Evaluation Insights: Evidence and lessons from South Africa's Jobs Fund on Smallholder Farmer Support Programmes

An evaluation of the Buhle-Mondi Farmer Development Project (BMFDP) carried out by Qbeta (in association with Impact Economix) has identified a number of issues to inform strengthening future support to smallholder farmers in South Africa. The agriculture sector can make an important contribution to future job creation in South Africa, but this will require a wide range of actions to ensure a supportive environment. These actions include all role-players in South Africa taking innovative and bold measures to enhance the resources available for, and effectiveness of, smallholder FSPs.

OVERVIEW OF THE BUHLE-MONDI FARMER DEVELOPMENT PROJECT (BMFDP) AND EVALUATION

In the South African context, there are a range of constraints that smallholder farmers face. These include access to finance for production inputs, equipment and transport; access to productive land and water; lack of production as well as business skills; poor quality infrastructure in rural areas; and a range of additional market access challenges etc.

The BMFDP was a Farmer Support Programme (FSP) supported by the Jobs Fund (JF) with a focus on the formal training of new and existing smallholder farmers by the Buhle Farmers' Academy (BFA) (3-month practical training in both technical production skills for vegetable, livestock or poultry farming as well as farm management and financial record keeping), the provision of agricultural finance by Mondi-Zimele (MZ) (at prime less 4% and repayable over three years), and provision of on-farm support by both the BFA and MZ to support the commercially sustainable growth of smallholder farmers. Smallholder farmers have recently been defined as "…usually the new entrants with an annual turnover ranging from R50,001 – R1,000,000 p.a." (DAFF, 2018: 14).

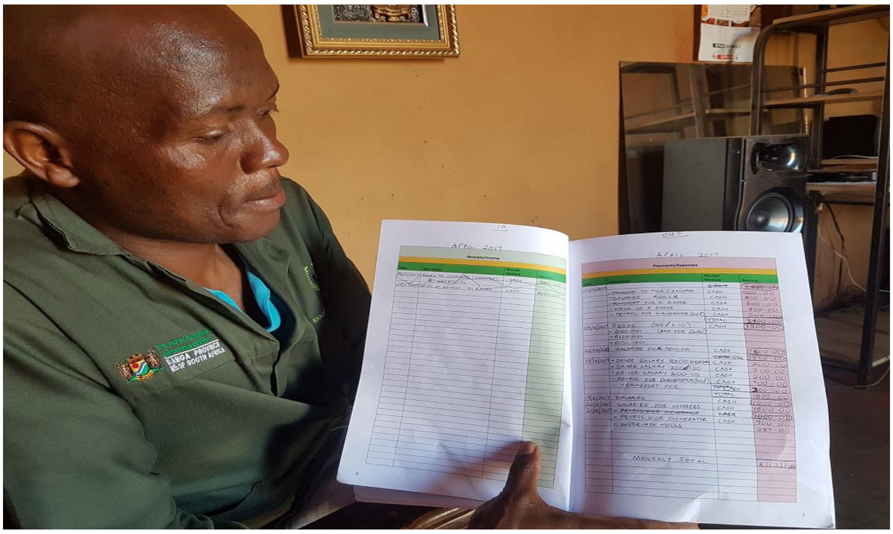
The project provided training to 697 beneficiaries and on-farm support to +-70 farmers between October 2015 and June 2017. Job creation impacts included 229 new permanent jobs, 105 seasonal jobs, and 115 new short term jobs. Total expenditure on the project over this period was just over R16 million.

Only seven out of the +-79 farmers received loans from MZ which ranged from +-R45,000 – R253,000 (as most of the participating farmers were not geographically located within the MZ geographic zone close to MZ operations and where MZ loans were provided). The majority of supported farmers were involved in growing vegetables in Mpumalanga, Kwazulu-Natal and Gauteng. Smaller numbers of farmers grew maize, or raised live-stock or chickens (i.e. using broilers).

Data collected for the evaluation included a survey of 27 out of 79 supported farmers (34%), key informant interviews with three representatives of the BFA, three representatives of MZ, three representatives of the Jobs Fund, one representative of the Mkhondo Municipality, visits to nine participating farmers in Mpumalanga, a literature review on FSPs, and an analysis of project documentation.

HOW RELEVANT WAS THE SUPPORT PROVIDED BY THE BMFDP?

