agriculture, forestry & fisheries

Department: Agriculture, Forestry and Fisheries
REPUBLIC OF SOUTH AFRICA

Integrated Agriculture Development Finance Policy Framework (IADFP) for Smallholder Farmers

Final Document

Department of Agriculture, Forestry and Fisheries

17 March 2015

Table of Contents

ACRONYMS

AAF	-	Akwandze Agricultural Finance
ACB	-	Agricultural Credit Board
ACP	-	African Caribbean and Pacific
ADEP	-	Aquaculture Development and Enhancement Programme
AFD	-	African Development Fund
AFAP	-	African Fertiliser and Agribusiness Partnership
AFD	-	Agence Française de Développement
AfDB	-	African Development Bank
AFF	-	Agriculture, Forestry and Fisheries
AgriBEE	-	Agricultural Broad Based Economic Empowerment
AgriSETA	-	Agricultural Sector Education Training Authority
ASCA	-	Accumulating Saving Credit Association
AUC	-	African Union Commission
BATAT	-	Broadening Access to Agricultural Thrust
BBBEE	-	Broad-Based Black Economic Empowerment
BRICS	-	Brazil, Russia, India, China and South Africa
CAADP	-	Comprehensive African Agricultural Development Programme
CASP	-	Comprehensive Agricultural Support Programme
CGAP	-	Consultative Group to Assist the Poor
CIS	-	Cooperative Incentive Scheme
CRDP	-	Comprehensive Rural Development Programme
DAFF	-	Department of Agriculture, Forestry and Fisheries
DBSA	-	Development Bank of Southern Africa
DEG	-	Deutsche Investitions- und Entwicklungsgesellschaft (German Investment and Development Agency)
DFI	-	Development Finance Institutions
DfID	-	Department for International Development
DF	-	Development Finance
DFPF	-	Development Finance Policy Framework
DoA	-	Department of Agriculture
DoRA	-	Division of Revenue Act
DPME	-	Department of Performance, Monitoring and Evaluation
DRDLR	-	Department of Rural Development and Land Reform
dti	-	Department of Trade and Industry

DWAF	-	Department of Water Affairs
EC	-	European Commission
EED	-	Economic Development Department
EIB	-	European Investment Bank
EDF	-	European Development Fund
FAO	-	Food and Agriculture Organization of the United Nations
FMO	-	Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (The Netherlands Development Finance Company)
FMT	-	FinMark Trust
FSP	-	Financial Systems Approach
FSP	-	Farmer Support Programme
GDP	-	Gross Domestic Product
GIZ	-	Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH (German Development Agency for International Cooperation)
ICT	-	Information Communication Technology
IDC	-	Industrial Development Corporation
IADFPF	-	Integrated Agriculture Development Finance Policy Framework
IFAD	-	International Fund for Agricultural Development
IFC	-	International Finance Corporation
IGDP	-	Integrated Growth and Development Plan
IPAP	-	Industrial Policy Action Plan
IVCF	-	Integrated Value Chain Financing
KfW	-	Kreditanstalt für Wiederaufbau (German government-owned development bank)
KPs	-	Kampala Principles
Land Bank	-	Land and Agricultural Development Bank of SA
LED	-	Local Economic Development
LRAD	-	Land Redistribution and Agricultural Development programme
MAFISA	-	Micro-Agricultural Financial Institutions of South Africa
MDGs	-	Millennium Development Goals
MFI	-	Micro-Finance Institutions
MFW4A	-	Making Finance Work for Africa
MIS	-	Management Information System
MTSF	-	Multi-Term Strategic Framework
NAMC	-	National Agricultural Marketing Council
NOAA	-	National Oceanic and Atmospheric Administration (US Department of Commerce)

NDA	-	National Department of Agriculture/National Development Agency
M&E	-	Monitoring and Evaluation
NEF	-	National Empowerment Fund
NEPAD	-	New Partnership of Africa's Development
NERPO	-	National Emergent Read Meat Producers Organisation
NDA	-	National Department of Agriculture
NDP	-	National Development Plan
NGOs	-	Non-Governmental Organisations
NGP	-	New Growth Path
NIPF	-	National Industrial Policy Framework
NLP	-	National LandCare Programme
NPC	-	National Planning Commission
NT	-	National Treasury
PICC	-	Presidential Infrastructure Coordinating Commission
PDIs	-	Previously Disadvantaged Individuals
PROPARCO	-	DFI subsidiary French Development Agency (AFD) and private shareholders
RDP	-	Reconstruction and Development Programme
RECAP	-	Recapitalisation, Acquisition and Restitution Programme
REM	-	Retail Emerging Markets
R&D	-	Research and Development
SA	-	South Africa
SACU	-	Southern Africa Customs Union
SADC	-	Southern Africa Development Community
SASA	-	South African Sugar Association
SEFA	-	Small Enterprise Finance Agency
SIP	-	Strategic Integrated Project
SMMEs	-	Small, Micro and Medium Enterprises
SSF	-	Subsistence Farmers
STATS-SA	-	Statistics South Africa
USAID	-	United States Agency for International Development
UNECA	-	United Nations Economic Commission for Africa
UNIDO	-	United Nations Industrial Development Organisation

DEFINITIONS

The following terms have been defined so that there is clarity and that the reader can have insight on what the writer has meant throughout the text.

Agriculture, Forestry and Fisheries

All aspects related, including mariculture as part of fisheries.

Agriculture: The science or practice of farming, including cultivation of the soil for the growing of crops and the rearing of animals to provide food, wool, and other products (Oxford Dictionary, 2015). For the purposes of this document the term agriculture will also refer to fisheries and forestry.

Forestry: The science or practice of planting, managing, and caring for forests (Oxford Dictionary, 2015).

Fisheries: A place where fish are reared for commercial purposes (Oxford Dictionary, 2015). A fishery is an entity engaged in raising or harvesting fish that is determined by some authority to be a fishery (Fletcher, Chessonio, Fisher, Sainsbury, Hundloe, Smith, and Whitworth 2002). According to FAO a fishery is typically defined in terms of the "*people involved, species or type of fish, area of water or seabed, method of fishing, class of boats, purpose of the activities or a combination of the foregoing features*" (FAO 2015). A fishery may involve the capture of wild fish or raising fish through fish farming or aquaculture (NOAA 2006).

Artisanal fisheries: These are small-scale fisheries for subsistence or local, small markets, generally using traditional fishing techniques and small boats. They occur around the world (particularly in developing nations) and are vital to livelihoods and food security (Jacquet and Pauly 2008).

Mariculture: The cultivation of fish or other marine life for food (Oxford Dictionary 2015). It can also be defined as a specialised branch of aquaculture involving the cultivation of marine organisms for food and other products in the open ocean, an enclosed section of the ocean, or in tanks, ponds or raceways which are filled with seawater.

Development Finance

This term relates to a wide range of financing mechanisms that target environments where there is private financial markets' failure due to risks with high costs, or real or perceived (Aziakpono 2014).

Development finance is the provision of credit or finance to a developing entity to permit it to undertake projects that it could not otherwise afford or it can also be defined as funding of an improvement or new build project from start to finish (DAFF 2014c).

Development finance can also be defined as the uptake of funds by either a person or a business venture (new or existing) and where the investments of the funds make it possible for the business to grow.

Development finance can further be defined as finance that is provided to customers by development finance institutions, government, donors or other institutions and where these customers are not considered creditworthy and therefore qualify to receive funding from commercial banks. This is confirmed by the following: ''Agricultural development banks were established to extend credit and other financial services to customers not considered creditworthy by commercial banks'' (Seibel 2000).

It is also important to understand that the instruments that are part of development finance is not narrowly defined only as grants and loans but does include risk products like insurance, savings mobilisation, value chain finance, etc. More information on these instruments is being shared in Section 7.3 on financial instruments.

Policy and Framework

Policy: It is a course or principle of action adopted by an organisation to guide operations, decision-making, etc. In the government there are various types and forms of policies—some are broad and others are specific to a particular sector. Other policies are more operational in nature and provide operational guidelines on how implementation should take place.

Policy Framework: It comprises overarching principles, procedures and guidelines to be used for the development and review of policies. It also articulates guidelines that underpin all activities relating to policy formulation and review; ensures that policies are developed, approved, applied and reviewed consistently; and provides a single point of reference for information relating to policy development and review (DAFF 2015).

Farmer Categories

According to a DAFF publication (unknown date): *Definitions of Farmer Categories* that was prepared for the Agricultural Economics Working Group (AEWG) has provided the following definitions for subsistence, smallholder farmers and commercial farmers.

- Subsistence farmer: It is a resource-poor farmer producing mainly for household consumption and according to their household food requirements rather than producing surpluses for the market. This group is divided into: (i) Urban & Peri-urban agriculture; and (ii) Survival farmers.
- Smallholder farmer: This is a farmer that produces for household consumption and markets', therefore farming is consciously undertaken in order to derive a source of income. These are the

new entrants into the mainstream agriculture aspiring to produce for market at profit. Smallholders may have the potential to expand their farming operations and to become commercial farmers. These smallholder farmers are divided into: (i) Lifestyle smallholder farmers; and (ii) Smallholder farmer with commercial aspirations.

- Commercial farmer: It is the owner and manager of a commercial farming operation that is defined as an established farming venture undertaken by an individual or business entity for the purpose of the production and sale of agricultural products to make a profit. The farm income must exceed a minimum economic threshold and must be sufficient to support the farmer and his family. This group of farmers are divided up in three groups: (i) Small commercial farmers where some can voluntary register for VAT but not all qualify; (ii) Medium commercial farmers where they have to register for VAT (about R1 million turnover); and (iii) Large commercial farmers.

It is advised that these definitions be further developed by DAFF in the development of the new policy and at the same time align that with the work being conducted for NAMC as well as align this with other definitions that have been developed within DAFF.

Farming project: It is a project and initiative that support and assist in the development of individual farmers and groups of identified farmers (can include individuals, communities resettled on land with farming rights; as well as individuals or groups of emerging farmers as identified by corporations and other agribusiness role players) in a specific sector or geographic area.

Financial instruments and related terms

Contract farming: This is the most common value chain approach and it is a transaction between buyers and agricultural producers that is governed by a contract that may stipulate product and quality attributes, production methods and/or the commitments for the future sale (e.g. timing, location and price (Da Silva 2005)

Blended instrument: This is a combination of more than one funding instrument—usually loan and grant funding.

Grant: Non-repayable funds.

Loan: Funds are provided on a temporary basis to a client and the client needs to replay the funds to the financial service provider on an agreed time and an agreed interest rate.

Moveable assets: There are assets that are not fixed and it can be moved from one farm to another e.g. tractors, mechanisation, processing and irrigation equipment, bakkies, water pumps, etc.

Production loan: This is credit that is acquired to procure inputs to plant crops for a new planting season. The loan is usually repaid after the harvest and the loan period is not more than twelve months. It is also known as a seasonal loan and is sometimes provided by input suppliers. It can also apply for animal production activities.

Retail lending: Financing transactions offered to individual farmers or groups (as opposed to agribusinesses). Retail financing can be provided as asset-backed finance, mortgages or production loans.

Soft loan: The financial institution provides a loan to a client at an interest rate below the going interest rates that commercial banks offer to clients.

Subsidy: It is money that is paid by a government or an organisation to reduce the costs of services or of producing goods so that their prices can be kept low (Oxford Dictionary 2015).

Value chain: it is a series of steps and related actors that transform raw materials into finished products (Christen et al. 2013).

Value chain finance: Financial services and products flowing to and/or through value chain participants to address and alleviate driving constraints to growth (Fries 2007).

Wholesale lending: Bulk facility extended to intermediaries for the purpose of on lending, specifically to finance development activities.

Working capital: The capital of a farming operation which is used in its day-to-day trading operations, calculated as the current assets minus the current—also called net current assets (Oxford Dictionary 2015).

Market related rates: The prevailing rate of interest on loans determined by the demand and supply of credit and based on the duration (the longer the duration, the higher the rate) of loan and type of security offered (the higher the quality of security, the lower the rate).

Metric system

The metric system will be used in this review, i.e. hectare (ha), metre (m), kilogramme (kg), etc. Therefore the decimal mark to be used is a comma, i.e. R10,00 or 10,4 kg. A space will be used as a separator between the thousands and millions, e.g. 10 000 ton. For more information see the following website: http://www.sadev.co.za/content/how-correctly-format-currency-south-africa.

EXECUTIVE SUMMARY

The provision of an efficient development finance system is a challenge in any developing country. The problems experienced in implementing development programmes in South Africa are not unique. The same issues experienced here are also challenges in the rest of the developing world. The answer lies in a number of areas such as a sound *integrated development finance policy*, innovative instruments, new public-private partnerships, and funding support mechanisms and pragmatic implementation methodologies. It is believed that, given the well-developed nature of the South African economy, the quality of the banking sector and the willingness of policy makers to develop new funding solutions, will result in a well-designed and implementable policy. It is important to look at the past and the current situation, at policies that worked and others that did not and be open to new opportunities to make a difference to the lives of smallholder farmers that want to grow and create a new future. We can find some unique solutions for our people here that may also have a positive spill-over effect on our continent.

There is a lack of a coherent and all-inclusive policy framework to facilitate the implementation of funding solutions to the smallholder-farming sector in South Africa. There is also limited coordination between stakeholders to ensure seamless implementation as well as the monitoring and evaluation of agricultural development initiatives and programmes. It is against this background that the need to develop an integrated development policy framework for the agriculture, forestry and fisheries sectors emerged.

The overarching objective of the Integrated Agriculture Development Finance Policy Framework (IADFPF) initiative is to create an enabling environment for a sustainable and viable development finance support system in the agricultural, forestry and fishery sectors. Specific policy objectives have been identified as: (i) Making financial services accessible to a large segment of the potentially productive population which otherwise would have little or no access; (ii) Promoting synergy and mainstreaming the internal sub-sector into national financial system; (iii) Enhancing service delivery by microfinance institutions to micro, small and medium producers.

The purpose of this policy framework will be to facilitate the provision of an integrated development and comprehensive range of financial services for the commercial-oriented agribusiness, fisheries, and forestry entrepreneurs and their various enterprise value chain players. The overall goal of this policy framework is to integrate all types of agricultural finance for smallholder farmers offered by the Department of Agriculture, Forestry and Fisheries (DAFF). This framework that has been developed in this assignment will provide the context within which DAFF can develop a future development finance policy for the agriculture sector in South Africa[1].

In developing this policy framework, a reference has been made to policies and programmes that can have an impact on the integrated development finance policy. Four groups of policies and programmes have been identified and these include: regional, national, and sectoral and those of other government departments. The process also included consultations with various institutions and individuals. This analysis provides the framework for the future development of a new Integrated Agriculture Development Finance Policy. A set of principles have been identified regarding best practices that relate specifically to government and those that are more general good practices in nature. Other principles have also been referred to in the appendices section, i.e. the general broad principles from the White Paper on Agriculture (1995) and principles identified from the Strauss Commission report as well as the Financial Systems Approach.

With regard to best practices on funding support mechanisms, reference has been made to the fact that there is a need to capacitate financial institutions (to better understand the needs of farmers) as well as the training of farmers to gain more insight in the financial environment. The importance of the development of management information systems and a well-functioning rural financial network has been stressed—including the need for credit providers' associations. It was also proposed that new innovative partnerships be considered and some examples were shared. Other best practices related to funding support mechanisms and financial instruments, has been identified. The mechanisms that have been discussed can support the implementation of development finance policies and programmes. Reference has also been made to traditional financial instruments (loans, grants and subsidies) and more innovative instruments.

A number of policy options have been proposed and these includes the following: (i) Continuing with the current approach; (ii) Blended fund – grant and loan resources in one combined fund; (iii) Separate funds for loans and grants; (iv) Integrating finance and farmer support services in one service delivery and development agency; (v) Creating a partnership between the public and private sectors (PPP); and (vi) Making use of financial intermediaries to provide financial and other services.

An implementation plan has been developed and two themes have been identified: (i) Institutional arrangements and the delivery mechanism; and (ii) Policy implementation. Provision has also been

[1] The reader should note that the IADFPF-initiative comprises of two phases. The one phase being the 'framework' and the other phase the 'policy' that will flow from the framework. As stated in Section 8.1, the objective of this document was never to provide a newly designed development finance policy but rather a framework that provides the 'context' or the 'mould' into which the policy would be 'casted'.

made for a Communication Plan as a separate section that demonstrates the importance of communicating the rollout of new development finance on a high level but also with the targeted groups, i.e. smallholder farmers, fishers and foresters. A monitoring and evaluation system has been proposed and key measurement elements have been identified and responsibilities allocated.

Number of recommendations have also been made and includes: (i) Developing a comprehensive integrated development finance policy for smallholder development; (ii) Improving the coordination and collaboration among government departments and other stakeholders by creating a functional coordination mechanism; (iii) Government should stick to the principles that it set out for itself; (iv) Improving on implementation and designed policies in such a way that provision is made for expected or anticipated implementation challenges; (v) Policy designers should include innovative financial instruments within policies and programmes—to enhance developmental impact and reduce risk; (v) Identifying new development finance partners and encourage the development of innovative finance products; (vi) Defining roles and responsibilities of partners involved; (vii) Developing clear eligibility/selection criteria for funding; (viii) Facilitating provision of non-financial support mechanisms (i.e. capacity building of farmers & bankers); (ix) Proposed policy options.

Other proposed policy options include establishing a fund to house all the funding programmes that are offered by DAFF and the Department of Rural Development and Land Reform (DRDLR) and placing the fund at a capacitated Development Financial Institution (DFI). Prospective applicants would then make proposals to the DFI on how the funding should be utilised to develop certain projects. The DFI will evaluate the proposals as it is done by other DFIs internationally. Prospective applicants can be provincial departments, private sector entities, NGOs and others. Provincial Departments of Agriculture will still provide extension services and support to local farming communities.

1 INTRODUCTION

1.1 Background of Agriculture Development Finance in South Africa

The previous political dispensation provided comprehensive financial support to white commercial farmers through the Land Bank and provided seasonal loans through a network of agricultural cooperatives. Commercial banks also provided credit to bankable commercial farmers with land as collateral. Small-scale white farmers, who did not qualify for loans from the Land Bank and commercial banks, were financed by the Agricultural Credit Board (ACB)—the financial institution of last resort. The Department of Agriculture[2] (DoA) provided extension, agricultural economic and other services and subsidies to commercial farmers. ACB also provided disaster relief (drought, floods, etc.) and helped to manage risk. The agricultural marketing boards provided secure markets both locally and internationally for the commercial farming sector. Black smallholder farmers and farming communities were excluded from the above financial instruments that were available to white farmers.

Significant policy reforms occurred in the development finance landscape post-1994. This was mainly due to the leading role of the state in financial markets and the fundamental issue underlying the policy initiatives that centred on state intervention to correct market failures and to create a development-friendly policy environment. The Reconstruction and Development Programme (RDP) in 1994 placed land in the middle of the policy debate while agricultural and development issues were mentioned in passing. However, the RDP did provide a strategic framework for the government to ensure that agricultural development and land-reform programmes could go hand in hand (Van Rooyen et al. 1994). Several policy initiatives were launched to reinvestigate the role of government in rural and agricultural markets. One of the first initiatives was the Broadening of Access to Agriculture Thrust (BATAT), launched in 1995 by the Minister of Agriculture and Land Reform, which provided a framework for policies, institutions and legislation for a new agricultural financial programme. The focus was on agricultural financial assistance, wholesale and retail financial intermediaries, farmer support and development, farmer graduation programme, monitoring and evaluation, etc. (Van Zyl 2012; NDA 1996). The White Paper on Agriculture was published in 1995 and it outlined four principles: (i) Farmers must be assured of equitable access to efficient financial services; (ii) Improvement of financial management through training; (iii) Interest rates should be market-related; (iv) Ability to pay should be the basis for extending credit to farmers (NDA 1995).

[2] Note that the name of the Department of Agriculture has changed over the past 20 years. It was known as the National Department of Agriculture, the Department of Agriculture and Land Affairs, and the Department of Agriculture, Forestry and Fisheries.

The Commission of Inquiry in the Provision of Rural Financial Services (Strauss Commission 1996) provided a framework for the provision of financial services to smallholder farmers, rural households, and entrepreneurs. In summary the following were highlighted:

- The role of the government was identified as that of a facilitator and a coordinator of the provision of financial services with a gender focus on women
- The report also recommended that the state should not intervene directly in the financial markets but should rather support the market by facilitating the provision of financial services
- The state was encouraged to ensure that rural financial services are being delivered and that it should form part of an integrated rural development strategy and there might be a need for government funding to support the developmental nature of financing instruments
- During 1998, and in line with the Strauss Commission, the government decided to close down the ACB. The credit provision functions of the national and provincial departments were discontinued and the loan books were transferred to the Land Bank.

In 2004 the government decided that farmers should manage their own farming risks and a once-off grant was provided under the Land Redistribution and Agricultural Development (LRAD) programme to help farmers to establish themselves. As a result of the recommendations of the Strauss Commission, the Department of Agriculture launched two funding programmes, i.e. (i) Comprehensive Agricultural Support Programme (CASP); and (ii) Micro-Agricultural Financial Institutions of South Africa (MAFISA). It was stated that the purpose of CASP was to: '*enhance the provision of support services to promote and facilitate agricultural development targeting beneficiaries of the Land Reform and Agrarian Reform programmes'* (Minister, 2004). While BATAT was focusing on black farmers, CASP was focusing on land reform beneficiaries (Vink et al. 2012). During 2004 the government also announced the reestablishment of an agricultural credit scheme that was to be based at the DoA and was called MAFISA. This was the first state-owned micro and retail agricultural scheme that specifically targeted the working poor, household producers, smallholder farmers and micro-agribusiness entrepreneurs in both urban and peri-urban areas.

The Land Bank was since its inception a bank to commercial farmers and is still focusing on this group of clients. The bank was designed to rise its funding on the open market and had to generate commercial yields. The bank was neither designed nor operated as an agricultural development financial institution to finance smallholder farmers at a retail level. The Land Bank started in 1997 on a new strategic direction to transform itself. Today the bank continues to serve its targeted commercial clients but has piloted the Retail Emerging Market (REM) programme for black smallholder farmers with commercial aspirations and small commercial farmers. This programme finances these targeted farmers and no collateral is required. REM is not profitable at this stage and receives funding from government that is ring-fenced. The programme also receives dividend contributions from within the bank. The REM programme aspires to assist smallholder farmers and small commercial farmers to migrate and become fully commercial farmers. Once graduated to the level of commercial farmers they will qualify for finance from the bank's retail division (Makhura 2014; Sizwe 2014).

The Department of Rural Development and Land Reform (DRDLR) also established the Recapitalisation, Acquisition and Restitution Programme (RECAP) in 2004. The purpose of these programmes is to ensure that there are more farms producing food on a commercial basis to enhance farm income-levels and increase the number of jobs on farms. The programme provides grant funding for on-farm infrastructure, mechanisation and operational funds to run a farm successfully.

1.2 Purpose of this policy framework

- The purpose is to develop a well-defined *Integrated Agriculture Development Finance Policy Framework* (IADFPF) that will create an enabling environment for the development of a sustainable and viable development financial system in the agricultural sector.
- The framework will: (i) Identify the range of financial options and instruments (e.g. grants, loan, insurance, savings mobilisation, etc.); (ii) Support the graduation of smallholder farmers to commercial farmers; (iii) and clarify the roles and responsibilities of various relevant stakeholders in the provision of financial services.
- Align this framework to the policies and programmes of other departments and institutions such as DRDLR, Department of Trade and Industry (dti), National Treasury, Land Bank and others that may have an impact on the financing policies and programmes that are being implemented by the Department of Agriculture, Forestry and Fisheries (DAFF).
- This Framework will enable the Executive Body of the DAFF to proceed implementing the policy framework for the benefit of the agricultural, forestry and fishery stakeholders.

1.3 Goal of the framework

The overall goal of this framework is to '*integrate all types of agricultural finance for smallholder farmers offered by the DAFF*.' The purpose is to develop a well-defined *Integrated Agriculture Development Finance Policy Framework* (IADFPF) that will '*create an enabling environment for the development of a sustainable and viable development financial system in the agricultural sector*'

(DAFF 2008, DAFF 2014c, and Aziakpono 2009). This framework will provide the context within which DAFF can develop a future development finance policy for the agriculture sector in South Africa[3].

1.4 Current Status[4]

1.4.1 Introduction

The following sections will analyse the demand and the supply of agriculture development finance as well as the various development finance policies and programmes.

1.4.2 Demand for agriculture finance

Since 1994 the current government has made an effort to create a more representative agricultural sector through various land-reform policies and programmes. The land restitution and land distribution programmes were launched and a new group of land reform beneficiaries were established in the former 'white farming areas.' These beneficiaries were provided with large commercial farms to farm and the government provided grants for the land, and fixed and improved farm machinery and equipment. However, these newly established farmers were not able to raise finance for production costs (i.e. finance for production inputs) with commercial banks. This was mainly due to the fact that these farmers were not allowed to use neither the land nor moving assets as collateral for loans. The situation was so desperate that only half of these farms were still operational in 2012 (De Klerk, Fraser, Fullerton, 2013).

It is estimated that there are between 2,5 and 3,5 million subsistence farmers in the old homeland and self-governing areas. It is further estimated that there are a further 350 000 to 700 000 small-holder farmers that produce some of their output for the market—mostly in loose value chains (e.g. supply of tomatoes to a trader or a fresh produce market agent). Some of these farmers are in tight value chains (e.g. sugar cane farmers in KwaZulu-Natal and in the Lowveld). Most of these farmers are not in a position to offer their land as collateral to commercial banks and therefore do not have access to commercial funding. The traditional or communal land in these areas is *de facto* state land and therefore the users do not have title deed needed to access commercial loans. This also results in the difficulty that land tenure is not secure and therefore no land rental systems can be developed

---

[3] The reader should note that the IADFPF-initiative comprises two phases. The one phase being the 'framework' and the other phase the 'policy' that will flow from the framework. As stated in Section 8.1, the objective of this document was never to provide a newly designed development finance policy but rather a framework that provides the 'context' or the 'mould' into which the policy would be 'casted.'

[4] Please note that in this section the reviewer have comprehensively referred to a paper that was prepared for FinMark Trust titled: 'The Status of Agricultural and Rural Finance in South Africa' by Mr Mike de Klerk, Ms Francis Fraser and Mr Kenneth Fullerton, 2013.

(De Klerk 2015b). It is estimated that in the whole of SA there are between 11 000 and 15 000 emerging commercial or small-scale black farmers (De Klerk et al. 2013).

It was estimated in 2010 that about 50% (38% women and 61% men) of the country's rural population over the age of 16 made use of some form of banking services compared with 70% in urban areas. In the rural areas in 2011 only 30% used non-bank financial services (i.e. insurance, supplier credit, etc.) while another 30% made use of informal financial services and in 2010, 30% did not use any financial services (versus 21% in urban areas). About 50% of all rural households (2 to 2,5 million) were involved in small or micro-enterprise activities and of the whole country (rural and urban) about 13,5% of SMME owners are involved in agriculture products—producing, selling animal products or crops or products collected from the veld. It was also found that a third used formal savings and transmission services of banks, while only 10% made use of formal insurance services and less than 4% made use of formal credit. Savings and credit groups play an important role in this selection of rural SMME owners and 15% participated in these groups and 10% borrowing much higher than the 2,5% from banks (FinMark Trust 2010 and 2011[5]).

