

## **CHAPTER FOUR: BACKGROUND OF SMALL-SCALE FARMING IN SOUTH AFRICA**

### **4.1 INTRODUCTION**

The aim of this chapter is to present a brief overview of the small-scale farming sector in South Africa., as well as the environment under which these farmers operate. Issues discussed include past agricultural policies, accessibility of credit, productivity and efficiency of the small-scale farming sector. The background of the study area is also presented. It focuses on agriculture and land use patterns of the Limpopo Province and the two regions in which the study was undertaken. The chapter finally ends with discussions on two of the major lending institutions in the study areas.

### **4.2 AN OVERVIEW OF THE SMALL SCALE FARMING SECTOR IN SOUTH AFRICA**

The South African agricultural economy is highly diversified. Structural imbalances exist between the commercial and developing sectors, within commercial agriculture and within developing agriculture. The commercial farming sector utilises 84,6 million ha, and exists along side with the subsistence-oriented farming sector which occupies nearly 14,4 million ha. Although each sector employs roughly the same number of people, the area cultivated by the commercial sector covers about six times that of the land under subsistence farming (DBSA, 2000).

The two agricultures share common problems such as the cost-price squeeze, inflation and drought. General problems experienced by small farmers include insecure and fragmented land rights, unviable and small farm units, overstocking and deterioration of land and general lack of support infrastructure, water supplies, transport infrastructure, financial support and extension and support services. Legislative policy and institutional developments have also been inequitable and have aggravated the plight of the small farmers. These problems have contributed to low levels of production and under-

utilisation of arable land resources, despite the relatively high agricultural potential of some of these areas (DBSA, 1994).

South Africa's agricultural policy has until recently had food self-sufficiency as a major objective (Rwelamira & Kleyahans, 1996:3). With growth in agricultural exports exceeding that of imports, South Africa has long experienced a comfortable surplus on the agricultural balance of payments. Despite this self-sufficiency, large inequities, inefficient food distribution network and high levels of malnutrition are experienced. South Africa is therefore characterised by surpluses and exports amidst food shortages - a situation of "hunger and malnutrition next to the granary" is therefore typical (Rwelamira & Kleyahans, 1996:3; Van Zyl & Kirsten 1992).

Access to finance is one of the most important building blocks on which economic growth and development is built, but access to financial service was almost non-existent for South African small-scale farmers. The cause is to be found in the combination of the aforementioned limitations, especially high risk, high transaction costs and low returns that have traditionally discouraged formal banks from dealing with small farmers with regard to credit. The informal financial market has contributed immensely to small farmer financing but with some limitations such as the offering of small amounts of loans and extremely high interest rates. There is, therefore, the need for sound financial policies to reduce these limitations and promote the financing of small-scale farmers by both sectors.

#### **4.2.1 Output and efficiency in the small-scale farming sector**

The output of small-scale, and particularly of subsistence agriculture is extremely difficult to measure. South African black farmers are no exception. The 1959-60 agricultural census recorded yields of 9.4 bags (852 kg) on white farms and of only 2.44 bags (221 kg) per hectare on black farms. Thus, the official figures for the 1950s and 1960s show yields as being 3 to 4 times higher on white farms. The limitation in the estimation of the output on the black farms was that the black people begin eating their maize in the soft dough stage and it is difficult to determine the percentage actually harvested as ripe grain. In addition, difficulties in determining plot sizes render estimates

in the former “homelands”<sup>7</sup> inaccurate. The census reported yields of black tenants on their arable plots on white farms as 562 kg per hectare. Kirsten *et al.* (1995) found the average yield of emerging maize farmers in KaNgwane (now part of Mpumalanga Province) to be 1.95 t/ha, which compares favourably with the average yield of commercial farmers in certain parts of South Africa. Maize yields for the 1992\93 season in Phokane and Kadishi districts of Lebowa (now part of Limpopo Province) were 3.5 and 4.2 tons per hectare respectively (Kirsten *et al.*, 1995). The comparatively lower yields of the black small farmers could be attributed to a lack of access to inputs and finance.

At present, there is mixed evidence on the efficiency of small-scale farming in South Africa. A comparative efficiency of black, small farming versus white, large farming is very difficult to assess. More than a century of policy intervention (protecting the white commercial farming sector) has suppressed the profitability of black farming. The only areas where black farming was condoned were the homelands. Given their location, lack of infrastructure, and support services, generally poor soils, and extreme population pressure, it would be unfair to compare small-scale farming in the homelands with farming in the white areas (World Bank, 1994: 118). Nonetheless, a few cases exist in which black, small-scale farmers were given access to support structures roughly comparable to those of their white colleagues.

