GTAC/ CBPEP/EU project on employment-intensive rural land reform in South Africa: policies, programmes and capacities

Summary Paper 1
Summary of research findings from seven thematic research studies informing policy proposals for employment-intensive land reform

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Contents

List of figures ................................................................................................................................. iii
List of tables ................................................................................................................................. iii

1 Overview .................................................................................................................................... 1

2 Thematic study No. 1: International perspectives ........................................................................ 3
   2.1 The modernisation paradigm and its impacts ................................................................. 3
   2.2 Structural adjustment and market liberalisation policies ............................................... 3
       2.2.1 Dismantling public extension and the emergence of alternatives ......................... 3

3 #Thematic study No. 2: Climate change .................................................................................... 4
   1.1 Climate change scenarios ................................................................................................. 4
   3.1 Vulnerability of small-scale farmers .............................................................................. 5
   3.2 The need for proactive adaptation measures ............................................................... 7
   3.3 Implications for land reform and smallholder development .......................................... 8

4 #Thematic study No. 3: Social and cultural aspects of small-scale agricultural production ....... 8
   4.1 General features of socio-economic structure in rural SA: .......................................... 8
   4.2 Rural household composition and labour capacity constraints ..................................... 8
   4.3 Social differentiation of small-scale farmers: ................................................................. 9
   4.4 Underlying social and cultural dynamics: ...................................................................... 9

5 #Thematic study No. 4: Value chains ....................................................................................... 9
   5.1 Impacts of agricultural deregulation .............................................................................. 9
   5.2 Dominance of large firms within the agro-food value chains ....................................... 10
   5.3 The supermarketisation of food retail ......................................................................... 10
   5.4 Thinking about market access ...................................................................................... 10
   5.5 Mass market consumption patterns and informal retail ............................................... 11
   5.6 On-farm versus off-farm employment opportunities ..................................................... 11
   5.7 The problem of data ...................................................................................................... 11
   5.8 The bias in input supply ................................................................................................. 11
   5.9 Policy recommendations ............................................................................................... 12
       5.9.1 Refocus the vision ............................................................................................... 12
       5.9.2 Address the problems in rural governance and administration ............................ 12
       5.9.3 Target women involved in small-scale production ............................................. 12
       5.9.4 Target selected spatial zones .............................................................................. 12

6 #Thematic study No. 5: Finance ............................................................................................... 12
   6.1 Emerging patterns .......................................................................................................... 12
   6.2 A lack of short-term production finance ...................................................................... 13
   6.3 Many financing tools but limited reach ........................................................................ 13
6.4 Agricultural finance for land reform ................................................................. 13
  6.4.1 Blended finance ......................................................................................... 13
6.5 A role for microfinance .................................................................................. 14
6.6 A role for subsidies? ...................................................................................... 14
7 #Thematic study No.6: Support services .......................................................... 14
  7.1 Evolution of support and extension approaches .............................................. 14
  7.2 Effectiveness of support services ................................................................. 14
  7.3 Institutional and capacity requirements ......................................................... 15
  7.4 Strategic foresighting to redesign support services ....................................... 15
8 #Thematic study No 7: Land tenure and land administration ............................. 16
  8.1 Most South African citizens’ land rights remain off register ........................... 16
  8.2 Land rights in communal areas vulnerable to land grabs ............................... 16
  8.3 Individual rights of members/beneficiaries of land holding entities remain unclear ...... 16
  8.4 Recommendations to strengthen tenure rights and land administration in different land reform settings ...................................................................................... 17

List of figures
Figure 1: Three documents summarising evidence for proposed policy framework on employment intensive land reform .................................................................................. 1
Figure 2: Predicted shifts in South African ecosystems and biomes as a result of climate change ....... 5

List of tables
Table 1: A hybrid typology of smallholder producers ............................................. 5
Table 2: Recommendations for tenure reform and land administration ........................ 17
1 Overview

This is the first of three papers which draw together and summarise the key findings from the extensive research conducted as part of a project to develop a draft policy framework for employment intensive land reform. The project has been managed by the Institute for Poverty Land and Agrarian Studies (PLAAS) in association with Phuhlisani NPC. It has been funded under the auspices of the Capacity Building Programme for Employment Promotion (CBPEP) managed by the Government Technical Advisory Centre (GTAC) with support of the delegation of the European Union to South Africa.

Figure 1: Three documents summarising evidence for proposed policy framework on employment intensive land reform

In total the research has analysed:

- Key thematic issues impacting on the design and potential success of land reform including:
  - key international lessons and trends promoting employment-intensive land reform and local economic development;
  - impacts of climate change;
  - contemporary social and cultural factors influencing small-scale agricultural production;
  - the working of agricultural value chains and their potential to include small-scale producers;
  - agricultural finance available to capitalise small-scale production;
  - agricultural support services; and
  - the role of land tenure and land administration to secure land rights.

- The potential of an appropriate commodity mix to promote employment intensive land reform and sustainable livelihood opportunities including production of:
  - livestock;
  - wool;
  - fresh vegetables;
  - subtropical fruit; and
o sugarcane.

- Four local municipality case studies reflect on the issues raised by the thematic and commodity studies and examine local opportunities for accelerated and expanded land reform in different settings and associated opportunities for creating employment.

Summary Paper #1 summarises the findings from seven thematic studies commissioned to inform the policy development process. The thematic studies set the scene and provide in-depth reviews of different aspects of the context which must be understood and factored into the design of an employment-intensive land reform strategy. This includes a focus on key trends and issues arising from a scan of international experience.
2 Thematic study No. 1: International perspectives

2.1 The modernisation paradigm and its impacts

Worldwide, smallholder support models have largely been located within a modernisation paradigm seeking to ensure supply, productivity and profitability of agricultural production. This promoted a standardised technical package based on improved seeds, chemical inputs (fertilizers, herbicides, insecticides) and mechanization. This was first disseminated through public extension services and backed by a system of subsidies (credit, equipment, inputs, agricultural prices) and linked market regulation. This improved productivity of the global agricultural system but this was offset by major social and environmental costs.