Most of the banking services (savings, transmission and insurance products) of smallholder farmers and land reform beneficiaries are being taken care off by the private sector. The government has focused to provide once-off grants for fixed capital (e.g. land) and moveable capital goods (e.g. machinery, animal handling equipment, etc.) as well as loans for production input needs. The government provided grants of R13,6 billion for the acquisition of land (2008-2012) and R3,4 billion for the moveable assets (2004-2012). The government has been the largest supplier of production input finance through DAFF's MAFISA programme that is being facilitated by the Land Bank and the amount has been estimated to be R900 million per annum. It has been estimated that Development Financial Institutions (DFIs) and commercial banks have provided about R450 million per annum to smallholder farmers and land reform beneficiaries. It should be noted that finance for production inputs is a serious shortage for all the smallholder and commercial farmers—including the land reform beneficiaries. De Klerk has found that in South Africa, large-scale commercial grain farmers have to borrow an amount equal to their total value of their land, moveable assets and fixed improvements each year to procure the inputs needed (seed, fertiliser, diesel, etc.). He compared the total estimated investment that government has made on the assets for previously

[5] FinMark Trust conducted the following surveys: FinScope Consumer Surveys 2010 and 2011 as well as FinScope Small Business Survey 2010.

disadvantaged farmers in recent years R18 billion and compares that to production input loans of R1,5 billion which is totally inadequate (De Klerk et al. 2013).

1.4.3 Supply of finance

On a macro policy level the financial system comprises of a legislative and policy framework for maintaining the reliability and sustainability of the system. There is also comprehensive legislation that governs the commercial banks and all financial service providers and there are also public bodies to regulate the sector (Financial Services Board, SA Reserve Bank, etc.). There is a law that governs the operations of the Land Bank but it seems that there are neither specific laws nor regulations that govern agricultural development finance in South Africa. From information available it seems that no comprehensive statements have been made by DAFF in recent years. The main mechanism for funding the procurement of agricultural assets for land reform beneficiaries and smallholder farmers was, since the mid-1990s, provided through DRDLR through three schemes: (i) Comprehensive Rural Development Programme (CRDP); (ii) Recapitalisation and Development Programme (RECAP) and (iii) the Land Restitution Programme. Together these three programmes are known as Rural Agricultural Development Programme (See also section 5 for a description on each).

Micro-level financial services are provided by a large range of service providers, including commercial banks, development financial institutions, micro-finance institutions, insurance companies, saving and credit groups, loan sharks as well as family and friends. The commercial banks focus mostly on the high-end of the market, i.e. commercial farmers and households with higher income levels. In recent years commercial banks have launched initiatives in branchless banking and micro-enterprise finance. It is still a challenge to conduct profitable business to widely distributed rural dwellers and farmers with low income-levels and small amounts to transact. There are, however, positive results as well but banks understand the long-term investment will take time to provide the desired results. One of the banks provided production input finance of R360 million to 1000 smallholder farmers that had off-take agreements with large processors. It has been concluded that funding from commercial banks may become a more important source of funding for smallholder farmers, especially those in tight value chains—even though they may not have any collateral.

The Land Bank plays a leading role in providing finance to the agricultural sector, but it should be noted that most of its loans (long-, medium- and short-term loans) are to the commercial agricultural sector. It is estimated that about one third of the bank’s clients, or 7000 clients, are previously disadvantaged farmers with total loans of R876 million (2012). It seems that many of these loans are not performing as to what is required. As already mentioned in section 1.1, the bank also in recent years created the REM programme and provide short- and medium-term loans to small commercial farmers who are unable to provide collateral. Most of these loans are secured by crops or advanced on a wholesale basis through intermediaries, i.e. agribusinesses, commodity organisations and others that are MAFISA intermediaries. The Bank also continues to make disbursements of the AgriBEE-fund on behalf of DAFF (De Klerk et al. 2013).

It has been reported that the Land Bank's total loan book is currently about R33 billion, of which it is estimated that only 4,5% or R1,5 billion is for previously disadvantaged farmers while the rest is for commercial farmers. The challenge would be how the Land Bank could reach more smallholder and small commercial farmers. The challenge lies in the Land Bank Act that specifies that the Land Bank needs to raise its funding requirement on the open market. One of the options that could be considered is that the bank is provided with grant funding to be able to provide concessionary loans to smallholder and small commercial farmers. Another option would perhaps allow the bank to take deposits. It is however not certain if the bank's network of 27 branches would be enough to reach most smallholder and small commercial farmers. Should the government want to operationalise the Land Bank's vision of truly being an 'agricultural development bank' it will have to provide the funding from Treasury as well as capacitate the bank to fulfil this vision. The Land Bank's legislation may also have to change and development funds should be ring-fenced for this purpose.

Another DFI is the Industrial Development Corporation (IDC) which plays an important role that funded larger projects and initiatives through empowerment deals. In most cases it does neither fund primary agriculture projects nor land-based transactions. Most investments are focused on agro-processing, beverages and aquaculture. The National Empowerment Fund (NEF) funded rural-based entrepreneurs as well and provided loans to about 480 entrepreneurs with an average R2 million per loan with some of these in agro-processing. Postbank facilitates savings and transmission facilities to many rural people of which many are also from agriculture. The formal microfinance sector will continue to play an important role in the urban areas and rural communities. The same applies to informal microfinance institutions such as stokvels, village savings and loan associations as well as burial societies. Accumulating savings and credit associations (ASCA) is expected to play a more important role in future and SaveAct (NGO) has demonstrated great successes in KwaZulu-Natal and Eastern Cape. This is important for, especially subsistence farmers that do not have access to any other financial sources. To a certain extent this is also very important for smallholder farmers, especially those in loose value chains. It is estimated that 30% of smallholder farmers have some form of insurance—mostly funeral or life assurance. Agricultural insurance is not widely used by smallholder farmers—mainly due to high transaction costs, and market penetration is less than 1%. It is estimated that about six million people in SA belongs to informal burial societies (De Klerk et al. 2013).

1.4.4 Supply and Demand – Do they meet?

Rural development and enhancing the share of previously disadvantaged farmers has been a target of the government during the past 20 years. Many policies were developed, programmes rolled-out and funds disbursed to ensure that subsistence and smallholder farmers develop and grow into successful entrepreneurs in their own right. A group that has received special attention was the farmers that were settled on previous commercial farms through restitution and redistribution of land programmes, i.e. the land reform beneficiaries. Funding was provided for land, moveable assets (machinery and equipment) and even finance for production inputs to ensure that these farmers can proceed with production activities.

The results were mixed but a lot of good has been achieved. The social grants had a positive impact on the livelihoods of many rural communities who are also involved in agricultural activities. The social grants provide these household and subsistence farmers in these communities to become involved in saving and credit groups and get access to loans to buy important inputs at the start of the planting season. Although our country has a well-developed financial infrastructure, the challenges of the rural economy are very similar to what is being experienced by smallholder farmers in the rest of Sub-Sahara Africa. Like in the rest of the continent some local DFIs and government implemented policies brought along market distortions in local financial markets—especially those of interest rate subsidies. It also turns out that these credit subsidies provided to smallholder farmers and land reform beneficiaries had limited impact and private sector and NGO-lenders were still providing market-related funding to these farmers. One of the biggest shortcomings in the development finance landscape is the lack of a single champion and a coordinating body for the agriculture sector. There are many financial and non-financial institutions that provide services in the rural areas but it seems that the impact on farmers is sometimes minimal. The standard of the extension services is not to the level what the DAFF would like to see it and it is especially true of the farmers that were settled on land-reform farms.

Another area that needs attention is the development of rental systems for underutilised land for farming. The collateral issue of smallholders on communal land and land-reform farms make borrowing difficult but value chain finance offers new opportunities. The high transaction cost of the formal banking system and the long distances to travel to banks in rural towns, makes it unaffordable to farmers. However, there are new innovations that are helping to lower transaction costs—mobile banking and branchless banking that are being facilitated by some of the telecommunication companies and supermarket chains, respectively. Financial literacy is a challenge but farmers do find their way around it. There is also a need for financial institutions to get a better understanding of the real needs of the market. At the same time farmers also need to be capacitated to have a better understanding of financial instruments; the requirements of financial institutions and savings to make provision for the next seasons' inputs and the fact that there are available financial instruments to assist them in attaining their objectives (De Klerk et al. 2013).

1.4.5 Challenges Identified

Through the personal interviews the following challenges have been identified in all or in some of the programmes that are being rolled-out by the DAFF (CASP and MAFISA) and DRDLR (CRDP, RECAP and Land Restitution). It should be noted that these are some of the challenges that have been identified and are by no means an exhaustive list. The challenges have been listed according to some themes in an effort to group them together.

1.4.5.1 Finance

- There is no comprehensive agricultural development finance and implementation policy framework currently in place.
- There is no institution that currently champions the agricultural development finance 'cause' as it should be done. The Land Bank should play this role but should be capacitated to do just that through applicable legislation, instruments and human resources.
- The total funding needs of most programmes are much bigger to what can realistically be mobilised by the National Treasury, therefore, the need to reconsider the use of loans blended with the current grant funding. This may enable implementation agencies to reach a high number of beneficiaries with the same grant funding.
- There is need to utilise new financial instruments and develop new mechanisms for implementation.
- It was found that in many cases some of the programmes did not reflect 'value for money' and therefore the underlying causes for this situation needs to be addressed;
- Short-term seasonal loans play an important role to provide farmers with funding to procure seed, fertiliser and other inputs for the production of crops. The loan should be repaid after the harvest and is usually not longer than twelve months. On the other hand, grant funding could be

used to fund much-needed rural infrastructure like feeder roads, storage facilities, places for product exchange (i.e. markets) and processing facilities (abattoirs, packaging plants, juicing factories, etc.).

- The various farmer categories (subsistence, smallholder, commercial, etc.) are not always clearly being defined and therefore the financial products are not always designed in such a way to fit the needs of a specific group of farmers (e.g. only grants for subsistence farmers or only loans to commercial farmers).[6]
- There is a place for both loan products that needs to be repaid and grant funds that are being provided by the government to assist farmers to 'kick-start' their farming operations and make their farms 'farmable.'

1.4.5.2 Coordination and collaboration within government and DFIs

- There is limited coordination, collaboration and communication between key-stakeholders like government departments (DAFF, DRDLR, Department of Trade and Industry (dti), National Treasury and Provincial Departments of Agriculture); DFIs (Land Bank, IDC, DBSA, etc.) and other development partners working in the same target areas and communities.
- Disconnect between national departments with implementing partners, funding agencies and beneficiaries, i.e., some directorates in DAFF are providing assistance to beneficiaries in the rural areas that geographically a long distance (i.e. Eastern Cape, Northern Cape) from the head office in Gauteng.

1.4.5.3 Impact not achieved

- The desired Impact has not been achieved and many farmers and rural communities are still living in poverty.
- The impact that were initially spelled out for all the programmes were not reached, i.e., the number of jobs created is much lower than what was planned and few farmers benefited from improved market access.
- The welfare of beneficiaries has only marginally improved after the interventions.
- The investments per beneficiary as well as the investment per job created were relatively high to very high in some cases.

1.4.5.4 Institutional failures

- There are many and regular institutional failures at all levels of the system.

---

[6] The work that is under way through National Agricultural Marketing Council (NAMC) on Norms and Standards may shed more light upon this challenge.

- The initial objectives were over-ambitious and some factors could not to be controlled by the implementation stakeholders.
- A few farmers, entrepreneurs and professional elite have in some cases applied to more than one programme for grant funding for the same farming or enterprise—'double dipping' as it known in the sector.
- There is a lack of shared management information systems (i.e. common database) between funding suppliers (i.e. government departments, Land Bank) to prevent the manipulation of the funding system for own benefit.
- Some of the programmes have been viewed as a social programme and not as an economic development initiative to create commercially viable smallholder farmers.
- Institutional arrangements in agricultural development are the most important component and in most cases the most difficult to manage in development programmes. The many government departments and other organisations (NGOs, financial institutions, donors, etc.) involved in the implementation process, complicates the coordination task and in many cases result in duplication of development efforts.

1.4.5.5 Limited skilled staff

- There is a limited number of experienced staff running some of the programmes and management systems are weak as well, as no or limited training are being provided to existing staff.
- Most extension officers do not have any experience or background of running a farm or running a business—therefore, poor decision making in grant and loan allocations to farmers.

1.4.5.6 Lack of standard procedures

- Absence of standard procedures, e.g. procurement and grant allocations. There is also no standardised approach on how to award grants—every province is doing it in a different way.
- The selection criteria of beneficiaries were not well developed and was not communicated to potential beneficiaries who wanted to apply
- There is no standardised selection process to choose the 'right' beneficiaries – especially potential land reform beneficiaries – a due process should be followed.

1.4.5.7 Roles and responsibilities not well defined

- The role of government should be to formulate development policies, review these policies from time to time, coordinate the development and implementation activities of partners, capacitate and train farmers and extension officers and monitor and evaluate the implementation process.

- It is also advised that the government should rather focus on the development of rural infrastructure, i.e., water storage (dams, reservoirs, etc.), feeder roads, rural markets (including agro-processing centres) and storage facilities (silos, warehouses, packing houses and cooling facilities).
- Roles and responsibilities are not always clear on, for instance, post-settlement support.
- The biggest challenge is the poor implementation and planning processes on all the three tiers of government.
- A need was also identified to strengthen the partnerships with NGOs and the business sector so that the various initiatives can develop support linkages and complement each other.

1.4.5.8 Land tenure and rental systems

- Land reform beneficiaries do not have the right to use land as a collateral and do not have access to commercial credit and there it is difficult to graduate to a commercial level (De Klerk 2015);
- Land access in communal areas is treated as though land rights and the right to use land is the same thing. Securing tenure is important when used to grow crops—especially long-term crops and when irrigation infrastructure needs to be established over a long period (NPC 2012);
- There is no rental system developed for community and state-owned land and productivity could be enhanced if unused and underutilised land could be rented out (NPC 2012, De Klerk 2015).

1.4.5.9 Weak communication with beneficiaries

- The purpose of programmes was not communicated well to especially the beneficiaries.
- Extension officers do not visit farmers on a regular basis to provide guidance on good farming practices and ensure that the business skills of farmers are developed.
- There is confusion with farmers and it is maybe because there is limited communication from grant and loan providers. The distinction should clearly be communicated to farmers through pre-settlement training on financial literacy, business planning and other technical skills needed to farm. The challenge is how to communicate the message of 'repayable loans' to resource-poor smallholder farmers.
- There is a limited understanding by targeted beneficiaries that not all the funding received, is necessarily grant funding and that some funding (e.g. loans) needs to be repaid—even if government is providing the loans. There is a perception that governments and government-funded DFIs should always provide grants and never provide loans that need to be repaid. In

some cases farmers will also take advantage of the perceived confusion and not repay the loans. This is also known as a 'strategic default'.

1.4.5.10 Weak linkages: Between projects, to markets and local communities.

- Refocus development interventions to focus on smaller geographical areas with larger long-term impact while at the same time develop linkages between projects and markets.
- The procurement of inputs did not always benefit local communities and businesses.

1.4.5.11 Training and capacitating farmers

- Skills transfer and the capacity building of beneficiaries have been limited. Farmers, rural agri-entrepreneurs and financial institutions need to be capacitated and trained to have a better understanding of the needs of one another.
- There is a need for land reform beneficiaries to be trained before and after settlement on previous commercial farms. There is a need for training in the following areas: Agricultural-technical (how and when to plant a crop), business skills (cash flow planning and business planning), financial instruments, access to markets (market-orientated production and linking to off-takers), etc.;
- Limited agri-technical and limited business experience, as well as know-how of grant agents, i.e. provincial extension officers making decisions on who should receive funding: there is a need for the private sector to also be involved in this process (i.e. commercial farmer-mentors, agribusiness companies to support, etc.).
- Low levels of financial literacy and business skills to run a small agribusiness and farming operation.

1.4.5.12 Lack of private sector involvement

- Lack of private sector involvement in agricultural development finance and the possibility to create a public-private partnership should be pursued
- A need was also identified to strengthen the partnerships with NGOs and the business sector so that the various initiatives can develop support linkages and complement each other.

1.5 Conclusion

From the above-mentioned it is clear that there is a need for an initiative to learn from the past and design a new *integrated agriculture development finance policy* in such a way that mechanisms are developed that create opportunities to improve coordination and enhance development effectiveness. There is a further need to also redesign and overhaul all public agricultural support programmes in a new integrated policy that will benefit land reform beneficiaries and all smallholder farmers and it will also do away with the existing silos. There is also a need to develop an all-inclusive fund to support a number of areas, i.e., procurement of redistribution and other land, technical assistance (extension and training), market access and finance to farmers.

2 PROBLEM STATEMENT

There is a lack of coherent and all-inclusive policy framework to facilitate the implementation of funding solutions to the smallholder farming sector in South Africa. There is also limited coordination between stakeholders to ensure seamless implementation as well as the monitoring and evaluation of agricultural development initiatives and programmes.

The following actions could be part of the solution to address the problems identified: (i) Maximise impact of current and future budget and resources; (ii) Better coordinated approach for efficient and effective service delivery by DAFF, DRDLR and Land Bank; (iii) Re-alignment of existing programmes; (iv) Make financial services accessible to a large segment of the potentially productive population which otherwise would have little or no access; (v) Promote synergy and mainstream the key institutions mentioned in documents into the national financial system; (vi) Promote and support linkage programmes between all relevant value chain institutions; (vii) Increase the number of previously disadvantaged individuals to ensure sustainable enterprises in the sector; (viii) Have a shared database; (ix) Enhance service delivery; and (x) Create an enabling environment.

The following reasons have been identified as to why the supply of agricultural finance has not been able to meet the demand of potential clients. The challenges in the rest of Africa have also been identified to provide some context on the developments in South Africa. In the rest the continent, especially in Sub-Saharan Africa, the agriculture sector is neither productive nor efficient. Labour productivity is low and yields are poor. Post-harvest losses are high and crops fail on a regular basis. It is estimated that post-harvest losses can be as high as 30% for grain products and even as high as 40% for fruit and vegetables. Most people live in the rural areas in Africa and in general income levels are low, there is also food insecurity, poverty, and poor levels of nutrition and health. Rural infrastructure such as rural feeder roads, warehouses, silos and processing and cooling facilities are either scarce or absent. Development finance is a challenge in most developing countries in the world and farmers find it difficult to access affordable finance and in some cases there are no facilities available (Agence Française de Développement, 2012). In Moçambique interest rates are, for instance, as high as 20 to 25% at the financial institutions that makes farming not a viable option for many farmers. The smallholder farmers in South Africa experience similar challenges than what their counterparts experience in the rest of the developing world.

The Making Finance Work for Africa (MFW4A, 2012) provided some general challenges that are being experienced in Africa:

- Funding to the agricultural sector are being perceived as too risky (poor legal framework, limited capacity of smallholders, lack of assets, poor infrastructure in rural areas, changing weather patterns, pests, seasonality, market risks, volatile prices, trade policy barriers and political interference in markets (food security issues and export bans).
- The rolling out of agricultural finance is limited by high management costs (large areas to cover, high travel and communication costs) of the suppliers and high transaction and finance costs for the farmers (high interest rates and transport cost to access services).
- The infrastructure of financial institutions is weak, i.e. poor communication links, payment systems and coordination between rural banks.
- The regulatory and legal frameworks are not in place and it is difficult to enforce contracts and the payback of loans and does not specifically make provision for the agricultural sector's unique requirements.
- There are a limited number of financial instruments being offered in most African countries as well as a lack of agriculture-specific data with these lending institutions.
- There is limited or no assets that could be offered as collateral by most smallholder farmers due to many reasons—one being the land administration systems in place.

In the case of South Africa a number of initiatives have been implemented over the past two decades with varying degrees of success and the state supported the development of various policy initiatives and programmes to reach out to smallholder farmers and rural communities. However, in all these initiatives there still remain a number of areas that needs to be addressed. Most of these challenges have been discussed in 'section 1.4.5 Challenges identified.' These challenges have been summarised as follows:

<u>Finance</u>: There is no comprehensive agricultural development finance and implementation policy framework in place and there is no institution that currently champions this 'cause'. Some developed finance programmes did not reflect 'value for money.' There is a need to utilise innovative financial instruments. There are financial support mechanisms that can assist the implementation of finance models. Grant funding should be aimed at improving public goods (i.e. rural infrastructure: rural roads, water reservoirs, markets, etc.) while short-term seasonal loan finance for farmers' inputs.

Coordination and collaboration: There is limited coordination and communication between key-stakeholders like government departments, DFIs and other development partners. There is also a divide between the national departments and beneficiaries on the ground level. The many programmes being rolled-out by so many government departments complicate the successful coordination and there are limited mechanisms in place to ensure smooth collaboration.

Impact not achieved: The desired impacts initially spelled-out were not achieved, e.g. the number of jobs created, high cost per job created, welfare of farmers only marginally improved and the number of farmers benefited from market access, for instance.

Institutional failures: There are many and regular failures at all levels of the development finance system. There were for instance overambitious objectives and implementers could not manage some external factors. 'Double dipping' occurred due to weak management information systems that should have been shared among suppliers of funding. Some programmes have been seen as social development only; rather than an approach to establish sustainable (even profitable) farming operations. Institutional arrangements in agricultural development are the most challenging and need to receive focused attention. The many policies and programmes being implemented at the same time make this very difficult.

Roles and responsibilities: Government should formulate development policies, review these policies from time to time, coordinate the development and implementation activities of partners, capacitate and train farmers and extension officers, and monitor and evaluate the implementation process. Government should rather focus on the development of rural infrastructure, i.e., water storage, feeder roads, rural markets and storage facilities. The biggest challenge is the poor implementation and planning processes on all the three tiers of government.

Land tenure and rental systems: Land reform beneficiaries do not have the right to use land as collateral and do not have access to commercial credit. Securing land tenure in communal area is important when used to grow crops and infrastructure needs to be established. There is no rental system developed for community and state-owned land and productivity could be enhanced if unused and underutilised land could be rented out.

Weak communication with beneficiaries: Poor communication with beneficiaries, i.e. purpose of programmes. Extension officers do not visit farmers on a regular basis and give limited guidance on good farming practices and transfer of business skills. There are confusion amongst farmers on what is grant and what is loan funding due to poor communication. For land reform beneficiaries, there is no pre-settlement training on financial literacy, business planning and other technical skills needed to farm.

Weak linkages - between projects, to markets and local communities: There is need to refocus development interventions on smaller geographical areas with larger long-term impact while at the same time develop linkages between projects and markets. The procurement of inputs for projects did not always benefit local communities and businesses.

Training and capacitating farmers: Skills transfer and the capacity building of beneficiaries have been limited. Farmers, rural agri-entrepreneurs and financial institutions need to be capacitated and trained to have a better understanding of the needs of one another. Land reform beneficiaries need to be trained before and after settlement on previous commercial farms. Limited agri-technical and business experience as well as know-how by grant agents, i.e. provincial extension officers making decisions on who should receive funding—there is a need for private sector to play a role here.

Lack of private sector involvement: Lack of private sector involvement in agricultural development finance and the possibility to create a public-private partnership should be pursued. There is a need to strengthen the partnerships with NGOs and the business sector so that various initiatives can develop to support linkages and complement each other.

3 POLICY OBJECTIVES

3.1 Overarching objective

The overarching objective or overall goal of this framework is to integrate all types of agricultural finance for smallholder farmers offered in the sector. The purpose is to develop a well-defined Integrated Agriculture Development Finance Policy Framework (IADFPF) that will create an enabling environment for the development of a sustainable and viable development financial system in the agricultural sector. This framework will provide the context within which DAFF can develop a future development finance policy for the agriculture sector in South Africa[7]. The purpose of the policy framework will be to facilitate the provision of an integrated and comprehensive range of financial services for the commercial-oriented smallholder farmers, artisanal fisheries and forestry entrepreneurs and their various enterprising value-chain players.

3.2 Specific objectives

The following policy objectives have been identified as:

[7] The reader should note that the IADFPF-initiative comprises two phases. The one phase being the 'framework' and the other phase the 'policy' that will flow from the framework. As stated in Section 8.1, the objective of this document was never to provide a newly designed development finance policy but rather a framework that provides the 'context' or the 'mould' into which the policy would be 'casted.'

- Develop a comprehensive policy framework from which a development finance policy could be designed to comprehensively address the finance needs of beneficiaries in the three sectors
- Identify and enable a development finance institution that could champion and promote the development finance 'cause' in the agricultural sector
- Identify some of the challenges in development finance and highlight innovative financial instruments that could address the challenges in the policy that will flow from this framework
- Draw the policy makers' attention to the fact that development finance is only one part of the 'bigger picture' of smallholder development – which development finance cannot and should not stood alone.
- There are many other support needed to ensure the success of development finance, e.g., capacity building and training, extension services, good communication, skilled staff, involvement of private sector, linkages to markets, etc.
- Promote synergy and mainstream the internal subsector into national financial system
- Promote and support linkage programmes to smallholder farmers with development banks, specialised financial institutions and microfinance banks
- Increase the number of previously disadvantaged individuals who own, manage and control sustainable enterprises in the sector
- Accessible and sustainable agricultural development financial system;
- Increase the number of successful smallholder farmers, artisanal fishers, and agro-forestry entrepreneurs in the three sectors
- Promote food security in the three sectors
- Support the creation of jobs and promote manual labour technology
- Improved livelihoods and wealth creation
- Enhance the graduation of smallholder to farmers at a commercial level
- Accelerate agricultural development by using a combination of financial services, technical support services, research and innovation (subject to funding constraints)
- Transform smallholder farmers to fully fledged agricultural entrepreneurs
- Support commercial operations.

4 STRATEGIC SIGNIFICANCE OF GOVERNMENT INITIATIVES

4.1 Introduction

At the moment there are a number of existing cross-sectorial policies that have bearing on the management of, and growth and development, in the agriculture, forestry and fisheries sectors. The objective in this section will be to provide the context within which 'development finance' is framed. Reference will be made to policies, programmes and other initiatives on the four levels: (i) Regional-level; (ii) National policies; (iii) DAFF-level; (iv) and also other Departmental Programmes. The other government departments' policies and programmes and DFIs that may also have an impact on development finance policies in the DAFF.

4.2 Regional Polices and Programmes

There are a number of regional programmes and South Africa is an active member of the African Union Commission (AUC) and subscribes to its programmes, i.e. the New Partnership for Africa's Development (NEPAD) vision and the Comprehensive African Agricultural Development Programme (CAADP) which is a sector-wide continental programme. SA stakeholders participated in the January 2015 workshop to contribute to the development of a programme to implement the Regional Agricultural Policy (RAP) (De Klerk, 2015a). The country is also part of the SADC trade protocol that was signed in August 1996. The aim of the Protocol on Trade is to liberalise 85% of intra-SADC trade, paving the way for the SADC Free Trade Area (DAFF 2012a). There are similar protocols in SADC on forestry and fisheries to promote coordination and collaboration between the various countries. There are also another 13 SADC protocols, agreements and programmes on water, seed, livestock, etc. One of the important protocols is the Southern African Customs Union (SACU) that comprises Botswana, Lesotho, Namibia, South Africa and Swaziland. SACU was established in 1910. For more information please refer to Appendix A.

