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# BROADENING THE OWNERSHIP BASE OF AGRICULTURE IN SOUTH AFRICA

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## INTRODUCTION

Over and above a few introductory remarks regarding land reform, this paper focuses on three aspects. Firstly, a perspective on rural development and land use patterns, specifically farming systems; secondly, information on a new private sector group of companies being formed to further the interests of farmers from mainly the developing communities; and thirdly, a few remarks on possible contributions by the fertilizer industry to assist farmers from developing communities.

## THE LAND AND AGRICULTURAL REFORM PROCESS

This section provides a brief overview of the dynamics and status quo of the land reform process.

The need for a comprehensive land and agricultural reform programme in South Africa is evident. A process of debate involving various stakeholders in agriculture has resulted in a degree of consensus on the major components of this change. Substantial work is still required on operational policies and specific mechanisms for implementation.

In as much as the current structure of South African agriculture is a product of specific economic and political support systems, changes to these systems will lead to a vastly different agricultural environment towards the end of the century. The direction of this proposed change is guided by

the RDP<sup>4</sup> framework (1994), the draft White Paper on Agriculture (1994) and the operating principles of BATAT<sup>5</sup> (1994). There is a marked difference between agriculture in the rural areas of the ten former homeland areas<sup>6</sup> and the rural areas in the rest of South Africa. Two general statements can be made about the rural areas of the former homelands: first, that there is practically no viable rural economy; and second, that most rural households depend on the urban areas and state support for their livelihoods. Homeland agriculture has been subjected to many agricultural interventions over the past decade. These have varied from betterment schemes, through large centrally managed state and parastatal projects, through smaller farmer settlement schemes, to the current emphasis on farmer support schemes. The poor success rate of these interventions merely underlines the need for new and innovative approaches to this challenge.

The commercial farming sector must adjust to the uncertainty associated with the major structural changes taking place in agriculture. The shift toward market determined price structures, a decrease in protection and subsidies, changes to marketing legislation, the extension of labour law to agriculture and the land reform programme constitute the major areas of change in the agricultural environment.

Broadening the ownership base of agriculture by opening up access to land and changing the existing unequal ownership pattern, coupled with imaginative private sector led initiatives to stimulate agricultural production by developing communities, will form a major part of rural change over the next decade. This change is focused on those denied access on racial grounds, but also includes removing the restrictions against small scale farmers, women farmers, tenant farmers and part-time farmers. The RDP identifies land reform as the "central and driving force of a rural development programme". The three key elements of the land reform programme are

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4. Reconstruction and Development Programme (RDP).

5. Broadening Access to Agricultural Thrust (BATAT) - an implementation strategy in the Department of Agriculture in the context of the RDP programme.

6. In this paper the term "homeland" collectively refers to the geographical areas occupied by the former "independent states and self-governing territories".

the restitution of land to victims of forced removal; the redistribution of land to landless people and tenure reform to provide security of tenure (Department of Land Affairs, 1994). The land claims court will shortly start work on restitution issues and the land reform pilot programme is being implemented.

The challenge is to integrate these "two agricultures" and manage the changes that must take place to normalise agriculture in South Africa. Private sector support for this process is vital and this creates an important niche for innovative private sector driven initiatives. These changes will also result in changes to the market environment within which suppliers of agricultural inputs operate.

## **IMPORTANT ASPECTS OF THE NEW RURAL AND AGRICULTURAL ENVIRONMENT**

This section will explore a number of issues that should inform and influence private sector activity in the changing agricultural environment.

### **The Rural Context**

The starting point is that agriculture will be viewed in a much wider context than before. The rural economy is directly influenced by the national macro economy and political changes. Off-farm activities, including the smaller rural towns and residential areas, often referred to as agri-villages, form an important part of the new thinking on rural areas. Opportunities for non-agricultural production such as agri-business and small business will become more important in the rural areas. Agriculture is thus viewed as only one subsector within the rural economy.

Public sector support within the agricultural sector is expected to be directed increasingly to the subsistence and emerging producers at the expense of the commercial farming sector. The commercial sector will thus have to be more self-reliant and will look to the private sector and commercially provided services for the required support.

