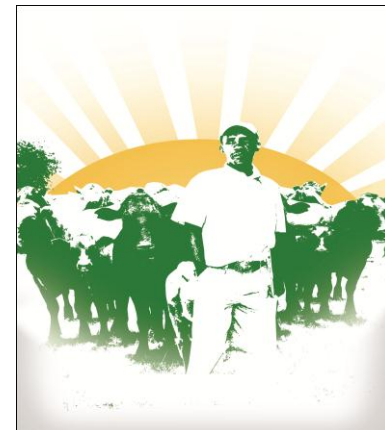


Addressing Challenges of Financing Emerging Farmers



19 July 2011

In search of a success story!

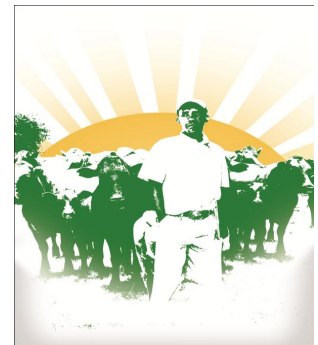


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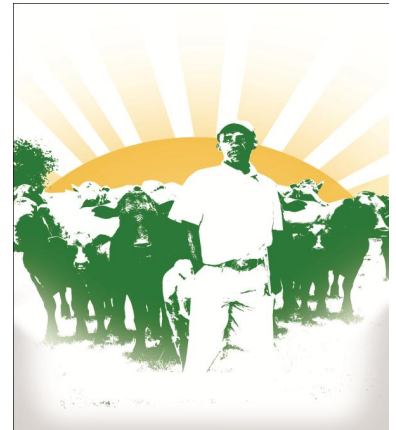
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Outline

- Introduction
- The Broader challenge
- Performance of farmers financed by Land Bank
 - Methodology
 - Success & failure of LB farmers
 - What makes farmers fail?
- Addressing the challenges
 - Land Bank experience
- Conclusions and recommendations



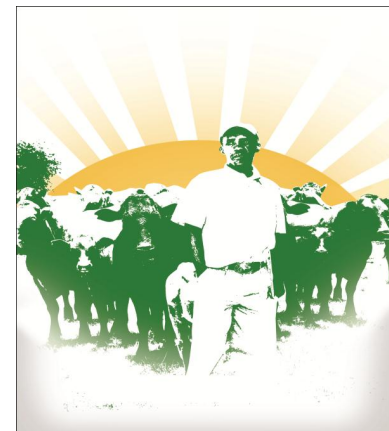
BACKGROUND



Introduction

- The report seeks to provide insight into incidence of success/failure among emerging farmers.
- Emerging farmers comprise those who were previously sidelined from the mainstream agriculture.
- These farmers have been failing in many ways, despite government assistance programmes.
- The study aims to determine/trace the causes of farming failures (lack of financial sustainability) and how to address them.

The Broader Challenge: Emerging Farmers in a Changing Environment



Constrained & Declining Available Agricultural Resources

- Agriculture farming occupies 83% of 122.32m ha, with grazing comprising 83.3% thereof and very little available for irrigation
- The lack of land for irrigation is limiting the potential for expanding/increasing the number economic units in a land reform program.
- Establishing viable farms may require innovation.

Policy of withdrawal of effective support for agriculture

- Deregulation of financial markets since the 1980's led to the phasing out of financing concessions available in agriculture.
- Closure of the Agricultural Credit Board (ACB) in 1999.
- Scraping of the National Marketing Act of 1937 and 1968 increased the risks in farming & its financing.
- The provision of direct support to agriculture was replaced by scaled down indirect support measures.
- These developments rendered farming more fragile, with less chance of success for emerging farmers.

Market Based Financial System

- In the 1980's SA implemented market-based financial system – determining **interest rates** and funds flow.
- Funding concessions for Land Bank were phased out - having to raise funds at market related interest rates.
- The Land Bank was exempted from paying tax and dividends to the state – but compete for funds.
- Agriculture had to adjust to a system of market rates.
- With the closure of the ACB, Land Bank was required to fill the financial gap that was created as a result.
- Interest rates were adjusted upward.