4.3 National Policy Policies and Programmes

In this section the national policies will be discussed such as the National Development Plan (NDP), New Growth Path (NGP), National Industrial Policy Framework (NIPF), Industrial Policy Action Plan (IPAP), and Multi-Term Strategic Framework (MTSF) (with the three outcomes with relevance to agriculture, forestry and fisheries). In section 5, the sector-specific policies will be discussed. The DAFF policies and frameworks will be discussed, such as Integrated Growth Development Programme (IGDP), Agricultural Policy Action Plan (APAP), etc.

4.3.1 National Development Plan (NDP)

<u>Inclusive Rural Development by 2030</u>: The vision the NDP is that by 2030 the rural areas will be spatially, socially and economically well-integrated – across municipal, district, provincial and regional boundaries – where residents have economic growth, food security and jobs as a result of agrarian transformation and infrastructure development programmes, and have improved access to basic services, health care and quality education. By 2030 agriculture will create close to one million

new jobs, contributing significantly to reducing overall unemployment. Achieving this vision will require leadership on land-reform, communal tenure security, financial and technical support to farmers, social and physical infrastructure and building the capacity of state institutions and private industries to implement these interventions (DPME, 2014).

The NDP identified six policy imperatives: (i) Improved land-administration and spatial planning for integrated development in rural areas; (ii) Sustainable land-reform (agrarian transformation); (iii) Improved food security; (iv) Smallholder farmer development and support (technical, financial, infrastructure) for agrarian transformation; (v) Increased access to quality basic infrastructure and services, particularly in education, healthcare and public transport in rural areas; and (vi) Growth of sustainable rural enterprises and industries characterised by strong rural-urban linkages, increased investment in agro-processing, trade development and access to markets and financial services—resulting in rural job creation (NPC, 2012).

The NDP also propose to investigate different forms of financing. Various financing alternatives and vesting private-property rights to land reform beneficiaries is a way that does not hamper beneficiaries with a high debt burden. It is also proposed in the NDP that land reform beneficiaries should be provided with long-term loans (e.g. 40 years) from the Land Bank to address the difficulty of entry into commercial farming. The report also referred to the fact that the Land Bank has used explicit and later implicit subsidies from government to provide mortgage loans for long periods. A stepped approach to funding could provide a solution to the challenge that land reform beneficiaries' experience. This group of beneficiaries could for instance utilise the land rent-free for two or three years and if successful then get long-term lease-hold agreement of say 40 or 50 years. Over a period of five years commercial rent could be phased in and this rent could be deposited into a sinking fund that is administered by the Land Bank. The result may well be that the land is carried over to the land-user after a number of years with a full title deed (NPC 2012).

4.3.2 New Growth Path (NGP)

The Economic Development Department (EDD) played a leading role in developing the New Growth Path (NGP) as the framework for economic policy and the driver of the country's jobs strategy (EDD 2011). The NGP is South Africa's vision to place jobs and decent work at the centre of economic policy. It sets a target of five million new jobs to be created by 2020 and sets out the key employment drivers and the priority sectors that the country will focus on over the next few years. It is based on strong and sustained, inclusive economic growth and the rebuilding of the productive sectors of the economy. Infrastructure development and agriculture, in particular, has been identified as a foundation for more jobs and addresses rural underdevelopment. To achieve the change in growth and transformation of economic conditions requires hard choices and a shared determination as South Africans to see it through. The government is committed to forging such a consensus and leading the way by**:** (i) Identifying areas where employment creation is possible on a large scale as a result of substantial changes in conditions in South Africa and globally; (ii) Developing a policy package to facilitate employment creation in these areas, above all, through: (a) A comprehensive drive to enhance both social equity and competitiveness; (b) Systemic changes to mobilise domestic investment around activities that can create sustainable employment; and (c) Strong social dialogue to focus all stakeholders on encouraging growth in employment-creating activities.

The job-drivers that have been identified by the department are: (i) Substantial public investment in infrastructure, both to create employment directly, in construction, operation and maintenance as well as the production of inputs, and indirectly by improving efficiency across the economy; (ii) Targeting more labour-absorbing activities across the main economic sectors—the agricultural and mining value chains, manufacturing and services; (iii) Taking advantage of new opportunities in the knowledge and green economies; (iv) Leveraging social capital in the social economy and the public services; and (v) Fostering rural development and regional integration. In each of these areas, the department will have to make a special effort to generate opportunities for young people, who face the highest unemployment rate. Agriculture is identified as one of the key-drivers within the NGP and targets opportunities for 300 000 households in agricultural smallholder schemes, plus 145 000 jobs in agro-processing by 2020, while it sees potential to upgrade conditions for 660 000 farm workers.

The NGP provides the following broad policy guidelines for agriculture, forestry and fisheries: (i) Restructuring of land-reform to support smallholder schemes with comprehensive support around infrastructure, marketing, finance, extension services, etc.; (ii) Upgrading employment in commercial agriculture, especially through improved worker voice; (iii) Measures to support growth in commercial farming and to help address fluctuations in maize and wheat prices while supporting national food security; (iv) Acceleration of land claims processes and better support to new farmers following land-claims settlements; (v) Programmes to ensure competitive pricing of inputs, especially fertiliser; and (vi) Support for fishing and aquaculture (DAFF 2012a).

4.3.3 National Industrial Policy Framework (NIPF)

In January 2007, the Cabinet adopted the NIPF, which sets out government's broad approach to industrialisation. Guided by the NIPF, the implementation of industrial policy was set out in the Industrial Policy Action Plan (IPAP). In August 2007, the Cabinet approved the first 2007/08 IPAP, which primarily reflected 'easy-to-do' actions. The 2007/08 IPAP has largely been implemented. However, there has been growing recognition that industrial policy needs to be scaled up from 'easy-to-do' actions to interventions that government 'needs-to-do' to generate a structurally sound new path of industrialisation. A process of intensive consultation and analysis has culminated in a revised IPAP for the period 2010/11 through 2012/13, with the idea of updating on an annual basis. The 2010/11–2012/13 IPAP represents a significant step forward in industrial policy efforts. The agriculture, forestry and fisheries sectors' deliverables are included in the 2010/11–2012/13 IPAP, the fulfilment of which is expected to contribute towards growth and development. These require intergovernmental cooperation and coordination (DAFF 2012a).

Principal among the more specific policies is the National Industrial Policy Framework (NIPF) of the dti, which has the following <u>key-objectives</u>: (i) To promote diversification beyond the economy's current reliance on traditional and non-tradable services via the promotion of value-addition, characterised particularly by the movement into non-traditional tradable goods and services that can compete effectively in export markets and against imports; (ii) To promote a labour-absorbing industrialisation path, with the emphasis on tradable labour-absorbing goods and services and the systematic building of economic linkages that create employment; (iii) To promote industrialisation characterised by increasing participation of historically disadvantaged people and marginalised regions in the industrial economy; (iv) To contribute towards industrial development in Africa, with a strong emphasis on building the continent's productive capacity and securing deeper regional economic integration; and (v) To ensure the long-term intensification of South Africa's industrialisation process and movement towards a knowledge economy.

4.3.4 Industrial Policy Action Plan (IPAP) 2014-2016

The IPAP 2014-2016 (dti 2013) is the fifth iteration of IPAP (or the IPAP2) and is a transversal and sector-specific programme and intervention. The successive iterations of IPAP have sought to achieve the following objectives in a process of continuous improvement.

<u>The role of manufacturing</u>: South Africa's long-term vision of an equitable society is provided by the NDP. IPAP is informed by this vision and is both framed by and constitutes a key-pillar of the programmatic perspectives set out in a series of 'drivers' and 'packages' contained in the NGP.

Government policy set out in these and other documents seeks to ensure a restructuring of the economy to set it on a more value-adding, labour-intensive and environmentally sustainable growth path. Principal among the more specific policies is the NIPF of the dti, which has been referred to in the previous section. There are a number of areas in the IPAP that links to the agricultural sector:

- Agro-Processing sector: The following key-action plans have been developed: (i) Development of a Food-Processing Strategy and Action Plan; (ii) Development of Small-Scale Milling Industry; (iii) Enhancement of Competition in the Fruit and Vegetable Canning Industry; (iv) Development of a Soybean Action Plan (Producers-Processor Linkages); (v) Development of an Organic Food Sector; and (vi) Supporting PPP for Food Security.
- Biofuels: (i) Accelerated development in the biofuels sector.
- Aquaculture: Key-action plans: (i) Promote public and private investments in aquaculture; and (ii) Sector promotion, marketing and trade.
- Forestry, Timber, Paper, Pulp and Furniture: Key-action plans: (i) *Forestry*: Integrated approach to fast-tracking issuance of water licences and accelerate forestry development; (ii) *Sawmilling Sector*: Productivity improvement and sustainable supply of raw material; (iii) *Furniture manufacturing*: Furniture design programme and furniture cluster programme.

4.3.5 Multi-Term Strategic Framework (MTSF) 2014-2019

In the MTSF 2014-2019 there are 14 outcomes of which three will impact on agriculture, i.e.:

- Outcome 5: A skilled and capable workforce to support an inclusive growth path.
- Outcome 7: Vibrant, equitable, sustainable, rural communities contributing to food security for all.
- Outcome 10: Protect and enhance our environment assets and natural resources (DPME, 2014:2).

Under Outcome 7 the following actions have been identified under the six sub-outcomes (or policy imperatives in the NDP). However, only the following four sub-outcomes have development finance elements:

- Sub-Outcome 2: Sustainable land-reform (restitution, redistribution, tenure reform; development) contributing to agrarian transformation.
- Sub-Outcome 3: Improved food security.
- Sub-Outcome 4**:** Smallholder producers' development and support.
- Sub-Outcome 6: Growth of sustainable rural enterprises and industries—resulting in rural job creation.

A well-functioning development finance policy for the three sectors – agriculture, fisheries and forestry – can ensure that the objectives of Outcome 7 are achieved. These objectives include sustainable rural communities that are food secure, that sustainable land-reform has taken place, smallholder farmers are developed and that rural enterprises and industries are making good returns and in the process create jobs. To enable such a 'vibrant and sustainable' rural landscape it is important that finance support mechanisms and instruments are developed and utilised to address the financing needs of the rural population. The support mechanisms and instruments can be developed through an integrated development finance policy—the end-result of this framework.

4.3.6 National Infrastructure Plan - Strategic Integrated Project (SIP) 11

The Presidential Infrastructure Coordinating Commission (PICC) was established with the aim of directing infrastructure development, a key job driver as identified by the NGP. The SIP 11 is one of the eighteen flagship infrastructure projects overseen by the PICC. Its purpose is to ensure enabling agro-logistics and rural infrastructure investments that would unlock the potential of rural areas to create jobs. SIP 11 will be implemented in coordination with a number of SIPs focused on rural areas. It will entail the expansion of facilities for storage (silos, fresh-produce facilities, packing houses); transport links to main networks (rural roads, rail lines, ports), fencing of farms, irrigation schemes, improved research and development (R&D) on rural issues (including expansion of agricultural colleges), processing facilities (abattoirs, dairy infrastructure), forestry and fisheries infrastructure (NAMC 2013).

4.3.7 The Land and Agricultural Development Bank of SA

The Land Bank was created by the Land and Agricultural Bank Act of 1912 and the Land Act of 1913 which defines the role of the Bank. During the period before 1994 the policies of separate development were advanced by excluding black people from access to land and finance—by only proving finance to white farmers. The Land Bank Act was amended in 2002 – based on the Strauss Commission's recommendations to support land reform (Land Bank 2013). Its current vision is to be a fully integrated development finance institution that promotes, facilitates and supports agricultural and rural development through the provision of financing solutions. The mission of the bank is to: (i) Promote and facilitate access to ownership of land by the historically disadvantaged; (ii) Increase the productive use of agriculture; (iii) Assist emerging farmers with finance and technical support; (iv) Provide finance to commercial farmers; (v) Promote agricultural entrepreneurship; (vi) Contribute to food security and facilitate poverty eradication; (vii) Facilitate rural development and job creation (Land Bank 2014).

The bank has three windows of financing, i.e. (i) Business and Corporate Banking: Agribusinesses and large commercial farmers; (ii) Retail Commercial Banking: Commercial farmers through its branch infrastructure of 27 branches; and (iii) Retail Emerging Markets (REM): A new model that is being piloted and no collateral is required. The bank is being funded 95% by the capital market through bonds and short-term investments, including the Public Investment Company. It also makes use of developmental funding from World Bank, African Development bank and other similar sources. The South African government provides guarantees and also capitalised the REM programme (Sizwe, 2014).

A number of recommendations were made in a recent study that was conducted due to the suspension of legal action against 'emerging' farmers who were not serving their loan obligations with the bank comprising the following: (i) *Long-term management of farmers*: potential successful farmers could be provided with pre-settlement support, finance and post-settlement support; (ii) *Cancel certain debt*: the wring-off of certain debt according to certain criteria; (iii) *Management and funding of write-off costs*: a provision for debt write-off was made and DAFF should provide the bank for assistance to resettlement of farmers; (iv) *A viable farming model*: Design a workable farmer model by selecting the 'right' farmers, ensure viable farming units with a conservative debt ration; (v) *Probation period*: Government should consider leasing out land for a few years to farmers to first prove themselves and after proven they could purchase the land (See also the National Development Plan (NPC 2012); (vi) *Management of interest rates*: Bank should capitalise interest of three years and interest rates should be discounted due to payments received from government (i.e. lower than market interest rates); (vii) *Comprehensive support package*: Such a support package should be provided to the 'emerging' farmers with financial literacy (cash-flow planning, book-keeping and other skills), good extension services, group buying of inputs and agro-technical training; (viii) *Coordination of activities*: Establish a forum between development departments and agencies, i.e. DAFF, DRDLR, National Treasury, provincial departments, bank, farmer organisations, agribusinesses to ensure efficient coordination of activities and policies; (ix) *Turnaround time*: It should be reduced; (x) *Review of agricultural development plan*: DAFF should review its development plan for establishing 'emerging' farmers for different kinds of farming types (i.e., livestock, crop farming, intensive under protection farming operations—flower growing, etc.); (xi) *Viable farming units*: Different farming types – different sizes to be economical – livestock farm land needs to be bigger than intensive vegetable production; (xii) *Selection criteria*: Proper selection criteria need to be identified to select beneficiaries who would like to farm (Land Bank 2011).

4.3.8 Agricultural Policy Action Plan (APAP) 2015 - 2019

The Integrated Growth and Development Policy (IGDP) that was launched in 2012 serves as the agricultural sector's policy while APAP is a programmatic response to key-policy documents such as the NDP, NGP (job driver) and the MTSF (Outcomes 4, 7 and 10). The IGDP identifies four <u>broad sector goals</u> which are: (i) Equitable growth and competitiveness; (ii) Equity and transformation; (iii) Environmental sustainability; and (iv) Governance. These four sector goals translates into a comprehensive, abiding intervention framework, which will be supported through iterations of APAP via short- and medium-term interventions targeting specific value chains ('sectorial interventions') or transversal changes or interventions (DAFF 2014a).

<u>Sectorial interventions</u>: APAP identified a discrete number of value chains after careful analysis. The following selection criteria have been designed and were based on the strategic objectives of the NGP, NDP and IPAP: (i) Contribution to food security; (ii) Job creation; (iii) Value of production; (iv) Growth potential; and (v) Potential contribution to trade balance (including via export expansion and import substitution). The following interventions (or key action programmes): (i) Poultry-Soybeans-Maize Integrated Value Chain (VC); (ii) Red Meat VC; (iii) Wheat VC; (iv) Fruit and vegetables; (v) Wine industry; (vi) Biofuels VC; (vii) Forestry; (viii) Small-Scale fisheries; and (ix) Aquaculture Competiveness Improvement Programme.

<u>Transversal interventions</u>: (i) Fetsa Tlala to enhance food security; (ii) Research and Innovation; (iii) Promoting Climate-Smart Agriculture; (iv) Trade, Agribusiness Development and Support; (v) SIP-11; and (vi) Biosecurity (DAFF 2014a).

Please note that more information has been provided in Appendix A on the national policies and programmes—more detail on the MTSF, the DPME planned Comprehensive Smallholder Strategy and Operation Phakisa.

5 LINKAGES TO SECTOR POLICIES

In terms of the agriculture, forestry and fisheries sectors, there are number of key policy documents that guide DAFF in policy decision-making.

5.1 White Paper on Agriculture

The White Paper (NDA 1995) provides a good policy framework within which agricultural development programmes can be formulated, but it is believed that more can be done within the sector by expanding the policy to include and elaborate on the following goals: (i) Knowledge and information management, including spatial planning; (ii) Institutional arrangements, including research and development , skills development and improved support services; (iii) Natural resource management; (iv) Broad-Based Black Economic Empowerment; (v) Governance issues, such as quality control. The vision for agriculture is '*to direct the development of agriculture in such a way that the factors of production, together with the related functions, will be utilised in such a manner that agriculture will contribute to the optimum economic, political and social development and stability of the Republic of South Africa, while simultaneously making a contribution towards the promotion of an economically sound farming commun*ity.'

5.2 Strategic Agriculture Sector Plan

The Strategic Agriculture Sector Plan (2001) identified access and participation, competitiveness and profitability and sustainable resource management as being the main areas where intervention was required. However, a review of this plan, published in 2008, indicated that many of these goals had not been adequately addressed. This was attributed to the slow pace of implementation, the limited capacity within government to implement many of the programmes and the limited coverage and inadequate funding of some critical programmes. The review team also found that inadequate leadership, in directing the strategic plan with a focused sense of urgency and commitment and implementation capacity (institutional and management capacity and skills), as well as the absence of a comprehensive implementation plan, were contributing factors. Key-areas identified as requiring urgent strategic attention included food security, sustainability, resilience to climate change, land-reform, support services and participation of vulnerable groups (DAFF 2012a).

5.3 Strauss Commission

The Commission of Inquiry in the Provision of Rural Financial Services (Strauss Commission) provided in 1996 a framework for the provision of financial services to smallholder farmers, rural households, and entrepreneurs. In summary, the Strauss Commission Report (NDA, 1996) recommended the following:

- The role of the government has been identified as that of a facilitator and a coordinator of the provision of financial services with a gender focus on women.
- The report also recommended that the state should not intervene directly into the financial markets but should rather support the market by facilitating the provision of financial services.
- The services that were identified were transmission services, saving products and loan products for production loans (on-farm and off-farm) and consumption smoothing.
- The state was encouraged to ensure that rural financial services are being delivered and that it should form part of an integrated rural development strategy and there may well be a need for government funding to support the developmental nature of financing instruments.

- Reference was also made to the fact that there are various public sector institutions with overlapping competencies and there is limited coordination. It was also proposed not to establish new institutions (Van Zyl, 1996; NDA, 1996).

5.4 White Paper on Sustainable Forest Development in South Africa

The White Paper on Sustainable Forest Development in South Africa provided a policy framework for the management and sustainable development of forests and set out goals to be pursued over a five-year time frame. The National Forest Act, 1998 (Act No. 84 of 1998) was promulgated to give effect to the provisions of the White Paper. A number of strategies and policies were subsequently developed. These include the following: (i) National Forestry Action Programme and its reviews; (ii) Policy regarding access to State Forests; (iii) Compliance and Enforcement Policy; (iv) Draft Strategy Framework for Forestry Enterprise Development; (v) Participatory Forest Management Policy and Strategy; (vi) Key Issue Paper for Policy on Transfer of State-owned Industrial Plantations; (vii) Woodland Strategy Framework; (viii) Urban Greening Strategy; and (ix) Forestry Sector Transformation Charter (DAFF 2012a).

5.5 White Paper on Marine Fisheries Policy for South Africa

The Marine Fisheries Policy for South Africa (1997) is based on the understanding that all natural marine living resources of South Africa, as well as the environment in which they exist and in which mariculture activities may occur, are a national asset and the heritage of all South Africans and should be managed and developed for the benefit of present and future generations in the entire country. The policy is based on the following main objectives and principles: (i) Optimisation of long-term social and economic benefits to the nation; (ii) Promotion of sustainable utilisation and the replenishment of living marine resources; (iii) Transparency and accountability in marine resource management; (iv) Fair and equitable access; (iv) Management of living marine resources based on the best available knowledge and multidisciplinary research within the context of sustainable utilisation; (v) A holistic approach to fisheries and the utilisation of marine resources; (vi) National and provincial levels of management; and (vii) Participation in resource management.

5.6 Marine Living Resources Act

The Marine Living Resources Act, 1998 (Act No. 18 of 1998) was promulgated to give effect to the provisions of the White Paper. A number of strategic and policy outputs have been developed subsequently, including: (i) The General Policy on the Management and Allocation of Long-term Commercial Fishing Rights; (ii) Sector-specific policies for the allocation of long-term commercial fishing rights in 22 fisheries; (iii) A Small-Scale Fisheries Policy (DAFF 2012b); (iv) A Fisheries

Performance Review; and an (v) Implementation Plan for the Small-Scale Fisheries Policy (DAFF 2012c). The overall goal for fisheries is '*to improve the overall contribution from the fishing industry to the long-term vision of government as laid out in the Macro-Economic Strategy.'* Access to commercial fishing rights was significantly broadened through the long-term rights allocation process. However, the envisaged development of support structures for smallholder operators was not implemented and the depth of the reported transformation has been questioned. Although subsistence use of marine resources was recognised as important in South Africa, the importance of traditional small-scale fishing by communities (particularly along the east coast) was not recognised. In addition, the encompassing long-term policies for fisheries and fishery-specific management plans have not been developed (DAFF 2012a).

5.7 Comprehensive Agricultural Support Programme (CASP)

The CASP initiative was launched in 2004 by government to support the development of the agricultural sector. The purpose of this grant programme is to: (i) Provide effective agricultural support services; (ii) Promote and facilitate agricultural development by targeting beneficiaries of land-reform's restitution and redistribution; (iii) Promote and facilitate agricultural development to other black producers who have acquired land through private means; (iv) Promote and facilitate agricultural development to entrepreneurs that are engaged in value-adding enterprises domestically, or involved in export activities; and (v) Address damage to infrastructure caused by floods.

The scope of CASP: The programme is targeted to support the four different levels of clients within the farming continuum and these are supported through: (i) *The hungry*: Advice and food emergences through the agricultural food packs and dealing with food crises; (ii) *Subsistence and household food producers*: Food production and include the special programme on food security and the Integrated Food and Nutrition Programme where the provision of starter pack is made; (iii) *Farmers*: Farm-level support and include the beneficiaries of the LRAD and other strategic programmes e.g. the rehabilitation of the irrigation schemes; (iv) *General public*: To ensure that business and the regulatory environment is conducive to support agricultural development and food safety. The above-mentioned four levels of clients are financed through the following six pillars: (i) Information and knowledge management; (ii) Technical and advisory assistance as well as Regulatory Services; (iii) Training and capacity building; (iv) Marketing and business development; (v) On-farm and off-farm infrastructure and production inputs; and (vi) Financial assistance.

5.8 Micro Agricultural Financial Institution of South Africa (MAFISA)

The MAFISA programme was launched in 2004 with the CASP initiative of the department and R1 billion was transferred from the ACB that was discontinued in 1998. MAFISA was implemented as the financial pillar of CASP to provide support to smallholder farmers by providing micro and retail financial services on a large, accessible, cost-effective and sustainable basis in rural areas. MAFISA provided loans to emerging commercial farmers, smallholders and household producers with a turnover of less than R300 000. The MAFISA programme made use of retail lending entities or intermediaries that were acting as agents of the MAFISA Agricultural Development Fund. The following two products have been identified: (i) Production loans: The purpose is to provide bridging finance to cover production, processing and marketing costs such as seed, fertiliser, packaging, medicine, etc.; (ii) Small Equipment loans: The purpose would to acquire loose tools, small-scale processing machinery, irrigation and mechanisation equipment; and (iii) Livestock Purchase loans: The purpose is to purchase cattle, sheep, goats and other livestock. In 2013 the DPME requested an impact assessment and it is believed that a first draft of this report is under discussion. The re-establishment of MAFISA heralds a reversal by the government of the strategy it pursued for ten years to suspend its direct financial services provision to the agriculture sector and leave it to the Land Bank—as was recommended by the Strauss Commission (van Zyl, 2014).

5.9 Forest Sector Transformation Charter

This charter was developed by sector stakeholders over a period of two years and was gazetted as Sector Codes, in terms of section 9(1) of the Broad-Based Black Empowerment (BBBEE) Act in May 2009. The Charter highlights the need for SMME development 'in underpinning economic growth and ensuring that black economic empowerment is broad-based.' The charter contains a number of undertakings by government and industry for creating an enabling the environment for SMME development in the forest sector (see Box below). Many of these undertakings reiterate and further detail the initiatives already identified in the draft Strategy Framework for Forestry Enterprise Development. The charter also commits enterprises in the forest sector to support BBBEE and SMME development through procurement and enterprise spending. Overall, the charter sees both government and industry as having an important role to play in supporting emerging black entrepreneurs in the forest sector. The charter proposes doing, not by creating new delivery structures, but by strengthening existing delivery structures in both the corporate and public sector. This approach is in line with what is being proposed in the Integrated Strategy on the Promotion of

Entrepreneurship and Small Enterprises, which is discussed above (DAFF 2012a; DWAF 2007a; DWAF 2007b).

5.10 Agricultural Broad-Based Black Economic Empowerment (AgriBEE)

AgriBEE encapsulates the agricultural sector's approach to BBBEE. This initiative seeks to complement other initiatives such as farmer development support and land-reform, by incentivising the sector to integrate black people in different ways (e.g. equity owners, managers, etc.) and at different points in the agricultural value chain, broadly speaking. The AgriBEE Transformation Charter was gazetted in March 2008 and the charter's council was inaugurated in December 2008. The mandate of the council is, inter alia, to align the charter with the Codes of Good Practise in terms of section 9 of the BBBEE Act No 53 of 2003. While the rationale for AgriBEE is clear enough, to date it appears to have had little impact because it is not enforceable, i.e. the charter is not legally binding and only indicative scorecards are in place (DAFF 2012a). The BBBEE Sector Code for Agriculture was signed by Dr Rob Davies, Minister of Trade and Industry, on 11 December 2012 and published in the Government Gazette on 28 December 2012 (dti 2012).

5.11 DAFF AgriBEE Fund

This fund is a grant that is given to farmers who want to start farming or run another agri-enterprise or another business. The fund is an investment that is made by DAFF in collaboration with the Land Bank. The purpose of this kind of grant funding is to transform the agricultural sector. The purpose of the fund is to: (i) Promote the entry and participation of black people in the entire agricultural value chain, through the funding of equity deals, acquisition of equity in agricultural, fisheries and forestry entities and enterprise development to people of historically disadvantaged communities; (i) To ensure increased numbers of black people who own, manage and control sustainable enterprises in the agricultural, forestry and fishery sectors, and (iii) To ensure participation by the designated groups as stated in the AgriBEE Charter, namely: black women, black youth, black farm workers and black people living with disabilities, throughout the value chain. The funding can be used for: (i) Equity funding; and (ii) Agro-processing projects. Some of this funding is also used by the agricultural cooperatives after they have received support from dti to create these entities. The fund is being managed by the Land Bank and to get access to funding, applicants need to provide a well-developed business plan with a provision of a 10% own contribution. An amount of R36,8 million has been budgeted for the 2015/2016 to 2017/18 period (DAFF 2011).

