structure of the Land Bank varied, ranging from prime +2 for bronze clients to prime –1 for gold clients (those with sufficient collateral). Some farmers were under the impression that the Bank offers subsidised interest rates, but this was a misconception that arose from the fact that they occasionally administered different schemes and programmes for the national and provincial governments. For example, the government offered flood relief victims an interest rate of 10% on any loans to re-establish infrastructure, the LRAD programme etc. They implement these agreements as agents, and do so in accordance with the guidelines set by the government for the subsidy. Nevertheless, these misconceptions affected the Bank's standing in the market. The spokesperson for Standard Bank stated that they were able to offer their best customers a rate of prime –2%, which meant cutting their margins to close to zero. They believed that the Land Bank was able to offer higher risk clients this type of rate as they are a state entity that doesn't pay tax or dividends. The result in the emerging farmer market was that the Land Bank ended up with all the best emerging farmer clients and the commercial banks with the higher defaulters. The spokesperson did mention that they could access subsided funds (at the Bank Acceptance rate minus 300 base points) from Khula, which they could on-lend at below the prime rate. While this assists them in financing emerging farmers, they still carry the full credit risk. Ithala interest rates, on the other hand, are in the region of 1,5 % above prime for fixed property and 2% above prime for working capital. They do not offer subsidised interest unless they receive concessionary funding from the Land Reform Credit Facility and/or LRAD. Given the historic background of their client base, Ithala is more flexible than the commercial banking sector and will allow gearing to extend to a maximum of 70% in exceptional circumstances as they take into account things such as entrepreneurship.

Eighth, **other banks are crowded out of the market because of the first right as creditor position of the Land Bank.** The spokesperson for Uvimba explained that the fact that the Land Bank has, under its new governing Act, been given the first right as creditor and that any additional bond is back ranked, meaning that Uvimba is reluctant to finance farmers who are already financed by the Land Bank. For this reason, they prefer to settle with the Land Bank and assume all a clients' loans. This view was supported by the spokesperson from Standard Bank, who argued that taking over all the loans gave the institution more security.

Ninth, **there are a number of regulatory constraints to providing finance to emerging farmers.** The **Usury Act,** for example, prescribes the maximum amount of interest a bank can charge. Often this is less than the real cost of lending money to emerging farmers because of the high risk of default, limited collateral and high service costs. Yet no respondents in these interviews regarded this as a constraint, and formal sector lenders recognise that if they exceeded these rates most of the high-risk clients would not be able to repay loans, and the default rate would increase significantly. Another example is the **Public Finance Management Act,** which requires that the a bank recovers what it has disbursed, thus if it does not follow a conservative lending policy it can be interpreted as negligence on the part of the Bank and thus it could lose its licence. Finally, the **Bank Act** does not allow unregistered entities to accept deposits, with the result that lenders such as Uvimba are almost entirely dependent on the state as a source of funds.

Tenth, emerging farmers think that it is **unfair that the previous government subsidised interest rates** through the Land Bank and the Credit Board, while these concessions have been done away with. The generally expressed opinion was that one group got ahead because they were subsidised and they feel it is now their turn for the same privileges.

The problems facing these lenders were neatly summarised by the spokesperson for Uvimba. He reminded the interviewer that the majority of farmers in the communal areas are unemployed, and that they farm maize under dryland conditions on a small scale. They are used to growing maize for food and tend not to harvest it when green, which fetches a higher price. Uvimba has little choice but to finance them, as political tensions are stirred up when they threaten to withdraw. Uvimba is working with NGOs and other groups to encourage farmers to farm with irrigation, they insist that borrowers repays a portion of their loan immediately, and they try and spread loan payments over the whole year. In this manner the loans Uvimba offers are not strictly production loans, as farmers have no real end of season to repay one lump sum, because the crop is primarily for home consumption. Uvimba also places loan officers in the field to physically collect loan payments, but this raises the cost of providing finance to the emerging sector.

Other additions to the cost of loan administration arise because Uvimba loan agreements state that borrowers must followed the requirements of the Conservation Act. The Provincial Department of Agriculture is meant to ensure that they are doing so, however they do not have sufficient capacity. Further, before the Bank extends a loan a field officer will visit the client to assess whether the planned activities are technically feasible. After that some form of relationship is built up between the field officers and the client, and they often end up providing extension advice to farmers (including advice on how to comply with legislation such as conservation laws). However, Uvimba cannot afford to provide this service, and its field officers are not necessarily qualified to do so.

The spokesperson for Ithala also raised the issue of compliance with the new Environmental Management Act. Ithala normally insists on inserting a declaimer clause into their loan agreements about conservation practices etc. However, they are not quite sure how to interpret their responsibility in terms of the new Act, and their legal team is currently looking into the matter. Their view is that it will be impossible for them to enforce conservation legislation. Further, they are concerned about the absence of a national drought policy, especially since they are expecting drought after 10 years of rain. In the case of sugar cane they insist on fire insurance, and also require life insurance. They also insist that all their borrowers are registered for income tax and VAT where applicable to protect their loan in the event of tax arrears and to ensure that all businesses remain going concerns. These are, however, added costs that impact harshly on emerging businesses.

5. Production issues

Respondents discussed raised a wide range of issues regarding production of the commodities included in this analysis. While many of these relate to their particular circumstances, numerous regulatory and policy issues were raised.

5.1 Livestock farmers

One of the respondents reminded us that black farmers own an estimated third of the national cattle herd, but were historically restricted to 13% of the land. Thus, in the long run, the problems of livestock owners were intimately tied to the problems of land reform. Nevertheless, the NERPO spokesperson noted three pressing and distinct problems facing emerging cattle farmers in South Africa, namely problems with overgrazing, with stock theft, and with veterinary health.