This modernization process accelerated differentiation within global agriculture resulting in the concentration of farm ownership and enterprise structures, creating a dual sector with large farms and numerous marginalized smallholders. At the same time the process has seen a massive exit of workers from agriculture as capital-intensive and mechanised farming predominated.

This process has developed in parallel with the progressive vertical integration and concentration within the agri-food system which has entrenched the dominance of food processing companies and retail chains.

2.2 Structural adjustment and market liberalisation policies

With the implementation of liberalization policies from the 1980s and the continuation of market development, the private sector took the lead in the modernisation process providing inputs, equipment and services at competitive market prices. This drove global and local market integration and introduced new models of contract farming through networks of preferred supplies able to produce at scale and able to meet stringent product standards.

The role of the public sector was diminished and restricted to providing services in areas which were not profitable to the private sector and providing public goods including basic infrastructure, land administration systems, a regulatory framework along with some education, training, information and research. ‘Agripreneurs’ became the primary focus of support services and small-scale producers were increasingly neglected.

2.2.1 Dismantling public extension and the emergence of alternatives

Globally, with some notable exceptions, national public extension services have been dismantled or significantly scaled back. To counter the limitations and biases inherent in the orientation of private advisory services, some new models supported by public-private partnerships have emerged. These seek to promote innovation systems and improved connection between research, training and knowledge access.

The fundamental unsustainability of the dominant modernization model has been increasingly recognised along with the direct contribution of industrial agriculture to the acceleration of climate change. Industrial agriculture currently accounts for one-fifth of total greenhouse gas emissions. This has resulted in a search for alternative models located along a gradient between employment of more environment-friendly ‘smart solutions’ through to a more radical disengagement from the modernization technical package to the adoption of regenerative farming systems such as agroecology. Overall, the quest is for redesigned production and food systems that ensure food security and reduces environmental impacts.

With the continuing dominance of market-led approaches incremental changes are more likely to occur, but innovative incentives could be developed if political exists including payments for environmental services.
The limitations of siloed sectoral policies to deal with the challenges of an increasingly complex and interconnected global environment are increasingly acknowledged. This has resulted in a growing interest in place-based policies, including for the development of more sustainable food systems.

As other studies have shown, South Africa has remained firmly wedded to market-driven solutions. These advocate more inclusive business models and promote closer integration into national and global value chains. However available evidence indicates that this approach has had limited benefits for small-scale black producers, tending rather to favour a small cohort of small-scale capitalist farmers. It results in a necessary focus on market access for smallholders but could support a progressive move from inclusive business models to inclusive market models based on the reinvigoration/development of local and regional markets supporting a rebalancing of the agri-food system.

Globally there is an increased recognition of complexity and the need to develop adaptive and localised planning and agricultural support systems. This suggests that attention needs to focus on the development of customised smallholder support systems at local municipality level supported by help desks, knowledge hubs and data management systems at the district scale. It is proposed that this represents a feasible and affordable option that will contribute to broader territorial development objectives.

3 #Thematic study No. 2: Climate change

Agriculture is widely considered as being among the most vulnerable sectors to the potential effects of climate change. The potential impacts of future climate changes on a given farming system or community – for example, direct impacts on the productivity of these systems, and the resulting long-term changes in land use and ownership – are inherently unpredictable.

Climate change impacts are categorised into four orders. First order impacts which include changes to basic climate parameters such as increased temperature and changes in volume and frequency of rainfall can be predicted with the highest degree of certainty while knock-on effects across orders 2 – 4 can be forecast with decreasing levels of confidence.

1.1 Climate change scenarios

Several studies have been conducted to determine the projected climate change futures for South Africa under various greenhouse gas (GHG) concentration scenarios. Under a moderate GHG concentration scenario (RCP4.5) for the mid-future period of 2040-2060, temperature increases of between 2 and 3 °C are projected for the country, with the greatest warming expected to occur over the western interior regions. Most projections show a decrease in rainfall, although some projections suggest an increase in rainfall over the eastern and central interior, but with a much higher incidence of extreme weather events.

The strongest warming has been observed in the drier western parts of the country, in the Western Cape and Northern Cape, and in the Eastern parts of the country, in Limpopo and Mpumalanga, and extending southwards to the coastal areas of KwaZulu-Natal (DEA, 2013; Kruger and Nxumalo, 2017; DEA,2018). The observed rate of warming in these parts of the country has been 2°C per century – in the order of twice the global average. Maximum daily temperatures have increased significantly in the Western Cape, east coast of KwaZulu-Natal and Gauteng, while the central interior experienced a relatively small warming trend (DEA, 2018). Overall, there has been a general increase in extreme warm events and a decrease in extreme cold events across the country (Kruger and Nxumalo, 2017).

Three risk scenarios – low, medium and high – project the implications of climate change on the nine key biomes which are mapped in Figure 2 below.
3.1 Vulnerability of small-scale farmers

Agriculture is highly vulnerable to climate change. However, producers at different scales have varying capacity to adapt to the risks posed by climate change. There are numerous typologies to conceptualise agricultural producers at different scales. These have been combined in the table below and a hybrid typology proposed.