### **Land Use Patterns and Farm Size**

Land use patterns and farm size are expected to change in the new policy environment. Policy and public sector support is expected to favour a shift to smaller scale farm sizes. Policy effects

which could lead to a smaller farm size include (Eckert and Van Rooyen, 1993:5):

- changes to, or abolition of, the sub-division of Agricultural Land Act;
- increased part-time farming and land rental, including share cropping;
- more intensive farming in high potential areas as farmers exploit growing local and foreign markets;
- innovations with regard to farm workers, including share cropping, sectional title and equity sharing arrangements;
- the settlement of farmers on state land and those on land reclaimed through the restitution process;
- policies promoting small scale or scale neutral technologies, and
- policies promoting access to farm land by those who were previously excluded.

There are, on the other hand, a number of factors which could lead to bigger farms including:

- declining use of production inputs such as fertilizer and agro-chemicals, leading to more extensive farming;
- replacing crop production with livestock in the more marginal cropping areas;
- switching to lower yielding but more drought resistant crop cultivars, and
- an expansion of the corporate farming sector.

Of importance is that the envisaged programmes and policies create space for the co-existence of a range of farming systems from small scale to large scale.

### **A Range of Farming Systems**

To illustrate this concept four potential categories of farmers are defined, namely commercial, small scale commercial, part-time and finally subsistence. While these categories are not fixed, they do have differing levels of resources,

different managerial and technical skill levels and different development needs and support requirements. These are briefly discussed below.

#### **(i) Commercial Farming**

This category refers to the predominantly white and corporate owned commercial farming operations. They have relatively adequate access to resources and institutions. Development needs are for advanced technology and management practices.

In view of scarce public sector resources, commercial farming will have to increasingly rely on the private agri-business sector for inputs and services. Programmes to support new entrants into the commercial farming system, the extension of labour legislation to commercial farming and various equity participation schemes which accommodate farm workers will be important. Investor equity schemes and support from existing farmers to new entrants will become increasingly important.

#### **(ii) Small Scale Emerging Commercial Farmers**

These farmers could come from groupings such as farm foremen, skilled workers and people recently evicted from farmland. They have modest capital and labour constraints and some form of off-farm income. They have adequate technical knowledge of farming, but virtually always lack managerial expertise. These new farmers are expected to become significant recipients of public sector production related services. They require equal opportunities to marketing, access to capital, managerial techniques, management training and easily accessible inputs.

#### **(iii) Part-time or Supplementary Farmers**

For a large number of households, farming only supplements income from other sources. This category would include general farm workers. Experience is limited to largely semi-skilled and unskilled roles in commercial or subsistence agriculture. They have serious capital and labour constraints and keep an off-farm source of income.

These farmers require basic support services and access to capital and appropriate technology. In addition to management training, additional technical knowledge will be required. The standard of living of these households is best supported by expanding off-farm income generating opportunities and access to social infrastructure and basic needs services.

#### **(iv) Subsistence/Food Security Producers**

This category of farmers include farmers in the communal areas and earlier generation evictees. They have very limited managerial or technical farming knowledge, but a reasonable knowledge of the local environment. While having family labour, they have severe capital constraints and no off-farm employment.

They typically require labour intensive technologies and home consumption enterprises. The achievement of food security implies substantial cash savings for this group of people.

The above categorisation can be used by the private sector to more clearly define potential clients and target markets. In this context it is useful to reflect on a generalised profile of previously excluded farmers. While often referred to as "small farmers", this need not necessarily be the case. The new entrants will cover the entire range of farming systems as discussed above. Most can, however, be referred to as limited resource farmers. These new farm groupings will result from a combination of restitution, direct land redistribution as well as the open land market coupled with affirmative action in land finance. Most of these farms will be relatively small in size. A number of factors are the key to success of new farmers. These include (Eckert, 1994:3):

- assistance to purchase land;
- the issue of technical and managerial skills;
- the amount of labour available in the household;
- the presence or absence of off-farm employment, and
- the level of income obtained off the farm from pensions or remittances.