The BMFDP was relevant in terms of meeting most of the knowledge and skills needs of new and existing farmers seeking to establish or expand their farming operations. The support provided helped some of the new farmers to start farming. In addition, most of the participating farmers reported that the support provided had improved their ability to manage their farms. The strong emphasis by the BFA on training in financial record keeping was important and valuable. Farmers were taught how to keep monthly income and expenditure records and to use this information to inform their ongoing farm-management decisions.



However, funding for inputs and equipment remained a key unmet need constrained the productivity and growth of the project beneficiaries. This was so for both farmers that did receive loans from MZ as well as farmers that did not receive such loans. Regarding the structuring of the MZ loans, loan repayments were divided into 36 equal monthly instalments (with a grace period provided of 1-3 months at the beginning of the loan). None of the seven farmers receiving MZ loans managed to fully repay these loans. This is despite the fact that rigorous business planning processes were followed (including projected production volumes and income and expenditure analysis). These projections turned out to be overly optimistic and did not sufficiently take into the possibility and extent of negative climatic conditions. One factor that may have contributed towards improved repayment levels is the flexible structuring of monthly loan re-payment amounts to coincide with harvest periods and farmer cash flow.

Another identified potential gap in the support package provided relates to crop/ agricultural insurance and/or other means to minimise the negative impacts of adverse weather conditions on supported farmers. The risks of multi-peril weather-related crop insurance are high and make it an expensive form of insurance anywhere in the world. In a country with rainfall as unreliable as South Africa's they are particularly high. Several farmers reported losing a large portion of their crops due to a combination of hail and/or frost and they did not have crop/ agricultural insurance in place to cover these large (in their context) financial losses. South Africa is one of the few major agricultural exporting countries where public subsidies are not provided to make crop insurance more affordable.

Beneficiary feedback on the extent to which beneficiaries believe they still require a financial grant to be sustainable shows that 95% of the beneficiaries still currently believe that they need further financial grants to continue farming. This indicates that either the project was not able to provide grant funding to enough of the project beneficiaries and/or the level of grant funding (and other support) provided was insufficient to assist the beneficiaries to develop their farms to a sustainable level at which they could continue production. The need for more water tanks and/or solar panels and/or a bigger borehole pump to improve water supply and irrigation systems and the size of cultivated land that could be serviced by the irrigation system was a key need that was constraining the volume of production and efficiency of a number of the farmers interviewed.

In terms of market access, most of the supported farmers reported being satisfied with their market access. The BMFDP approach to market access largely involved empowering individual farmers to approach and negotiate directly with buyers. However, project participants also reported several challenges with their market access, including not being able to produce sufficient quantities to meet demand and the high costs of transporting produce to markets.

HAS THE PROJECT BEEN ABLE TO CATALYSE ON-FARM JOB CREATION AND WHAT WERE SOME OF THE KEY JOB CREATION CHALLENGES?

On average, the 21 farms surveyed employed an average of 2.7 people full time and 2.95 people temporarily over the past year. If these averages are applied to the +-80 farmers who participated in the BMFDP, and we apply the same proportion from our survey of 22% of farmers who are no longer farming (leaving 65 out of 80 farmers currently farming), then the total number of current permanent employees would be 176 and 182 temporary employees. Fifty-seven per cent of farmers surveyed stated that their farms had made a profit in at least one year since 2017.

The fact that only 10% of beneficiaries received loans from MZ severely constrained the ability of those farmers not receiving farming to invest in their farms and grow their production and income. In addition, certain geographic areas in South Africa experienced weather patterns that negatively influenced production and turnover over this period. Many of the farmers were also not able to utilise all of their available land for production due to limitations in the capacity of their irrigation systems. Nevertheless, many of the farmers managed to increase their turnover levels during the two-three-year period under evaluation.

LESSONS LEARNED

The financial and on-farm support was provided over too short a time-period and was insufficient to fully address all of the key factors constraining farmer productivity and profitability. Ideally, a five-ten year phased approach could have been followed which involved the initial provision of financial grants (based on the farmer achieving certain milestones) before the provision of loans.

The provision of a once-off loan is not likely to be sufficient and that such loans probably need to be more affordable with interest rates of around 2%, as opposed to the 5%-6% loans provided by MZ.

The majority of BMFDP farmers produced low-value crops (cabbage and spinach) for which there was too much competition from other farmers. This constrained their ability to farm profitably. Insufficient attention was paid to mechanisms to support the production of higher value crops as well as counter-cyclical production (e.g. storage, greenhouses etc.).