Table 1: A hybrid typology of smallholder producers

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<td>Source</td>
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<tr>
<td>1</td>
<td>Subsistence-oriented smallholders</td>
<td>Market-oriented smallholders in loose value chains</td>
<td>Market-oriented smallholders in tight value chains</td>
</tr>
<tr>
<td>2</td>
<td>Welfare dependent petty commodity producer</td>
<td>Agricultural petty commodity producer</td>
<td>Salaried small-scale capitalist</td>
</tr>
<tr>
<td>3</td>
<td>Food farmers</td>
<td>Employers</td>
<td>Profit-makers</td>
</tr>
</tbody>
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1 Cousins and Chikazunga (2013)
2 Olofsson (2019)
3 Ncube (2018), from Van Averbeke and Mohamed (2006)
**Proposed 'hybrid' typology**

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<td>4</td>
<td>Subsistence farmers: eat everything grown, occasionally sell to processors</td>
<td>Farmers whose success is based on income from supplementary work or pension</td>
<td>Farmers who sell to formal markets and export</td>
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<tr>
<th>Subsistence-oriented</th>
<th>Market-oriented</th>
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All scenarios considered in the four local municipality case studies indicated the likelihood that multiple market-oriented value chains are vulnerable to the combined effects of heat and water stress. Direct negative impacts will include reduced annual production, quality and shelf-life of horticultural products such as fresh vegetables, table grapes, and temperate fruit crops (including high-value export produce).

Production of various livestock products is also likely to be constrained, through direct stress impacts on animals as well as indirect effects such as forage/pasture availability and pests and disease. The potential impacts of lost agricultural income will manifest in different ways for each of the three categories of smallholder.

In contrast with the well-resourced and capitalised commercial farming sector, most subsistence and smallholder farmers typically lack reserves of cash or other assets to buffer against extended periods of stress or to recover from short-term shocks. Even small changes in climate-related risks may result in disproportionate impacts on livelihoods and household wellbeing. In addition, the financial constraints on vulnerable farmers to invest in measures to safeguard or increase their production through, for example, improved inputs and infrastructure, is a widespread barrier to the adoption of alternative “climate-smart” practices and technologies and other efforts to increase resilience of farmers over the medium to long-term.

However, while several broad assumptions are frequently made of the general characteristics of smallholder farming households, there are additional complexities and diversity within this group, particularly in terms of each individual’s endowments and assets, farming practices, livelihood trajectories and priorities. Oloffson (2020) notes the tendency for policy and development frameworks to “view market-oriented smallholders as largely undifferentiated, as if they were economically, socially, and politically homogenous, assumed to be equally capable of developing along a linear path of expansion and commercialization”. Rather, the complex and subtle differences between and within categories of smallholder farmers must be appreciated and understood to respond adequately to the climate vulnerabilities of a strictly defined stakeholder group. This requires much refined and dynamic farmer profiling tools.

All scenarios considered in the municipal case studies spanning four provinces suggest the likelihood that production for subsistence needs will be particularly vulnerable to the combined effects of heat and water stress. The most obvious implication of this outcome is the sensitivity of subsistence-oriented households to a loss of food produced for consumption.

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Of the three categories of smallholder proposed, the potential impacts on market-oriented smallholders are the most challenging to predict. This category of farmer is characterised as having a mix of subsistence and market-oriented production and may also have the benefit of additional outside income or employment. Depending on the relative proportion of household production that is intended to be marketed, these households are likely to be moderately or strongly sensitive to impacts on market-oriented value chains, as well as impacts on food security. However, relative to the other two categories of smallholder, the market-oriented smallholder households may also have several features that increase their adaptive capacity. Firstly, these households may have the benefit of additional income sources, which can be used to invest in appropriate resilience/adaptation measures, and which will also support households through periods of lost production. In addition, it is likely that these farms are relatively less capital-intensive than commercially oriented smallholders, and therefore can consider a wider range of alternative options. In the case that long-term agricultural prospects are discouraging, and these farmers are not motivated to invest in measures to safeguard production, farmers in this category are likely to choose one of the following two options

- abandon market-oriented farming as an unprofitable exercise, revert solely to limited subsistence farming for household consumption and/or accumulation of livestock as a wealth and provisioning asset; or
- abandon farming entirely, including selling livestock, assets or entire property. As with the impacts predicted for small-scale capitalist farmers, both latter outcomes will contribute to losses in seasonal or permanent jobs.

3.2 The need for proactive adaptation measures

Given the current and future vulnerability of South Africa’s agricultural sector, proactive adaptation interventions are required to support the response of small-scale farming communities to climate change and variability. The design of any adaptation support programmes and policies must ensure close alignment with local context and stakeholders, to ensure that all interventions are appropriate, context-specific and user (i.e. farmer) driven. Adaptation options relevant to small-scale farmers include the following:

- farm management and technology;
  - adopting alternative cultivars, mixed farming systems, or soil management practices and taking on new technologies (e.g. irrigation, shade nets)
- financial instruments;
  - crop and weather index-based insurance schemes
- diversification on and beyond the farm;
  - non-agricultural livelihood strategies
- government interventions;
  - national and subnational policies that could aid communities to deal with short- or long-term drought subsidies and incentives for crop substitution and farming inputs (e.g. livestock vaccines), investments in improved food system infrastructure (e.g. cold chain and transport facilities), reducing agricultural risks, tenure reform, enhanced good governance and social safety nets
- knowledge management and networks
  - practical training for farmers and extension officers) and micro-level practices (such as the use of decision support systems and seasonal climate forecasts)
3.3 Implications for land reform and smallholder development

A broad concern with respect to the impacts of climate change on land reform is the need for policy and public interventions to distinguish clearly between the needs of subsistence-oriented households, that are most strongly focused on household food consumption, and those of market-oriented smallholder farmers who are focused on marketing and production of agricultural products. Both categories of farmer, and the intermediate categories in between, are expected to experience multiple negative impacts on production. However, the implications of the climate change impacts at the household level, and the motivations and options for the household to respond, are distinct enough to warrant detailed policy consideration and tailored support at the field level.

In addition, there is a need for any policy or intervention that aims to minimise the impacts of climate change on smallholder households to consider and clearly articulate the specific climate change vulnerability to be addressed, as well as the intended outcomes and indicators of successful small-scale farmer adaptation.