Overgrazing

In the view of the NERPO spokesperson, overgrazing was a problem in the communal areas, but not in the commercial areas where farmers owned the land. Under the previous regime, the homeland governments had some sort of social order where the management of the veld was decided in part by the tribal authorities. However, NERPO was concerned by what they saw as a culture of lawlessness where every member of the community irrespective of whether they are a livestock owner, demands to participate in decisions surrounding veld management, and a political dimension is often brought into discussions. These problems, they believe, can be traced back to the fact that there is no clarity with respect to who has the authority in the rural areas. The authority of the traditional tribal authorities *vis-à-vis* local and municipal structures is blurred and policy on local government needs to be clarified significantly.

Our respondents were more concerned with problems inherent to their particular circumstances. One respondent from Limpopo province noted his farm lay in an area with a low carrying capacity, and was already at the maximum carrying capacity according to people from the advisory board of the Department of Agriculture. Another respondent from Limpopo Province argued that there was sufficient grazing land in the communal areas, but that this was over-used simply because of the lack of control and management of the animals. In his view, the government should introduce measures to control over-grazing and soil degradation. This respondent also noted that farmers whose access to land was through short-term leases would also not invest in sound grazing management strategies such as growing feed, introducing grazing rotation systems, etc.

Stock theft

The NERPO spokesperson argued that this was a problem specific to some areas of Limpopo and Transkei. In his view the deregulation of the meat industry contributed to the problem because there is no control over meat slaughtering. Furthermore the meat hygiene regulations need to be enforced. Stock theft was perpetrated by well-organised syndicates or groups, sometimes of farmers, who are well organised with vehicles and who will come onto a farm and simply steal a whole herd. The second source of stock theft is butchery owners who slaughter on the premises. They steal an animal, slaughter it and sell it at a 100% mark-up. There are also speculators who buy or steal unbranded animals and simply brand them themselves, treating them as their own. The third is informal meat traders. They don't steal in bulk, but simply one or two animals that they sell from the side of the road.

That stock theft is not endemic throughout the country was clear from the interviews. One respondent from Limpopo province had had no loss of animals, in his view because 'he has been able to give his business the attention it required and maintain a continuous presence on the farm'. The other respondent from Limpopo province was not so lucky – he had lost two animals in the past year. He ascribed the cause of stock theft to the poor economy and the high rate of unemployment, butcheries that slaughter on premises, the hawking of meat, which is not controlled, and the large number of Zimbabwean and Mozambican refugees that stream across the border into the Limpopo province. Both respondents argued for a return to the strict regulations of 'the old days' when there was a strict prohibition on meat being hawked, and slaughtering was controlled and adequate records had to be kept.

This latter experience was corroborated at the meeting of the Northern Livestock Association, where the issue of stock theft received some attention as various members of the association reported back on cases involving stock thefts (e.g. number of animals stolen, when and where the trial will be held, sentences passed on thefts). The members mentioned the increased involvement of the Scorpions and the MEC in trying to deal with the issue.

The livestock farmer from the Eastern Cape (from the former Ciskei area) told us that stock theft was not really a problem in his area.

Veterinary health

The spokesperson from NERPO noted that some provinces (especially KwaZulu Natal, Northern Cape and North West) are not providing an animal health service, especially to the rural communities. One of the most important weaknesses in this regard had arisen from the suspension of dipping services in these Provinces. One respondent from Limpopo Province noted that the government there still maintains its vaccination programme, although many communal area farmers failed to make use of the service, while the AGRILINK II officer in the Eastern Cape also expressed his satisfaction with the programme in that province.

Poor veterinary services increase the risk of an outbreak of diseases that could affect the commercial herd. The NERPO spokesperson noted that the provinces must continue to provide such services and try and enforce the law with respect to notifiable diseases, and that they must budget for dipping and vaccines. Further, NERPO had identified a specific problem with the government's policy on foot and mouth disease. While the policy was effective in some areas, in others, specifically along the Zimbabwe border where buffaloes jump the fences, there was an imminent danger of an outbreak. NERPO argued that the hundreds of Zimbabweans crossing the Limpopo without being tracked were a particular source of concern, as humans were effective carriers of foot and mouth on their feet. With respect to the governments' quarantine facilities for foot and mouth, he noted that it is important for provinces to make provision for more feed and/or provide more grazing in the quarantine camps. These views were also expressed at the meeting of the Northern Livestock Association.

Our one respondent from Limpopo Province recorded that, although he farms in a high-risk foot and mouth area, it does not really affect him as he practices proper quarantine practices when transporting and selling cattle. However, he pointed out that a number of communal farmers don't necessarily follow these procedures and this endangers the whole country's herd, thus there should be more stringent controls. The other respondent from this area corroborated the threat from the border areas with Zimbabwe (as well as with Botswana). He was also of the opinion that large numbers of communal farmers ignore the quarantine regulations because of insufficient controls.

This respondent also pointed to problems with the management of the quarantine facilities. In his view, the main problem was caused by the fact that the provincial authorities provided only water, and not feed for the animals. As black farmers were unused to providing supplementary feed, they were discouraged from complying with the quarantine regulations when their animals lost condition while under quarantine.

Finally, the two correspondents from the Limpopo province told the interviewer that they branded their own animals, and that, in their view, more than 90% of the emerging cattle farmers followed this practice. One respondent noted that this was one of the requirements for getting a loan from the Land Bank, while the other said that their local association had done much to reduce the cost of branding irons by a sharing arrangement among members. The respondent from the Eastern Cape noted that it was almost impossible to sell unbranded animals in his area. However, there were problems with compliance among communal area farmers. The manager of the Land Bank in Tzaneen confirmed that they required that cattle be branded and microchipped, especially in the case of higher value pure breeds of cattle. In his view this insistence has contributed to the increase in the number of farmers who are adhering to the country's livestock identification laws.