More attention needs to be given to various factors that impact on the yield and profitability of farmers and aligning the support provided to address these factors. A challenge facing the profitability of the BMFDP farmers is that most of them are unable to produce early or late in the season and they are all largely producing crops that are similar to other close-by supported farmers. This places downward pressure on the prices for which they can sell their produce. The tunnel farming approach has the potential for counter-cyclical production, as well as the potential to support the cultivation of higher-value crops at improved quality levels. However, it is also important that sufficient volumes are produced and this generally requires the use of more than one tunnel.

CONCLUSIONS

While the BMFDP support provided is greatly needed by emerging smallholder farmers, there are many challenges involved in ensuring that such support assists these farmers to grow sustainably. Both the limited two-year period as well as the nature of the financial support provided has not been sufficient to result in farmers that are sustainably growing, as well as making significant progress towards becoming self-reliant. Emerging farmers require significant amounts of financial support at very low interests rate to support their productivity and growth.

Smallholder loans need to be structured to address different needs (e.g. for livestock, annual field crops, and tree crop farmers), and financing time-frames. Annual production loans for production inputs will need to be repaid in full annually and medium-term loans need to be provided for medium-term needs (e.g. for machinery, equipment and livestock).

While it is recognised that government support to South Africa's agriculture sector is less than those of its global peers, the severe current constraints on the government's public finances mean that the government needs to find creative ways to leverage the resources of other role-players in the agriculture value chain to enhance support to smallholders. Various proposals have recently been made in this regard, including the further use of joint-venture support approaches (National Treasury. 2019) as well as the possible establishment of a Land Reform Fund (together with a package of other mechanisms including Local / District Land Management Committees (see Vink and Kirsten (2019) for further details).

FSPs aimed at supporting smallholder farmers to become commercial farmers may need to include at least the following components:

a. One overall management and coordinating entity that is responsible for monitoring all support provided, as well as the monthly financial and production performance of farmer participants. As Vink, van Rooyen and Karaan (2014) argue in their paper on FSPs and lessons for implementation, "Given the high cost involved in servicing a large number of farmers over a broad front and the comprehensive nature of FSPs, it would be essential that an agent be responsible for the overall planning and initial implementation of a particular programme." Vink and Kirsten (2019) also propose that Local / District Land Management Committees should play a key role in identifying smallholder beneficiaries and projects (which should be based on various kinds of joint venture arrangements) and that the Land Bank should implement a newly designed Land Reform Fund to provide financial support to smallholder farmers.

b. Eligibility criteria and application processes need to address at least the following:

    i. Farmer access to land suitable for production (in terms of ownership and use rights, water rights and access, soil potential, weather patterns, access to markets etc.). Minimum land sizes specific to different crop types need to be identified and applied with respect to supporting smallholder farmers with the potential to become commercial farmers. For example, two HA has been suggested as a minimum land size for vegetable farmers.

    ii. An assessment of the applicant's farming skills, their passion for farming, as well as their motivation to become financially sustainable (and in some cases commercial).

    iii. Sufficient education – preferably at least to matric - to ensure the numeracy required to keep adequate financial and other records and to conduct basic calibration, for example, for appropriate fertilizer, chemical and veterinary medicine application. Without adequate financial records, it is difficult for farmers to gain access to commercial finance.

    iv. Recent research on redistributed farms conducted by the Agricultural Research Council[1] shows that farmers with second and third income-streams are much more likely to succeed than those without these.

c. Farm-level business planning processes are rigorous and take into account, as far as possible, the possible impacts of negative climatic conditions, as well as other risks, which may negatively impact on both future farm production and sales.

d. Technical production training that is highly experiential, as well as farm management and financial record keeping. On-farm support to ensure that accurate financial record keeping is taking place is also needed. Ideally, bookkeepers should be provided as part of the support package.

e. Blended loan and grant finance with loan repayments being flexibly structured and aligned with farmer harvesting cycles and cash flow[2]. Ideally, loans should be

[1] ARC and Entsika, Scientific Analysis of the Proactive Land Acquisition Strategy (PLAS), PowerPoint, 20 August 2019

[2] One proposal (Sopov. 2018) for flexible production finance is that re-payment schedules should also take into account the farmer's other sources of household income (although it is not clear how feasible this is in the South African context): "For each of those commercially viable commodities, a

carefully designed to be linked to the achievement of specific milestones for different levels of farm development in terms of farmer productivity, turnover, and profitability over at least five years. A grant should be provided for the first year or two of farming so that the farmer can put in place historical income and expenditure records. These financial records can then be used to inform a loan feasibility financial analysis for years three and four, as well as the setting of performance targets to be met by the farmers. Such performance targets could also include certain investment amounts that the farmer needs to be making from their profits as part of their co-contribution. At the end of these five years, the progress made towards self-sustainability should be reviewed and, if necessary extended, if sufficient promise is shown, but full self-sustainability has not yet been achieved. Where this goal has already been realised, or where insufficient progress has been shown, grants and other forms of subsistence should be terminated. Where farming has been taking place on state-owned land, arrangements should then be made to find another, more suitable tenant.