4 #Thematic study No. 3: Social and cultural aspects of small-scale agricultural production

This study aims to identify the key social and cultural elements of relevance to small-scale agricultural production in rural South Africa and explore their implications for policy development to promote a programme of employment-intensive land reform.

4.1 General features of socio-economic structure in rural SA:

There is significant fluidity and functional diversity in the social structures that underpin small-scale farming groups, including:

- Households are spatially “stretched” with fluid membership, as members straddle urban and rural spaces and livelihoods. Households are better characterized today in terms of patterned, regular transfers of resources than as units of co-production, co-residence or co-consumption.
- Marriage, household formation and composition have changed in response to government policies, historical migration and structural unemployment, reconfiguring the social norms and patterns of authority and obligation that, along with markets, shape access to land, capital and other resources, including household labour.
- Small-scale farmers are highly differentiated and pursue land and non-land-based livelihood strategies. However, rising unemployment, labour casualization, and the high costs of inputs increasingly restrict income transfers between farming and non-farming activities.
- Government social grant transfers partially cushion the uncertainty of wages because they provide regular and predictable cash injections, albeit in small amounts. They have also contributed to reshaping gender and generational relations as highlighted in the value chain study above.

4.2 Rural household composition and labour capacity constraints

It is frequently assumed that small-scale farmers have ready access to kin and household labour. However, research shows that rural households do not always have enough labour capacity (or surplus labour capacity) to engage meaningfully in agriculture. Data suggest that many rural households are effectively formed around a social welfare grant recipient (Klaasen, and Woolard, 2005). Working-age adults are the least likely to be locally resident in these households and are

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5 This section is inserted from the value chain study above.
more likely to migrate to urban areas (Duflo, 2003). Many rural households are therefore marked by high dependency ratios and effectively function as sites of retreat for the ill, injured and retired from urban labour markets. Rural households comprising school-going children and the elderly are relatively constrained in their ability to engage in agricultural production.

Furthermore, even if there is enough surplus labour capacity within a rural household, it cannot be assumed that it can be readily mobilized for agricultural purposes. Intense gender and generational conflicts often accompany small farmers’ efforts to mobilize unpaid family labour (Hull, 2014). These and other challenges which inhibit the growth of the small-scale farming sector are frequently overlooked.

4.3 Social differentiation of small-scale farmers:

Intra-household dynamics impact critically on how small-scale farm production is organized and on its productive potential:

- Those small-scale agricultural producers who are expanding their production tend to be middle- to older-aged men using income from wages or government old age grants to sustain farming operations.
- Older women in receipt of government old age grants also invest in irrigation plots or small crop production in order to generate surplus income.
  - These farmers hire in small numbers of labour on a part-time, seasonal or permanent basis, and supply combinations of formal and informal markets.
- Younger unemployed adult men who seek to farm frequently face land, water and capital constraints.
- There appears to be little evidence that young women are engaging in agriculture for informal or formal markets.

4.4 Underlying social and cultural dynamics:

- The changing composition of households as a result of declining rates of marriage have resulted in a rising number of rural households formed around single women.
- In terms of rural-urban household relations, rural areas have been profoundly affected by mass rural-urban migration.
- The livestock economy continues to play a central role in creating kinship and structuring its hierarchies.
- The burden of structural unemployment has fallen mostly on youth resulting in circular migration, declining rates of marriage and the collapse of kinship relations.
- Social differentiation amongst small-scale farmers is based on the degree to which households can secure the resources to invest in and sustain farming enterprises.

5 #Thematic study No. 4: Value chains

5.1 Impacts of agricultural deregulation

The highly dualistic nature of the agriculture in South African is generally well understood (NPC, 2011). South Africa’s agricultural sector has long been dominated by large-scale, capital-intensive forms of agro-industrial production, whereas small-scale farmers and farming have been marginal for over half a century. South Africa’s agrarian structure hence reflects the legacy of colonialism and apartheid, notably historically generous state support for white farmers, alongside the dispossession of black producers. These producer dynamics have intensified with post-apartheid economic liberalization and agricultural market deregulation, which saw agricultural tariffs and subsidies cut, single channel marketing boards abolished, and public agricultural research funding slashed (Visser & Ferrer 2015).
The Marketing of Agricultural Products Act (MAPA) of 1996 swept away statutory systems governing agricultural products, as markets forces and large, often multinational, firms grew in influence (Greenberg, 2010). The predominance of large scale in South Africa’s agricultural sector extends beyond primary production farming. Much of the sector, including agro-processing, packaging, distribution, manufacturing and retail, is highly concentrated, capital-intensive and corporate-dominated.

5.2 Dominance of large firms within the agro-food value chains

In South Africa, formal agricultural value chains dominate - indeed even constitute - the larger context, within which informal agricultural value chains exist. In South Africa agro-food production is dominated by a small number of large firms. Several value chains, such as for animal feed, meat, poultry and eggs are characterised by vertically integrated firms and forms of production.

Downstream of primary production in the agricultural value chain are agro-processing and food manufacturing. Both have significant economic and employment impacts. For example, primary production agriculture contributes an estimated 2.7% to GDP, but this rises to 12% with the inclusion of agro-processing (BFAP, 2013). Agro-processing is the largest activity in South Africa’s manufacturing sector, accounting for 29% of total manufacturing value from 2006–2010 (Greenberg, 2016).

5.3 The supermarketisation of food retail

In South Africa up to 70% of food sales are dominated by the big four corporate supermarket retailers (Shoprite, Spar, Pick ‘n Pay, and Woolworths). The steady formalisation and ‘supermarketisation’ of food retail means that informal markets are small and comparatively ‘thin’ in South Africa.

The growth of centralized procurement in retail has seen the rise of preferred suppliers. Again, this is consistent with global trends where supermarket chains contract with smaller numbers of large preferential suppliers that are able to meet demanding requirements of product quality, volumes and consistency of supply. Preferred suppliers source directly from producers and enable tight fresh produce value chain management. This means that supermarket fresh produce buyers have abandoned spot markets (with the minor exception of some independent and franchise stores), as well as traditional fresh produce traders and wholesalers.