5.12 National Policy Framework - Support to small & medium agro-processing enterprises

This vision of the agro-processing policy is directly linked to the vision of the entire agricultural sector which is stated as 'A leading, dynamic, united, prosperous and people centred sector that is achieved through three core strategic thrusts,' i.e.: (i) Improving equity and participation; and (ii) Improving profitability and competitiveness and sustainability. Mission: The policy intends to support and develop small and medium enterprises through the following: (i) Providing entrepreneurial support to small and medium agro-processors; (ii) Supporting enterprise development through facilitating the provision of access to markets, finance and incubation; (iii) Facilitating technology transfer and industry research; and (iv) Encouraging infrastructure investment specifically within rural areas. Policy objectives: The main objective of this policy is to support and develop rural based SME agro-processors resulting in: (i) Rural industrialisation through establishing agro-processing industries closer to primary products; (ii) Local economic growth through increased trade of processed agriculture, forestry and fisheries products; (iii) Job creation encouraged by the establishment of SME agro-processors; (iv) Improved livelihoods of both SMME agro-processors and smallholder producers; (v) Enhanced food security and increased food availability resulting from reduced post-harvest losses; and (vi) Overcoming seasonality and perishability of agriculture, forestry & fisheries products. (DAFF 2014b)

5.13 Integrated Small Enterprise Development Strategy for the Forest Sector in SA

Forestry has been identified as one of the high-impact sectors in the economy with the potential to contribute positively to economic growth, foreign exchange, job creation, rural development and SMME development. The main over-arching problem addressed by this strategy is the limited participation of small and medium-scale agro-processing enterprises in agro-food value chains. The strategy proposes four overall objectives for small enterprise development in the Forest Sector: (i) Bring viability and sustainability to existing (struggling) small forest enterprises. This includes assisting existing SMMEs to graduate from the 'second economy' into the 'first economy' and from small business activities to larger scale business ventures; (ii) Take advantage of the land-reform and BBBEE processes and the opportunities for new afforestation to support the establishment of emerging black growers; including opportunities for black participation in value adding activities that can be leveraged through the ownership scarce timber resources; (iii) Encourage further growth in the small scale processing sector where there are comparative advantages and niche market opportunities to do so; and (iv) Create opportunities for black empowerment and local economic development though the procurement of goods and services by the forest industry (DAFF 2010).

5.14 Ilima-Letsema Campaign

The Ilima-Letsema is a campaign by the government to stimulate food production through household and backyard activities, creating micro-enterprises through the use of communal land, ensuring productivity of land lying fallow in the peri-urban areas and the rural areas and lastly converting dormant agricultural assets into liquid income generating assets. The Ilima-Letsema Campaign will be rolled-out across the country cantering on the Land and Agrarian Reform Programme (LARP) and search for an increase in productivity of 10% to 15%. The campaign also aims at ensuring socioeconomic development and the amelioration of the effects of high food prices and addressing the following: (i) Stimulating an increase in food production and enhance food security; (ii) Promoting social cohesion; (iii) Militating social cohesion; (iv) Raising general awareness about government programmes and the opportunities that it offer communities; (v) Stimulate the realisation of collective synergies; (vi) Structuring the involvement of stakeholders; and (vii) Conducting a situation analysis per province's Ilima-Letsema location. The purpose of this grant funding is to assist vulnerable farming communities to achieve an increase in agricultural production and invest in infrastructure that unlocks agricultural production.

5.15 Extension Support Recovery Programme

The grant funding under this programme is earmarked to support the agricultural colleges. The scope of the programme will support the following: (i) Upgrading of agricultural colleges; and (ii) Upgrading of IT systems, providing tuition material and the training of lecturers. For the period 2015/16 to 2017/18, a total of R169 billion have been budgeted.

5.16 Integrated Growth Development Policy (IGDP) 2012

The policy provides a detailed analysis of the various challenges that is faced by the agriculture, fisheries and forestry (AFF) sectors. The vision for South Africa's Agriculture, Forestry and Fisheries Sector is to have "*An equitable, productive, competitive, profitable and sustainable Agriculture, Forestry and Fisheries Sector growing to the benefit of all South Africans*.'' The mission states that: *The vision will be achieved through developing and sustaining a sector that contributes to and embraces: (i) Economic growth and development; (ii) Job creation; (iii) Rural development; (iv) sustainable use of natural resources; (v) Maintenance of biodiversity and ecosystems; (vi) Sustainable livelihoods; and (vii) Food security* (DAFF 2012a). For more information see Appendix B. DRDLR - Land Reform Policy

In 2009, the new administration created the new DRDLR and the Comprehensive Rural Development Programme (CRDP) was designed to address the new rural development mandate. The DRDLR continued to focus on acquiring land for redistribution to land reform beneficiaries through the Proactive Land Acquisition Strategy (PLAS) in which land acquired by the State was leased to qualifying beneficiaries. At the same time, the DRDLR launched the RECAP initiative to identify and support distressed land-reform projects through investment in infrastructure and recruitment of strategic partners to support land reform beneficiaries (DAFF 2012a).

5.17 DRDLR - Comprehensive Rural Development Programme (CRDP)

The intention of this programme is to promote rural development on the one hand and land and agrarian reform on the other, in a manner that is mutually supportive. The CRDP is aimed at being an effective response against poverty and food insecurity by maximising the use and management of natural resources to create vibrant, equitable and sustainable rural communities. The programme must improve the standard of living and welfare, rectify past injustices through rights-based interventions and address skewed patterns of distribution and ownership of wealth and assets. (DAFF 2012a).

5.18 DRDLR - Recapitalisation, Acquisition and Restitution Programme (RECAP)

The purpose of this programme is to: (i) Increase the number of farms which are producing food for households and to enhance food security and other needs; (ii) Increase the output of farms that are geared towards commercial production in order to provide increased food security for the nation; (iii) Improve income for farmers and employees; (iv) Increase the capacity of emerging farmers; (v) Increase productivity or efficiency levels on land-reform farms; and (vi) Increase job creation as a result of increased productivity (DAFF 2012a).

5.19 DRDLR - Animal and Veld Management

The purpose of the programme is to improve the animal production and the veld management practices in communal areas of the country. It is mainly targeting smallholder farmers and rural households.

5.20 DRDLR - River Valley Catalytic Programme

The goals are to promote optimal development of natural resources, agriculture, infrastructure and other social services. The intention is to attract development into the river valley area and promote sustainable rural development. Additionally, the key driver is to ensure sustainable use of natural resources for increased food security and enterprise development.

5.21 DRDLR - Commodity Value Chains Programme

The purpose of enterprise and industrial development programme support to rural people within commodity value aims to stimulate and expand community-driven inputs, agricultural production and processing and marketing to address food security enterprise development and job creation in rural areas.

Please note that more information on some selected programmes and policies of the dti, National Empowerment Fund (NEF) and the Development Bank of Southern Africa (DBSA) have been shared in Appendix B.

6 PRINCIPLES FOR CONSIDERATION

6.1 Introduction

The Kampala Principles have been identified as an international benchmark and some government principles have been identified before (DAFF 2008; DAFF 2014c). In this section the Kampala Principles, and then to the principles that specifically relates to government, will be discussed:

6.2 Kampala Principles

The Kampala Principles (KPs) for financial inclusion were developed by a wide range of stakeholders in 2011 and is a good foundation in developing a new agricultural policy. Financial inclusion is a key to achieving Millennium Development Goals (MDGs) in Africa's development. While agricultural finance is a part financial system of a country, the financial service needs of the agriculture sector in Africa are pressing and demand special attention. The KPs comprise the following (MFW4A 2011 and 2015):

- Establish a specific <u>high-level coordination body</u> and by recognising a <u>single entity</u> as the advocate for agricultural finance.
- <u>Strengthen farmers' organisations</u> so that the production end of agricultural value chains becomes an effective influence on agricultural finance policy making.
- <u>Focus public sector policy on a value chain/commodity approach</u>, with clustering of smallholder farmers to facilitate economies of scale in input purchase, value addition, marketing and advisory services.
- <u>Ensure legislation is in place</u> and is implemented to foster innovation and to <u>remove barriers to financing the business of agriculture</u>, through measures such as, but not limited to: asset-backed products, warehouse receipts, contract farming, credit reference bureaus (and better client identification), consolidation of small but viable rural financial institutions and other support to the informal financial sector.
- In accordance with CAADP Principles, and in encouragement of <u>private sector investment,</u> increase <u>public sector expenditure</u> in areas such as, but not limited to: crop and livestock

research and extension, water for irrigated crop production and livestock farming, infrastructure for crop insurance, rural energy supply, communications and roads.

- Support transformation of the agricultural sector through encouragement of longer term, productivity-enhancing, on-farm investments such as water supply, irrigation, fencing and farm buildings, through consensual approaches to land tenure issues.
- Enable financial institutions to meet the demand for longer term financing by developing financial markets so that lenders can gain access to the term liabilities required.
- Encourage the commercialisation of agriculture and of farming as a business, whether by consolidation of smallholdings or through involvement of the private sector (domestic and foreign); in both cases ensure that social, cultural and environmental concerns are met and, in the latter case, that appropriate controls are in place to prevent undesirable exploitation.
- Develop and implement concrete actions to improve financial literacy, consumer protection and farmer business education, with a special focus on gender and youth issues.
- Drive research, training and dissemination of knowledge to foster private sector investment in developing and marketing added-value agricultural products and services.
- Ensure a sustainable flow of information is available in areas such as, but not limited to: markets, output prices, costs of inputs and cost and conditions of financial products and services.

6.3 Principles for Government

The following principles identified in the White Paper on Agriculture have been regarded as best practice for government intervention in providing development finance (NDA, 1995). The government will:

- not be involved in direct credit delivery but instead facilitate access to financial services by creating an enabling environment
- ensure that there is equity, fairness, transparency and consistency of its interventions
- ensure that the financial system does not carry undue exposure because of the absence of clear distinctions between sources of fiscal grants, development funding and capital market
- ensure a positive cost-benefit ratio, least-cost service delivery, most efficient and effective means of intervention and applying best-practices
- establish an enabling legal environment.

6.4 Conclusion

It is also advised that in the development of a new policy, the government departments involved, as well as other stakeholders, also consider some of the other principles identified: (i) Broad General

Principles: Some general broad principles have been identified in Appendix D; (ii) Strauss Commission: The findings of the commission have been listed in Appendix C and some principles have been identified from the Strauss commission's report and are shared in Appendix E; (iii) The Financial Systems Approach (FSA): A new paradigm in development finance started to develop in the 1990s that focused on the development of efficient and inclusive financial systems and markets. The basic principles and assumptions of the FSA have been identified (IFC, 2011) in Appendix F.

The Kampala Principles for agricultural financial inclusion in Africa was developed and agreed upon during 2011 and serve as an important and firm basis for the development of a development finance framework (De Klerk et al., 2013). It is therefore proposed that the above-mentioned principles be considered as a starting point in developing a '*comprehensive integrated agriculture development finance policy'* between DAFF, DRDLR and Land Bank in the future.

7 FUNDING SUPPORT MECHANISMS AND FINANCIAL INSTRUMENTS - BEST PRACTICES

7.1 Introduction

Agriculture will continue to play an important role in addressing food security issues, rural poverty and in the process strive to attain the Millennium Development Goals. Agriculture's contribution to GDP varies between 3% (South Africa) and 45% in some African countries (Tanzania). While SA is a high middle-income country there are between two and three million smallholder farmers that experience very similar challenges as their fellow farmers in the rest of Sub-Saharan Africa. Given the importance of the agricultural sector on the continent, development finance is currently top of the development agenda, especially since the triple shocks – food, fuel and finance – in recent years. Both traditional banks and micro-finance institutions are unwilling to serve the clients along the agricultural value chains and that leaves both farmers and rural enterprises with no access to finance (IFC 2011).

In the next section a number of support mechanisms will be shared that can support the implementation of development finance policies and programmes. In section 7.3, reference is made to the various traditional (loans, grants and subsidies) and more innovative financial instruments that are being discussed. In section 8, reference is made to policy options that are available to government.

7.2 Funding Support Mechanisms

7.2.1 Development finance institutions

A lot of attention is given and resources provided to capacitate farmers on financial literacy but there is a similar need with financial institutions. Many financiers may know little of the difficulties of farming and the unique challenges experienced by smallholders. It has been stated by the International Finance Corporation (IFC) report: '*The lack of general knowledge and interest of financial institutions to engage in the agriculture sector manifests in absence of adequate financial instruments, products and delivery mechanisms*' (IFC, 2012). According to the same report there is an inability of financial institutions to understand the real needs of farmers and the specific risks that need to be underwritten. There is a need for staff working in these institutions to get special skills to work with farmers and the specific credit needs they may have.

7.2.2 Value chains

Finance of value chains is a relatively new type of instrument and bankers and financiers need to understand how the flow of funds and products and the business relationships function within a value chain network. There are, for instance, input suppliers, farmers, processors and retailers involved and these relationships have a positive impact on the risk profile of the lenders. There should rather be a focus on the profitability of the whole chain than to look at the credit profile of individual members of the chain. The system should be analysed rather than the individual partners. There is also a need for professionals to work together and include, amongst others, the following specialists: agricultural economists, financial analysts, entrepreneurship specialists, capacity building specialists, gender experts, environmental specialists, community development practitioners, value chain specialists, agronomists, etc. A number of instruments are needed to serve these clients, i.e., long-term, short-term and saving instruments. Donors may also play a role in underwriting some of the risks during a start-up phase. The FAO (Miller, 2011) provided some recommendations on capacity building (IFC, 2012) in 'Agriculture Value Chain Finance and Design': (i) Build capacity of small producers and other weak chain partners to support growth towards maturity in the value chain; (ii) Base interventions on a solid assessment of the needs for capacity building; (iii) Develop business and service alliances; and (iv) Facilitate knowledge management and training.

7.2.3 Farmers and farmer organisations

Farmers need to be capacitated and they need to understand that there are advantages of getting access to financial products such as a loan to fund some farm activities. At the same time there is also a need for them to understand that they also have a responsibility to repay the loan to the financial institution. The repayment must be built into their thinking and when planning their expenses. Basic training on financial literacy, business planning and general management of financial affairs could go a long way to capacitate farmers.

In general it could be said that farmers are not always well organised and a structured approach is needed to make value chains work efficiently. Organised groups could procure in bulk and sell in bulk and could negotiate better prices for themselves. Training could also take place in groups – agronomic practices and correct use of fertiliser but also financial planning and bookkeeping skills. According to Agencé Française de Developpment (AFD 2012) cognisance should be taken of the role that extension officers could play in providing guidance on agricultural finance. For this reason it is important that extension officers are exposed to financial skills training. The availability of commercial farmers and business people could also play a role in capacitating smallholder farmers in investment and financing decisions. Financial and finance mentorship by successful business people can have a positive impact on farming associations. There are different kinds of farmer associations: (i) Informal groups; (ii) Community-based resource-oriented organisations (i.e. primary cooperative); (iii) Community-based market-oriented organisations (i.e. one crop commodity focus, e.g. coffee).

7.2.4 Management Information Systems (MIS)

Financial institutions lack information on the risk profile of beginner farmers because formal institutions did not provide them with financial services in the past. At present the situation has not changed significantly. DFIs in the previous homelands also did not keep reliable information. Farmers also require information based on their needs. A sound MIS that should serve farmers and all their support structures should be established and should generate information on: (i) Availability of financial institutions and other support structures to enable rural communities to make informed choices; (ii) A profile of rural communities to enable support structures to know their target market and the needs of their clients. This information will make credit affordable through the reduction of transaction cost; and (iii) Early-warning systems to enable all role players in the rural areas to plan for any disaster (DAFF 2008b).

7.2.5 Development of a Rural Financial Network

Only a relatively small part of the target group of emerging farmers and, in wider context, potential rural entrepreneurs can be reached even with the above instruments. The commercial banks are not interested in providing these services, as the short-term returns will be negative based on their expensive delivery system. On the other hand, the existing non-commercial financial intermediaries do not have the systems and the structures to reach this group effectively. This target group can be reached effectively only by low cost institutions embedded in the community, based on self-governance and local empowerment. These institutions need to practise an all finance concept, however, based on the rural requirements, which at this stage of development would be handling one type of savings account, current accounts and two credit products (short-term and medium-term) (DAFF 2008b).

7.2.6 Establish a Credit Provider's Association

One of the ways to strengthen the capacity providers of rural finance will be to develop an association for all credit providers. The association should then develop a database of all farmers and rural entrepreneurs that are making use of loans. The information of the database will be shared amongst the participants of the scheme and will contain information on the borrowers' behaviour in terms of loan repayment, size of farming activities, sales from produce, default history, etc. This type of information will make the task of credit providers much easier and will bring down the risks and the costs of doing business in the rural areas.

7.2.7 Segmentation of farmers

The ranges of financial needs of farmers vary and therefore it is important to identify the various farmer groups and the needs within each group. According to the Consultative Group to Assist the Poor (CGAP) (Christen and Anderson, 2013) there are three distinct smallholder farmer groups[8]: (i) Subsistence farmers; (ii) Smallholder farmers in loose value chains; and (iii) Smallholder farmers in tight value chains. It should be noted that the CGAP research made a distinction between smallholders according to the value chains in which they function. Each of these groups of farmers has different finance needs and financial instruments need to be targeted to address the needs of each group.

7.2.7.1 Subsistence farmers

Subsistence farmers (SSF) have low incomes that are very variable and they are vulnerable to long periods with no income at all. In most cases they do not own the land or if they own it, it is too small to make it an economically viable farming unit. The family works in most cases as labourers for other farmers or rural businesses. Financial transactions are small and they sometimes make use of cash transfer services of formal banks. It is also possible that farmers can make use of mobile transfers like M-Pesa in East Africa where users are using much less cash and the private sector provides an excellent service here. This particular group of rural households and farmers could be best served with grant funding and small loans. The most vulnerable households can qualify for subsidies for a

[8] In the original text of the CGAP Focus Note that is referred to, reference is made to: non-commercial smallholders; commercial smallholders in loose value chains and commercial smallholders in tight value chains. Not to confuse the terms in this document and to place it within the South African context, it was decided to rather use the following terms respectively: subsistence farmers, smallholder farmers in loose value chains and smallholder farmers in tight value chains.

short while and government should do it with an exit strategy. The following products and services have been identified for this group:

(i) Savings: Savings can play a major role in this group of farmers and address most of the SSFs needs. The most appropriate instrument is the Accumulating Savings Credit Association (ASCA) that offers farmers a once a year pay-out that can be scheduled to fund inputs for the new season. Farmers can also make loans from the scheme and pay interest. These farmers do not have access to any other credit and the NGO SaveAct has successfully implemented this approach amongst 35 000 farmers in SA.

(ii) Credit: Credit is also available from micro-finance institutions but it is very expensive and the risk of non-repayment is high. Large purchases and investments may be funded by micro-lenders that use a group-based lending technique. Funds needed for emergencies and sudden credit requirements are catered for by banks, pawn-based lenders and savings-and-loan groups. As mentioned before, farmers can also make loans from the scheme and pay interest to the ASCA.

(iii) Transfers: These farmers may also make use of transfer services by receiving remittances from overseas. Transfer services are usually delivered by providers of remittance and telecommunication services. In terms of transfers there is a growing market for mobile transfers as well as branchless banking through the supermarket chains. In SA the mobile transfers are still limited but it is expected that demand will grow in this group of farmers.

(iv) Risk Management: Insurance services are limited although this group may be part of burial insurance and perhaps life-cover for the breadwinner. If short-term insurance is being used by an SSF, it will be used for motor vehicle but not for crop insurance that is too expensive for this group of farmers. Index insurance still needs to be commercialised but will have limited impact on this group of farmers.

7.2.7.2 Smallholder farmers in loose value chains

This group of farmers usually have more land available than SSFs and has a bit more disposable income available. Household incomes come from agricultural and non-agricultural sources. The marketing of farm produce is taking place in open, informal markets that are not well-organised with structured price mechanisms. Financial transactions do sometimes reach a scale that can, under certain conditions, be attractive for the more formal financial institutions. The products that may be of interest to both parties will be loan products for the personal needs and production as well as services related to the sale of harvest. Saving is, like in the case of SSFs, a very important instrument and due to the seasonality of agricultural production in loose value chains, these farmers are most probably used to saving. These families are in general better nourished except in cases when there is a natural disaster that results in a crop failure. In general this group of farmers have a larger appetite for financial services than the SSFs. The following products and services have been identified for this group:

(i) Savings: They will also have a strong demand for saving products—mainly due to the seasonality of production. Harvest returns need to be saved for next year's inputs, i.e. fertiliser and seed. Saving groups are less important in this group, as is the case with SSFs, and they make use of more formal financial institutions such as commercial banks, micro-finance institutions (MFIs) that do accept deposits and inputs suppliers.

(ii) Credit: This group of farmers have a need for finance for regular expenses like seed and fertiliser at the beginning of the new production season. Input suppliers like fertiliser and seed companies usually provide credit. It can also be micro-lending businesses that provide credit for individuals or groups of farmers as well as agricultural banks. Funding for emergencies and sudden credit requirements are being catered for by banks, pawn-based lenders and savings-and-loan groups.

(iii) Transfers: These farmers may also make use of transfer services by receiving remittances from overseas and transfer services are usually delivered by remittance businesses and telecommunication companies.

(iv) Risk management: Risk products are perhaps limited to what is experienced with SSFs, i.e. part of burial societies and life insurance of the breadwinner. Short-term insurance may be procured but in most cases not for agricultural purposes and the crop insurance is too expensive for this group of farmers. For emergencies and sudden requirements, micro-lenders can provide a service. It is usually micro-credit that is added to group-based and funeral insurance policies.

7.2.7.3 Smallholder farmers in tight value chains

These farmers produce higher-value crops and have contracts with well-organised value chains. There are a smaller number of farmers belonging to these tight value chains than there are SSFs and those in loose value chains. These are larger farmers and they rent the labour from the two groups mentioned above. Quality standards are high, they work with a number of players in the value chain and they earn a significantly better income than the two other groups. It is also usual that these farmers also engage in other agricultural and non-agricultural activities outside the value chain-related farming activities. The following products and services have been identified for this group:

(i) Savings: These farmers want a number of saving products for rather medium-term capital expenses, to save regular non-agricultural income and make large purchases and can survive disaster situations. The South African Sugar Association has been actively involved with between 15 000 and 25 000 farmers over the past years. They have been assisting farmers to keep an amount out from the harvest to be able to procure inputs the next year.

(ii) Credit: This group of farmers is attractive for formal credit providers as these farmers get involved in higher value production activities. This group of farmers have a need for finance for regular expenses like seed and fertiliser at the beginning of the new production season. Input suppliers like fertiliser and seed companies usually provide credit. It can also be micro-lending businesses that provide credit for individuals or groups of farmers as well as agricultural banks. There are specialised products for contract farming, leasing products, agro-processing and long-term loans for perennial crops (forestry, fruit trees, etc.).

(iii) Transfers: These farmers have a larger range of needs for transfer of funds of which remittances can be one as well as transfers to suppliers, employees and dependent family members. They also receive payments from suppliers and buyers of their farm produce. This group is also interested in a bigger range of risk products and may even consider livestock and crop insurance.

(iv) Risk management: Risks are more complex and in some cases these farmers specialise more in specific crops and is therefore less diversified. This group's exposure is higher because they are dependent on one buyer for most of the income and the required standards for the output are high and therefore the risk as well. It is also sometimes difficult for financial service providers to have a clear estimate of cash flows in a household to close held 'secrets' on production activities and the profit margins attained.

7.3 Financial Instruments

There is well-proven existing, as well as, innovative financial instruments that can enhance the access to finance by smallholder farmers and rural entrepreneurs (including the forestry and fisheries sectors). Agricultural finance has unique features like the dispersed location of farmers in rural areas, the seasonality of production, high risks due to weather changes and the fact that there are big and small farmers with different needs. Rural bank's management and operational costs are more expensive and the transaction costs for both the bank and the clients are higher. The following innovative instruments and delivery mechanisms have been identified and the analysis below has mainly been based on work that has been conducted by (AFD, 2012; IFC, 2012):

7.3.1 Conventional and Soft Loans

Farmers have needs for investment funding to purchase new capital goods as well as seasonal funding to procure seed and fertiliser for the new season. Due to the seasonality of agricultural production it is important that inputs arrive on time so that the production process can commence at the right time. There are, for instance, expenses to fund the inputs, mechanisation activities of planting and in the end the harvest after a number of months. The farmer's income will only be received after the crop has been successfully delivered. The convention is that commercial banks usually require collateral for seasonal and investment loans that are applied for so that in case of default, the collateral asset could be sold and the banker can recover its loan funds. International development agencies have revised their approach to rural finance and have recognised potential borrowers of financial sector loans must attain a minimum level of economic capacity before they can effectively use and repay loans.

There are many reasons why governments would like to provide soft loans and other subsidies to farmers—usually during election times. However, soft loans may create a dependency by farmers on subsidised interest rates and have high opportunity costs for governments in the long-term. From the literature it is felt that governments should rather focus on the development of hard infrastructure (roads, telecommunication, etc.) and soft infrastructure (legal environment, function courts, etc.). It is important that both bankers and farmers are capacitated for them to have a better understanding of the needs of the other. Training of farmers on financial literacy, business planning and saving strategies can go a long way to address risk levels. Financiers also need to understand the peculiar needs of farmers and the unique challenges of agricultural production.

The challenge is what can be done in a case when there is no secure loan collateral available. When there is no collateral, banks tend not to provide credit due to the high risks involved that again leads to less access to finance by smallholder farmers and rural entrepreneurs. In most of Africa, farmers do not own the land that they are cultivating and the same applies in some parts of South Africa. MFIs have accessed resource poor clients in the rural areas with small loans and repayment over short periods. Usually the interest rates are quite high due to the high risks involved.

The Land Bank has developed products under the REM-window that supplies farmers with short-term credit without the need for collateral at lower than market interest rates. Under the MAFISA programme three products have been made available to farmers at subsidised rates of 8%: (i) Production loans; (ii) Small Equipment loans (including irrigation infrastructure); and (iii) Livestock Purchase loans.

7.3.2 Grants

There are people that are living in post-conflict countries or in emergency situations, extremely poor or seriously ill and may not be able to work and lead a normal life. Therefore, grants can be useful to help kick-start an economic activity by providing the very poor with an income-generating asset. These grants are followed by a package of assistance to help beneficiaries' graduate to sustainable sources of financing. However, since grants are not a source of sustainable financing, their use should be limited in time. The World Bank also drafted guidelines for grants to the poor to help them accumulate assets and thereby build their capacity for future access to loans.