Marketing Conditions & Producer Prices

- Abolition of NMA led to deregulation of the agri sector.
- From market intervention in producer prices moved to market determined levels.
- No organised mechanism to handle export surpluses.
- Currently, different market systems exist:
 - SAFEX for grain price hedging.
 - Fresh Produce Marketing System growing role of Supermarkets.
 - Cattle & Sheep – by auctions and as abattoirs.
- It takes a while for farmers to adjust and cope with this new market environment.

Land & Agrarian Reform

- Reform for political, social & economic reasons.
- Drive to settle emerging farmers in agriculture for economic reasons.
- There is continued pressure in land reform to accommodate political and social objectives.
- Challenge is to reduce the percentage of failing land reform projects.
- Need to settle farmers on viable farms according to different settlement models.

While Many Fail others Succeed

- The environment continues to change.
Ref: **Policy INSIGHT** - governance, economy, competition, consumer, labour, climate etc.
- Amid these, some farmers fail, while others succeed.
- Success is defined in different ways, namely:
 - Profitability, Value of production, Productivity
 - Reflected by financial management and social status
 - In this study: **Non-arrear** indicates success and **In Legal** failure.
- Performance is driven or affected by a range of factors.

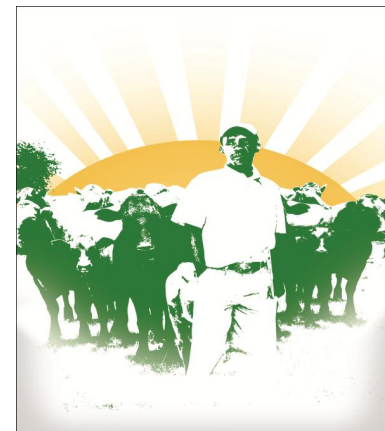
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PERFORMANCE OF EMERGING FARMERS FINANCED BY LAND BANK



Methodology

- Study applied both quantitative and qualitative methods
- **Qualitative method** involved content analysis by:
 - 4 expert focus group discussions : Head office, Branch AES, Area Managers, Provincial AES officials.
 - and 8 groups of farmers in four provinces.

Methodology

- Quantitative method
 - Analysis of the loan book
 - Face –to-face interviews with 140 farmers.
- Sample size
 - Drawn from Land Bank development loan book
 - Randomly selected