5.4 Thinking about market access

The notion of linking small-scale farmers to markets and facilitating their participation or inclusion into agricultural value chains has long been influential. Ambitions for creating employment through labour-intensive small-scale farming, and their ‘inclusion’ into agricultural value chains, have found repeated official expression in policy pronouncements, ranging from the Economic Development Department New Growth Plan (EDD, 2010) to the National Development Plan (NPC, 2011), and AgriBEE (Jacobs, 2012). However, these notions of small-scale farmer inclusion focus on formal sector markets and value chains where there are substantial barriers to entry.

Small-scale farmer successes across a range of commodity sectors remain rare, hard-won and often precarious. There are positive examples where small-scale farmers supply to franchise Spar supermarkets in Thoyandou and Giyani (Vermeulen and Biénabe, 2006). However, these case studies remain exceptions and hard questions remain concerning how much scope there is to scale up such arrangements, especially in parts of rural South Africa closer to competing sources of supply, or with less favourable agro-ecology.
An extensive study by Okunlula et al. (2016), paints a picture of the considerable difficulties facing small-scale farmers participation in formal agro-food chains. Cousins shows 184 000 black households (approximately 7.3% of the 2.5 million black households engaged in any agricultural production) sold agricultural products to consumers. Of small-scale non-subsistence producers, around 80% sold to local buyers from within the same district, 6% to those from neighbouring towns and cities, and only 3% to formal markets (Cousins, 2018). This indicates that most small-scale farmers participate in informal (sector) agricultural value chains and markets.

Overall evidence indicates that the National Fresh Produce Markets (NFPMs) have stagnated, with little volume in growth since the 1990s, despite the steady rise in agricultural production (Vermeulen et al, 2008). Little data exists on what proportion of marketed produce originates with small-scale farmers, but Louw et al. (2007) reported over a decade ago that 90% of the NFPM produce is sourced from commercial farmers. Despite these limitations the NFPMs remain important as they provide a stable market outlet for small-scale farmer (although there are complaints about prices and high transaction costs). They also remain a primary source for informal retailers to source fresh produce.

5.5 Mass market consumption patterns and informal retail

Mass market (African) consumers typically spend their wages, remittances or social welfare grants in a large monthly supermarket buying trip. Thereafter they access the informal retail sector brands towards the lean end of the month to purchase smaller quantities, pack sizes and even cheaper foods. So, despite the domination of corporate supermarkets, there remains scope for small-scale farmers and informal retail suppliers operating as an adjunct to, rather than in direct competition with, the formal sector.

5.6 On-farm versus off-farm employment opportunities

Often employment growth is to be found elsewhere in the value chain e.g. upstream in the production of inputs or downstream with agro-processing, food manufacturing, logistics and distribution. Consequently, some of the most promising domains for future employment growth may be off farm in the broader Rural Non-Farm Economy (RNFE) (Haggblade and Hazell, 2010). This is significant because too narrow a focus on on-farm production incurs the risk of overlooking the greater potential employment impacts elsewhere.

This is not to suggest that the employment potential of primary production (especially small scale) agriculture is insignificant. It rather cautions that the employment impacts of agriculture should not be narrowly conflated with the jobs directly created (or sustained) through farming. Therefore, arguments in support of small-scale farming need to consider the potential impact of the sector on employment elsewhere and indirectly within the rural economy. The indirect catalysing effects of small-scale agriculture within the rural economy may be more significant than the direct employment potential of production itself.

5.7 The problem of data

Overall, it remains difficult to produce meaningful estimates of the economic impact (and size) of informal agricultural value chains and employment. Small-scale agriculture and the informal sector more generally are beset by measurement and data issues. Even fundamental questions such as the size of the sector and the number of people employed within it vary widely in different projections.

5.8 The bias in input supply

The challenges facing input supply for small-scale farmer are also fundamental. In South Africa prevailing systems for the provision of inputs and input supply chains are designed to service large-scale production systems. This bias in input supply has been exacerbated by the post-apartheid decline of public-funded agricultural research and agricultural extension. Much domestic agricultural innovation is effectively privatised, while much agricultural extension is undertaken by
market-incentivized agents of seed and agro-chemical companies. While some small-scale farmers can access this expertise, market forces dictate that these services are biased towards larger-scale farmers. The systemic bias within agricultural input supply is further illustrated by the example of small rural supply stores, some of which have been prosecuted for decanting fertilizer into small containers and quantities better suitable to small scale farmers\(^7\) (Neves and Hakizimana, 2015a). This illustrates how input supply networks have failed to meet the needs of small-scale farmers.

5.9 Policy recommendations

5.9.1 Refocus the vision

“Clarifying the vision and setting priorities remains the big open challenges in the government’s effort to support small scale agriculture” (Aliber and Hall, 2012), These need to reverse the bias towards large-scale commercial agriculture and properly understand the support needs of small scale production systems at different scales.

5.9.2 Address the problems in rural governance and administration

There is a need to improve rural governance and address administrative weaknesses particularly in the former homeland areas. Efforts to support small-scale farmers would benefit from improving public services in rural areas. This includes clarifying institutional mandates, addressing administrative bottlenecks and improving intergovernmental co-ordination.

5.9.3 Target women involved in small-scale production

More attention needs to be paid to women involved in agricultural production at different scales. Small-scale female farmers are evident in just about every commodity sector reflecting ongoing changes in gender relations and household composition\(^8\).

5.9.4 Target selected spatial zones.

Aliber and Hall (2010), note that over a quarter of small-scale black farmers are clustered in a small number of districts (viz. Vembe district in Limpopo, OR Tambo in Eastern Cape, Ugu in KwaZulu-Natal and Ehlanzeni in Mpumalanga). For this reason, the crowding in of infrastructure and broad agricultural support can increase potential for positive impacts.