5.2 Fruit farmers

The citrus farmers all come from the same area, and have all shared the experience of contact with the state through the erstwhile Ciskei Agricultural Bank (CAB) and now Uvimba; Ulimocor; the former homeland government and now the Provincial Department of Agriculture and Land Affairs; the co-operative and Capespan; and not least the labour unions. Their farms were originally bought by the state as part of the homeland consolidation process, and they farmed under guidance from Ulimocor, the parastatal charged with responsibility for such matters until it was dismantled in 1996. This experience presents a case study of the difficulties facing emerging farmers, some way beyond their control, and some of their own making. These farmers all owe money to Uvimba, and they all need credit to replant their orchards (some of the trees are reputed to be over 35 years old). Yet Uvimba will not (and cannot prudently) lend money to them in the absence of title deeds, which the Department of Land Affairs promised them, but which have not been forthcoming … In the process a rational farmer will not repay loans, a rational worker will demand union wages, and a rational banker will allow debt to mount in the hope that the state will assume the risk at some point. In the process the farmers' discourse is all about their specific experiences in this mess of bureaucracy.

5.3 General issues

VAT registration

The NERPO spokesperson guessed that 99% of their members were not registered for purposes of VAT. Most of our respondents agreed. In their view, this was for one or more of a number of reasons:

- Emerging farmers don't want to register, as they feel that they are going to be taxed (i.e. that the Receiver will get hold of their details).
- The administration involved is overwhelming, especially in the light of the relatively low turnover of these businesses and the fact that they hardly kept any farm records.
- Ignorance of the procedures for registration.

These farmers are most probably not in contravention of the law, as it is unlikely that their turnover is sufficiently high to warrant compulsory registration. However, they are missing out on the opportunity to claim back VAT on farm business expenses. Whether this will be worthwhile given the high cost of compliance will depend on the individual circumstances of each farmer. This is borne out by those instances where respondents were registered for VAT. Two respondents were registered because of their other business enterprises, while the spokesperson for the milling co-operative in KwaZulu-Natal argued that, as they sell directly to the public they have to be VAT registered, and they therefore hired a local bookkeeper who keeps all their books and submits all their returns. Nevertheless, these respondents were all aware of the high cost of compliance.

Disaster relief

Both the NERPO spokesperson and the AGRILINK II officer in the Eastern Cape expressed the need for a more systematic approach toward the management of disasters and disaster relief on the part of the government. This was partly because of the current system was unsatisfactory in their experience, and partly because they realised that the private sector insurance companies were unwilling to underwrite this type of risk generally, but specifically also for emerging farmers. NERPO noted that they had made numerous requests on the issue to the National Department of Agriculture as well as the provincial departments. They recommended that provision for disaster relief had to be budgeted for on a regular basis, and disaster relief fund set up. About the only relief that was available was that the Land Bank would occasionally review a case where a disaster has struck and reschedule debt. Both these respondents were aware that the National Department of Agriculture was preparing legislation to this end. The following experiences with disaster relief were recorded by our respondents:

- One respondent applied for disaster relief two years ago. The extension officer visited his farm and made and assessment, but he is yet to receive a response.
- Another told us that he hasn't applied for disaster relief in the last ten years but, taking the current situation in Limpopo province with respect to drought into consideration, he may have to do so in the coming year.
- A third respondent had an interesting contribution to make, namely that, although he has suffered from fires, he was aware of the difficulty facing government in deciding whether to provide disaster relief. His experience as a member of the committee to decide on disaster relief in the province taught him that it is a very difficult issue to manage, as the rights of the state and the rights of the farmers had to be balanced.
- In the previous season farmers in the Kat River area suffered from both hail damage and frost. In the past they had applied for disaster relief but were informed by the government

that they should purchase crop insurance as a group. This they were not prepared to do, due largely to the high cost of insurance.

Co-operatives Act

While more of an institutional than a regulatory problem, the spokesperson from the Upper Tugela Farmers Association retold how they had to submit annual reports and financial statements to the registrar of co-operatives for their milling co-op. However, they had not been doing this, and had 'lost contact' with the NDA. They claim that, while they know they have to comply with these regulations, nobody from NDA has ever contacted them.

Other issues

The manager of the Land Bank in Tzaneen raised a number of production issues that are pertinent to this investigation:

- **Record keeping.** He noted that a number of emerging farmers register themselves as Trusts, which was expensive, as the registration of the Trust Deed was expensive. These groups can't apply for loans unless they are registered as legal entities, although many of the groups the bank works with do not always understand the implications of the various legal forms (entities) especially around issues related to liability and legal requirements such as having to appoint an accounting officer etc.
- **Insurance.** All lenders are required to insure themselves and their fixed and movable assets against losses. Ideally the Bank would like to insist on crop insurance, however most farmers say they can't afford it. The implication, especially for emerging farmers that are normally very highly geared, is that one bad year causes these farmers to fall into a debt trap.

6. Marketing issues

Livestock farmers

Production loses its commercial value in the absence of a market in which to sell. In keeping with their entrepreneurial nature, our respondents spoke more about marketing opportunities than about obstacles to enter markets. Livestock farmers responded thus:

- From Limpopo Province: He sells the bulk of his stock directly to other farmers, and only occasionally to auctions
- Also from Limpopo Province: He sells most of his stock at auctions, and sometimes directly to feedlots. The advantage of selling at feedlots is that no commission is charged and there are no transport problems, as the person buying provides transport, but the prices tend to be lower and negotiated. He rarely buys from an auction, simply because when he buys, he buys breeding stock and such purchases have to be negotiated with breeders. He will, nevertheless, occasionally attend auctions that specialise in people looking for breeding stock. He wants to be involved in the whole marketing chain, but realises the expense involved.
- A farmer from the Eastern Cape: He believed that livestock auctions are dated, but that speculators were a problem as they look for profits and exploit the situation where many farmers do not have alternative markets. This farmer planned to acquire a small jersey dairy herd, but also realised that he could not afford it at this stage.
- A second farmer from the Eastern Cape: His milk production is sold directly into the local township, to households who provide their own containers, for R2 per litre. Here again the farmer expressed the wish to replace his current mixed breed stock with jersey cows and

concentrate on dairy farming, but was constrained by the lack of capital.