### **A PRIVATE SECTOR INITIATIVE TO BROADEN THE OWNERSHIP BASE IN AGRICULTURE**

This section provides an overview of the progress made with a private sector initiative to establish a group of companies to create opportunities for farmers from developing communities.

#### **Background**

During 1993 a group of private sector commercial agricultural companies as well as related in-

dustries conceptualised the idea of an organisation to help establish viable farming ventures in South Africa, with emphasis on the participation of individuals and/or groups from developing rural communities.

### **Mission Statement**

The group mission statement is as follows: "to establish and create opportunities for viable farming ventures, focusing on developing communities, through project development, loan finance and equity participation".

### **Progress to Date**

An initial low key drive to mobilise founders share capital was launched in the first half of 1994 and an amount to the value of close to R12,0 million was pledged, with approximately R10,0 million already paid. Some of South Africa's leading private sector concerns, namely Absa Bank, Kynoch, Rembrandt, Sanlam and Unifruco are the existing main shareholders<sup>7</sup> with each contributing at least R1,0 million. The KWV has also pledged R1,0 million, payable over five years. Currently the initiative has reached the stage where, hopefully, after consultation with relevant stakeholders, a group of companies will be established to cater for the needs of public and private sector investors and farmers.

At this stage it is envisaged to establish a holding company with interest in a loans and investment company that in turn will invest in companies or trusts operating on specific projects. Once the structure is established and support canvassed from stakeholders, a second drive to mobilise share capital on a return on investment basis, will be launched.

### **Core Activities**

It is foreseen that the group will be involved in activities that will integrate its clients into the main stream of commercial agriculture. These activities include the following:

- (i) The identification, preparation and appraisal of projects.
- (ii) The mobilisation of finance to fund projects, both loans and equity.

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7. Refer annexure for names of shareholders.

(iii) The granting of loan finance to:

- individual farmers, and
- companies and trusts or similar organisations where farm workers have some form of shareholding or participation.

(iv) Participation as shareholders:

- in projects where farm workers are shareholders or participate in some way as owners, and
- via the purchase of land with the view to settle farmers and/or where farm workers are shareholders in companies farming the land.

(v) Management of project implementation:

- mobilisation of organisations capable of rendering community services as part of projects where the group's companies are involved, and
- the mobilisation of organisations capable of rendering expert technical advice to participants in projects.

Practical examples of projects currently being investigated

#### **Project 1:**

The group bought a farm in the Ceres district where approximately 350 - 400 ha could be developed to deciduous fruit. Investigations are taking place to determine the future of the farm. Various models are possible, for example, access to shareholding by farm workers on a partnership basis with established financial institutions/investors that can also take up shareholding together with the group. Alternatively, the farm could be sub-divided into viable economic units of say 20 ha each and farmers be settled. A combination of the two models is also a possibility.

#### **Project 2:**

An established deciduous fruit farm of approximately 100 ha is for sale and the farm workers have already formed a company to purchase the farm. The group is busy putting together a package to enable them to purchase this farm. To

alleviate pressure on cash flow, the possibility is being investigated to introduce established financial institutions and/or other investors to buy the farm on a co-shareholder or partnership basis with the workers. The group could also become a shareholder. Further expansion of the farm to approximately 140 ha is possible as the opportunity is there to link the farm with an existing private irrigation project. Training of the board of directors is very necessary as the existing shareholders, namely the farm workers, have limited knowledge of how companies function. One of the advantages of this project is the fact that a development orientated farm manager runs the farm and is willing to stay on.

### **Project 3:**

A request was received from a provincial government to put forward proposals to develop a piece of land available immediately adjacent to a large dam under the control of the Department of Water Affairs. The land in question is 300 ha, with water rights to irrigate 80 ha. A model to determine how this piece of land could be developed will now be put forward and the investigations are more or less along the lines as per project 1. As this land is in a well developed farming area, provision will probably also be made for an agri-village where workers working on farms in the area would live on properties owned by themselves.

### **Project 4:**

A request was received from an established sugar mill to investigate the possibility of sub-dividing a piece of land that is already established under sugar cane. The mill is prepared to provide supportive services. In this case it is highly likely that small farmers will be settled to farm in their own right.