6 #Thematic study No. 5: Finance

This paper examines how South Africa’s smallholder farmers and small-scale black commercial farmers (SFs and SSBCFs) presently finance their agricultural operations (excluding land acquisition). It sets out to identify where the current system could be improved to support an employment-intensive land reform focused on these types of farmers.

The paper examines the main sources of loan and grant finance to farmers. It reviews the recent performance and current status of the various institutions, products and programmes. The paper also briefly considers what we know about self-financing, as well as other financial services and issues such as input subsidies, e-money and insurance. In the process the paper traces recent policy discussions and debates regarding the provision of agricultural finance. The most salient policy development in recent years is the emergence of a consensus that grant finance should be reduced in favour of loan finance, which has been followed by a problematic attempt to introduce ‘blended finance’.

\(^7\) It is illegal, as it is non-compliant with the requirement for the formal registration of the new pack sizes.

\(^8\) Only cattle production, still seems to remain the sole domain of men.
6.1  Emerging patterns

While it is difficult to develop a precise picture of the funding landscape on account of lack of or contradictory data, the current flux within the sector, and the fact that some sources (e.g. commercial banks) are composites which we have not managed to explore in depth, some patterns do emerge.

Currently grant finance is almost on a par with loan finance. Overall loan finance is channelled more towards larger-scale black farmers while most beneficiaries of grant finance are towards the subsistence end of the spectrum. In principal, much of the support to subsistence producers is meant to promote commercialisation, but appears unable to do so, suggesting that at least some of the grant programmes are ill-conceived. Commercially oriented smallholder farmers – the missing middle - lack access to both grant and loan finance which points to a need to upscale access to loan finance.

6.2  A lack of short-term production finance

The general absence of short-term production finance remains a key problem. MAFISA tried to fill the vacuum, but at present is operating at an extremely low level. It has been argued that its management challenges have not warranted recapitalisation. The Land Bank, meanwhile, has struggled to do business at scale with small-scale farmers, and has struggled to provide production credit, especially unsecured production credit.

6.3  Many financing tools but limited reach

There are many financing tools in place to support black farmers in general as well as land reform beneficiaries in particular. However, their collective footprint is modest to small relative to current needs, and completely inadequate relative to the needs implied by a significantly scaled up redistribution programme aiming to support meaningful numbers of beneficiaries.

6.4  Agricultural finance for land reform

What might a land reform-capable agricultural finance system look like? The paper ventures a few suggestions. First, taking a cue from the Integrated Agriculture Development Finance Policy Framework (IADFP) for Smallholder Farmers of 2015, there may be a rationale for land reform start-up grant for newly settled small-scale beneficiaries to address their most urgent input, infrastructure and equipment needs in order to commence production. A further possibility is that, for the sake of simplicity, this grant could be a flat R80 000 per farm. At CASP's current budget level, this would accommodate almost 12 500 SF / SSBCF beneficiaries per year, which would greatly exceed the current annual numbers of land redistribution beneficiaries. Moreover, making use of CASP would make sense, not least because it was originally designed for this purpose.

6.4.1  Blended finance

Second, at present it seems there is little doubt that government intends to pursue some kind of blended finance model, notwithstanding the mis-start mentioned above. This model combines an initial government contribution in the form of a grant, subsidy or guarantee together with a subsequent commercial investment. Critiques of this model usually reveal that targets for private sector funding are seldom met. The challenge is to ensure that SFs and SSBCFs get an appropriate share of the pie, which might imply setting clear rationing guidelines. At the same time, it could be suggested that what changes along the spectrum from smallholder to larger-scale commercial farmers is the nature of the blend, with larger-scale farmers required to have a larger loan element relative to a fixed grant element, e.g. the start-up grant mentioned above.

The administration of a blended finance approach might prove challenging, especially if one is seeking to reach ever larger numbers of farmers. One possibility is to return to something like the agency agreement that existed between the Land Bank and the Department of Land Affairs in the
early days of LRAD. The arrangement in effect gave the Land Bank control over a certain quantum of grant finance to which it could match its own loan finance. However, while the purpose of that arrangement was to facilitate land purchase, in this case – i.e. for SFs and SSBCFs whose land acquisition costs would presumably be covered through other routes – it would be for improvements, equipment and machinery.

Presumably the focus of blended finance will be on medium and long-term loans, suggesting that there will remain a gap in terms of short-term production loans. Whether existing institutions can be reconfigured in order to address this shortcoming is unclear. The question is whether MAFISA should be resurrected, the Land Bank urged to greatly improve on its ability to meet the needs of SFs and SSBCFs, some combination of the two, or some other solution entirely.

6.5 A role for microfinance

One possibility that should not be overlooked is some experimentation with non-traditional partners. South Africa is home to a variety of effective and innovative microfinance institutions who could perhaps be induced to venture into small-scale farmer production loans under the right circumstances.

6.6 A role for subsidies?

Lastly, although current international practice does not favour input subsidies there are potentially some significant advantages of subsidies over grant or loan finance. The key consideration is the administration of the support; vetting large numbers of loan applications is onerous work, not to mention seeking to ensure repayment. An input subsidy might offer a lower degree of support than WHAT for, say, purchasing seed, but one can imagine that it would be far simpler to manage, e.g. by striking agreements with agro-dealers and determining a way that subsidies are enjoyed by those for whom they are intended. The system that the FAO has implemented in Zambia to facilitate access to agricultural inputs via agro-dealers could provide a model, if not the mechanism. More expensive farming needs such as fixed improvements or major machinery/equipment could still be catered for via loans and/or start-up grants.