This spirit of seeking opportunities was echoed by the farmers of the Upper Tugela Farmers Association, who argued that they found no problems in accessing the market for the maize that they mill, as they sell to the surrounding communities. Their pricing strategy is to sell at just below the retail price of maize in local stores. They claim that they produce a high quality maize product and are able to sell all of it due to this pricing strategy.

Both the NERPO spokesperson and the AGRILINK II officer in the Eastern Cape agreed that black farmers tended to sell cattle at auction more often than they bought, and that auctions functioned relatively well and inexpensively, given that they have to provide kraals, animal inspections, etc.

The attendants at the meeting of the Northern Livestock Association pointed to the specific marketing problems of those who farm 'behind the red line' (i.e. behind the foot and mouth *cordon sanitaire*). Animals farmed in these areas fetch much lower prices then elsewhere in the province. As buyers of livestock (speculators) know the animals must be slaughtered within the area (i.e. sold directly to abattoirs) and that the free movement of cattle is not possible, they consequently exploit the situation. Communal farmers are particularly hard hit in that they do not have the wherewithal to put animals in quarantine, etc. and speculators congregate around the dipping tanks making it easy to exploit them. There is a strong price differential between red line and non-red line areas as the market is limited in the red line area. There is a general feeling amongst farmers that the government should intervene with a subsidy since foot and mouth is a national problem yet local farmers are suffering most of the consequences.

The AGRILINK II officer in the Eastern Cape had interesting opinions on two further livestock marketing issues. He did not believe that livestock speculators needed to be controlled as they provided emerging farmers with a valuable marketing avenue. Auctions are only held periodically, and when an emergency arose and money was urgently needed farmers could call on the speculators, who became a type of emergency bank. He also noted that most of South Africa's livestock that is farmed by emerging farmers is done in accordance with 'organic' production rules, so that with little effort these farmers would be able achieve organic certification, presenting a significant yet to be exploited niche marketing opportunity.

Fruit farmers

The position of the **citrus farmers** is somewhat different, as they either have their own packsheds and market through Capespan, or they generally deliver their fruit to the local packing co-operative, Katco, which also markets through Capespan.

One farmer recounted that he markets all his fruit directly through Capespan. He has a packshed on his farm and not only packs his own fruit but also that of his neighbour. His packshed normally handles about 60,000 cartons, however they have had problems for the past two years and this volume has come down to 20,000 cartons. He currently achieves a 50% packout but hopes to increase this to 70% (the minimum he needs to be profitable). He pointed out that the poor condition of his packshed is due to its age, however he is not in a position to carry out the necessary improvements especially in light of the uncertainty surrounding title to the farm and the debt issue. (The spokesperson from Capespan stated while this packshed is very old, it is still functional and meets minimum requirements). However, the farmer was aware that this meant they could not pack for certain markets, especially in Asia, where the phytosanitary requirements are more stringent. This farmer also expects the problems to intensify, as his facility is not EUREPGAP compliant, while the new EAN barcode system that forms part of traceably requirements of the EU requires having a computer and the necessary software. Capespan is trying to assist the farmer to purchase this system, which will cost in the region of R15000-R18000.

The other Alice-Kat farmers all pack their fruit at Katco. The Capespan spokesperson pointed out that the fixed costs of co-operative packing are too high to justify membership for small producers (10000 cartons or less). Co-ops have fixed year round expenses and if you take out this, and the seasonal packing fees, the amount of income farmers actually receive does not make it financially viable. As most of the farms in the area had less than 20 hectares of citrus, most were almost too small to constitute a viable economic unit.

A second farmer told that she markets and packs her fruit through Katco, last year packing some 21000 cartons of Class 1 and 2 fruit. As the bulk of her fruit is sold in the EU, she always implements the directives Capespan sends through i.e. keeping her chemicals locked up, providing her workers with protective clothing and information on correct chemical use, etc. She realises that these directives will probably increase in the future and she will deal with this at the appropriate time (i.e. she follows a reactive and not a pre-emptive approach to these issues).

A spokesperson for Capespan stated that Katco does quite a lot to ensure that its emerging farmers are able to deliver the right quality, and stressed that there is no real difference in the quality of fruit that black farmers delivered compared with white farmers. The farmers typically achieve an export packout of 50% but this all depends on weather conditions. The area delivers early in the season and thus has some marketing advantage.

The spokesperson for the Avocado Growers Association recounted that approximately 55% of the avocado crop is exported, mainly to Europe, where the bulk of the fruit is sold to supermarkets. These are becoming increasingly stringent in their demands they make on suppliers, e.g. they have to be EUREPGAP compliant, follow integrated pest management practices, and adhere to a number of organic amendments where relevant. While these regulations are not especially difficult to adhere to, they all require that a detailed record system be maintained, a particularly onerous requirement for small farmers. SAAGA does provide growers with some assistance on the design and maintenance of these systems, and has produced a training manual in this regard. Further, exported fruit must meet the Department of Agriculture's standards (based on EU requirements), and these are monitored by the PPECB. These standards are not higher than they need be, and hinge around effective disease control, handling (scratches) and wind damage.