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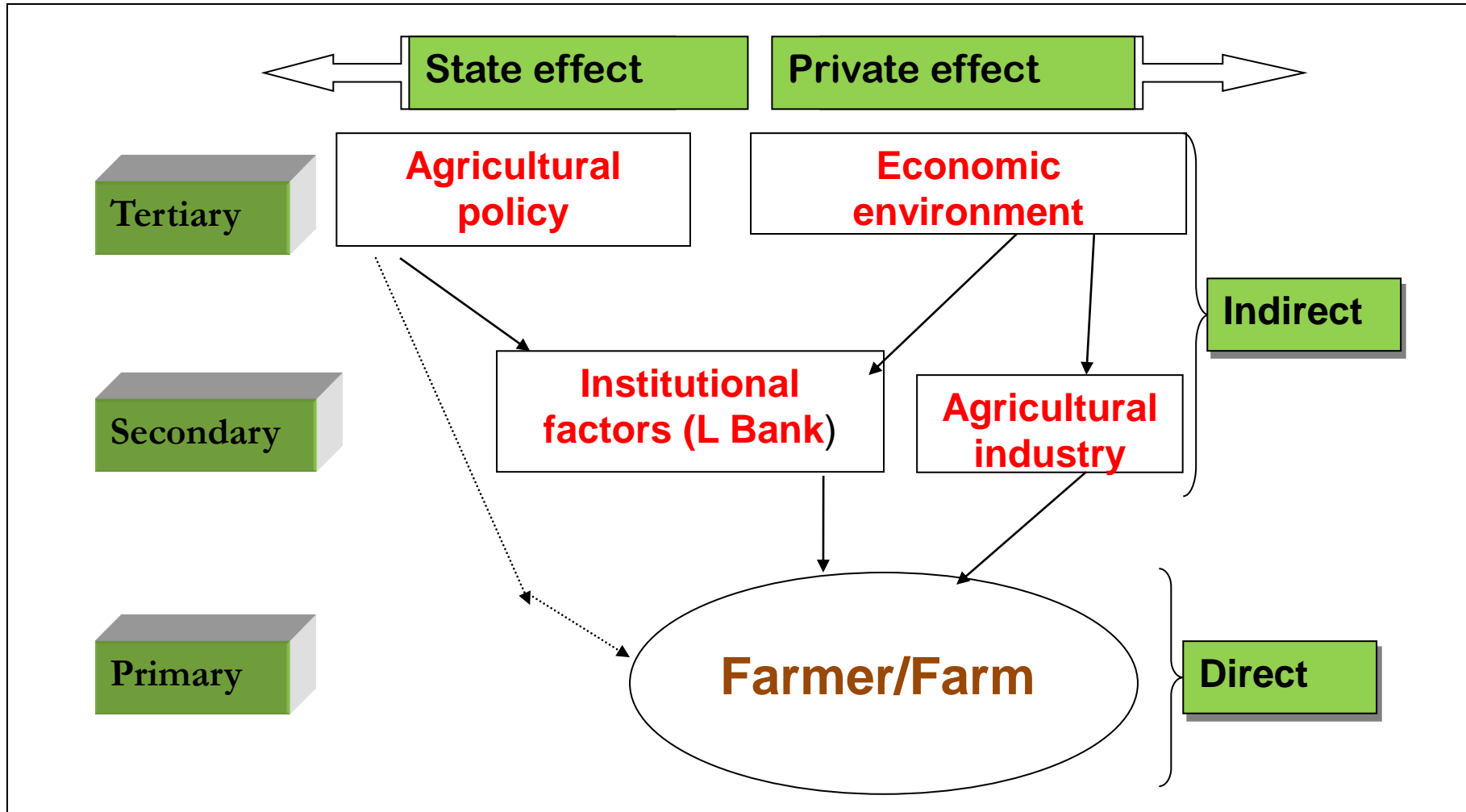


Success & Failure of LB Farmers

- Based on loan book (2007), focus group discussions, and farmer survey.
- Success rate (or a chance of success) ranges from 40% to 57%.
- Farmer experience shows a higher success rate than institutional records and the views experienced by experts & groups.
- Failing farmers tend to be over-burdened with high debt – asset ratios.
- This implies that **farmers were given loans they could not afford to serve (NCA).**

What Makes Farmers Fail

Framework of factors affecting the performance of emerging farmers



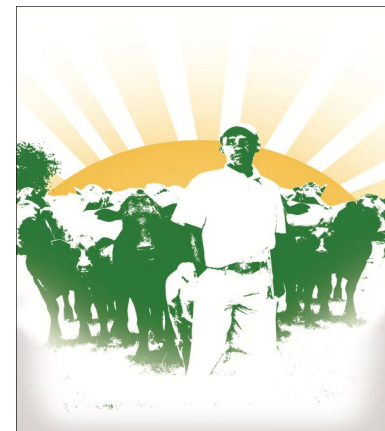
Factors Contributing to Failures

Categories of factors contributing to failures

Issues	Frequency	Total number of groups
Primary factors		
Farmer/farm	24	12
Secondary factors		
Institutional	39	12
Industry	9	12
Tertiary factors		
Policy	25	12
Macroeconomic	21	12

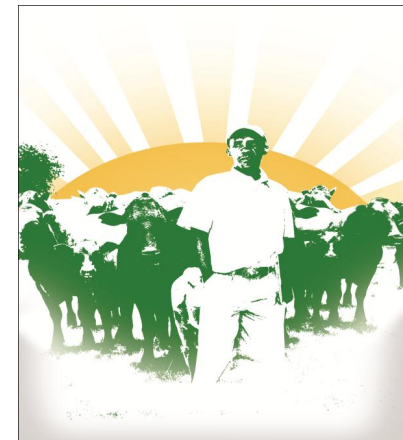
Unresponsive Institutions

- Institutions and organizations that guide and support farmers.
- Inadequacy of institutions (Land Bank) was viewed as major reason for failure. But experience proved that more than finance was needed to ensure success.
- The major issues pertained to:
 - Turnaround time
 - Products & services
 - Policy & systems
 - Lack of flexibility