7 #Thematic study No.6: Support services

7.1 Evolution of support and extension approaches

A new policy on extension and advisory services was approved by cabinet in 2016. However, there is little evidence that it is shaping current planning and practice and it seems to have been subsumed by a new draft national policy on comprehensive producer development support. A range of initiatives have been developed by the private sector – different commodity associations, Agri-SA, support provided by agribusiness and agro-processing companies, centralised and decentralised supermarket chains, mentoring schemes, services provided by farmer-based organisations and cooperatives as well as NGOs, CBOs and civil society, including black farmers’ unions.

7.2 Effectiveness of support services

Specific problems experienced by government extension services include continued adherence to outmoded models of extension, inadequate linkages between research extension and producers on the ground, and capacity constraints and costs, which mean that individual extension agents often provide expensive services with questionable impact. Causes include fragmented service offerings, and a continued focus on policy development without a corresponding emphasis on policy implementation and evaluation.

The Extension Recovery Plan boosted the number of extension practitioners in the state sector from 2210 in 2006/7 – 3031 in 2015/16 - an overall increase of 37%. However, this allocation is unevenly distributed with key provinces like Eastern Cape, Limpopo and Mpumalanga falling far short of the recommended staffing levels.
In a critical review of the extension service and land reform performance Aliber noted that the nine provincial departments spend 4 billion rand a year on extension which reaches just 11% of combined smallholder and subsistence households. Extension services are widely regarded as poorly structured and ineffective. One billion is spent on the failed Fetsa Tlala programme characterised as “trying to superimpose the norms of large-scale commercial farming in the former homeland context, rather than attempting to help small-scale farmers build on what they are already doing” (Aliber 2018).

DAFF’s own assessment in 2018 was that:

National extension and advisory services in the country is (sic) plagued with a number of structural and counterproductive challenges that limit the efficiency and effectiveness of efforts and investments in the development of smallholder producers in particular. The poor linkage still remains one of the major challenges within agriculture, forestry and fisheries sectors in South Africa where research, extension and producers are at best disintegrated.

The graduation narrative has also persisted, which presents the purpose of support services as being to enable small-scale producers to graduate into fully-fledged commercial farmers. This frequently ignores the ways in which land and land-based livelihoods contribute to household livelihood security, while not necessarily being the main source of household income and economic activity.

Overall, however we confront a multitude of institutional challenges with multiple actors, high levels of uncertainty and many interlocking and interdependent factors. Yet despite the broad trends summarised above, evidence presented in commodity studies highlights instances of successful small-scale farmers and effective support services but emphasizes their context specificity. These successes almost invariably involve meaningful engagement and recognition of the challenging realities facing small-scale producers. On the part of providers, they combine listening and learning, which are at the centre of successful small-scale farmer support provision.

7.3 Institutional and capacity requirements

There is a need for policy clarity and the appropriate choice of extension paradigms, coupled with the adoption of a hybrid approach in order to clarify the role of the state, and conceptualise its relationship with small producers, the private sector and NGO support programmes. International experience highlights different approaches:

- massive direct state investment in extension, as in Ethiopia,
- a more pluralistic approach as in India, where state and other actors play different roles in servicing millions of small producers.
- private sector-led extension approaches such as the training of farm business advisors as in the Mozambican model.

7.4 Strategic foresighting to redesign support services

Evidence from international experience and local research suggests that strategic foresighting can generate solid alternatives. However, this process works best when inclusion is conceived of as a prerequisite, rather than as an obstacle to change. This will require according a prominent role for existing and aspirant small-scale producers, the private sector, relevant NGOs and organs of state. It involves thinking beyond agriculture to integrate a focus on natural resource management and the impacts of climate change.

For such an approach to work a deeply entrenched culture of mandate protection must be overcome where organs of state narrowly interpret the scope of their legal responsibilities and guard core functions where there is overlap requiring collaboration with others. This presents enormous challenges and requires government-wide attention if change is to take place at scale. It is suggested
that this can be advanced through the conscious creation of innovation spaces and the recognition that where officials are expected to collaborate actively this must be built into job descriptions, specified in key performance areas and linked processes of performance review.

Territorial planning identifies the importance of investing in locality-based support services. These involve

- the allocation of resources to support local process facilitation, research, audit and support teams;
- the compilation of credible shared data on small producers, existing projects and land acquisition options;
- the clarification of land needs and the identification of essential social, institutional, technical and business support requirements;
- integration between local front-end services and provincial and national back office services, to provide information and data sharing platforms for mapping, planning, documentation and reporting.

8 #Thematic study No 7: Land tenure and land administration

This study examines key features of smallholder tenure and land administration systems across a wide range of different settings – in the former homelands; on land transferred through land reform and through different iterations in the landform programme. It reviews the relative security of land rights of small producers in different spaces.

8.1 Most South African citizens’ land rights remain off register

The land rights of at least 60% of the South African population remain off register, unrecorded and potentially insecure. These include the rights of between 17 and 18 million people living in former bantustan areas, together with workers and dwellers on farms and a wide range of urban residents in townships and informal settlements.

8.2 Land rights in communal areas vulnerable to land grabs

The rights of many people who have obtained access to land through the land reform programme remain insecure for different reasons. In the former communal areas land rights have been protected by the Interim Protection of Informal Land Rights Act (IPILRA) which specifies that the land rights holders cannot be deprived of their rights to land without their consent. However, the recent promulgation of the Traditional and Khoisan Leadership Act is widely regarded as fundamentally eroding the limited protections provided by IPILRA and renders the rights of people living in communal areas vulnerable to land grabs and dispossession. At the same time a collapse in land administration systems makes land rights management extremely challenging. The absence of herders and agreed rangeland management systems means that livestock encroach on planted lands which is a contributory factor to the withdrawal of an estimated half a million households from farming between 2011 and 2016 – or one in five crop farming households.

8.3 Individual rights of members/beneficiaries of land holding entities remain unclear

The report of the High Level Panel and the Presidential Advisory Panel record the failure of the state to adequately support landholding entities established to hold land on behalf of beneficiaries where groups of people have obtained land through different land reform sub programmes.