The following are a few guidelines to consider when a grant or subsidy policy is designed: (i) Grants for economic activities should be limited to: (a) Very poor people who are too vulnerable to take on the risk of a loan; (b) Poor people living in communities that are beyond the reach of financial institutions; and (c) Poor people with some assets and earning capacity but unable to earn enough to pay the investment costs within a reasonable time frame; (ii) Strong eligibility criteria to avoid capture of benefits by elites; (iii) Grants should be made on a matching grant basis; (iv) If assets are financed beneficiaries should contribute as high a percentage as possible with a minimum of 10%; (v) Develop a cost-recovery mechanism that should ensure of only people that are really in need of the grants; (vi) Grants to groups can lead to conflict between individuals; (vii) There should be a clear distinction between the institutions providing grants and institutions providing loans—this way beneficiaries can have a better understanding that it is indeed a loan and not a grant; and (ix) Grants for income generating activities should be combined with training in selecting, planning and managing economic activities.

7.3.3 Blended products

A blended product is when a donor or government provide some grant funding to an activity and then there is also an element of loan funding added to the investment. On a macro-level, there is a move from donors and development partners to develop blended products to developing countries. Grant funding could for instance be provided by a donor like the European Commission (EC) and then a loan is provided by a European DFI to provide the loan component to the project. It is foreseen that the blending instrument can be used for technical assistance, investment, guarantees or equity. In this case the lead financier will be EIB with co-financing other European development banks such as KfW, AFD, FMO, PROPARCO, DEG, etc. There is, for instance, an African Caribbean Country (APC) Investment Facility at the European Investment Bank (EIB) that is supporting mostly African countries. They also support financial services to support SMMEs and infrastructure development. It is planned at the next European Development Fund (EDF) at the EIB to create an African Investment Facility that will be all encompassing and provide: (i) Private sector finance; (ii) Infrastructure finance; (iii) Support to agribusiness; and (iv) the agricultural sector in general. It is expected that this facility will be operational by 2016 and may find application in Southern Africa as well. Cognisance should be taken of the application of such an instrument within the development of a future finance policy for the agricultural sector in SA (Baiges-Planas, 2014).

7.3.4 Subsidies

Subsidies that pay for private goods (e.g. on-farm infrastructure) often do not achieve the intended goals. Governments and international donors provide subsidies (i.e., grants, matching grants and non-reimbursable loans) to farmers as well as value chain participants can be justified when the intervention is appropriately formulated. These subsidies are usually to improve economic efficiency or the long-term redistributive objectives. Many times it does happen that the wrong policy is implemented and it creates a culture of dependency. Governments felt many times pressure to act and they provide subsidies with short-term benefits but then there is lack of attention to long-term needs (i.e. an improvement of rural infrastructure).

Reference is made in the literature to 'smart subsidies' and it is an effort to minimise distortions and maximise benefits. Many times, well-intended subsidies turn out to be counter-productive. Smart subsidies are: (i) Transparent; (ii) Rules-bound; and (iii) Limited and time-bound with clearly upfront defined exit strategies. In terms of a financial systems approach there is a shift away from a focus of support from target groups (private goods) to public goods supporting financial systems, infrastructure and institutional development at the macro-, meso- and micro-levels. It is to be avoided to provide subsidies on inputs (i.e. seed and fertiliser), interest-rate for clients as well as output subsidies (e.g. stabilisation funds) (MFW4A, 2012). Subsidies for savings rather than credit could even be a more important instrument for the poor (IFC, 2011).

7.3.5 Branchless Banking

The mobile technology has been rolled-out during the past decade in Africa, first by cellular companies but then also by banks and other service providers. In some cases it started by sharing technical and weather information and in other market prices (i.e. Esoko in Ghana). The positive impact of low transaction costs of mobile banking is positive and M-Pesa has been rolled out successfully in Kenya. Other services like cash withdrawals from automatic teller machines have been rolled out steadily in most African countries and have been in South Africa for more than 25 years but also to rural areas. Point of Sale devices are an innovation that can be activated in a shop by a mobile phone. Another innovation is a supermarket that has rolled out a service where cash transfers are being conducted between stores within SA. The low transaction cost is a fixed fee of R10 that makes it affordable to rural communities.

7.3.6 Value Chain Finance

It is financial flows between participants in a particular value chain (internal) but also flows from financial institutions: from banks to participants in a specific value chain (external). It can also be a combination of both internal and external partners involved at the same time. There is less dependence on creditworthiness but rather because of trust and the existing business relationship that exists within the value chain. There are various advantages because the suppliers of the finance can also be the off-taker of the product from the farmer and the transaction cost can be much lower. It works the best when there is limited competition; it is a niche product, has limited shelf-life and may be very bulky, e.g. sugar cane—an example of a tight value chain. Edible products like maize and vegetables are difficult to fund through value chain finance because of ease of side-selling by farmers—an example of a loose value chain. It has also been found that value chain finance did not help to contribute to the growth of farmers' business operations, especially in contracting arrangements.

7.3.7 Warehouse Receipt Financing

This is actually an old instrument that has been implemented in the medieval societies and has been practiced in Northern America and Russia. It has been introduced to Africa in recent years. It is an instrument that can be used with certain commodities that can be stored after it has been harvested, i.e., coffee, grain, wool, cotton etc. The output is supplied to warehouse and a 'receipt' is provided to the farmer that specifies the amount (kg) and quality grade specified. The farmer hands the receipt to the bank as collateral for credit for most of the value of the product in storage. The farmer sells the receipt and informs the bank. The bank gives the receipt to the buyer that then claims the grain from the storage facility. The bank pays the farmer the balance due and some interest. Default rates are low and it is a self-liquidating product. All the grain of a certain quality grade is put together in one silo (mixed) but it is assumed that all products in a specific grade grouping are the exactly same quality. Risks like poor quality management or grading practices may negatively impact the systems. SA has a sophisticated Silo Receipt System that is also the basis for the JSE Commodity Exchange. Smallholder farmers can also participate in this system. There are discussions to develop a donor-funded reserve fund that could possibly also assist emerging commercial farmers. The problem in SA is that there are certain areas where the rural and agricultural infrastructure is weak, i.e. the old homelands. Farmers need to deliver their outputs to storage facilities in the vicinity of their farms, otherwise high transport costs may make it uncompetitive.

7.3.8 Traditional Agricultural Insurance and Index Insurance

Farming is business that depends on the weather (especially with rain-fed agricultural activities). In some cases the weather can take catastrophic proportions—winds, high rainfall, drought, unexpected cold fronts, etc. In the developing countries farmers make use of savings (savings or cattle), diversification strategies, relying on the community or family members and looking for temporary employment. These approaches are not efficient and it has been demonstrated that farmers who focus and specialise in a specific farming activity will perform better that diversified farms. The specialised farmers will, however, need insurance in one or the other form. With the uptake of applicable insurance products, farmers will have a more stable long-term income and will be in a better position to get access to other funding sources. Therefore, agricultural insurance is a risk-mitigating tool that can stabilise income levels and therefore improve sustainability. There are two groups of risk insurance (Dos Santos et al., 2010): (i) Traditional crop and livestock insurance comprising: (a) Named-peril crop insurance (e.g. hail); (b) Multiple-peril crop insurance (yield guarantee); (c) Revenue insurance (yield and some price protection); (d) Livestock mortality insurance; (ii) Index-based products: (a) Weather index products; (b) Area yield index products; and (c) Livestock index products.

In most cases traditional insurance products fail to take off in developing countries because the cost is too expensive—even in some cases when governments subsidised the cost thereof. In most cases smallholder farmers have little appetite for this kind of financial products and this may be partly due to a limited understanding—especially amongst illiterate individuals who may find the concept foreign. However, index insurance is an important and relatively recent innovation and it is a type of a derivative instrument. Farmers are automatically paid out if a certain threshold is reached in terms of an indicator, for instance rainfall received before a certain date. The actual damage to farmers cattle or crop is not relevant and this instrument makes the transaction cost much cheaper. To be able to manage these types of products, it is important to have good information on weather and this may well be a challenge in developing countries. Some of these insurance products can also be combined with some credit products from banks. The cost of index insurance is high (up to 10% of the value of the crop) and in most cases index insurance is subsidised by the state. It is also important to note that most index insurance schemes focus only on one area, i.e. drought and leave the clients exposed to other risks. The regulatory environment is not always conducive to microfinance providers. Reinsurance is possible and it makes the lending risk less for finance providers. Index insurance is also sometimes combined with value chain financing but it must be viable and it has the best chance to be sustainable if it facilitates access to other services such as markets, credit, etc., because it increases the income of farmers who can then more easily afford the insurance premiums.

7.3.9 Direct personal lending – A new approach

Commercial banks do not usually lend out funds without having collateral against which the loan could be provided. Value chain finance does not follow this approach but hinges rather on a relationship with the client and the business linkages with other participants in the value chain. There is new trend in that banks deals now differently with agricultural clients. However, there is a new approach where banks try to scrutinise the loans that are applied for and do in such a way that it is not necessary to conduct an entire risk analysis of a particular farmer. Through this approach there are a few parameters being used, i.e., land size, size and type of crops planted, credit bureau information (debt position) as well as relationship with the bank, extension services, risk insurance, revolving credit, etc. In each case it will be different and it depends on climatic conditions, type of livestock or crops planted to determine the type of product to be provided. Both financial institution and the farmers need to be capacitated to work well in such a system. This approach still experiences challenges and some financial institutions are reluctant to explore this approach. This approach enables banks to have a wider reach and service more clients.

7.3.10 Credit guarantees

This is a guarantee that is provided by a finance institution or a donor that is provided to a bank to extend the credit of a client for a specific period. Credit guarantees can work well when good farmers are involved; they use technology, have access to markets and they generate cash to pay back the loans. It is also important that banks are well-capitalised and there is efficient risk-management procedures at the financial institutions involved. Sometimes not all conditions are met and many agricultural credit guarantee funds are not being utilised because banks mostly perceive the risks too high. Some borrowers may decline to pay back the funds because they are aware that, because of the guarantee, the bank will get its money.

The African Fertiliser and Agribusiness Partnership (AFAP) is donor-funded organisation that is working with big and small agro-dealers in three countries in Africa. One of the products that they deliver is a credit guarantee to agro-dealers that supply fertiliser to smallholder farmers. This guarantee not only provides a longer time for the agro-dealer to repay the funds, but it also enables the dealer to buy more fertiliser and extend credit to the farmers. In this way more farmers could be serviced and an increase in productivity is achieved by the higher usage of fertiliser.

7.3.11 Promotion of savings

In general there is a belief that poor people neither save nor do they need access to financial services because they do not have any income to save. It is interesting that the opposite have been proved (Collins, Murdoch, Rutherford, Ruthven, 2009). Their low levels of income and the irregular and unpredictable nature are actually motivators for them to save their money. The poor has to manage the little they have and try to meet basic daily expenses, cope with emergencies and raise sometime large amounts for big expenses. They may become in involved in many transactions, borrow to make ends meet and save when they can to make provision for an uncertain future (Delany et al., 2012). Savings and credit groups offer the best opportunities for subsistence farmers to become part of these groups and provide the best opportunities to get access to credit. The same applies to a lesser extent to smallholder farmers. The Accumulating Saving Credit Association offers the best opportunity to farmers in that they can choose when they want a big amount to be paid out to them—usually with the start of the new season when they need to purchase new inputs (Seed, fertiliser, etc.) to plant their crops (De Klerk 2015b).

SaveAct is an example of such a successful venture where about 35 000 people are involved in saving associations with a capital of base of R90 to R100 million. The participants are 91% women and about 90% are only receiving social grants on a monthly basis. The retention of the participants is 97% and the repayment rate is 99%. It is active in especially KwaZulu-Natal (20 000 participants) and the Eastern Cape (14 000) with some limited work in the Free State (900) and Northern Cape (100). Communities use the funding mainly for income smoothing, i.e. school fees and burials. Participants contribute between R50 and R600 per month. There is now a move to start funding agricultural activities such as maize, poultry and cattle. SaveAct is an NGO that is doing the training and capacity enhancement of communities and is funded by donors and corporate companies. Government has expressed interest in providing support but has not been forthcoming. Their programme is based on three pillars: (i) Financial services; (ii) Financial capacity building and training; and (iii) Enterprise and smallholder development. This is a demonstration that these type of associations can be successful through empowering themselves with the little they have (Delany and Storchi, 2012; Krone, 2014).

7.3.12 Other innovative instruments

Some additional innovative financial instruments have been identified, i.e., (i) Agricultural leasing; (ii) Price smoothing; (iii) Specific instruments to manage price risks; and (iv) reference is also made to specific type of value-chain finance and commodity price options. Please refer to Annexure G for more information on these instruments.

7.4 Conclusion

This section looked at the best practices of what is happening elsewhere in the developing world. A number of guidelines and innovations have been shared. There are a number of supportive measures to enhance the impact of agricultural finance. Capacity building of DFIs is important to gain a better understanding of the real needs of farmers. At the same time farmers need to understand what banks expect from them. The development of MISs, credit provider's associations, public-private partnerships and the segmentation of farmers are all information that can support funding mechanisms. Government grants and loans are not the only two financial instruments that can be used effectively by development institutions. There is a number of other more innovative instruments that can play an equally important role in the provide access to smallholder farmers. Certain instruments are better suited for certain farmer groups, i.e. saving and credit groups provide an opportunity for subsistence farmers to get access to finance while small commercial farmers may be better off by using credit.

8 PROPOSED POLICY OPTIONS

8.1 Introduction

It is important to emphasise that '*the objective of this framework document was never to design a detailed development finance policy for the three sectors – agriculture, forestry and fisheries. The objective was to develop a policy framework or provide the 'context' in which the new policy could be 'moulded' into*.' However, the following policy options are proposed as a point of departure in taking the process forward. It should be noted that most of these options are not comprehensive proposals but rather high-level policy alternatives that can be considered in the design of the comprehensive policy that will follow the work that has been done through the development of this framework. It may also be that some of the elements within these alternatives can be used in the policy that will be designed.

8.2 Continue with Current Approach Option

Although this seems to be a strange option, it is true that it is always an option to continue with the current policy structures and implementation approaches that have been followed before.

Coordination and collaboration between the various government departments have been identified as a challenge and there were limited mechanisms in place to enhance coordination. At the same time there are duplications because the collaboration is not taking place as it should and there is no sharing of databases of beneficiaries and no common management information systems. It could be argued that there are ways to be found to improve current processes, capacitate implementation agencies, enhance management efficiencies and maximise development impact. Coordination and collaboration could be improved through a coordination mechanism and regular exchange of information.

The advantages of this approach are that staffs already understands the current processes, what works well and what does not and it is easier to fix the problems of an existing system than to design a new approach of which new mechanisms need to be developed. Another advantage may also be that it is perhaps cheaper to re-engineer the current system and make it more efficient. One of the disadvantages of this approach may well be that the implementers will continue with the 'same and trusted' way that they are used to—even though they have been capacitated to do things differently. Another disadvantage would be that the old system was perhaps so inefficient because of its original design that it is not possible to re-engineer the existing system and improve its performance. Policy makers must ensure that before a new policy is being designed the existing is carefully analysed and evaluated. Even if a decision is made not to continue with the existing approach, the lessons learned would strengthen the design of a new policy and ensure that the desirable development impact is achieved in the end.

8.3 Blended Fund Option

There are currently some policymakers that believe there is a need for a central fund in which all of the development funds should be housed. This fund should comprise of existing funds available and Treasury's annual budget allocations for both grant and loan funding. It will also include all the funds that have been allocated under all the existing agricultural and land-related programmes. Such a fund will provide some flexibility to the managers of the fund to provide more loan funding and in other cases perhaps more grant funding. It is advised that such a fund be housed with an appropriate development finance institution and that such an institution be empowered through legislation to house both grant and loan funding. These funds should then be distributed through a provincial department, development agency or an intermediary in a particular province or region.

The advantage of such an approach would be that the blending of the funds could be leveraged with, for instance, an initial grant for land and capital goods and loans could be provided for the farm inputs needed for the first season. This blending of funds opens an opportunity for commercial banks to provide co-funding and in this way provide more capital to a particular farmer. It will also be more cost-effective if there is only one implementing agency that is implementing all the programmes of the departments involved. It is advised that grant funding rather be focused on sub-sistence farmers and household producers who are vulnerable and have less than predetermined income-levels. Seasonal loans need to be made available for smallholder farmers to procure inputs for the new crops but there is also a need to strict rules and fixed contracts need to be in place. For instance, should there be default in payment due to side-selling by a particular farmer, he should be held responsible for his actions. Value chain finance, especially in tight value chains offers an opportunity to provide credit to farmers in a more controlled environment with less risk.

Coordination will also be more streamlined since there will be less role-players involved. The development agency could then only focus on a limited number of projects in a specific area and ensure that the limited funding available can have the desired developmental impact. There is a risk that that farmers may become 'confused' between what is a grant and what is loan and do not want to pay back the loan. The same may happen when the development agency that disburses a loan is perceived to be part of government. It is therefore important that implementing agencies communi-cate very clearly with beneficiaries and ensure that they understand what a grant is and what needs to be repaid.

8.4 Separate Funds Option

This is basically the same option as the above-mentioned but there is a fixed amount allocated for loans and another amount for grants. In terms of the implementation agencies there are two options:

<u>Same agency - grants and loans</u>: This is basically the same as the option discussed in 8.3 except that the loan and grant amounts have been fixed. Loan funding can, for instance, not be used for grants and vice versa.

<u>Separate agencies – grants and loans</u>: This is the same as the previous option except that there are different disbursement agencies. One agency will only supply loans and the other only grants. There are some development practitioners that believe that the same agency should never provide both loan and grant products because it will confuse the borrowers and grant beneficiaries. To have separate agencies may address this issue in a way. However, there are cost-implications that make it more expensive to deliver funding to the same farmers and have a negative impact on development effectiveness. Another disadvantage would be that the providers of loans and providers of grants

should collaborate closely to ensure that they know what finance the other agency has provided. This coordination was a challenge between DRDLR that settled farmers on restitution land and DAFF that had to provide post-settlement support.

As in the case of the 'Blended Fund Option' it is advised that the grant and loan funds are housed with an appropriate development finance institutions and that such institutions be empowered through legislation to house both grant and loan funding. These funds should then be distributed through a provincial department, development agency or an intermediary in a particular province or region. It has been felt by some development practitioners that the Land Bank should, for instance, continue to disburse loans and government should disburse grants. Another option would be that both grants and loans should all be housed by a DFI but that the grants and loans are disbursed at 'retail level' by intermediaries, including provincial governments, NGOs and even the private sector. The Land Bank experiences challenges to provide loans to smallholder farmers and focus more on semi-commercial farmers and has less than 300 farmers on the REM programme. The government is also not necessarily good in disbursing grants. A new approach needs to found here and some options are discussed in the rest of this section but also under Recommendations and specifically in Section 12.11.

As in the 'Blended fund option', it is advised that grant funding rather be focused on subsistence farmers and vulnerable household farmers. Seasonal loans need to be made available for smallholder farmers to procure inputs for the new crops. Value chain finance opportunities where credit can be provided as well.

It is important that the separation between the grant and loan providers be carefully analysed and addressed in a future policy. The role of good communication with the target market can also play an important role to ensure that farmers understand exactly what is grant and what has to be paid back.

8.5 Integrate Finance and Farmer Support Services Option

It would also be possible to have all the financial and other support services for farmers in one entity. Loans can be provided and at the same time responsibility should be taken to ensure that the farmers understand what production activities should be taking place during the next season. The same agency can ensure that the farmers are indeed planting the seeds for which they have received a loan and the correct fertiliser has been applied. The one all-inclusive fund will support land acquisition, agricultural finance (loans, grants, etc.), market access and provides also extension and mentorship services. This will be a fund that will provide or fund the comprehensive support that a farmer may need. Such an agency should geographically be based as closely as possible to the farmers. The advantages of such an approach would be that the agency who took the risk of providing the finance to the farmers also has a vested interest to ensure that the production activities are being successfully conducted. Coordination between the various divisions within the agency is much easier because it is one organisation and the activities are taking place from a decentralised service centre or development agency—close to the farming communities. Some of the services include mechanisation services, extension services, mentorship, training, market information, and market access. The provision of comprehensive support will provide a much better chance for farmers to succeed. There are at the same time also a number of disadvantages. In a scenario where there is only one development agency designated to a certain province that does not function well, there are no other means that a farmer can benefit from any of the government's agricultural programmes. There is a risk of political intervention and that resources be channelled to a selected few beneficiaries and a lot of 'powers' are concentrated in one agency.

Another option would be to have a development agency that is providing all the support services but without the funding component. The agency can, for instance, assist with the facilitation of the loan application but the decision to provide the finance will be a decision of the financial service provider and the willingness to accept the conditions of the loan with is with the farmer.

8.6 Public-Private Partnerships Option

There is a need for new agricultural development models to be developed between communities, private sector and government. Inclusive models for development have been well-researched and thoroughly documented.

Value chain finance recognises that smallholder farmers are part of the network of input suppliers, off-takers, agro-processors, warehouses, service providers, distributors, retailers and consumers. Value chain finance is the financial flows between participants in a particular value chain (internal) but also flows from financial institutions from banks to participants in a specific value chain (external). It can also be a combination of both internal and external partners involved at the same time. There is less dependence on creditworthiness, but rather because of trust and the existing business relationship that exists within the value chain.

There are various different value chain finance (See also Section 7): (i) Trade credit that is provided by input suppliers or by buyers such as traders and processors; (ii) Contract farming is another approach where a trader, an exporter or an agro-processor establish a pre-harvest purchase contract with selected farmers or farmer associations, i.e. forward contract; (iii) An out-grower scheme is an elaborate contract farming arrangement from a nucleus farm or processor that provides access to marketing, operational and logistical capabilities as well as technical support; and (iv) Warehouse receipt finance is where products are stored in a certified and secured warehouse and that receipt provides access to a guarantee credit—post-harvest finance (ADF, 2012).

As demonstrated above, there are various opportunities to make smallholder farmers part of value chains and create new opportunities for smallholders to get access to markets and value chain finance. There are also challenges with the implementation of some of these initiatives. Value chain finance work well for certain crops but in other cases it is less successful. There are various advantages because the suppliers of the finance can also be the off-taker of the product from the farmer and the transaction cost can be much lower. It works the best when there is limited competition; it is a niche product, limited shelf-life and may be very bulky, i.e. sugar cane—an example of a tight value chain. Edible products like maize and vegetables are difficult to fund through value chain finance because of ease of side-selling by farmers – an example of a loose value chain. It has also been found that value chain finance did not help to contribute to the growth of farmers' business operations, especially in contracting arrangements.

The question of how government can channel funds through private sector companies to benefit smallholder farmers? It is possible that agricultural companies can become intermediaries for loans to smallholder farmers and it has already been done through the MAFISA programme. Many of the agribusinesses do have an agricultural development division that is working mostly with smallholder and smaller commercial farmers. Is there a way that these businesses would be entrusted by government to also provide grant funding to farmers? In the Western Cape the model has proved to work well. Some intermediaries were identified that have played an instrumental role in providing grant funding to applicants. These intermediaries included: private companies, development agencies and commodity organisations. Farmer and farmer associations apply for funding and a committee comprising private sector, provincial government and other role-players decided on what to provide to whom based on a thorough process including a business plan. The model works well and the relevant committees have a clear understanding of the business issues at stake and make meaningful contributions to the future sustainability of applicants.

It is possible that in a certain province, agribusinesses can continue to work on their own and compete in the development of smallholder farmers. The other option would be to create an agency that will combine the efforts of say three agribusinesses in a particular province. These farmers can then be served well by dedicated private sector-orientated agricultural specialists that need to demonstrate value to the three agribusinesses that are the shareholders. The government can provide some concessionary funding for on-lending to smallholder farmers and some grant funding could be provided to these private development agencies as a ‘sweetener’ to also provide services to subsistence farmers that are not normally assisted by commercial development agencies.

In Moçambique, the investment promotion agency provides funding support to commercial farmers for some of their travel expenses while providing extension and mentoring services to smallholder farmers. Experiences from other countries can provide innovative ideas that can influence the design of new finance policies to address the current state of agricultural development in SA.

8.7 Financial Intermediaries Option

An intermediary that is providing financial services to smallholder farmers can be one of a number of entities, i.e., an NGO, a producer or commodity organisation, an agribusiness, a joint-venture between a cooperative and private sector company. Innovations in development finance need to be considered on the way forward.

One of these innovations is an initiative that is under implementation, Akwandze Agricultural Finance (AAF) that is working closely with TSB Sugar and the SA Sugar Association (SASA). A total of 774 small sugar farmers have been organised in the Liguguletfu Cooperative and, with TSB Sugar, has a joint-venture AAF—a development financial institution. AAF sources, negotiates and manages development finance funds for it shareholders’ benefit and has up to date already invested R890 million in Mpumalanga since its inception. AAF is a social enterprise that combines the institutional structure and experience with a commercial food company (RCL Foods) with small sugar farmer ownership and participation to create shared value (Murray, 2014).

Another example is where a commodity organisation like SASA is playing a major role in helping smallholder sugar farmers in KwaZulu-Natal each year to save some funding during the current season to buy inputs for the next year. SASA administers the savings of the farmers and provide the inputs or the funding for the inputs the following year. SASA was also an intermediary for the MAFISA programme but it seems that they have not used much of the funding as loans to farmers.

Through the MAFISA scheme it was demonstrated that financial intermediaries could play an important role to provide customised financial services to smallholders. Usually these intermediaries were able to provide more than just financial services and also assisted farmers with a range of other technical assistance services—something that were not paid for. Some of the intermediaries were larger agribusinesses that could afford to on-lend the funding at little or no profit because the smallholders also procured some of their inputs through the agribusinesses and could develop in time as valuable clients. There is also the possibility that AgriBEE points could be gathered through the various off-take agreements. It must be noted that it is expected that smallholder engagement of agribusiness would be in most cases a loss—especially during the first five years.

There are other intermediaries that are smaller and that did not have a large portfolio of other profitable activities. The 7% margin that the MAFISA programme offered to these intermediaries was by far not enough. In most cases these intermediaries made a loss because the default rates were higher than the 7%. These intermediaries did play an important role and ways needed to be investigated on how these entities could be supported.

SaveAct is an NGO that is doing the training and capacity enhancement of communities. It is an example of a financial intermediary that does not actually provide any funding but is capacitating subsistence farmers to save between R50 and R500 a month. There are currently 35 000 participants, mostly in the Eastern Cape and KwaZulu-Natal. Most of the participants are women receiving only social grants. The programme is based on three pillars: (i) Financial services; (ii) Financial capacity building and training; and (iii) Enterprise and smallholder development. The results are impressive but the saving schemes cannot pay for training and mentorship that is being provided by SaveAct. Currently, the organisation is funded by donors and sponsorships from companies but government can play an important role to up-scale these successes elsewhere in SA (Delany et al., 2012; Krone, 2014).

It should be noted that commodity organisations are mostly presenting commercial farmers and they have a wealth of technical information. They understand the challenges of producing crops of raising livestock and provide excellent guidance to smallholder farmers. It is, however, also important to note that these organisations may need to be capacitated to play its rightful role as a financial intermediary to smallholder farmers (Van Zyl 2015a). This will include organisational infrastructure to facilitate loans and improve communication skills of technical staff as to enable them to provide effective mentoring to smallholder farmers, i.e., financial literacy, technical skills, etc.