Inappropriate Policies for Emerging Farmers

- Policies breed institutional arrangements and influence behaviour of farmers.
- Policy issues identified were:
 - Challenges of the group approach
 - Design of policy & programmes
 - Cooperation & coordination
 - Farmer selection
 - Information & markets

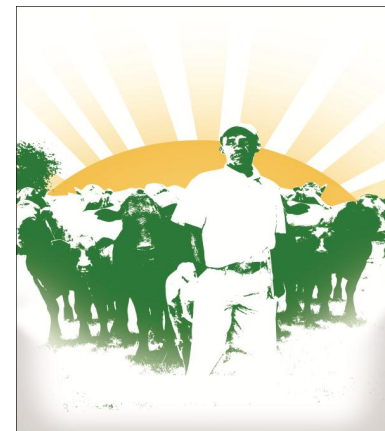


Volatile Economic Conditions

- Economic conditions affect both institutions and the industry.
- Economic issues that created challenges
 - Interest rates, Input costs & Land prices
 - Agricultural business, Risks, Security, Finance & Insurance
- Location factor also critical – reflecting agro-ecology, weather conditions & institutional capacity.
- Land Bank failure pattern: Tzaneen, East London, North West (grain & livestock), Nelspruit/Pietermaritzburg (sugar).

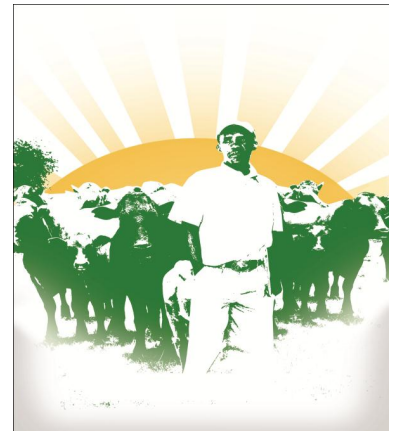
Risky Agricultural Industry

- Agriculture risks are caused by natural disasters and human actions (theft/crime).
- Some industries (grains, livestock, sugarcane) have experienced negative growth cycles.
- Industries that were affected/failing
 - Oil seeds
 - Fodder crops
 - Cash crops
 - Maize
 - Cattle
 - Small stock



Unviable Farms & under-capacitated farms

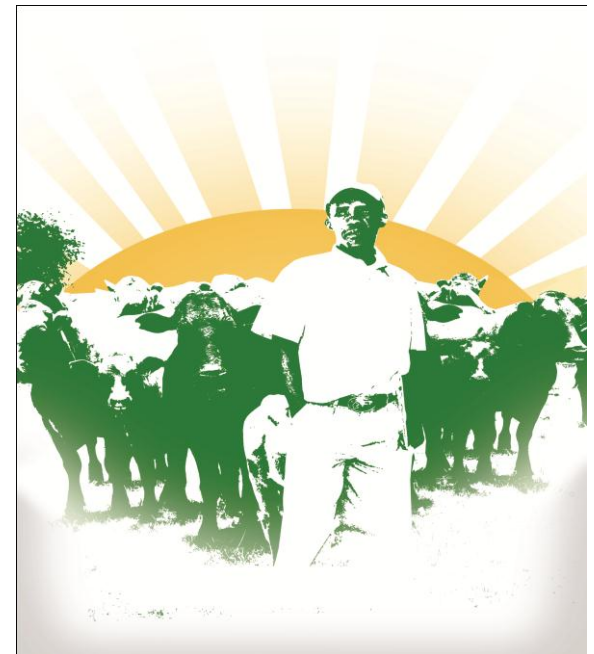
- Performance is mainly affected by both farmer and farm characteristics
- The farm level factor incl:
 - Aftercare support
 - Technical and financial skills
 - Business planning
 - Small farming units
 - Overgrazing
 - High debt/asset ratios.



Role of skill or financial endowment

- That is, farmers who succeed have some **endowment** – they have either received agricultural **training**, other **sources of income** or are retired professionals with resources – who used their **pensions** or **inherited** the farm business.