Currently, the state acquires and retains ownership of land and leases it to selected beneficiaries. However, evidence suggests that many people on this land either do not have leases, or their leases have expired. There are also indications that the determination of rental calculations is inconsistent, creating a number of anomalies and challenges for the lessees.
8.4 Recommendations to strengthen tenure rights and land administration in different land reform settings

Table 1 below identifies the full range of tenure settings and makes recommendations for tenure regime and land administration capabilities to secure people’s rights and create an enabling environment for small-scale agricultural production. This includes a focus on unlocking the productive potential of land already transferred through the land reform programme.

Table 2: Recommendations for tenure reform and land administration

<table>
<thead>
<tr>
<th>Tenure setting</th>
<th>Tenure reform recommendations</th>
<th>Land administration recommendations</th>
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<tbody>
<tr>
<td>Former bantustans</td>
<td>Adopt the HLP recommendations to pass the Protection of Informal Land Rights Act to:</td>
<td>Train and resource independent facilitators to conduct land rights enquiries and facilitate democratic decision making</td>
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<td></td>
<td>• recognise beneficial occupation of land</td>
<td>Provide a public data base of all certificates of consent enabling deprivation of land rights approved in terms of PILRA to provide oversight over land deals</td>
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<td>• protect informal rights to land which are often shared and overlapping and governed by living customary law</td>
<td>Rethink basic requirements for cadastral information and rights recordal in different settings across the continuum of land rights with special attention to communal tenure settings</td>
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<td>• ensure that no person’s informal right to occupy land may be deprived without their consent</td>
<td>Pilot low cost, ‘good enough’ options to repurpose the cadastral and land records system to enable adequate description and registration of land rights in different settings across the continuum of land rights.</td>
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<td></td>
<td>• protect those whose rights are off register and vulnerable paying particular attention to the land rights of women</td>
<td>Adapt spatial and land tenure information systems to recognise social tenures and fuzzy/dynamic boundaries while ensuring gender equity with respect to land and property rights</td>
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<td>• enable compensation for those deprived of informal rights in land</td>
<td>Develop institutional options for land rights recordal linked to spatial development planning and revenue collection at local municipal and district scales</td>
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<td>Ingonyama Trust</td>
<td>Implement HLP and PAP recommendations to fundamentally amend or repeal ITA</td>
<td>Specify the role and functions of traditional councils and land holding entities in local land administration, allocate budget and support capacity for this function</td>
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<td></td>
<td>Protect the rights of people living on land administered by ITA against arbitrary deprivation and conversion to leasehold with a particular focus on the rights of women</td>
<td>Develop checks and balances that prevent corrupt and improper transactions in the land registry and</td>
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<tr>
<td></td>
<td>Refund lease payments levied by ITA</td>
<td>(Continued)</td>
</tr>
<tr>
<td>Act 9/TRANCRAA Rural Areas</td>
<td>Implement HLP and PAP recommendations to revitalise TRANCRAA process</td>
<td>(Continued)</td>
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<td></td>
<td>Clarify land rights and resolve disputes</td>
<td>(Continued)</td>
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<td></td>
<td>Clarify and support role of local municipality or communal property Association holding TRANCRAA land in the process of land rights recordal, management of local registers and rights transfers</td>
<td>(Continued)</td>
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<tr>
<td>Land transferred to large groups via land holding entities established through the Settlement and Land Acquisition Grant (SLAG)</td>
<td>Commission research to review the status and sustainability of properties transferred through SLAG. Agree responsibilities, procedures and assign capacity to wind up/liquidate failed projects and deregister defunct legal entities. Develop procedures for subdivision of land and reallocation of rights on an ownership or leasehold basis.</td>
<td>Develop policy guidelines and procedures for subdivision and the creation of smallholdings appropriate for different land capability classes. Include areas targeted for the creation of smallholdings within municipal spatial development frameworks. Adapt spatial and land tenure information systems to recognise social tenures and fuzzy/dynamic boundaries while ensuring gender equity with respect to land and property rights.</td>
</tr>
<tr>
<td>Land transferred to land holding entities established through the Land Reform for Agricultural Development (LRAD) programme</td>
<td>Commission a research to review the status and sustainability of properties transferred through LRAD. Document and share lessons for land reform and land tenure. Agree responsibilities, procedures and assign capacity to wind up/liquidate failed projects and deregister defunct legal entities where required. Develop procedures for subdivision of land and reallocation of rights on an ownership or leasehold basis as may be appropriate.</td>
<td>Develop policy guidelines and procedures for subdivision and the creation of smallholdings appropriate for different land capability classes where appropriate. Consider Act to enable retrospective endorsement of the title deeds of all land purchased through the land reform programme to give the state the right of first refusal to purchase land which comes up for sale.</td>
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<td>Land acquired through PLAS</td>
<td>Review the status quo with leases on 2200 farms purchased through this programme. Revisit the State Land lease and Disposal Policy to review lease terms and options to own state land acquired through PLAS. Develop clear criteria for the allocation of farms in terms of this programme consistent with the principles in the proposed Land Reform Framework Act and the draft Policy for Beneficiary Selection and Land Allocation.</td>
<td>Develop policy guidelines and procedures for subdivision and the creation of smallholdings appropriate for different land capability classes. Include areas targeted for the creation of smallholdings within municipal spatial development frameworks. Adapt spatial and land tenure information systems to recognise social tenures and fuzzy/dynamic boundaries while ensuring gender equity with respect to land and property rights.</td>
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<tr>
<td>Commonage users</td>
<td>Review the status quo with regard to management and leases on municipal commonage purchased through this programme. Revisit the commonage policy to review lease terms and the determination of user fees and responsibilities. Develop clear criteria for the allocation of commonage use rights consistent with the principles in the proposed Land Reform Framework Act.</td>
<td>Develop a register of municipal commonage land held by local and district municipalities.</td>
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