It should be noted that there is not going to a one-size-fits-all-solution in terms of the implementation partners and the financial products that will be rolled out. In every province there is going to be a different combination of financial service providers. In some parts of some provinces there are very little commercial activities (i.e. Eastern Cape) and therefore limited opportunities to get agribusinesses to provide services to smallholder farmers. The principle is that the private sector can play an important role to enhance agricultural development and may play a role in providing loan funding to their customers. At the same time they can also play a role to ensure that grant funding is channelled in a way that will ensure a positive development impact. It is also true that the private sector conducts most of these activities at a loss and a 'sweetener' could go a long way to buy the goodwill of mentor-farmers and agribusinesses.

8.8 Conclusions

It is important that policy designers carefully evaluate the reasons of policy failure before a new policy is designed. Lessons learned should be developed and analysed in depth. The analysis should only be done after thorough consultations with stakeholders and the development impact of an existing system have been measured. The experience of other policymakers in similar economic environment can also contribute greatly to evaluate existing policies but also help design improved policy measures. It should be mentioned that policy design is usually the easy part while the proof of the pudding is in the implementation.

It is important that the lessons learned are addressed in a future policy only after a thorough analysis. In general it is advisable to try and keep the system as simple as possible. Due to the fact that implementation is the most challenging phase of agricultural development programmes, everything possible should be done to ensure successful implementation, maximise the development impact and ensure development effectiveness. There are innovative financial instruments that have been developed over the years that can have a positive impact on smallholder productivity. Private sector can be an important partner of government and bring along business-sense to the implementation process. The institutional arrangements to ensure the success of new instruments are as important as the instruments themselves. Farmers, farmer organisations and financial institutions need to understand each other better and both need to be capacitated. Farmers need to learn more about finance and financiers more about farming.

9 IMPLEMENTATION PLAN

9.1 Introduction

An implementation plan has been developed and two themes have been identified: (i) Institutional arrangements and the delivery mechanism; and (ii) Policy implementation.

9.2 Institutional arrangements and the Delivery Mechanism

In order to empower the targeted beneficiaries, graduating from basic household food security to commercial farming and agribusiness, the policy is adopting the one-stop shop approach. The policy is intending to progressively merge the above-mentioned instruments/programmes into one-stop shop where they will be obtainable in one centre. Stakeholder coordination will be required to ensure an integrated approach to the development of an effective system of financial services to the rural poor. Success in broadening access of financial services to farmers depend on how roles, functions and relationships of all role-players within the proposed institutional delivery mechanisms. The roles of the following institutions will be as follows:

9.2.1 National departments

- Provide a national policy framework for agricultural financing which will be used by provincial and local line function departments to formulate their own agricultural financial policies
- To design financial instruments together with the provincial line departments aimed at broadening access to finance
- Provide a framework for national legislation on the basis of which provincial legislation will be passed
- To design financial instruments together with provincial line departments aimed at broadening access to finance
- To control and monitor the financial instruments to ensure the effective use of the instruments and that no unfair competition will be practiced.

9.2.2 Provincial departments

- Implementation and monitor the implementation of financial instruments
- Fine-tune financial instruments based on practical circumstances at the provincial level
- Ensure that there is coordination, joint responsibility and accountability between national and provincial departments
- Co-funding
- Ensure that there is extension support towards the farmers.

9.2.3 District municipalities

- Planning and disseminating information
- Coordination and monitoring the implementation process
- Support to provincial department of agriculture
- General support to all agricultural support programmes.

9.2.4 Local municipality and Tribal authority

- Information dissemination, infrastructural and other support and the provision of grants through local economic development (LED) programmes.

9.2.5 Farmer organisations

- Advocacy, information dissemination, monitoring and evaluation and also vetting, authentication and referrals.

9.2.6 Financial institutions

- Provide financial instruments to retailers, direct technical assistance, project finance and financial services
- Assist in terms of research, disseminating information, capacity building and other technical support
- The grants to be provided will significantly reduce the lending risk to financial institutions;
- Banks will carry the full loan risk and therefore have a strong incentive to properly evaluate profitability of the project
- Grants are disbursed at the same time that the bank disburses its loan and use the same disbursement channels, i.e., Land Bank, commercial banks and provincial DFIs.

9.2.7 Private sector

- Assist in terms of research, disseminating information, capacity building, mentoring and other technical support (leading study groups for smallholder farmers).

9.3 Policy Implementation

9.3.1 Introduction

The implementation of the agricultural development finance policy will be affected through the design and implementation of financial programmes. Implementation will be closely monitored at the national level and periodically evaluated. In support of this process, the platform will be given to provinces to standardise agricultural finance operation. Operational guidelines and strategies, together with monitoring and evaluation will be done for the effective progress of the policy. The implementation process of the policy will be reviewed frequently.

9.3.2 Implementation Tools

The following tools have been identified for the implementation:

9.3.2.1 Regulation and supervision

It is necessary to develop specialised regulations and methods of supervision to allow lending to take place, especially to those institutions that are not deposit takers. These regulations will focus on overall portfolio risks, rather than on legal security for each loan, and on the quality of management systems for maintaining portfolio quality.

9.3.2.2 Development of application of standards

Standards of performance are important tools for helping institutions advance, especially those institutions that are outside the regulatory framework. Standards will address outreach to clients, institutional development and financial performance. Standards can provide clear signal about what institutions need to accomplish in the course of their development.

9.3.2.3 Capacity building

Some institutions are new and small and they require capacity building to bring them to the level at which they can operate with large outreach, quality services and profitable operations. The following table highlights activities that need to be implemented.

Table 1 Implementation Activities

Intervention/Activity	Inputs	Measurement	Responsibility	Time Frame
Establish agriculture finance coordinating body (Agricultural Development Finance Forum of South Africa).	-Financial resources. -Technical experts.	Approved coordinating body for development finance.	DAFF, DRDLR Land Bank, National Treasury and private sector.	March 2016
Develop norms and standards on development finance for smallholder farmers.	Baseline study report.	Approved Norms and Standards.	DAFF, DRDLR, dti, PDA, Private Sector and DFIs	March 2016
Develop Innovative finance instrument and merge different funds as well as introducing a blended funding model for smallholder farmers.	Technical expertise and financial resources.	Approved funding instruments.	DAFF, NT, DRDLR and LB	March 2017
Develop national funding guideline.	Technical expertise.	Approved guideline.	DAFF, DRDLR and Land Bank	March 2016
Promote Value Chain Approach Model.	Financial resources.	Approved Value Chain Approach Model	DAFF, Private Sector, PDA, and DFIs.	March 2017
Involve private sector on the implementation of the models.	Financial resources and accountability.	Private Sector Partnership.	DAFF and DRDLR	March 2016
Pilot insurance for smallholder farmers.	Accountability and financial expertise.	Pilot Report.	DAFF, NT, supported by SAIA and PDA.	March 2017

Facilitate pre and post finance support.	Technical expertise and human resource.	Compiling Training materials and awareness campaigns.	DAFF, Land Bank and PDA.	April 2016

10 COMMUNICATION PLAN

It has been advised that a clear communication plan needs to be developed in the policy that will flow from this framework. Poor communication has been identified as one of the main reasons for the confusion that beneficiaries experience about loans and grants.

11 MONITORING AND EVALUATION[9]

11.1 Introduction

The government-wide Monitoring and Evaluation System (2007) lists the following principles to which a good monitoring and evaluation (M&E) system should adhere to. The M&E system should be: (i) Contributing to improved governance; (ii) rights-based; (iii) development-orientated—nationally, institutionally and locally; (iv) undertaken ethically and with integrity; (v) utilisation-oriented; (vi) methodologically sound; and (vii) operationally effective.

M&E are two complementary, but separate functions, which often serve distinct purposes. Monitoring is a continuing function that uses systematic collection of data on specified indicators to provide management and the main stakeholders of an on-going development intervention with indicators of the extent of progress and achievement of objectives and progress in the use of allocated funds. Evaluation is the systematic and objective assessment of an on-going or completed project, programme or policy, its design, implementation and results, with the aim to determine the relevance and fulfilment of objectives, development efficiency, effectiveness, impact and sustainability.

A functional, integrated M&E system is important for the sector, not only for the purpose of providing a framework for monitoring, planning, budgeting and evaluation activities, but also for the possibility of establishing a joint M&E committee, which allows for the participation of other key sectors and stakeholders.

Establishing an effective performance management system requires developing an understanding and agreement among all stakeholders within the sector as to what needs to be achieved and how

9 The proposed M&E programme is exactly the same as what was proposed in the DAFF Integrated Growth and Development Plan 2012.

important performance management decisions will be made. Therefore, where appropriate, all stakeholders within the sector will have to be included in the design and implementation of the integrated M&E system and subsequent performance reviews.

11.2 Monitoring and Evaluation System

Monitoring and evaluation is a critical component of the Agriculture, Forestry and Fisheries' IADFPF. A good, integrated M&E system within the sector must be able to generate timely reports on progress made towards achieving the government's outcomes, provide an alarm where progress is stagnating and to provide management within the sector with adequate information to help keep the interventions identified running as smoothly as possible. During the monitoring process, sufficient evidence should be accumulated for evaluation studies to be conducted to inform all stakeholders within the sector and the general public at large, as to whether activities identified have achieved the objectives of the AIDFPF and to highlight any unexpected outcomes.

Therefore, the objectives of the M&E system are to collect and provide information that will be used to: (i) Track progress on implementation of all interventions/activities within the sector integrated growth and development plan; (ii) Identify gaps and weaknesses in the delivery of services; (iii) Plan, prioritise, allocate and manage resources; (iv) Monitor the impact of interventions/activities on the intended beneficiaries/communities within the sector; and (v) The measures and/or indicators used for monitoring and evaluation will depend on the programmatic issues as well as the level of planning. Furthermore it will be critical to conduct financial and performance monitoring to determine sector efficiencies, the use of resources for intended purposes and the achievements of the outcomes or national goals.

11.3 Monitoring processes

This section sets out the key elements of the monitoring framework.

11.3.1 Development and definition of indicators

Indicators need to be defined to measure the progress made towards meeting relevant objectives (aligned to the government outcomes). This process was preceded by the development of the twelve national government outcomes, which are premised on the ANC election manifesto of 2009 and the government's adoption of its MTSF for the mandate period of 2009 to 2014. The development and defining of indicators will be based on outcomes to which the sector's outputs and key activities contribute directly. The development and defining of the performance indicators will be based on the interventions identified that contribute to the achievement of the sector goals.

11.3.2 Data collection mechanisms

The proposed integrated M&E system will have to target data collected on interventions/activities directly implemented by DAFF and its partners/stakeholders, looking at the direct impact of those activities. This ensures that the results are within the DAFF Ministry's ability to influence. The sector will also have to design and implement specific M&E surveys and studies to investigate the secondary impact on agriculture, forestry and fisheries, where appropriate.

The tools that will be used in collecting data and the frequency of data collection will vary and depend on the type of performance indicators identified. Monitoring from a financial management perspective, for example, may include monitoring of expenditure against budget or adherence to financial prescripts and controls. Monitoring from the perspective of programme or service delivery performance involves the monitoring of performance against pre-set objectives, indicators and targets. In practical terms, the monitoring involves the routine collection of data on all the indicators in strategic and performance plans and preparation of reports to managers at different levels on the values of the indicators compared to a baseline or target.

Each lead institution or agency responsible for a particular performance indicator will have to develop a monitoring schedule that ensures mutual definitions and standards are developed and the necessary capacity is available for the integrated sector M&E system. It will be necessary to assess the state of readiness of various existing M&E mechanisms within the sector and, where possible, to collect the baseline data for all performance indicators.

11.3.3 Reporting on the progress made on implementation

In defining developing performance indicators for the sector prescribed reporting templates, data collection mechanisms and schedules will have to be developed to ensure that the institution's participants within the sector have a systematic mechanism for monitoring institution or participant specific performance indicators. This will ensure that lead agencies or institutions responsible for a performance indicator, will develop specific reports at specified intervals to assist in the tracking of progress of activities towards delivery. The frequency of reports will depend on the internal reporting processes of the individual institutions/agencies within the sector. A timeline will, however, have to be agreed upon by the sector; on how many times a report on specific indicators will be sent by the individual institutions/agencies to the central coordinating sector M&E committee. This could either be quarterly, half yearly or annually. Some performance indicators have been developed and can serve as a starting point in future with the development of a new integrated development finance policy for the department. Kindly refer to Annexure H.

11.3.4 Data verification and validation

Performance information auditing shares a focus on performance with value-for-money audits, which assist departments, public entities (SOEs), municipalities and communities to focus their attention on areas where performance and accountability can be improved. A methodology will have to be developed to verify data and reports received from individual institutions or agencies within the sector with regard to their specific performance indicators. A report approval process also has to be agreed upon by the various institutions/agencies within the sector.

11.3.5 Programme and Sector evaluation

The purpose of performing evaluation processes is to: (i) Measure outcomes and the impact of an activity and distinguish these from the influence of other factors; (ii) Help to clarify whether costs for an activity are justified; (iii) Make recommendations for future objectives; (iv) Identify efficiency measures; (v) Informed decisions on whether to expand, modify or eliminate projects, programmes, interventions or policies; (vi) Draw lessons for improving the design and management of future activities; (vii) Compare the effectiveness of alternative interventions; and (viii) Strengthen accountability of results.

A decision will have to be taken on the process of performing evaluation studies, in terms of who will be responsible, i.e. will it be individual institutions/agencies within the sector, an outside independent third party or will it be the central coordinating M&E committee together with the frequency or scheduling of these evaluation studies and the types of evaluations studies that have to be conducted?

Annual programme reviews will have to focus on how the available inputs have been used and what outputs and short-term outcomes have been produced. These reviews should also focus on the challenges, role players and interactions between various role players and lead institutions/agencies.

11.3.6 Distribution and feedback mechanisms

Feedback mechanisms for the dissemination of performance indicator data will have to be strengthened and integrated though normal government systems and structures. Lead institutions/agencies will also have to report back to their constituencies using their own communication channels.

11.4 Monitoring and evaluation responsibilities

The effective management of performance information requires a clear understanding of the different responsibilities involved in managing performance. A number of stakeholders within the sector will have to play a key role in ensuring that the monitoring, reporting and programme evaluation are competently undertaken within the sector. Roles and responsibilities of the key stakeholders within the sector will have to be identified.

11.5 Proposed M&E framework envisaged for the sector

A Monitoring and Evaluation Coordinating Unit, under the management of the IDFPF Working Group will be responsible for: (i) The development of an IDFPF M&E strategy, detailing reporting mechanisms, evaluation guidelines and systems for corrective measures to be taken; (ii) The unit will also be responsible to establish a mechanism for data collection and for coordinating reporting from the various stakeholders within the sector; and (iii) This M&E Unit may have to work in close collaboration with the government-wide Monitoring and Evaluation System of the Presidency.

Terms of Reference for the establishment of a coordinating M&E unit for the sector will have to be developed. These terms of reference will include among other things, the size of the M&E unit, who will be part of the coordinating M&E unit, frequencies of meetings of the M&E unit, selection of a chairperson if necessary, etc.

12 RECOMMENDATIONS

12.1 Introduction

There are many initiatives that have been implemented over the past two decades with varying degrees of success. The state supported the development of various policy initiatives and programmes to reach out to smallholder farmers and rural communities. The challenges of the current situation have been identified in Section 1.4.5 and the situation is well-known to stakeholders in the development finance space. The question that needs to be answered is: How does the policy look like that could address all these issues? The following recommendations have been identified as the most important:

12.2 Comprehensive integrated development finance policy

In this document there are about 50 policies and programmes for SA (excluding the regional programmes) that have been shared with the regional, national, DAFF and other departments (i.e. dti and DRDLR). However, it should be mentioned that there are still a number of funding institutions not covered in the above, i.e.: (i) International DFIs (World Bank); (ii) Regional DFIs (African Development Bank); (iii) National DFIs (Small Enterprise Finance Agency (SEFA); (iv) Provincial intermediaries (Casidra); and (v) Private sector intermediaries (Grain SA, NERPO, etc.). It is clear from this list and combined with the policies and programmes that the government is providing that there are many players in the development finance field in South Africa. This is the result of a number of things: (i) There is a perceived need from the supply side for the services that they offer;

(ii) The development finance space is crowded with organisations (government, private sector, etc.) that want to make a contribution to funding agricultural development; and (iii) There are many well-developed incentives, grants, subsidised loan products and new innovative financial products (warehouse receipt system, smoothing income products, saving schemes, etc.) that can be implemented, yet it seems from the reviewer's interviews and some of the reports that have been analysed that the impact is not yet what it should be. It is actually no wonder that the various departments struggle to coordinate the implementation of all these programmes.

The problem statement of this initiative has stated the following: '*there is not a coherent and all-inclusive policy framework to facilitate the implementation of funding solutions the smallholder-farming sector'*. *A comprehensive agricultural development finance policy framework* can assist all the stakeholders (government, private sector, DFIs, etc.) to collaborate in developing an agricultural finance policy (ies) that could bring all stakeholders around the table in designing a way forward.

The Integrated Growth and Development Plan (IGDP) were launched in 2012 by the department as the guiding strategy document of the department. It states the following: *"…it seems that despite the above-mentioned policies, strategies, programmes and agreements, government at this stage lacks an effective policy framework through which an economic and market environment can be provided for the transformation of South Africa's agricultural, forestry and fisheries sectors, while maintaining productivity and production efficiency for purposes of ensuring national food security and a robust trade balance*" (DAFF 2012a).

It should be noted that the development finance strategy is part of a larger agricultural development strategy that has been identified by the IGDP in 2012. This fact was confirmed by the inputs received during personal interviews and therefore a need to consider developing a new overall strategy that will result in an integrated policy that will address both land reform beneficiaries and smallholder farmers (as well as marine fishers, entrepreneurs in the aquaculture, forestry and processing industries). It should also be mentioned that such a strategy would address the way in which government wants to move forward to address the development needs of the targeted beneficiary groups. The objective of this study was to develop a framework for development finance but there seems to a need for even a more comprehensive framework to be developed from which a new policy for agricultural development can be developed in future.

The existing policies and programmes need to be consolidated into an all-inclusive policy. There are too many development policies programmes being implemented over large spread-out rural areas and each has a positive impact but there are perhaps limited or no linkages between these projects, limited synergy and impact. There should be a well-developed spatial plan and there should be a focused-approach on specific targeted areas with business plans taking cognisance of market demand. In developing a new policy, reference should be made to previous lessons learned by local and international programmes.

As mentioned before, development finance is one of the components of a new comprehensive agricultural policy that needs to be developed that will address the needs of smallholder farmers in a more comprehensive way. This kind of initiative should be driven among all the government departments but should also consult with the agribusiness sector, farmer organisations, NGOs and other stakeholders involved.

12.3 Improve coordination and collaboration

All the programmes identified in this review were designed with the best of intentions—to address the needs of subsistence and smallholder farmers in the best way possible. However, like most development programmes, these initiatives experienced challenges on the institutional level (i.e. national and provincial government) and specifically with the implementation of these programmes. One specific challenge that emerged from the literature and interviews was that of the coordination between the various government departments. It is understandable that coordination can become a challenge due to the many applicable policy initiatives and the high number of programmes that need to be coordinated.

From the interviews it could be concluded that the staff responsible for the implementation of various projects have their own targets to reach and sometimes it is so difficult to coordinate with staff from other departments that it just does not happen. It also materialised that there is a need for better communication and collaboration between government departments as well as between DAFF and other role-players in the finance development environment. These officials are many times willing to coordinate but there may well be limited or no mechanisms to coordinate the collaboration. Most implementation activities are taking place in the provinces and there is at times limited communication with the national departments. There are a number of reasons why there is disconnect: (i) Geographical separation; (ii) Poor communication; (iii) Different understanding of the real on the ground issues, by policymakers at national level; and (iv) Inefficient coordination and collaboration between different government departments both at provincial and national level.

The IGDP report also refers to the planning and implementation by government departments (national and provincial) that have been taking place in silos and not in a coordinated and consultative way. It seems that some programmes and policies were rolled-out without taking cognisance of other programmes that were being implemented at the same time. This resulted perhaps in many smaller interventions in many geographical locations and limited links between the various projects. This may lead to fragmented results and suboptimal impacts.

It is advised that DAFF should liaise with all the other stakeholders and make a concerted effort to bring change about—especially in the way that implementation is taking place. Good communication structures can be developed, regular planning sessions can be held and progress can be measured on a regular basis. There is a renewed approach needed for the way that we are driving the development financing agenda. Agriculture can play a major role in addressing poverty in the rural areas and it can have a positive impact in developing better livelihoods for the rural population and so achieve the mandate of the department. There is also a need for DAFF (and other departments) to liaise on a more regular and structured way with stakeholders that are working in the same field. The working group between DAFF, DRDLR, Land Bank and National Treasury should be continued.

12.4 Principles

In section 6.1 some government principles (no direct credit delivery, equity, fairness, legal environment, etc.) have been identified, as well as a number of general principles (equitable access to finance, financial training, etc.). Reference was also made to the Kampala Principles, Strauss Commission and the Financial Systems Approach (See also Appendices C, D, E and F). These principles need to be considered in the development of a new development finance policy. The role of government should be clearly spelled out along the above principles and should be reflected in the design of a new integrated finance policy. Government should not become involved in direct credit delivery. That was in fact why the Agricultural Credit Board was closed, yet the government started with the rollout of the CASP and MAFISA programmes in 2004. The role of government should rather be to formulate policy, review these policies from time to time, conduct M&E on a regular basis, capacitate farmers and ensure that support services (e.g. extension services) are rendered to farmers. In the design of the policy DAFF should stick to the principles that are well-accepted and should perhaps look at new innovative ways to provide credit without being directly involved. The use of MAFISA intermediaries was a good start but these retailers of finance have challenges with margins that are too thin. Innovative solutions should be identified and tested under the development finance policy to be developed.

12.5 Improve Implementation

The government realised that the biggest challenge in development is 'making the projects work on the ground' or efficient and effective implementation. The impact of the development programmes needs to be measured in the end through a well-developed M&E system. The implementation, as well as the M&E, is a continuous process. As implementers we need to revisit the strategic objectives throughout the implementation process and monitor and evaluate the progress on a continuous basis so that corrective action could be taken if and when challenges will arise during the implementation process—'prevention is better than cure.' Throughout the whole implementation process, governance processes need to be in place and that will also assist with the efficient disbursement and utilisation of development funds. The IGDP report also refers to the '*disjointed implementation of government policies and strategies.'*

Therefore, there is a need for effective management and an integrated approach by all parties involved in the implementation of these programmes, i.e.; (i) Government (national and provincial); (ii) Intermediaries or organisations (government agencies, NGOs, private sector, etc.); and (iii) beneficiaries. If there is not a change in this approach, the desired impact will not be achieved and the beneficiaries will not benefit from the interventions. The IGDP report concluded: '*Therefore, to date, South Africa's policies and strategies have not succeeded in providing effective support on a meaningful scale for smallholders and subsistence producers*' (DAFF 2012a).

It is one thing to design a new policy and strategy but is another to implement the programme successfully. An architect can design a house that looks perfect but once the builder starts there are only but problems. Therefore, it is important that a programme is designed in such a way to make provision for the difficulties that will become present once implementation starts. From the preparation for this review and in discussions it did materialise that some policies and programmes were developed in a 'hurry' because officials had to demonstrate progress and programmes were launched. Sometimes there were not proper consultations with other government departments and the targeted beneficiaries. Many times these programmes have good objectives but the finer design detail have not been attended to. It is also true that some of these issues only materialise once implementation starts. However, with proper planning and design, a great number of challenges could have been foreseen and could have been addressed before implementation.

It is also important to note that skilled project management can go a long way to ensure that proper implementation takes place. Various skills are needed on a development project, i.e.; agricultural economists, agronomists, animal scientists, horticulturists, agricultural engineers, financial analysts, social scientists and community workers. It is also important to note that private sector can play an important role in implementation. Commercial farmers have experience of the same crops and can assist smallholder farmers with practical advice and support.

12.6 Innovative instruments

A number of financial instruments have been shared in section 7.3 as well as in Appendix G. These instruments may address some of the issues that have been encountered with the implementation of the current policies and programmes. DAFF is currently developing a new short-term insurance framework to address risk for smallholder farmers. This is a good start and the department should be encouraged to continue identifying new instruments to serve the smallholders better. It is advised that the designers of the new proposed policy should look at best practices elsewhere and new innovative instruments that can be incorporated in the new policy.

12.7 New development finance partners

Governments should also promote partnerships with private sector, NGOs and other role-players. MAFISA worked with intermediaries and that was a good start. However, there are more opportunities to work with other existing intermediaries as well. The micro-finance institutions are eager to get more involved with agricultural finance but they do not have access to 'cheap' finance and have to pay very high premiums for the suppliers of finance. A DFI is supplying funding to a large corporate in Malawi for on-lending to smallholder farmers that are already producing output to the company. The DFI does not have the structure to provide funding to smallholder farmers but the agribusiness already has a good working relationship with the farmers. Akwandze Agricultural Finance is doing valuable work in Mpumalanga in financing smallholder farmers. New and innovative ways need to be developed and the development finance policy should be written in such a way that these options could be considered for inclusion. At the same time the development of financing innovations should be encouraged and promoted. New public-private partnerships should be created and there is a good chance that new finance solutions will be developed over time. The private sector should also be involved in development finance and micro-finance institutions can be one opportunity to do just this.

12.8 Roles and Responsibilities of finance partners

It is important that, based on the above-mentioned principles of development finance, the roles of all stakeholders should be clearly spelled-out. The primary role of government is to create a conducive environment where economic development can take place. Government should create sound policies and programmes and in the process make provision for the imperfections of a market economy, i.e. funding to smallholder farmers. The policies need to be developed in such a way as to address the challenges of the market but at the same time serve the smallholders in the best way possible. It is important that throughout this process government should stick to its role and not become directly involved in funding. See also section 12.4.

It is sometimes easier just for government officials to 'get their hands dirty' and do the work because it is sometimes more difficult to fix the current system than to develop a new system. Governments should steer away from implementation—they can do other things better. Government should facilitate the development of partnerships with all agricultural development finance stakeholders. Private sector can sometimes do certain tasks more efficient than government while government is better equipped to develop policy, create public goods and manage the monitoring and evaluation process.

12.9 What and when to fund?

In general, governments should not fund on-farm infrastructure (private goods) and provide funding for farm operations. It can be done on a once-off basis to kick-start a new farming operation and to make a farm 'farmable.' In section 7.3.4 reference is made to subsidies and in which cases and how governments could and should assist the neediest people in a country. There should be clear guidelines on what government will fund under very specific conditions. Defaulters of loans should also feel the impact of the law but there must also be good communication with beneficiaries.

It is also true that some farmers, agri-entrepreneurs and professional elite practice 'double dipping' by making use of all the opportunities to receive grants from different sources for the same project—a common database with biometric information of applicants and a geographical information system between all the departments, can address this issue.