f. Loan finance needs to be provided at as low as possible interest rates (e.g. 2%) and therefore probably require substantial government subsidy. Care is needed to ensure that government-backed financial support to smallholder farmers does not crowd out, or compete with, private sector support to such smallholder farmers. The possible establishment of a Land Reform Fund may assist in achieving this (Vink and Kirsten. 2019).

g. Equipment support should ideally include (over and above commonly provided equipment and infrastructure such as fencing, water tanks, and implements), where relevant, solar-powered water irrigation pump systems (and water tanks for gravity irrigation) that have sufficient capacity to ensure the efficient irrigation of a farmer's total land area (for vegetable farmers) (and not diesel pumps which are expensive to run), shade cloth (in areas where frost and/or hail or extreme heat can be expected), and a tractor. Where possible, drip irrigation systems and/or tunnels should be funded.

h. There may be scope for FSPs to enhance expenditure efficiency and access to support to a larger number of smallholder farmers by procuring farming equipment and inputs on a wholesale basis on behalf of farmers (as long as the logistics of delivery to farmers are feasible). This can only be done if farm assessments and applications are finalised and approved within a short space of time to avoid delays with the procurement and delivery of such support to farmers.

i. On-farm support needs to include regular monitoring visits that assess actual production in relation to monthly production plans and identify and inform responses to negative factors affecting performance.

j. FSPs that provide support to cooperatives should focus on supporting marketing, and not production, cooperatives. In addition, support to cooperatives may need to include pro-active support measures that contribute towards good governance and the reduction in conflicts being experienced by members of cooperatives.

"commodity profile" is created through information gathered during the market study. The profile maps the cash flow throughout that commodity's production cycle, which is then used to design the main loan features (size, tenor, repayment schedule) to match the needs of the farmer-client. Although the financing need is calculated based on the commodity being grown, total household cash flow is considered in determining the repayment schedule.

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k. It is possible that dedicated accounting support services will need to be provided to smallholder farmers to ensure that they can maintain and produce financial records that are acceptable to relevant financial service support providers. Such information includes the submission of annual financial statements to CIPC (which CIPC requires to maintain the registration status of formally registered businesses). Training or other arrangements to ensure self-sufficiency by the end of the period of assistance should be included.

l. A monitoring, reporting and management system that includes easy-to-use monitoring systems for monitoring, amongst other things, farmer production (linked to monthly production plans) and employment (to also capture part-time and seasonal employment and wages). New farmers require intensive monitoring on at least a weekly basis using a monitoring system this can monitor key indicators for all phases of the production process (from soil preparation/ animal breeding and rearing, cultivation, harvesting and sales).

1. Issues identified for possible further research and/or discussion include the following:

   a. The optimal structuring of blended loan and grant finance for different farmer levels and crop/livestock types may warrant further investigation.

   b. Research into how smallholder farmers use financial record keeping information to inform their farm management decision-making, as well as what kinds of financial history documentation is regarded as acceptable by different financial service support providers.

   c. Research into whether the use of surety is a feasible component of financial support to smallholder farmers and, if so, how best to include surety as a component of financial support provided.

   d. Identifying minimum land sizes for different crop types/ mixes which smallholder farmers require access to if they are to achieve the production volumes necessary to graduate as commercial farmers.

   e. Opportunities to link FSPs with corporate supplier development programmes in South Africa: A review and assessment of existing corporate supplier development programmes that include support to farmers should be undertaken to identify good practices and explore the scope to upscale and replicate such initiatives.

   f. The state's approach to procuring from and providing market access to smallholder farmers should be clarified and opportunities to facilitate this market access identified. This includes clarifying the potential role of Agri -Hubs in supporting smallholder farmers.

   g. The extent to which Agri-Hubs can provide shared storage facilities for smallholder farmers to support enhanced market access.

   h. The recent introduction of blended financial support by the state needs to be closely monitored and evaluated to assess the effectiveness of its design and administration for different crop categories.

   i. Development of effective smallholder monitoring systems that make innovative use of technology and are easy to use.

About the Author

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