ADDRESSING THE CHALLENGES



Land Bank Response to Challenges

- Before new dispensation, small farmers not qualifying for LB loans were referred to ACB.
- Land Bank efforts since ACB dissolution
 - Step up loans & Development Project Unit
 - DevCom – mainstreaming development
 - REM – focus on market segment
- Three prong approach
 - Farmer incubation – to provide scope for scope for establishment
 - Government guarantee – increase credit worthiness
 - Supplementary capital



Managing the Challenges

- The Bank has still to deal with:
 - Inexperienced emerging farmers
 - Unviable farms (NCA)
 - Inadequate institutional services available
 - Understanding the government's intentions and role in settling emerging farmers in agriculture



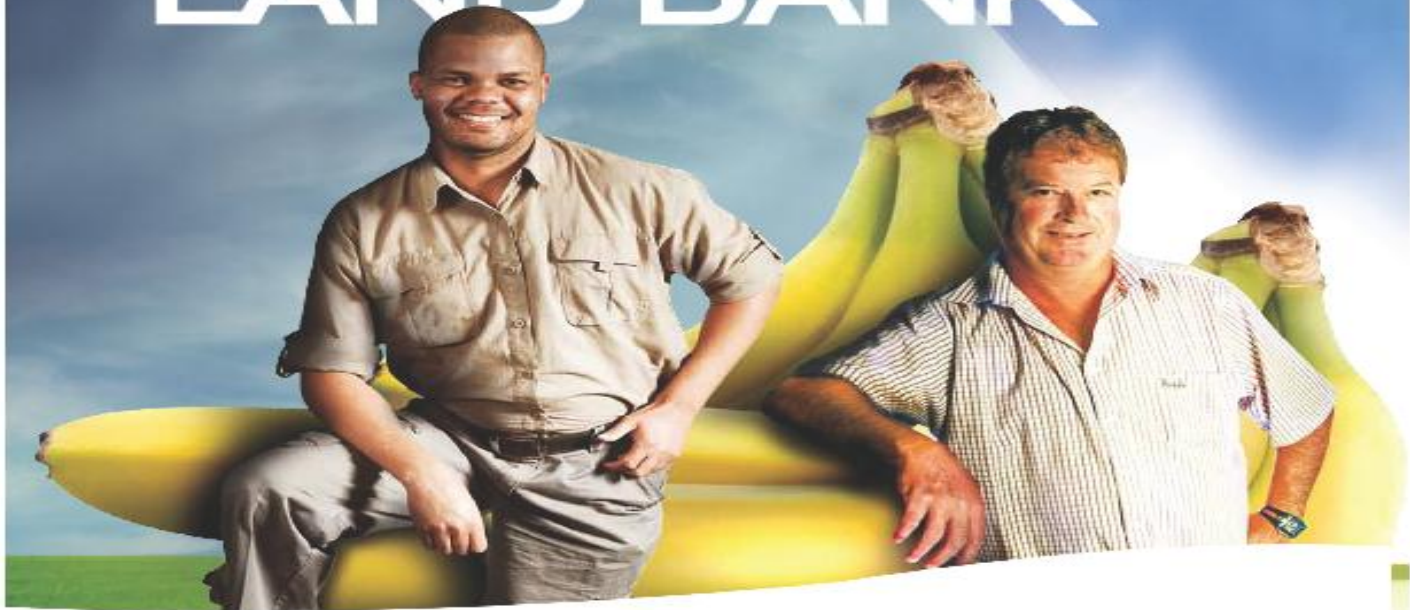
In Conclusion

- **Major findings**
 - Emerging farmers are affected by a rather **broader environment** than just their own circumstances and institutions involved.
 - The factors affecting emerging farmers are closely **intertwined**, though at **different levels**.
 - The **economic environment is volatile** and not accommodative for emerging farmers
 - The **policies are not appropriate** for emerging farmers hence providing a different behaviour.

Major Findings (Cont...)

- The **agricultural industry is risky** and is therefore not so friendly to emerging farmers.
- **Institutions are not very responsive** to farmers conditions hence easily left out.
- Farmers don't have **capacity** and normally finds themselves in **unviable farms**.
- Amid these circumstances some farmers succeed, while other fail.