There is consensus that government should rather focus on developing public goods such as long-term infrastructure (roads, telecommunication and rural storage facilities). Many governments in Africa provide short-term subsidies (seed and fertiliser) to ensure that they are re-elected by the rural population. There is a high opportunity cost to this for a country and governments should rather invest in long-term rural infrastructure e.g. water storage facilities, both trunk infrastructure and feeder roads, rural agro-industrial facilities, places of exchange and markets.

12.10 Funding Support Mechanisms

In section 7.2, reference is made to a number of support mechanisms that can enhance the implementation of a well-developed finance system. Capacity building through the training of smallholder farmers and financial institutions are equally important. Farmers need to be capacitated through financial literacy and bankers need to understand the unique problems of smallholder farmers. There is also a need for both pre-settlement and post-settlement support and farms should be ‘farmable’ (Van Zyl 2015a). There is also a need for a well-developed MIS to which rural banks will have access to and there is in most cases a need to develop a credit provider’s association to exchange information on loan applicants. The Farmer Support Programme that was implemented is also referred to as an approach to provide comprehensive support to farmers (Vink 2012). Attention should be given to the lessons that have been learned because it may have a positive impact on the way a future development finance policy will be designed. New innovations of public private partnerships create an alternative way to approach in supporting smallholders and needs to be investigated.

12.11 Land and Agricultural Development Bank

It has been recently stated that: ’*…due the lack of available land for mortgaging and collateral purposes, the Bank’s ability to fix the land problem is dwindling*’ (Land Bank 2013). There is a need for the bank ‘to do more’ to assist smallholder farmers and help them to graduate to full commercial farmers. The REM window offers an opportunity that the bank created to do just this. The bank is funded by a number of sources: (i) Local capital markets; (ii) SA government; (iii) Multi-lateral financial institutions as well as regional development banks. Like any other DFI (i.e. International Finance Corporation of the World Bank Group), the bank needs to develop a return on investment to its investors and the ‘policy space’ to manoeuvre is limited. The bank did provide some funding to provide support to smallholder farmers under the REM pilot programme. The results have been mixed and there are only a small number of farmers that can be assisted. It also experiences some challenges in that it has a limited reach of only 27 branches. The bank is designed and constituted as a commercial bank and does not have the in-house expertise to guide and assist with the settlement of smallholder farmers. The bank needs to rely on development partners such as the DAFF, DRDLR, provincial departments of agriculture and other intermediaries to ensure that implementation is taking place. Due to the lack of coordination between the government departments, implementation agencies and intermediaries, amongst others, the bank has not been able to have a major impact on land reform beneficiaries and smallholder farmers. More information has been provided on the Land Bank’s outputs related to the developing sector in section 1.4.3.

There is therefore the need for a special purpose vehicle (SPV) to be designed to facilitate the development and implementation of finance to smallholder farmers. This SPV could be part of a DFI such as the Land Bank to facilitate and disburse funds to project applicants. The finance that are referred to will be soft-loans but can also be grant funding as well as other innovative instruments. This is the same function that African Development Bank (AfDB) is providing through the African Development Fund (ADF), mostly grant funding and low-interest bearing sovereign loans to governments. These loans are being provided at low interest rates for specific projects—including for agricultural development. At the same time the AfDB also has a private sector window that is providing wholesale funding (i.e. line of credit to commercial banks – both the Land Bank and IDC have received loans through this window) as well as funding to large commercial ventures (At least a loan of $30 million and maximum contribution by the AfDB of 33%). The AfDB's private sector window will never consider providing concessionary funding to agricultural projects—because this has not been designed for. The same applies to the International Finance Corporation. Yet at the same time we try to 'force' the Land Bank to do this—something it has not been designed for. The Land Bank on the other side of the spectrum has already been mandated by Law to do just that. In terms of the Land and Agricultural Development Act 2002 (No. 15 of 2002) this has been stated in its preamble as well as in section 3. Even the establishment of a SPV as envisaged it is possible amongst the wide range of powers entrusted to the Land Bank. If, it is not yet the case, staff to be appointed need to have a clear understanding of development issues and operating processes need to be based on what is done at similar institutions (i.e. AfDB and World Bank).

12.12 Agricultural finance – A policy orphan

Often, the responsibility for policies that can have an impact on agricultural finance falls into a void among several government departments, i.e. DAFF, DRDLR, National Treasury, dti, National Planning Commission, DPME and DFIs like the Land Bank in particular but also DBSA and IDC. Different government agencies and departments have divergent interests and perspectives regarding finance to the agricultural sector. In line with this it happens many times that development finance to this sector is pushed aside and neglected. There is a need for support to ensure that a coordinated legal environment to promote '*cohesive development of a strong, sustainable and socially-responsible agricultural finance policies and supportive underlying legal and regulatory systems*.' It is important that there is strong coordination of both agricultural and financial policies to facilitate the access to finance by farmers and agricultural businesses. There is, therefore, a need for the identification and appointment of a single coordinating body that can act as a champion or an advocate to promote the 'cause' of agricultural finance. This high-level body needs to reconcile and harmonise policies that are focused on enhancing rural development, food security, social support, etc. and that are aligned to agricultural finance. There is a need for an increase in access to long-term funding for financial institutions as well as to promote equity finance and credit (IFC 2011).

12.13 Proposed Policy Options – A Way Forward

In Section 8 a number of policy options were identified. The reviewer does not believe that it is possible to continue with the development finance system as it is currently in operation. To renew this current system can be done but it may well turn out to be suboptimal in the end. There seems to be consensus that change is needed and that the less than optimal impact of the agriculture-related funding programmes in recent years confirms this fact.

The following paragraphs are high-level initial concepts to be considered in designing a future policy for development finance and a lot of design work and consultations still needs to go into this process.

There are some policy partners that believe there is a need for a blended fund that can provide both loans and grant funding to programmes and projects. Such a fund can also provide blended products but it is assumed that both the loans and grants will be fixed on an annual basis. Such a fund must be housed by a DFI that has the capacity to disburse the funds in a timely way to the implementers of these programmes. It is important that the DFI be capacitated to house such a fund. It is proposed that programme funds, that are currently being used to fund CASP, MAFISA, AgriBEE-fund, CRDP, RECAP and Land Restitution, be placed in this fund for disbursement, based on project proposals to be developed by project promoters.

It is also proposed that the project promoters (provincial governments, intermediaries, private sector, etc.) prepare proposals to the DFI on how the funds will be spent according to strict guidelines. These guidelines will provide information on what funding could be used for what types of expenses. The whole process of appraisal and approval will be developed to facilitate this process. This whole project evaluation process will be based on international best practices—such as being used by the World Bank, AfDB and other international development financial institutions. Well-developed project proposals should be designed to ensure that the following has been conducted: (i) Technical agricultural evaluation (nutrition and environment); (ii) Institutional framework (Describe institution to take the lead and refer to cross-cutting issues—gender, community participation, governance, etc.); (iii) Financial feasibility (return on investment, payback period, net present value, internal rate of return, etc.); and (iv) Economic viability (cost-benefit analysis, economic return on investment, etc.). These projects will be submitted to an investment committee to ensure that the application adheres to requirements that have been set out. It is also important that specialists are appointed at the DFI that have an understanding of what is agricultural development and has experience in this field of work. The DFI will have to ensure that necessarily expertise are available (staff and consultants) and will include agricultural and other specialists such as: agricultural economists, horticulturalists, agronomists, agricultural engineers, soil scientists, animal scientists, financial analysts, fishery and aquaculture experts, foresters, environmentalists, community development experts, gender specialists, project managers, etc. Project promoters will need to be capacitated and trained on how to develop proper project proposals. Monitoring and evaluation will have to be conducted on a continuous basis and it will play a major role in ensuring that development impact is maximised.

Funding from this fund should also be used to develop rural infrastructure – especially public goods (reservoirs, dams, feeder roads, rural markets, storage facilities, agro-processing parks, etc.) but also once-off on-farm infrastructure for land reform beneficiaries to ensure these farms are 'farmable.'

There should also be move to rather provide blended funding, i.e. a mix of grants and loans than just the grants that have been provided in the past. The funding will go a longer way and it will create a sense of urgency with farmers that they need to create profits to pay back the loans.

Capacity building and training is of the essence and it goes hand in hand with the provision of good extension programmes. Land-reform farmers need to be trained pre- and post-settlement. They need to be capacitated to understand they have to pay back loans and save funding for the next season's inputs. Extension officers need to gain a better understanding of new agricultural opportunities and be taught to think 'outside the box.' They need to develop some business skills and be able to see if the plans that farmers want to develop make business sense. Rural financial institutions need to be capacitated to understand the needs of farmers and gain insight into the challenges of running a rural small business.

Economic development is not the sole responsibility of government and private sector has an important role to play here. Government does have a role to play where the market does not work well or it is too expensive for private sector to enter these markets in a profitable way. To a certain extent, large companies can drive programmes under the Corporate Social Responsibility initiatives but smaller businesses may not be able to afford such endeavours. Therefore, government also needs to provide a suite of incentives to the business community to entice them to render services in rural areas where management costs are high and profit levels low.

Private sector can play an important role in advancing agricultural development. There is a lot of goodwill with agribusinesses as well as commercial farmers to make a difference. Private sector and government are not enemies—we are all part of 'South Africa Incorporated.' We can work together and should just do that. Mentor-farmers can be of a great help to smallholder farmers and the same is true of agricultural development experts that have retired. We have the expertise in the country yet we do not use this great asset that we have.

There are so many new and existing opportunities to make financial services more accessible to the rural poor communities. M-Pesa is a mobile banking application in East Africa that is making the transaction costs of transfers much more affordable for farmers. Branchless banking where supermarket chains can assist with the transfer of money brings about opportunities to grow the rural economy.

Access to markets through the development of value chains offers new opportunities to smallholder farmers. Contract farming is successfully being implemented elsewhere in Africa. Inclusive models for the development of local communities in collaboration with large commercial estates have brought a lot of value to the local producers. In working with commercial partners also provides export opportunities to smallholder farmers. Agro-processing and adding value in the rural areas can create new jobs and stimulate the local rural economy.

12.14 Conclusions

It also materialised from discussions that the desired agricultural development impact are not being achieved and there seems to be some institutional failures, i.e. provincial extension services may in some cases not be aligned with that of the national department and there is duplication between provinces and the DAFF. There is move away from grants-only approach to find a blending of loans and grants. There is also the realisation that considers grant funding as more appropriate for the development of public goods (off-farm infrastructure) including rural roads, storage facilities, rural market places, etc. Another subsidy that is being considered includes insurance support to the farming sector to smooth income streams. From the above-mentioned it is clear that there is a need to design a new integrated agriculture development finance policy in such a way that mechanisms are developed that create opportunities to improve coordination and enhance development effectiveness.

The provision of an efficient development finance system is a challenge in any developing country. The problems we experience in implementing development programmes in SA are not unique. The same issues we experience here in our rural areas are also challenges in the rest of the developing world. We have a highly sophisticated banking system in our country and yet we have so many unbanked people in the rural areas. The answer lies in a number of areas such as a sound integrated development finance policy, innovative instruments, new public-private partnerships, funding support mechanisms and pragmatic implementation methodologies. There is also a need for a high-level single coordinating body to champion the agriculture development finance agenda and ensure that policies are harmonised.

It is believed that, given the developed nature of our local economy, the quality of the banking sector and the willingness of policy makers to develop new funding solutions—that it all will contribute to the process and will result in an all-inclusive integrated development finance policy and programmes. We will have to look at the past and the present, at policies that worked and others that did not and be open to new opportunities to make a difference to the lives of smallholder farmers that want to grow and create a new future. We will find some unique funding solutions for our smallholder farmers, agri-entrepreneurs, fishers as well as foresters and that may even have a positive spill-over affect to our beloved continent.

12.15 The Next Steps

After the development finance policy framework is approved at EXCO, it will go through the various committees for final approval for implementation thereof. The policy framework will be presented to the following committees for noting and approval:

- Mintech;
- MinMEC;
- CEOs forum;
- Relevant Government Cluster; and
- Cabinet.

After the policy has been approved in all the above-mentioned committees, implementation process will resume. The implementation process will execute the activities that were tabled under section 9.3 in table 1: "implementation activities" on page 57 of this document.

The implementation plan will be developed which will be shared with the relevant national departments (working group), provincial departments and private sector for successful implementation. The implementation will be in a form of a pilot in selected province to test the process and if it succeeds, it will give feedback to EXCO on the progress if there are some changes that are affecting the policy framework.

If the implementation is successful and receives more buy-in, the implementation will be rolled out in a full-scale. Then it will be monitored regularly and reviewed when necessary.

REFERENCES

Agencé Française de Developpement (2010) Cotton price smoothing scheme. Presentation, Paris.

Agencé Française de Developpement (2012) Creating Access to Agricultural Finance. Based on a horizontal study of Cambodia, Mali, Senegal, Tanzania, Thailand and Tunisia, *A Savoir Series*, Paris, July.

Aziakpono M (2009) Agricultural Development Finance Policy Framework. Presentation, University of Stellenbosch Business School, Belville.

Baiges-Planas J (2014) Personal Interview. Deputy Head of Unit: Financial Instruments (Blending), European Commission, Brussels, 26 November.

Christen R P, Anderson J (2013) Segmentation of Smallholder Households: Meeting the Range of Financial Needs in Agriculture Families. Focus Note 85, Washington DC, Consultative Group to Assist the Poor (CGAP), April.

Collins D, Murdoch J, Rutherford S, Ruthven O (2009) Portfolios of the Poor: How the World's Poor Live on $2 a Day. Princeton, Princeton University Press.

Da Silva C A B (2005) The Growing Role of Contract Farming in Agri-Food Systems Development: Drivers, Theory and Practice. Rome: Food and Agricultural Organisation of the United Nations, http://www.fao.org/fileadmin/user_upload/ags/publications/AGSF_WD_9.pdf.

Department of Agriculture, Forestry and Fisheries, Definitions of Farmer Categories. Agricultural Economics Working Group (AEWG), DAFF, Pretoria, s.a.

Department of Agriculture, Forestry and Fisheries (2008a) AgriBEE Fund: Operations Manual (Revised). Directorate: Business and Enterprise Development, DAFF, Pretoria, 20 March.

Department of Agriculture, Forestry and Fisheries (2008b) Agricultural Development Finance Policy. 3rd Draft, Department of Agriculture, Pretoria, October.

Department of Agriculture, Forestry and Fisheries (2010) Integrated Small Enterprise Development Strategy for Forestry Sector in South Africa in South Africa. Final Report, DAFF, Pretoria, August.

Department of Agriculture, Forestry and Fisheries (2011) AgriBEE Fund. Brochure, Directorate: Business and Enterprise Development, DAFF, Pretoria.

Department of Agriculture, Forestry and Fisheries (2012a) Integrated Growth Development Policy (IGDP). DAFF, Pretoria.

Department of Agriculture, Forestry and Fisheries (2012b) Policy for the Small-Scale Fisheries Sector in South Africa. Government Gazette 564 (35355), The Government Printing Works, Pretoria, 20 June.

Department of Agriculture, Forestry and Fisheries (2012c) Implementation Plan for the Small-Scale Fisheries Policy. 1st Draft, DAFF, Cape Town.
Department of Agriculture, Forestry and Fisheries (2013a) Strategic Plan for the Department of Agriculture, Forestry and Fisheries 2013/14 – 2017/18. DAFF, Pretoria, March.
Department of Agriculture, Forestry and Fisheries (2013b), Strategic Plan for Smallholder Support (SPSS) for 2011-204/15. DAFF, Pretoria, June.
Department of Agriculture, Forestry and Fisheries (2014a) Agricultural Policy Action Plan (APAP) 2015-2019. Unpublished report, Pretoria, 28 October.
Department of Agriculture, Forestry and Fisheries (2014b) National policy framework on support to small and medium agro-processing enterprises for the Republic of South Africa 2014-2019. DAFF, Pretoria.
Department of Agriculture, Forestry and Fisheries (2014c) Policy Development Framework. DAFF Pretoria, 28 February.
Department of Agriculture, Forestry and Fisheries (2014d) South African Agricultural Insurance Scheme Policy Framework, Unpublished 1st Draft, DAFF, Pretoria.
Department of Agriculture, Forestry and Fisheries (2014e) Strategy on Support and Development of Small & Medium Agro-Processing Enterprises in South Africa 2014-2019. DAFF, Pretoria.
Department of Agriculture, Forestry and Fisheries (2015) Policy Development Framework (Revised). DAFF, Pretoria.
Department of the President, Monitoring and Evaluation (2014) Outcome 7: Comprehensive Rural Development and Land Reform. MTSF, Department of the President, Monitoring and Evaluation, Pretoria, October.
Development Bank of Southern Africa (2015) Jobs Fund Fifth Funding Round. Jobs Fund, 25 January http://www.jobsfund.org.za.
Department of Trade and Industry (2012) Broad-Based Black Economic Empowerment Sector Code for Agriculture (AgriBEE). Government Gazette No 36035, Government Printer, Pretoria, 28 December.
Department of Trade and Industry (2013a) Co-operatives Support Services Directory. DTI, Meintjies Street, Pretoria, May.
Department of Trade and Industry (2013b) Industrial Policy Action Plan (IPAP) 2014-2016. DTI, Meintjies Street, Pretoria.

Department of Trade and Industry (2014) Black Business Supplier Development Programme. DTI, Meintjies Street, Pretoria.

De Klerk M J, Fraser F, Fullerton K (2013) The Status of Agricultural and Rural Finance in South Africa. FinMark Trust, Midrand, March.

De Klerk M J (2015a) Accelerate Inclusive Rural and Agricultural Financing Programme in SADC. Draft Background Paper to Regional Stakeholders Workshop to Develop the Programme, Southern Africa Development Community, Gaborone, Botswana, 22 January.

De Klerk M J (2015b) Personal Interview, Pretoria, 18 February.

Delany A & Storchi S (2012) SaveAct Savings and Credit Groups and Small Enterprise Development. FinMark Trust, May 2012.

Department of Agriculture (1995), White Paper on Agriculture. Department of Agriculture, Hamilton Street, Pretoria.

Department of Agriculture (1996) BATAT Series: Finance 7, Guidelines Towards an Agricultural Financing Policy. Department of Agriculture, November.

Department of Water Affairs and Forestry (2007a) Companion to the Draft Forest Sector Transformation Charter. 1st Draft, DWAF, Pretoria, May.

Department of Water Affairs and Forestry (2007b) A Users Guide to the Forest Sector BBBEE Charter and Scorecard. DWAF, Pretoria, 8 June.

Dos Santos D, Schwab E (2010) Mission Assurances, Risques Catastrophes Naturelles, Risques Récoltes. Agencé Française de Developpment, Paris, May.

Economic Development Department (2011) The New Growth Path Framework. Pretoria, November.

FinMark Trust (2010), FinScope South Africa Small Business Survey 210. FMT, Midrand.

FinMark Trust (2010), Survey Highlights: FinScope South Africa 2010. FMT, Midrand.

FinMark Trust (2011), FinScope South Africa 2011. FMT, Midrand.

FinMark Trust (2012), FinScope South Africa 2012. FMT, Midrand.

http://www.finscope.co.za/new/pages/Initiatives/Countries/South-Africa.aspx?randomID=08e8e946-75ae-4749-bea1-9987c8b1049d&linkPath=3_1&lID=3_1_11

Fletcher W J, Chessonio J, Fisher M, Sainsbury K J, Hundloe T, Smith ADM, Whitworth B (2002) The "How To" guide for wild capture fisheries. National ESD reporting framework for Australian fisheries: FRDC Project 2000/145.

Food and Agricultural Organisation of the United Nations (2015) Fisheries Glossary. http://www.fao.org/fi/glossary/, Accessed 1 March.

Fries B (2007) The value chain framework, rural finance, and lessons for Technical Assistance providers and donors. Presentation at the Asia, International Conference.

Hall R (2009) Another countryside? Policy options for land and agrarian reform in South Africa. PLAAS, University of the Western Cape, Bellville.

International Finance Corporation & Global Partnership for Financial Inclusion (2011) Scaling up Access to Finance for Agricultural SMEs. Policy Review and Recommendations, Washington, October.

Jacquet J and Pauly D (2008). Funding priorities: big barriers to small-scale fisheries. Conservation Biology (22) 832–835.

Karaan M (2015) Personal Interview. University of Stellenbosch, Stellenbosch, 20 February.

Krone A (2014). Personal interview. CEO, SaveAct, Pietermaritzburg, KwaZulu-Natal, October.

Land Bank (2011) Addressing Challenges of Financing Emerging Farmers, Land Bank Research Report, Land Bank Public Information Centre, Centurion, Pretoria, 2013, LADR Report No 1/2011, ISBN 978-0-621-38509-0

Land Bank (2013) History of the Land Bank: Financing agriculture for 100 years, Land Bank Public Information Centre, Centurion, Pretoria, 2013, ISBN 978-0-621-41068-6

Land Bank (2014) Integrated Annual Report 2013-2014, Land and Agricultural Development Bank of South Africa, Centurion, Tshwane, 2013, ISBN 978-0-621-42800-1

Making Finance Work for Africa (2011). Zipping Finance and Farming in Africa – Harnessing the Continent’s Potential, Conference, June.

Making Finance Work for Africa (2012). Policy Brief: On Agricultural Finance in Africa. MFW4A Secretariat, African Development Bank, Tunis, Tunisia, March.

Making Finance Work for Africa (2015). http://www.mfw4a.org/zippingfinance/kampala-principles. Accessed 6 January 2015.

Makhura M N (2014) Personal interview. Land Bank, Centurion, 8 September.

Makhura M N (2008). Rethinking Agricultural Development Finance in South Africa: Options for implementation. Presidential address at the 45th Annual Conference of Agricultural Economic Association of SA (AEASA), Indaba Hotel, Fourways, 26-28 September, Johannesburg, South Africa.

Minister of Agriculture and Land Affairs (2004). Comprehensive Agricultural Support Programme. Presentation to the Portfolio Committee of Agriculture and Land Affairs, Parliament of South Africa.

Murray J (2014). Akwandze Agricultural Finance – A Partnership for Growth. Presentation to DAFF in Pretoria, AAF, Malelane, Mpumalanga, 27 November.

National Agricultural Marketing Council and Department of Agriculture, Forestry and Fisheries (2008). Food cost review. Pretoria, South Africa.

National Agricultural Marketing Council (2012) Strategic Integrated Project 11. http://www.namc.co.za/pages/projects, Pretoria. Accessed 4 December 2014.

National Agricultural Marketing Council (2014). Norms and Standards for Development Finance in South Africa. Terms of Reference: Reference Group, National Agricultural Marketing Council (NAMC), September.

National Department of Agriculture (1995). White Paper on Agriculture. NDA, Pretoria.

National Department of Agriculture (1996). Final Report of the Commission of Inquiry into the Provision of Rural Financial Services (Strauss Commission). RP 108. ISBN 0-621-17518-8, The Government Printer, Pretoria, 18 September.

National Department of Agriculture (2001). Guide for National LandCare Programme. Small Community Grants Component, NDA, Pretoria.

National Empowerment Fund (2015). Rural and Community Development Fund (RCDF). National Empowerment Fund (NEF), Sandton, www.nefcorp.co.za/FundingbrSolutions/ProductsServices/RuralCommunityDevelopmentFund.aspx, Assessed 16 January.

National Oceanic and Atmospheric Administration (2006). NOAA Fisheries Glossary, National Marine Fisheries Service, United States Department of Commerce.

National Planning Commission (2012). National Development Plan. Chapter 6: An Integrated and Inclusive Rural Economy, The Presidency, Pretoria, September.

National Treasury (2007). Estimates of national expenditure 2007/08, National Treasury, Pretoria.

Oxford Dictionary (2015), http://dictionaries.com, Assessed 28 January.

SA News (2015). Operation Phakisa. http://www.sanews.gov.za/south-africa/operation-phakisa-move-sa-forward, Assessed 19 January.

Second Economy Strategy Plan (2009a). Addressing Inequality and Economic Marginalisation. A Strategic Framework, The Presidency, Pretoria, South Africa.

Seibel H D (2000). Agricultural Development Banks Close Them or Reform Them? Finance and Development, IMF, Washington.

Sizwe M K (2014). Personal Interview. Land Bank, Centurion, 9 December.

Van Manen (2012). Creating Access to Agricultural Finance. Agencé Française de Developpment, *A Savoir*, Paris.

Van Rooyen C J, Nqganweni S, Njobe B (1994). Comments on the reconstruction and development programme and agriculture in South Africa. *Agrekon*, 33 (4) 218-221.

Van Zyl H F (1996). Commission of Inquiry into the Provision of Rural Financial Services (Strauss Commission): A Summary. Draft Unpublished Article, Agriculture Credit Board.

Van Zyl H F (2012). Agriculture Financing: Opportunities and Challenges. Draft Unpublished Article, Agri SA, Centurion, 5 March.

Van Zyl H F (2014) A timeline on agricultural finance in South Africa. AgriNews, Agri SA, Centurion, October.

Van Zyl H F (2015a) Personal Interview, Agri SA, Centurion, 19 January.

Van Zyl H F (2015b) Workshop attended by regional stakeholders on the acceleration inclusive rural and agricultural financing programme in the Southern African Development Community. AgriNews, Agri SA, Centurion.

Vink N, Tregurtha N, Kirsten J (2008) Presidency fifteen-year review report - Review of agricultural policies and support. ComMark Trust, Pretoria, South Africa.

Vink N, Van Rooyen C J, Karaan M (2012) Farmer Support Programmes: Lessons from Implementation. Paper read at the: Strategies to overcome poverty and inequality: Toward Carnegie III Conference, University of Cape Town, 4 September.

Wagle U R (2007) Are economic liberalization and equality compatible? Evidence from South Asia. World Development, 35 (11) 1836-1857.

13 POLICY OWNER

Chief Directorate: Development Finance

Department of Agriculture, Forestry and Fisheries

14 DOCUMENTATION INFORMATION

Name of Document: Integrated Development Finance Policy Framework

Draft No: 4rd Draft Report

Date: 17 March 2015

APPENDIX A: STRATEGIC SIGNIFICANCE OF GOVERNMENT INITIATIVES

1. Introduction

At the moment there are a number of existing cross-sectorial policies that have bearing on the management of and growth and development in the agriculture, forestry and fisheries sectors. The objective in this section will be to provide the context within which "development finance" is framed. Reference will be made to policies, programmes and other initiatives on the four levels: (i) Regional-level (SADC level); (ii) Macro-level (national policies); (iii) Meso-level (Non-DAFF agricultural sector level); and Micro-level (within DAFF). The meso-level will refer to especially other government departments' policies and programmes and DFIs that may have an impact on development finance policies in DAFF.

2. Regional Polies and Programmes

2.1 NEPAD and CAADP

South Africa is an active member of the African Union Commission (AUC) and subscribes to its programmes. President Mbeki was one of five founding presidents of the New Partnership for Africa's Development (NEPAD) vision. The NEPAD Planning and Coordination Agency (NPCA) is the implementation agency of the AUC and is based in Midrand. The Comprehensive African Agricultural Development Programme (CAADP) is a sector-wide continental programme, a well-designed strategy for Africa's agricultural development. SA was also a signatory of the Maputo Declaration in 2003, which requires countries to commit at least 10% of their budget allocation to agriculture. South Africa has been busy implementing the CAADP process and DAFF is working closely with the NEPAD agency to institutionalise the CAADP initiative in the local agricultural strategies. The country is also an active participant in Regional Agricultural Policy (RAP) for the SADC region. SA stakeholders participated in a workshop (28-30 January 2015) to contribute to the development of a fully-fledged "*Accelerate Inclusive Rural and Agricultural Financing Programme in SADC*" to implement the RAP programme in Southern Africa (de Klerk 2015, Van Zyl 2015).