Fruit that is sold in the local market via the fresh fruit auction markets is also subject to regulations. These are in the process of being changed, and currently deal with matters such as carton labelling (cultivar, class, and farm) and whether the fruit is edible. There are only 3 inspectors for the whole country, based at the 3 big municipal markets, and, while they do not have the authority to throw product off the market they can downgrade it to the "lowest possible grade". The expectation is that fruit will have to be sized under the new regulations. This will require expensive changes to packhouses, and will affect emerging farmers most.

Contract farming
The AGRILINK II officer in KwaZulu-Natal mentioned how sugar and timber is forward contracted to processors, and thus believed that marketing regulations were not really an issue, as

the buyer ensured that all regulations were adhered to. The Kwanalu spokesperson agreed, but added the view that contract farming, while it assisted new entrants into the industry, does not necessarily encourage empowerment, as farmers essentially becoming workers who farm simply to pay the mill back for the inputs it provided at the start of the season. The Kwanalu spokesperson also believed that the marketing problems confronting emerging farmers were more of an institutional as opposed to a regulatory nature. As an organisation they were trying to launch a mentorship programme where an existing commercial Kwanalu farmer would mentor an emerging farmer. Part of the contract between these two parties would be market access, and quality and quantity assurances, which are needed if emerging farmers are to be export focussed.

Nevertheless, the AGRILINK II officer from KwaZulu-Natal recounted two anecdotes she had heard of outside the province where regulations and marketing practices had served as a barrier to market entry for emerging farmers:

- A group of woman farmers from Limpopo wanted a better price for their birds eye chillies and tried to get someone to export it to Belgium. When they exported this, their shipment was rejected because it didn't meet that country's quality requirements and the women ended up with nothing. She made the point that the farmers were somewhat naive about the quality requirements of the international market.
- Another group of mango farmers went ahead and prepared achar, which they planned to sell to Patco. Only once they had prepared the achar did they approach Patco, which ended up not buying their product because they wanted the achar to be unspiced.

The cotton farmer told that he produces and markets his crop on contract for the new gin in the Makatini, which is an empowerment initiative. In his view contracting agreements are not always beneficial for emerging farmers, especially in smaller more remote areas where the local gin is the only buyer. Farmers had little choice but to accept their terms and conditions especially when they lacked access to finance. This inhibits diversification and thus the design of appropriate risk management strategies, such as dryland rather than irrigation farming.

7. Synthesis and recommendations

In this section, the major conclusions drawn from the analysis are summarised first, followed by an assessment of whether the problems encountered relate to a specific policy or regulatory constraint. This assessment forms the basis for the recommendations that are made.

Land issues

In the first part of this analysis, the opinions and experience of respondents regarding access to resources (land, labour and capital) were recorded. The following conclusions were drawn from the analysis of land issues:

- The state does not seem to be a very efficient landlord to the many farmers who lease land from the state, or when it tries to allocate state land to beneficiaries of the land reform programme. In many cases these leases are allowed to lapse, or farms are left idle, in a process that is eerily reminiscent of the process of homeland consolidation. It is clear that this situation will not result in efficient use of the land. The current 'tenants' have no or weak security of tenure, hence no incentive to conserve the land, and the land is often invaded by 'squatters'. The problem has its origin in the bureaucratic and legalistic processes of land registration and of land claims, and the slow pace of delivery by the state. It serves little purpose to recommend changes to these processes – the system of land registration is ingrained in law, while the land claims process, at least in its current form, is inherently slow. The only remedy seems to be a **targeted programme of support to those farmers who are leasing the land.** In those cases where this is possible (no land claims, registered title), the leases should be converted to long-term contracts, either together with (i.e. lease-to-buy) or as a substitute for a first right of purchase. In those cases where problems of land claims or of land invasion arise, the state should carry out its responsibility to the full in order to expedite these processes, take the appropriate steps to ensure that the land is being managed in an environmentally responsible manner, and at the same time negotiate access to alternative land for the tenants (through LRAD) in order not to disrupt their business activities. The mess encountered among the citrus farmers should serve as a warning of how badly things can go wrong.

- Farmers complain that LRAD is working slowly, primarily because not enough land is coming onto the market and when it does, it is priced beyond their reach. Further, sellers of 'good' farms are often not prepared to wait for the long period that the process of land reform takes, even if the price offered is higher. Thus, **the state should, as a matter of policy, speed up the process of transferring farms to beneficiaries.**
- It seems as if the purpose of a business plan is to obtain a land reform grant rather than to order the farming activities of the recipients of the grant. One of the main reasons is the absence of farmer support programmes, which are either not in place at all, or a case of 'too little, too late'. **This absence of farmer support represents probably the most important policy issue** identified in this research.
- While only a few farmers on communal land were interviewed about problems relating to that issue specifically, the issue itself also arose out of conversations with other respondents. The general view was that the problem of traditional areas is not going away and the **state is going to have to deal with it at some stage**. The most important problems encountered were the inability to use such land as collateral, the fragmentation of farms, and the overgrazing on the 'commons'. Where a farmer (including one woman) had access to communal land, they did not feel their security of tenure threatened, even if the rules did not aim to create certainty (e.g. the traditional authority has the right to allocate land to someone else, land is not readily allocated to women, etc.).

Compliance issues

Most of the discussion of labour matters revolved around the implementation of the BCEA, especially the introduction of the minimum wage. The lessons from these interviews are that:

- Few of these emerging farmers pay the minimum wage, and few could afford to pay those levels of wages.
- The burden of the minimum wage legislation consists of both the level of the wage and the administrative burden of complying with the conditions (formal work contracts, etc.)
- These small commercial farmers are unlikely to adopt more formal employment practices; hence the minimum wage will not be enforceable in their case.