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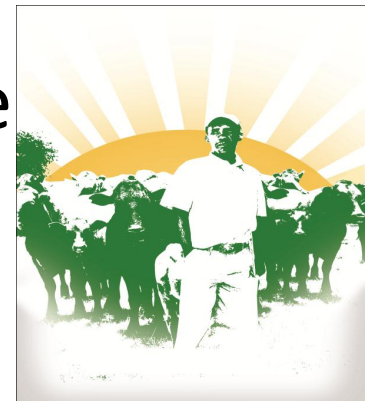


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What can be considered to deal with these?

- In general, the approach of developing emerging farmers will require a comprehensive perspective to ameliorate the challenges.
- **Specific recommendations**
 - Long-term management of farmers
 - Cancelling of certain debts
 - Management and funding of write
 - Management of interest rates



Specific recommendation include

- Viable farming model
- Probation period
- Comprehensive support package
- Coordination of activities
- Turnaround time
- Agricultural development plan
- Viable farm units
- Farmer selection criteria

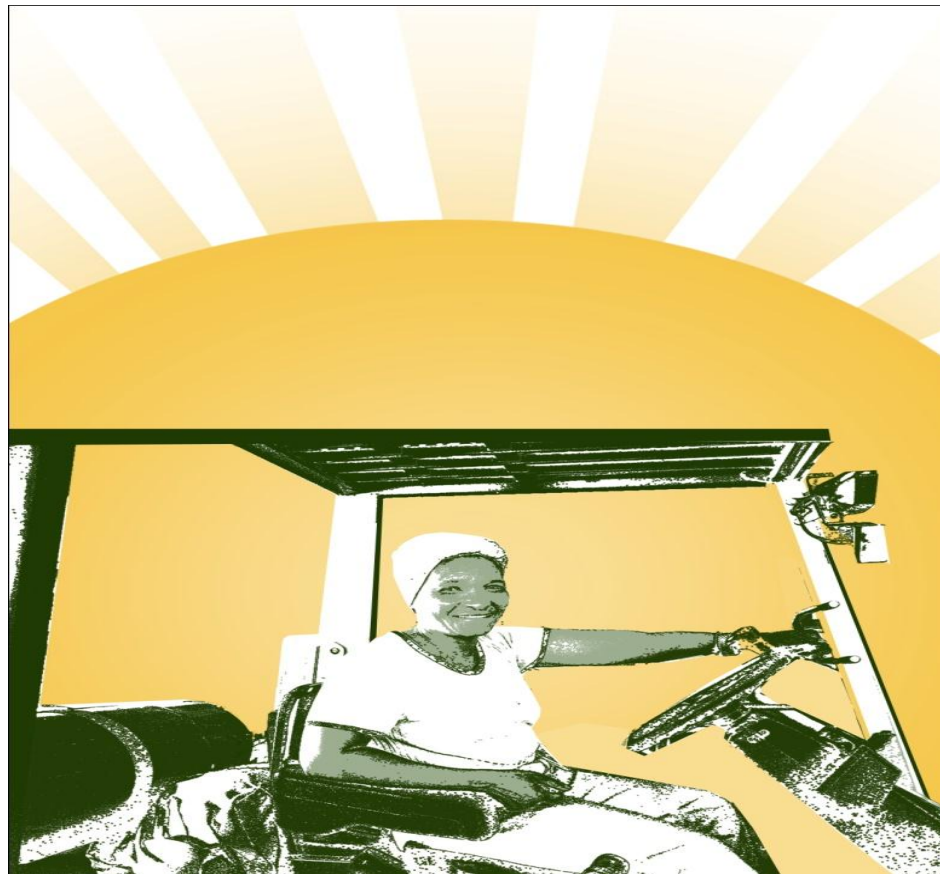
Going Forward

- **Emerging Farmers Development Report**
 - To unpack the conclusions and
 - Test feasibility of the individual recommendations

»or

- **Commission or Committee on Emerging Farmers Development**
 - To direct / recommend long term development plan.

THANK You for your ATTENTION!!



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