The two case studies in the tea and sugar-cane industries by Van Zyl and Vink (1992) serve to confirm the ability of black, small-scale farmers to equally or outperform larger, white farms when given similar treatment. In the tea industry, the case study illustrates that “mini-farming” (where an individual leases a small area planted to tea from a tea estate and is remunerated according to the quantity of acceptable tea produced) shows an increase in yields, income, and profitability of both the estate renting out the land and the mini-farmers. Compared to ordinary pluckers, mini-farmers obtained yields on their 0.5 hectares plots averaging 23% more than the large estate obtained. The same applies to the sugarcane case study in Mpumalanga. The case study reveals that on average

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<sup>7</sup> The term homeland refers to the geographical areas of South Africa demarcated before the institution of the present constitution as part of the previous

small holders obtained 116,8 tons per ha on their plots of 7,1 ha, while on average, large scale farmers adjacent to these small holdings obtained 102,9 tons per ha on 68,6 ha, the average size of their farms. Total cost amounted to R3 286 per hectare for the black small holders and R3 448 per hectare for the white large scale farmers. These case studies and many others, confirm that with the same support structures, small-scale farming is at least as efficient as large scale farming in these specific areas and types of farming.

Theoretical models by Feder (1985) and Carter and Kalfayan (1989), demonstrate that the existence of market imperfections, which tend to favour large farms may negate the inverse relationship between farm size and productivity. Carter (1994) finds that certain financial market disadvantages may render small farms non-competitive. Hence, whereas the small scale farming strategy holds considerable promise from an efficiency perspective, this does not mean that its implementation is easy or can afford to ignore critical policy issues such as resolving the usual constraint on access to credit markets for small farmers. Much literature advises against too much modernisation, restructuring, mechanisation and other similar concepts, implying the use of more capital to labour than that dictated by economic realities.

#### **4.2.2 Resource poor: Homelands farmers**

The World Bank studies in South Africa in 1994 indicated among others that most of the traditional farmers did not use improved seed and fertiliser. The study also found that the small farms in Venda (now part of Limpopo province), which average only 1.15 ha to be too small to be viable. In most of the studies, land was found to be the main constraint, effectively limiting output for the vast majority of the farms, while at the other extreme, fertilizer was in surplus to requirements for a large number of farms. Most farmers in the former homelands are "resource poor". They lack the land, water, implements and management necessary to farm successfully. More often than not they live in marginal environments with poor soils, high levels of diseases and pests, low and unreliable rainfall, severe slopes, serious soil erosion and other natural problems. Since

agricultural research has traditionally focused on the commercial farming sector, the technology for the resource poor areas has not been well developed. The national research agencies of the previous regime served the more prosperous farmers or concentrated their scarce resources on the areas that would give the greatest production, which are naturally the more productive areas (World Bank, 1994).

#### 4.3 PERSPECTIVES FROM THE PROVINCE AND THE STUDY AREAS

The Limpopo Province is the fourth largest province in South Africa, both by area with 116 824 km<sup>2</sup> and by population of 4 929 368 for 1998. It has one of the highest population densities with 41.3 persons per km<sup>2</sup> when compared with the other South African Provinces. See Table 4.1 for the other socio-economic indicators.

**Table 4. 1: Socio-economic indicators**

Indicators	Limpopo Province	South Africa	Limpopo Province/ South Africa (%)
Area (Km <sup>2</sup> )	116 824	1 223 201	9.6
Population (1996)	4 929 000	40 583 000	12.15
Population growth, 1985-94 (%)	3.97	2.7	147.0
Functional urbanisation level, 1994 (%)	32.4	57.9	55.9
Literacy rate, 1991 (%)	73.64	82.16	89.6
Life expectancy, 1991 (years)	62.67	62.77	99.8
Human development index, 1991	0.47	0.677	69.4
Labour absorption capacity, 1993 (%)	40.3	50	80.6
Unemployment rate, 1994 (%)	47	32.6	144.0
Personal income per capita, 1994 (in rands)	2 288	8 418	27.2
GDP growth, 1980-91 (%)	6.6	1.3	507.7
Contribution to GDP, 1991 (%)	37	100	37
Real GGP per capita, 1991 (in rands)	2 133	6 438	33.1

*Source:* Department of Statistical Services, 1998

The Limpopo Province is mainly semi-arid with high rates of evaporation and an irregular incidence of rainfall during summer months. There are two areas of high rainfall - of up to 1000 mm per year or more, namely, the area east of the Drakensberg escarpment near Tzaneen and south of the Soutpansberg - near Louis Trichardt and Thohoyandou. These two areas are part of the study areas. The rainfall is drained by two major river systems, namely the Limpopo and Olifants. Because these rivers are utilised

close to their ecological and economic limits, severe riverine degradation has already taken place. Table 4.2 presents the land use pattern of the province. Farmlands and grazing lands constitute the highest land use, 88.2 % and 74.0 % respectively.

**Table 4.2: Land use pattern in Limpopo province**

Land use	Area in hectares	% of total area
Farm land	10,548,290	88.2
Potentially arable land	1,700,442	14.2
Grazing land	8,847,848	74.2
Nature conservation	1,161,600	9.7
Forestry	65,410	0.5
Others	185,300	1.5

*Source:* Abstract of Agricultural Statistics, 2001

Before the new dispensation in South Africa, virtually all farmers in the former homeland areas only had a “permission to occupy” certificate given to them by traditional authorities, which prevented them from using land as security (collateral) against which they may borrow money from financial institutions. However, with the current land reform programme, some farmers in the province have acquired title deeds to their land.