A similar response was found when questions were asked about farmers' compliance with VAT, while other recorded examples include the need to keep minutes, etc. for CPAs, and the need to send records to the Registrar of Co-operatives. These are prime examples of the general problem faced by these emerging farmers – they confront rules, regulations and procedures that may make sense in the formal economy, but that at best make little sense in the world where they live, work and trade, and at worst hamper their ability to create livelihoods for themselves and their families.

The remedy is not always obvious, as exclusions based on area and population group, etc. reinforce the notion of 'two agricultures' that was inherited from the apartheid state. Yet the issue cannot be left in abeyance, as it also engenders disrespect for the law. In many cases (including BCEA) legislation provides for temporary exclusions. These should be used in conjunction with training and support programmes to help emerging farmers to cope with the requirements on an equal footing with their commercial counterparts. **Thus, there is a real need to revise such regulations to better serve the needs of farmers, and to provide support to them in cases where compliance serves a real purpose.**

Finance issues

There is little evidence that any rural financial services institution in South Africa, whether state or privately owned, are able to conduct their business at a profit, or that emerging farmers' access to finance has improved. However, it is not often clear to what extent the obstacles encountered by emerging farmers are institutional (inherent to the nature of the business), or to what extent they are the result of regulatory or policy decisions. Nevertheless, the following observations regarding such obstacles were made:

- There was a constant criticism of virtually all parastatal institutions, namely that their procedures were slow, bureaucratic, and ultimately ineffective. These institutions need to straddle the divide between their operations in the formal economy and their responsibility to meet development challenges, often in the informal economy, in a manner that better serves the needs of these clients. To this end, **internal procedures need to be revised, and the state appraised in the event that a change is seen as risk enhancing.** There is evidence that this could lead to more profitable business. This includes the position of first creditor of the Land Bank, an unnecessary addition to the protection received by that institution.
- While there is a strong case to be made against interest rate subsidies, there is also a strong case against a land reform programme that 'forces' people into accepting gearing ratios that would be regarded as suicidal in the commercial farming sector. **More innovative means of setting and charging interest rates, including early payment discounts, state guarantees, and back-loaded interest payments** have been recommended in the past, and should be accepted as a normal part of the land reform programme.
- There seems to be sufficient justification for the state to **investigate at least the feasibility of (subsidised) insurance** against natural disasters for emerging farmers, whether they are borrowers, land reform beneficiaries, etc. as part of a disaster management strategy for the agricultural sector.

Livestock disease control

Most livestock farmers raised the issue of contagious diseases such as foot and mouth, and problems with the delivery of veterinary services. The suggested remedies were **better control over the movement of people over the border, better control over the migration of buffaloes, and better managed quarantine facilities and procedures.**

One example of a regulation that was accepted by farmers was the necessity to brand animals. While it is certain that even this would be disregarded by some, the respondents in this study all believed that it was worthwhile, and even made plans to cut the cost of compliance. The fact that the Land Bank would not lend in the absence of proof of registration does not harm the level of compliance.

Marketing issues
One of the more surprising conclusions from this investigation is the lack of concern amongst respondents about access to markets, either because they sell without hindrance into local markets, or on contract to a processor, or because they understand the needs of the export market.

Gender issues
Another rather surprising conclusion from the interviews with the discussants was the absence of any mention of gender issues as an obstacle to emerging farmers' access to resources or the market, despite the fact that a number of interviews were held with women farmers (including a 'female farmer of the year' award winner). This could conceivably be because gender does not represent a real obstacle to access, or because gender discrimination is so ingrained that women do not see the point of protest. More than one respondent argued that it was not customary for women to receive a land allocation from traditional authorities, and that the 'type of agricultural activities women carried out' such as poultry and vegetable production did not require large farms.

Nevertheless, the position of women under customary law has been investigated in the past, among others by the Commission of Inquiry into the Provision of Rural Financial Services (the Strauss Commission), which reported in 1996. Their (lack of) legal status is an issue that needs to be given the attention it deserves.

Agribusiness extension services
Another matter that has been confirmed in these interviews is the adverse consequences of the almost total collapse of the extension services provided by the state, and the importance of extension as a vital part of the farmer support services that are required to make the land reform programme a success. Again, it hardly serves any purpose to make detailed recommendations on how to change a service that in some instances does not function at all, and in others is so uncoordinated with the land reform programme as to constitute an obstacle in its own right.

Environmental issues
Finally, South African laws increasingly require state agencies to police compliance with environmental laws. One clear example that came up in the interviews was the obligation by financial institutions to monitor compliance as part of their loan servicing. As with other such policies (e.g. VAT compliance, paying minimum wages) opportunistic behaviour by some farmers and the lack of enforcement capacity by the state will serve to merely add to the already high transaction costs of the rural financial institutions.