### **Project 5:**

The group was approached by a farmer who owns an established citrus farm where a further 50 ha could also be developed to citrus. He is prepared to make the 50 ha available to be developed for the benefit of his farm workers. The group is investigating a model and financial package that would make the development of this project a reality. The exact way in which farm workers will participate must still be determined and the investigation will also be along the lines as per project 1 above.

### **Project 6:**

An application was received from a group of farmers farming on an existing irrigation scheme for finance to expand their own activities and to establish new farmers from developing communities. The scheme is referred to as "adopt a farmer". The established farmers would be prepared to assist the new farmers with advice and general operational guidance, subject to finance also being made available for these established farmers to expand their own farming activities.

## **THE FERTILIZER INDUSTRY AND FARMERS FROM DEVELOPING COMMUNITIES**

This section provides a few guidelines for the fertilizer industry to further the interests of farmers from developing communities.

- Accept the message of change and gear as well as restructure existing organisations to be as flexible as possible to accommodate the changes in the external environment.
- Evaluate broader agricultural related developments to ensure that agriculture as a sector remains healthy and well positioned to contribute to the national economy.
- Adopt a broader Southern Africa focus as it is important to ensure the well being of agriculture in Southern Africa and not only in South Africa.
- Ensure that a practical, down-to-earth process of strategic management is in place in organisations to ensure that changes, and the implications thereof, are articulated timeously.
- Evaluate the organisation's position in terms of the classification of the four categories of farming systems, namely commercial, small scale commercial, part-time and finally subsistence.
- Promote client access to inputs in its broadest sense:
  - (i) access to own products coupled with training and extension;

- (ii) networking with other suppliers of inputs;
- (iii) package deals with other suppliers of inputs and financiers to offer a one stop service to clients;
- (iv) identify the constraints clients experience, specifically part-time and subsistence based clients, e.g. transport and packaging of inputs and outputs, and
- (v) use local commercial outlets run by local entrepreneurs to distribute products.

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## ANNEXURE

### LIST OF SHAREHOLDERS IN THE SMALL FARMERS DEVELOPMENT CORPORATION LIMITED

1. COMMERCIAL AGRICULTURE : FRUIT
  - Canning Fruit
  - Cape Dried Fruit
  - Unifruco
2. COMMERCIAL AGRICULTURE : WINE
  - KWV
3. COMMERCIAL AGRICULTURE : OTHER
  - Boeresake Koöperatief (English equivalent "*Farmers Co-operative*")
  - Bonnita
  - Caledon/Riviersonderend Koöperasie (English equivalent "*Caledon/Riviersonderend Co-operative*")
  - Moorreesburgse Koringboere Koöperatief (English equivalent "*Moorreesburg's Wheat Farmers Co-operative*")
  - Oranje Koöperasie (English equivalent "*Oranje Co-operative*")
  - Porterville Landboukoöperasie (English equivalent "*Porterville Agricultural Co-operative*")
  - Simonsberg Fruit Supply
  - Suid-Westelike Landboukoöperasie (English equivalent "*South Western Agricultural Co-operative*")
  - Tobacco Institute
  - Towerkop Dairy Co-operative
  - W P Co-operative
4. FINANCIAL INSTITUTIONS
  - Absa Bank
  - Boland Bank
  - First National Bank
  - Investec Bank
  - Metropolitan Life
  - Sanlam
  - Standard Bank Foundation
5. PROCESSORS/DISTRIBUTORS/PACKAGING MATERIAL
  - Consol
  - Irvin & Johnson
  - Kohler
  - Nampak Corrugated Containers
  - Pepkor
  - Pick 'n Pay Stores
  - Rembrandt
  - Safmarine
  - Sappi
  - Woolworths
6. SUPPLIERS OF PRIMARY AGRICULTURAL INPUTS
  - Agrihold
  - Caltex Oil
  - Kynoch Fertilizer
  - Nitrophoska
7. INDIVIDUAL SHAREHOLDERS
  - Dr A E Rupert
8. DEVELOPMENT AGENCIES
  - Boskop Training Centres
  - LANOK Rural Development Company
  - Small Business Development Corporation (SBDC)