#### *The Northern Region*

The resource base of the Northern Region shares many characteristics with the adjacent Lowveld Region in being subtropical and part of the Lowveld ecosystem, and in the role played by mountain ranges. The main elements determining the agricultural and forestry resource base and potential of the Northern Region are the availability and reliability of water, the frost free and generally warm climate, and the suitability of soils for cultivation. Water for irrigation is by far the most critical constraint on agricultural production. The extreme heat during the summer months (causing high rates of evaporation), the general aridity of most soils in the area and the irregular incidence of rainfall over even the wetter areas, precludes extensive dryland cultivation.

A major threat to the agricultural and forestry potential of the Region is the high rural population densities in the Thohoyandou, Dzanani and Vuwani districts (of between 100 and 200 people per square kilometre) and the extent of weakly planned and/or uncontrolled rural settlement patterns. The improved utilisation of limited water and irrigable land available, and the conservation of these resources are critical issues facing the agricultural and forestry industry of the Northern Region (cf. Urban Econ, 1997).

#### *The Lowveld Region*

The main elements determining the agricultural resource base of the Lowveld Region are similar to those found in the northern region. Water for irrigation is by far the most critical constraint on agricultural production in the Region. The extreme heat during the summer months (causing high rates of evaporation) and the irregular incidence of rainfall during even normal rain seasons precludes extensive dryland cultivation over 90 percent of the land area. Water availability is the highest adjacent to the Drakensberg escarpment where conditions are more favourable for dryland cultivation and forestry, and along the main river courses of the Olifants and Letaba river basins and their ten most important tributaries - all of which flow in a more or less west/east direction towards the Kruger National Park and Mozambique (cf. Urban Econ, 1997).

#### **4.4 FINANCIAL INSTITUTIONS OPERATING IN THE STUDY AREA**

Most of the financial institutions in the province are involved in lending, providing technical assistance and advisory services, as well as project management. Some of the prominent ones are listed below.

1. Northern Province Development Corporation (NPDC)
2. Northern Investment Initiative (NII)
3. Agriculture and Rural Development Corporation (ARDC)
4. Land and Agricultural Bank of South Africa
5. PostBank
6. Commercial Banks
7. Co-operatives
8. Small loan industry

9. Non-Governmental Organisations (NGOs)
10. Informal financial institutions

The two major financial institutions serving small-scale farmers in the study area at the time of study are discussed below.

#### **4.4.1 Agricultural and Rural Development Corporation (ARDC)**

The Agriculture and Rural Development Corporation (ARDC) was established on 1 April 1996 in terms of the Northern Province Corporation Act No. 5 of 1994. The ARDC is the development arm of the Northern Province Department of Agriculture Land and Environment, and is responsible for the initiating and facilitating of agricultural development and providing support to rural enterprises in the province. The ARDC serves as a conduit/facilitator of development assistance.

Support is provided to all farmers as per definition of the White Paper on Agriculture in South Africa. All farmers, irrespective of the size of their enterprise are supported. Preference is given to farmers who are not in a position to obtain assistance elsewhere. The different groups that are supported by the ARDC can be categorised as service centres; farmer associations; agricultural co-operatives; NGO's; community based organisations; emerging commercial farmers; and small-holder farmers.

The Agricultural and Rural Development Corporation (ARDC) offers three types of production loans. These are the short term (annual or seasonal), medium and long term loans. Some of the short term loans have a revolving facility element. With regards to production loans to small-scale farmers, security is not required. ARDC applies different interest rates for both the emerging and subsistence, and commercial farmers. The commercial farmers' interest rates are equivalent to that of the Land Bank's gold, silver and bronze categories. Due to poor management practices, limited outreach and high default rate of loans; ARDC is virtually non-functioning at the moment.



#### 4.4.2 Land and Agricultural Bank of South Africa

The Land Bank provides funds to the agricultural co-operatives in the province which on-lend to the farmers to finance production credit. From branch level, the bank primarily serves commercial agriculture. The existing policies and rules of the Land Bank emphasise conventional approaches to collateral requirements and loan assessment procedures. However, the Land Bank is in a transformation phase. It has been proposed that the Land Bank should provide wholesale funds to provincial development banks to on-lend to small and emerging commercial farmers.

The Land Bank has neither the expertise and experience nor the capacity to provide financial services to small farmers on a retail basis. At the moment the bank has recruited expertise to take up its new role and it will take some time for it to actively pursue its new role. It follows that unless existing capacity is made more efficient at the provincial level, service delivery may be affected negatively (Coetzee, 1997).

#### 4.5 CONCLUSION

Even though the province is considered to be the least developed province, it is endowed with greater agricultural potential. Accessibility of credit to farmers is skewly distributed with commercial farmers enjoying greater access. Indications are that formal financial institutions in the province lack the capacity to serve small-scale farmers. In addition, there is a limited number of informal financial institutions.