APPENDIX 1: INTERVIEWS

Appendix 1.1 Individuals

Limpopo	Livestock	He is a cattle farmer in the Mwanedi district in the Limpopo province whose herd consists of 130 cattle and some sheep. He has been farming this property since 1984 but for much of that time he was also a supermarket owner. He sold the supermarket in 1996 and started farming full time.
Limpopo	Livestock	He is a livestock farmer in the Limpopo province and the vice chairperson of NERPO. Aside from this he also operates a transport business. He has been farming since 1981 and has three properties, an 850ha leased farm in the Mwanedi district, a 250ha farm in the Louis Trichardt district, which he bought in 1998, and a 179ha farm in the Louis Trichardt district which he bought in 1989 (this farm also has water for intensive crop production). His herd is 310 head of cattle.
Limpopo	Livestock	The interviewer attended the monthly meeting of the Northern Livestock Association at Tshipise. The aim of attending was to gain insight into the nature of the regulatory issues affecting this group of emerging farmers, as well as to make a short presentation on the project and solicit the group's opinions on some of the regulatory issues raised by livestock farmers.
Limpopo	Sub-tropicals	This farm is a land reform project located in Ofcolaco in the Mopani District of Limpopo. It is a joint venture/share equity project of sorts that has managed to go very wrong. The project was initiated in 1997 when a group of people from the Ofcolaco district heard that a certain farmer was selling his farming operation of 147ha. The farm was valued at R2,8m as a going concern with all existing stock and it was decided to form a company of which the beneficiaries had a 50% stake, the Department of Land Affairs 25% (to be held in trust for future beneficiaries) and the former owner 25%, after selling the remaining 75% for R2,1m on condition that he act as general manager and train a management group from the beneficiaries to take over the operation when he exited 5 years later. He was not permitted to sell his share nor withdraw from the project for a 5-year period.
Eastern Cape	Livestock	He was educated at Lovedale College as a teacher but went back to Fort Hare in the mid 70's and did a three-year agricultural diploma. He worked as a teacher and in 1993 he retired and bought a farm in the southern Peddie district. The farm is 900ha in extent and has a carrying capacity of 200 LSU. The farm was Trust land, which the government made available in 1987. He is a Bonsmara breeder and has 250 cattle. He also has 15 ha of feed from which he cuts about 400 – 500 bales of lucerne annually.
Eastern Cape	Livestock	He grew up on a farm and later worked as a farm worker in the Lady Frere area. In 1998 he together with 3 other people applied for a S/LAG grant from the DLA and purchased a 275ha farms (he now farms on his own). Current herd size is 57 cattle (of which 17 are dairy), 23 sheep and 52 goats.
Eastern	Livestock	This land reform project was initiated in 1995 by a group of

Cape		emerging farmers in the Whittlesea area who started the process off by writing directly to the then Minister, Derek Hanekom. Initially they were a group of 60 farmers, however when they acquired a farm in 2000, 29 members registered in the CPA. The management of the farm consists of a committee of 12 members, ½ of whom are women.
Eastern Cape	Livestock	The Merino Rest Development Project is a land reform project that was initiated three years ago when this group purchased a small livestock farm near to Queenstown in the Eastern Cape. The group consists of 11 farmers who all live in a nearby town. Their herd consists of 32 calves, 28 dairy cows and 18 sheep, all bought with the balance of their land reform grant. The group is registered as a CPA.
Eastern Cape	Citrus	She came to Ciskei in 1976, when her husband took up his duties as the traditional leader of his tribe that had land in Balfour, Seymour and parts of Alice. She always had an interest in farming and while her husband was busy with Ciskei politics she ran a smallholding with chickens and vegetables. After her husband retired in the early 1990s he expressed an interest in farming. His age and background precluded him from being selected as an Ulimocor farmer, however he was later accepted when they formed a family trust – she with her experience and one of her sons who was also interested in farming agreed to join her husband. In 1993 they received some land (53 ha in total of which 22 was under citrus) and in-service training from Ulimocor until 1996 when the company was liquidated. Her husband died in 1999 and she took over as head of the trust and has been farming together with her son. The farm has 5ha of clementines and 16ha of navels – before Ulimocor left they took out a number of orchards that had been assigned to them. In 2002 she won the female farmer of the year award.
Eastern Cape	Citrus	He is a citrus producer who farms in the Tumi Valley, part of the old Alice-Kat River Citrus Development Trust area. In the late 1970s this scheme was set up and later owned and operated by Ulimocor. Farmers were identified and trained and farms were handed over in the late 1980s and early 1990s. Because of his previous experience in crops (essential oils, vegetable production) he was selected as a farmer for the scheme. When he started farming the title deeds to the individual properties were not available and thus could not be purchased outright. Instead, each of the farmers was given a lease with the option to buy, with the understanding that the lease fees paid would be deducted from the purchase price of the farm. The piece of land that the farmer operates is 60ha in total of which 15ha is under citrus. The remained is used for grazing. Aside from this business he is also involved in the production of essential oil tinctures, and owns shares in a company that operates a sheep farm.
Eastern Cape	Aloes	He was a vegetable farmer, however the cost of diesel, fertilizers, seedlings, wages, and variable product prices made this unviable and he needed to find an alternative crop. He has been involved in aloe production for the past three years, starting small by tapping the aloes on his own farm and selling the juice. He saw the potential in

		collecting the juice and drying this out to form aloe crystals, which fetches a higher price. Over the past six months he has entered into negotiations with a manufacturer of aloe products from the Uniondale area and together they hope to form a private company and go into aloe production and processing on a large scale. He is negotiating with the Eastern Cape Development Corporation to assist him.
KwaZulu-Natal	Maize	Upper Tugela Farmers Association, consisting of 15 members, was formed in 1993 with the objective of looking at ways in which they could move up the value chain. In 1998, with the assistance of a consultant and the NDA, they formed a co-op (Bergville Milling Co-operative) and purchased a mill. While this mill has been operational since 1998, they have not been able to operate year round at full capacity, as they are not able to source a consistent supply of maize.
KwaZulu-Natal	Maize	This farmer has a small farm near Bergville in the Upper Tugela Valley. He purchased the farm for cash in 1994 with money he got when he was retrenched from Escom in 1993. On this farm he runs a few head of cattle and has 8 ha of maize.
KwaZulu-Natal	Maize	This farmer farms in a communal area, also in the Upper Tugela Valley. While 8ha of land has been allocated to him, he rents an additional 22 ha from other members in his community.
KwaZulu-Natal	Maize	This farmer has been farming in the Upper Tugela area since 1982. He currently has 5ha of land under maize (dryland), most of which he leases from other communal farmers. Aside from this he cuts firewood to generate an income and owns a tuckshop.
KwaZulu-Natal	Maize	She is a small, part-time maize grower (2ha) who farms on communal land near Bergville. She is currently employed by the provincial department of agriculture as an agricultural assistant, a job she has held since 1994. She has only been farming for herself since 1999.
KwaZulu-Natal	Cotton	While this interview was conducted with a farmer, the co-ordinator of the Cotton SA Rustenburg office was also present, as well as a Monsanto extension officer. Both these people also offered their views on some of the issues raised. The farmer is a small (11 ha) cotton grower from the Makatini Flats and also a director of Cotton SA, appointed to look out for the interests of black small scale cotton farmers in South Africa.

Appendix 1.2 Associations and institutions

National	NERPO	The National Emerging Red Meat Producers Association is an association of emerging cattle farmers.
National	Standard Bank	While the spokesperson is manager of the Bank's Emerging Farmer Group for the Western Cape, he was able to offer an overview of policy regarding emerging farmers throughout the country.
KwaZulu-Natal	KWANALU	Kwanalu was formed in 1997 from the amalgamation of three existing unions. Their core function is to lobby for the farmers in the province by analysing the impact of legislation on farmers and by working with the provincial Department of Agriculture to look

		at whether their policies and activities are geared towards the needs of emerging farmers. In terms of legislative issues, Kwanalu is currently looking at minimum wages, property rights, the new communal land bill and the development of emerging farmers. The respondent claims that it has taken some effort for the organisation to develop a sound relationship with the department primarily because there was some confusion between the various roles of the two organisations. There is now however, an understanding that Kwanalu is the client and the department the service provider. One big achievement of the organisation has been a review together with the department of the services it provides emerging farmers and what rules and regulations it needs to scrap or modify to better service this group.
KwaZulu-Natal	AGRILINK II	
KwaZulu-Natal	Ithala	Ithala Development Finance Corporation is KwaZulu-Natal's sole development finance agency. It was established in terms of the KwaZulu-Natal Ithala Finance Corp Act, Act 2 of 1999. Prior to this it carried out its activities as the KwaZulu Finance and Investment Corporation and has been active in the province since its inception in 1979. When they started as an organisation, much of their efforts were directed at helping very small communal farmers. Over the past few years their strategic focus has changed and they no longer finance this group and prefer to focus their efforts on financing entrepreneurs.
Eastern Cape	Uvimba	The Eastern Cape Rural Finance Corporation. Uvimba is owned by the Eastern Cape government, and is a product of the amalgamation between the Agricultural Bank of Transkei and the Ciskei Agricultural Bank. Uvimba took over part of the loan book of these two institutions but only those loans that had been performing well (about 10% of the total). Non-performing loans, such as the citrus loans, are administered by Uvimba and do not form part of its assets. Uvimba is primarily an agricultural financing institution (65% of its loan book). It is trying to rebalance this portfolio away from agriculture, as agricultural loans have not performed as well as other sectors. However, as a state owned entity it has little freedom, and has ended up financing a large proportion of communal farmers.
Eastern Cape	AGRILINK II	
Eastern Cape	Capespan	The spokesperson is a Capespan extension officer assigned to deal with the Fort Beaufort farmers. The area is high quality agricultural land and the emerging farmers should be able to deliver the highest quality citrus (water has never been a limiting factor). Since the late 1980s, however, volumes have been declining primarily due to the age profile of the trees and the fact that no replanting has taken place. Ulimocor, a parastatal company that owned and operated the farms until 1996, was liquidated and support for the emerging citrus farmers disappeared. The local citrus co-op, Katco, had to come onboard to

		support the farmers. Initially when he came to the area (1997) there were 22 farms, currently only 12 farms that are still operational – farms have been abandoned as farmers could not raise the necessary production capital to continue farming. The issue surrounding title deeds and the debt problem of the Alice-Kat farmers has also caused some farmers to cease farming.
Limpopo	SAAGA	The South African Avocado Growers Association is a producer organisation whose strategic objective is to act on behalf of SA growers to improve the production, packing and marketing of avocados. SAAGA achieves this objective through the services it offers. These include: a) Plan, initiate and co-ordinate research aimed at improving production and post harvest practices to increase yields and reduce post harvest losses. b) Provision of extension c) Promote the consumption of avocados by developing existing markets locally and aboard and through facilitating access to new markets d) Promote effective marketing (better matching of supply and demand) through providing growers with market intelligence and through improving intra and inter industry communication The organisation has an estimated 450 members (voluntary) and as such represents 85% of all South African avocado growers. Income is generated through member contributions, currently 60c per export carton and 1,5% of local gross sales price. Only 25 (7%) of members are black and they deliver a smaller percentage of total volumes. Emerging farmers have no representation in any of the organisational structures of the Association, which has not developed any policy or strategy document on how to make the industry more representative.
Limpopo	ARDC	The Agricultural and Rural Development Corporation. The respondent is the manager of a fruit farm owned by ARDC, a parastatal. This particular operation is located within the Legalameetse Nature Reserve in the Trichaartsdal area of the Limpopo Province. This is a sub-tropical fruit farm with 1,7 ha of litchis, 14ha of mangoes and 75ha of avocados. Most of the avocados are of the Fuerte variety with less than 2ha Hass avocados (high value variety)
Limpopo	Land Bank	The spokesperson is manager of the Land Bank in Tzaneen. The Bank offers a number of products to its clients whom it classifies according to the amount of security they are able to cede to the Bank. Bronze clients are able to offer no security, silver clients are able to offer some, while gold clients are those that other commercial banks will also service as they have sufficient collateral. Interest rates spreads offered to these groups varies to reflects their relative risk profiles. The loan application fees charged to the clients also varies according to status, with R28,50 for bronze clients and R500 for gold clients.