2.2 SADC trade protocol

In August 1996, a new political and economic environment emerged within Southern Africa when the SADC Protocol on Trade - also known as the Maseru Protocol, was adopted. The aim of the Protocol on Trade is to liberalise 85% of intra-SADC trade, paving the way for the SADC Free Trade Area (FTA). The FTA was launched in August 2008. Under the FTA, member states liberalise trade through removing tariffs and non-tariff barriers. South Africa has fully implemented the Trade

Protocol. Currently 99% of imports from SADC into the South African market are free of customs duties CAADP (DAFF, IGDP 2012).

2.3 SADC protocol on forestry

The protocol is applicable to all activities relating to development, conservation, sustainable management and the utilisation of all types of forests and trees and trade in forest products throughout the SADC region. The main objectives of the protocol are to: (i) Promote the development, conservation, sustainable management and utilisation of all types of forests and trees; (ii) Promote trade in forest products throughout the region in order to alleviate poverty and generate economic opportunities for the people of the region; (iii) Achieve effective protection of the environment and thereby safeguard the interests of both the present and future generations. The challenge in terms of the forestry protocol remains the slow progress towards ratification by SADC member countries. It therefore remains an unexploited mechanism for strengthening regional collaboration CAADP (DAFF IGDP 2012).

2.4 SADC protocol on fisheries

The objective of this protocol is to promote responsible and sustainable use of the living aquatic resources and aquatic ecosystems of interest to State parties in order to: (i) Promote and enhance food security and human health; (ii) Safeguard the livelihood of fishing communities; (iii) Generate economic opportunities for nationals in the region; (iv) Ensure that future generations benefit from these renewable resources; (v) Alleviate poverty with the ultimate objective of its eradication. Other regional fisheries programmes include: (a) The Benguela Current Commission, comprising South Africa, Namibia and Angola; (b) The International Commission for Conservation of Atlantic Tunas (ICCAT); (c) The Indian Ocean Tuna Commission (IOTC); (d) The South West Indian Ocean Fisheries Commission (SWIOFC); (e) The Convention on the Conservation of Antarctic Marine CAADP; (f) The Convention on the Conservation of Antarctic Marine Living Resources (CCAMLR); and (g) The South East Atlantic Fisheries Organization (SEAFO) (DAFF IGDP 2012).

2.5 Other SADC protocols, agreements and programmes

There are a number of other protocols, programmes and agreements that South Africa has entered into or participates in, in the context of SADC regional integration. The following are some of the key ones: (i) SADC Fire Management Action Plan; (ii) Revised Protocol on Shared Watercourse Systems; (iii) SADC Sugar Protocol; (iv) SADC Protocol on Inland Fisheries; (v) Draft Protocol on Management of Farm Animal Genetic Resources; (vi) Seed Security Network; (vii) SADC Plant Genetic Resources Centre (SPGRC) Long-term Sustainability Strategy; (viii) SADC Programme on Conservation and

Sustainable Use of Plant and Genetic Resources for Food and Agriculture; (ix) Livestock Information Management System (LIMS); (x) Regional Plan for Avian Influenza Contingencies; (xi) Harmonisation of sanitary and phytosanitary requirements; (xii) Conservation Agriculture Regional Working Group (CARWG)The Southern African Customs Union (SACU); (xiii) The SACU consists of Botswana, Lesotho, Namibia, South Africa and Swaziland and was established in 1910, with its primary aim being to promote economic development among its members through regional coordination of trade. SACU has successfully negotiated trade agreements with the European Union (EU) and SADC, among others. Since all members of SACU are also members of members of SADC, questions remain about the future of SACU, given the SADC's long-term targets to become a Customs Union (DAFF 2012).

3. National Policies and Programmes

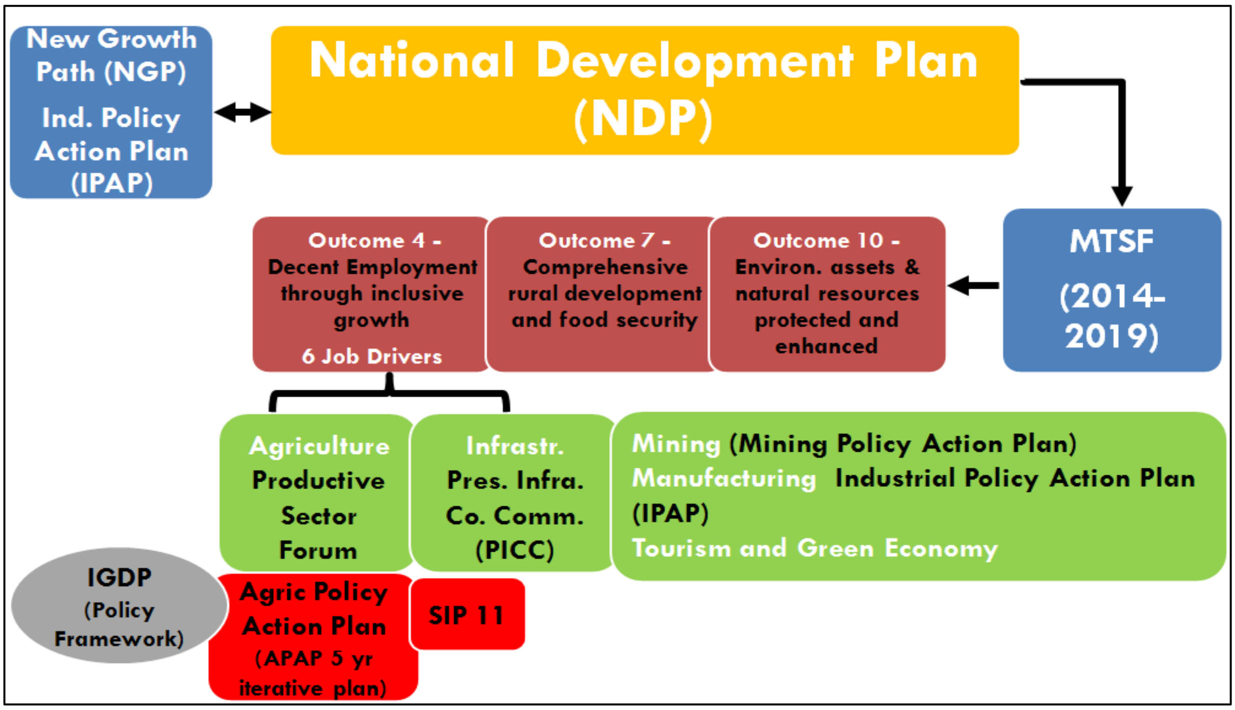
The following table provide some context of where the various policies and programme fit. In Section 4 of the main document the following national policies have been addressed: National Development Plan, (NDP), the National Growth Path (NGP), Industrial Policy Action Plan (IPAP), the National Infrastructure Plan - Strategic Integrated Project 11 (SIPP-11). In this Appendix reference is made to the national policies will be discussed that have not been addressed in the Section 4and will included the Medium-Term Strategic Framework (MTSF) 2014-2019 (MTSF with the with the three outcomes and four sub-outcomes), the Department of the President, Monitoring and Evaluation's (DPME) planned Comprehensive Smallholder Strategy and the initiative launched by the Office of the President called Operation Phakisa.

3.1 Multi-Term Strategic Framework (MTSF) 2014-2019

In the MTSF 2014-2019 there are 14 outcomes of which three will impact on agriculture i.e.:

- Outcome 5: A skilled and capable workforce to support an inclusive growth path;
- Outcome 7: Vibrant, equitable, sustainable, rural communities contributing to food security for all;
- Outcome 10: Protect and enhance our environment assets and natural resources (DPME, 2014:2).

The Structure of policies and programmes



Source: DAFF IDGP 2012

Under Outcome 7 the following actions have been identified under the six sub-outcomes (or policy imperatives in the NDP). However, only the following four sub-outcomes have development finance elements:

Sub-Outcome 2: Sustainable land-reform (restitution, redistribution, tenure reform; development) contributing to agrarian transformation:

- Acquire and allocate strategically located land;
- Establish land administration structures to: independently value state-led land acquisitions to normalise the land market; co-ordinate implementation of key functions of land-reform; effectively adjudicate land rights disputes;
- Fast track the development of tenure security policies and legislation in communal areas to address tenure insecurity; and
- Tenure security for people living and working on farms.

Sub-Outcome 3: Improved food security:

- Implement the comprehensive food security and nutrition strategy (DAFF, supported by DRDLR); and
- Develop underutilised land in communal areas and land-reform projects for production.

Sub-Outcome 4**:** Smallholder producers' development and support:

- Develop and implement policies promoting the development and support of smallholder producers (DAFF, supported by DRDLR, EDD, DTI and NT);
- Expand land under irrigation (DAFF, DWS, DoE supported by DRDLR); and
- Provide support to smallholder producers in order to ensure production efficiencies (DAFF, supported by DRDLR, EDD, DTI and NT).

Sub-Outcome 6: Growth of sustainable rural enterprises and industries - resulting in rural job creation:

- Promote sustainable rural enterprises and industries in areas with economic development potential (EDD, supported by DTI, DRDLR and DAFF);
- Create incentives to attract investment in rural areas for the development of rural enterprises and industries throughout commodity value chains (NT); and
- Promote skills development in rural areas with economic development potential.

3.2 DPME Comprehensive Smallholder Strategy

The Department of the President, Monitoring and Evaluation (DPME) has issues a request for proposal during 2014 to receive proposals about the providing a new comprehensive strategy for the development of smallholder farmers. It is understood by the reviewer that some proposals have been submitted to DPME but that the study is currently being delayed for unknown reasons. It is however expected that the matter will be revisited during the course of 2015.

3.3 Operation Phakisa

On 19 July 2014 the Office of the President (SA Government 2014) launched this programme and through Operation Phakisa, government aims to implement its policies and programmes better, faster and more effectively. The project was designed to answer fundamental implementation questions and find solutions, as the country tries to address poverty, inequality and unemployment, among other challenges, as stipulated in the NDP for 2030. Reference was made to the *Malaysian Big Fast Results approach*. Operation Phakisa is an adaptation of this methodology that was first applied by the Malaysian government, successfully, in the delivery of its economic transformation programme. The operation addressed their national key priority areas such as, poverty, crime and unemployment. It involves setting up clear targets and follows up with on-going monitoring process which makes the results public.

The initiative will initially be implemented in two sectors, the ocean economy and health sector, especially clinics. During the first phase of Operation Phakisa's implementation there will be a focus on unlocking the economic potential of South Africa's oceans. This will be done together with representatives from government, industry, labour, civil society and academia to collaborate in unlocking the economic potential. To tap into the ocean, government has identified four priority sectors, in which Operation Phakisa will focus on. These are: (i) Marine transport and manufacturing activities (coastal shipping, trans-shipment, boat building, repair and refurbishment); (ii) Offshore oil and gas exploration; (iii) Aquaculture; and (iv) Marine protection services and ocean governance. With regards to aquaculture - government will be looking at enhancing growth in the sector through increasing the value contribution of all segments across the aquaculture value chain, while creating jobs especially in fish processing and marketing. Aquaculture is relatively an underdeveloped area in South Africa despite it being an increasingly important contribution to food security globally. Despite its relatively small size, aquaculture in South Africa has shown strong growth of 6,5% per annum.

APPENDIX B: LINKAGES TO SECTOR POLICIES

In terms of the agriculture, forestry and fisheries sector, there are number of key policy documents that guide DAFF in policy decision-making. Most of these important policies have been discussed in the main document of this report – see Section 5. However, there are a number of documents that have not been included in the main text and it has been included below.

1. National LandCare Programme (NLP), 2001

The vision for the NLC is to have communities and individuals adopt an ecologically sustainable approach to the management of South Africa's environment and natural resources, while improving the quality of life of the population. This means that people use the soil, water and vegetation resources in such a manner that their own quality of life is improved and that future generations will also be able to use them to satisfy their needs. This implies that cultivation, livestock grazing and harvesting of natural resources should be managed in such a manner that degradation (such as soil erosion, nutrient loss, loss of components of the vegetation, increased runoff of water etc.) is curtailed. In order to achieve this, the National Department of Agriculture gives support for natural resource management through the NLP. Through this programme community groups are encouraged to responsibly manage and conserve the land, vegetation, water and biological diversity in their local area. Furthermore, the National Department of Agriculture seeks to promote its National policy on Agricultural Land and Resource Management among all spheres of government and other stakeholders by implementing this Programme.

The Small Community Grants Component of the NLP comprises a grant of R100 000 that is intended to provide resources that facilitate the achievement of the NLP's objectives. The grants are available for projects that place particular emphasis on: (i) Improving the ability of land users to manage land, water and related vegetation in a sustainable and self-reliant manner; (ii) Addressing the causes of environmental and resource degradation, rather than the symptoms; (iii) Promoting integrated approaches to local catchment areas and regional planning; (iv) Demonstrating innovative approaches to natural resource management; (v) Encouraging the use of land, water and related vegetation resources within their capabilities; (vi) Stimulating the formation of land-care and catchment groups; (vii) Addressing the needs of former disadvantaged groups (National Department of Agriculture 2001).

2. Livelihoods Development Support Programme

The Farmer Settlement Programme (FSP), which was responsible for post-settlement agricultural support to land-reform beneficiaries, had no dedicated budget until 2004. The FSP, now renamed the Livelihoods Development Support Programme, has limited reach and impact, rather than being a mechanism for restructuring the economic and market environment for smallholder and subsistence farmers (National Treasury 2007, Hall 2009). Recently, an evaluation of the implementation of the 2001 Sector Plan, which assessed the extent to which the intended objectives and outcomes had been realised over the past five years, was conducted (Vink et al. 2008). The performance scorecard suggested that good progress was made in some areas, such as sustainable resource management, while other areas, such as equitable access and participation, still required urgent attention (Vink & Kirsten, 2002). Although all strategies devised by the department since 1995 state the importance of support for the commercial and smallholder farmers (smallholder and subsistence), currently they receive less support from the state than their counterparts in every industrial country in the world with the exception of New Zealand (Vink et al. 2008). Direct support to agriculture, as measured by the Organisation for Economic Cooperation and Development (OECD), is expressed as a percentage of gross farming income. This is referred to as the Producer Support Estimate (PSE) and was as follows for the period of 2005 to 2007: Chile (4%), Brazil (6%), South Africa (6%), China (9%), Ukraine (9%) and Russia (14%). The level of support offered to producers is considerably lower than the OECD average of 26% (NAMC 2008; DAFF 2012a).

3. Second Economy Strategy Project (SESP)

This initiative of the Presidency, hosted by Trade and Industrial Policy Strategies (TIPS), provides a framework for addressing inequality and economic marginalisation in South Africa. It specifically notes: (i) "The centralised, monopoly structure of SA's core economy—including the labour market legacies of pass laws, as well as the highly skewed distribution of assets such as land and capital; (ii) The spatial legacy of Bantustans and apartheid cities; (iii) The legacies of deep inequality in the development of human capital". In response to these features of a dualistic economy, the SESP framework presents a strategy for promoting structural change to create a more broad-based economy. It emphasises the need to improve "*the distribution of returns from economic activity more equitably across the society*". A top priority is therefore, to improve the situation of subsistence or poor farmers, mostly in the former homeland areas who, despite engaging in productive work, derive too little benefit from it. It notes that "*strategies to develop a smallholder sector and strengthen subsistence agriculture face many challenges and start off a low base: but their potential impact on poverty and on rural employment makes this investment— and the associated risk — imperative*" (SESP 2009a).

The SESP framework proposes a departure from the implementation of transformation programmes that require implementation at a project level in favour of interventions by the state that achieve systemic, societal-level impact. Instead of relying wholly on delivering project-level support to individual farmers or projects and in line with the notion of a 'developmental state', government will need to reshape markets to achieve wider changes in the market environment in which small producers are often marginalised. A first set of required state interventions includes the provision of a combination of incentives and regulation of the commercial sector, particularly the large companies that dominate agricultural value chains. The purpose of such incentives and regulation is to ensure that large businesses have to increase the proportion of small producers among their clients and engage with them on more equitable terms. A second set of required state interventions is to promote coordination and cooperation between small producers themselves, through input supply and marketing cooperatives, to overcome the coordination problems that isolate small producers and to strengthen their leverage in engaging with larger market players. These two sets of interventions are critical to achieving the economies of scale associated with marketing (DAFF 2012a).

4. Integrated Growth Development Policy (IGDP) 2012

The policy provides a detailed analysis of the various challenges that is faced by the agriculture, fisheries and forestry (AFF) sectors. The vision for South Africa's Agriculture, Forestry and Fisheries Sector is to have "*An equitable, productive, competitive, profitable and sustainable Agriculture, Forestry and Fisheries Sector growing to the benefit of all South Africans*". The mission that states that: *The vision will be achieved through developing and sustaining a sector that contributes to and embraces: (i) Economic growth and development; (ii) Job creation; (iii) Rural development; (iv) sustainable use of natural resources; (v) Maintenance of biodiversity and ecosystems; (vi) Sustainable livelihoods; and (vii) Food security*.

The vision and mission are further elaborated as follows: (i) The total area of production for agriculture and forestry is increased and the productivity of existing areas is increased in a manner that ensures equitable growth and competitiveness; (ii) The unique character of the South African terrestrial and marine "biomes" and the integrity of the biological diversity and its associated environment are retained; (iii) Agriculture, forestry and fisheries industries, founded on excellence and innovation, are expanded to contribute to economic and employment growth; (iv) The South African community has a sound understanding of the agriculture, forestry and fisheries policies and participates in decision-making processes; (v) There is accountability by government, the private sector and users; (vi) The sector responds to local and national interests, including the needs of future generations.

Through realisation of the above, the AFF sectors will be able to make a meaningful contribution to achieve the following MTSF outcomes: (i) Decent employment through inclusive economic growth; (ii) Vibrant, equitable, sustainable rural communities contributing towards food security for all; (iii) Protection and enhancement of our environmental assets and natural resources. The IGDP identifies four broad sector goals which are: (i) Equitable growth and competitiveness; (ii) Equity and transformation; (iii) Environmental sustainability; and (iv) Governance. For each sector goal objective a number of specific interventions have been designed and expected results and role players have been identified. An implementation plan as well as a monitoring and evaluation framework have also been developed (DAFF 2012a).

5. Strategic Plan for DAFF 2013/14-2017/18

This plan was drafted in line with the NDP, NGP, IAPA2, MTSF (3 outcomes) and the Presidential Infrastructure Coordinating Commission (PICC). DAFF will tackle poverty, inequality and unemployment by developing policies and strategies that prioritise the basic needs of people in the rural areas. There will also be a focus on production through the promotion of entrepreneurship in the agricultural, forestry and fishery sectors. The following areas will be focused during the five years of the strategy: (i) Food security; (ii) Smallholder farmers and cooperatives; (iii) Agro-Processing; (iv) Forestry; and (v) Fisheries (DAFF 2013a).

In line with the MTSF, DAFF will focus on three of the twelve outcomes i.e.: (i) Outcome 5: A skilled and capable workforce to support an inclusive growth path; (ii) Outcome 7: Vibrant, equitable, sustainable, rural communities contributing to food security for all; and (iii) Outcome 10: Protect and enhance our environment assets and natural resources.

Other new policy initiatives have been aimed at achieving the objectives of Outcome 4 and Outcome 7 relating to job creation, food security and rural development. Planned policies to be developed in a number of important areas in 2013 include the following: (i) Strategic Infrastructure Project (SIP) 11, which aims to improve investment in infrastructure to support agricultural production, employment (with the focus on forestry and fisheries), small-scale farming and rural development. (ii) Extension Recovery Programme, which aims to develop a national policy on extension and advisory services to, among others, consider alternative extension methodologies, alternative institutional arrangements for providing services and creating a professional body to advance the extension profession; (iii) National Mechanisation Programme, initiated in 2010/11, will be revised to improve institutional arrangements regarding the operation and maintenance of implements; ensure broader access; and advance the shift towards agro-ecological agriculture; (iv) Policy and programme on inland fisheries with the focus on developing economic opportunities around existing storage dams and rivers will be prioritised; (v) Agro-ecological agriculture (conservation agriculture), with the aim of developing a comprehensive approach to agro-ecological agriculture has been identified for urgent attention; (vi) A policy on supporting labour-intensive commercial agriculture will be developed to address the concern of possible loss of wage jobs on commercial farms; and (vii) A strategy on urban agriculture (including peri-urban agriculture) has been identified for development (DAFF 2013a).

6. DRDLR - Land Reform Policy

Rooted in the Reconstruction and Development Programme (RDP), the White Paper on South African Land Policy of 1997 set the foundation for one of South Africa’s major post-apartheid programmes, namely land-reform. The **White Paper** confirmed the three major elements of the land-reform programme: (i) Redistribution, through which citizens can apply for assistance to acquire or access land for farming and/or settlement; (ii) Restitution, involving the restoration of land, or cash compensation, to victims of forced removals and operating under the Restitution of Land Rights Act (Act No. 22 of 1994); (iii) Tenure reform, aimed at improving tenure security of all South Africans and to accommodate diverse forms of land tenure, including types of communal tenure. Land-reform has enabled the broadening of access to land and participation in agriculture and forestry. Different approaches have been adopted and modified over time, especially in terms of the redistribution component. The first period of land redistribution (1994–1999), focused on acquiring farmland on behalf of groups of previously disadvantaged people, which they typically held through communal property associations. Often these projects received limited support for production and were also compromised by unworkable plans involving group production.

The second period of land-reform (2001-2006), focused on the redistribution of commercial farms to individuals and small groups.

The third period of land-reform (2006-present), saw the introduction of a proactive approach to land acquisition, enabling the State to purchase land and then allocate it on a leasehold basis to farmers. By means of these policy adjustments, redistribution projects have become more successful in terms of production. However, as the amount of support per individual has risen, the number of different individuals benefitting has declined to the point where redistribution is scarcely able to address the land needs of smallholders who might like to ‘graduate’ out of the former homelands. Land restitution has changed far less than redistribution, though there are some notable developments, for example, an increase in resources made available to provide development support pre and post the claim settlement process and the testing of various partnership approaches. As for tenure reform, while the situation of labour tenants and farm dwellers have been partially addressed by targeted legislation, reforms applicable to the former homelands remain elusive. This constitutes arguably the biggest obstacle to unlocking the agricultural potential of the former homelands, where most black farmers are situated, often side-by-side with large amounts of underutilised arable land.

The DAFF is also involved, together with other national departments, in a number of initiatives that are geared to improving opportunities and wellbeing for the rural poor. These include the Comprehensive Rural Development Programme (CRDP), as well as the Land Reform Programme of the DRDLR that involves land redistribution, restitution and tenure reform in fulfilment of its constitutional obligations. A key land-reform challenge that has an impact on both the forestry and agriculture sectors is that of providing effective development support to land-reform beneficiaries. Various attempts have been made to address this deficiency.

The Land and Agrarian Reform Project (LARP) was launched in February 2008 as a joint initiative between the former Department of Land Affairs and the then Department of Agriculture. The LARP drew on the Settlement and Implementation Support Strategy for Land and Agrarian Reform developed within the Department of Land Affairs. The LARP aimed to align the implementation of the CASP with the Land Redistribution for Agricultural Development Programme (LRAD). The LARP proposes the establishment of 'one-stop shop' service centres located close to farming and rural beneficiaries. This concept is in line with the concept of creating 'integrated access points' for SMEs as presented in the DTI's Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises**.** However, it is not clear at this stage how the 'one-stop shop' interventions proposed by the LARP will fit into the integrated access points proposed by the DTI, or what the implications are for the roll-out of SME services in agriculture and forestry.

In 2009, the new administration created a new Department of Rural Development and Land Reform and the CRDP was designed to address the new rural development mandate. The Department of Rural Development and Land Reform (DRDLR) continued to focus on acquiring land for redistribution to land-reform beneficiaries through the Proactive Land Acquisition Strategy (PLAS) in which land acquired by the State was leased to qualifying beneficiaries. At the same time, the DRDLR launched the Recapitalisation and Development Programme to identify and support distressed land-reform projects through investment in infrastructure and recruitment of strategic partners to support land-reform beneficiaries (DAFF 2012a).

7. DRDLR - Comprehensive Rural Development Programme (CRDP)

Following the 2009 elections, the government recommitted itself to intensifying its rural development efforts through the establishment of the new DRDLR. The DRDLR has been given the mandate to develop a Comprehensive Rural Development Programme (CRDP) throughout the country. The intention is to use this programme to promote rural development on the one hand and land and agrarian reform on the other, in a manner that is mutually supportive. The CRDP is aimed at being an effective response against poverty and food insecurity by maximizing the use and management of natural resources to create vibrant, equitable and sustainable rural communities. The programme must improve the standard of living and welfare, rectify past injustices through rights-based interventions and address skewed patterns of distribution and ownership of wealth and assets. The strategic objective of the CRDP is therefore to facilitate integrated development and social cohesion through participatory approaches in partnership with all sectors of society. The IGDP needs to obtain maximum leverage from the opportunities created through the CRDP. Coordination between DRDLR and DAFF will be critical to ensure the success of the CRDP. This will be affected in part through the provision of decentralised one-stop shop service centres (DAFF 2012a).

8. DRDLR - Recapitalisation, Acquisition and Restitution Programme

The purpose of this programme is to: (i) Increase the number of farms which are producing food for households and to enhance food security and other needs; (ii) Increase the output of farms that are geared towards commercial production in order to provide increased food security for the nation; (iii) Improve income for farmers and employees; (iv) Increase the capacity of emerging farmers; (v) Increase productivity or efficiency levels on land-reform farms; and (vi) Increase job creation as a result of increased productivity. According to the scope, the programme will provide grants for the following expenses: (i) All on-farm Infrastructure (fencing, irrigation, sheds, houses, roads, dams etc.); (ii) Mechanisation (All farm vehicles, equipment and implements); (iii) Operational (Salaries of labourers for one production cycle); (iv) Production inputs (reconnection costs of water and electricity as well as seed and fertiliser); (v) Mentorship for one production cycle; (vi) Disaster response; (vii) Fire-breaks and de-bushing. For the period 2015/16 to 2017/18 a total amount of R10,9 million has been budgeted.

9. DRDLR - Animal and Veldt Management

This programme is implemented in communal areas and refers to various types of infrastructure and environmental management projects that support agricultural production. The purpose of the programme is to improve the animal production and the veldt management practices in communal areas of the country. It is mainly targeting smallholder farmers and rural households. The focus of the programme since its inception in 2011 has been focused in the 27 prioritised districts identified by government and the Neighbourhood Development Partnership Grant (NDPG). The scope of this programme is provide grants for the procurement of: (i) Fencing and animal handing facilities; (ii) Stock water dams and boreholes; (iii) Dip tanks and boreholes; (iv) Environmental management (soil rehabilitation, reforestation and de-bushing including alien vegetation); (v) promote conservation agriculture; (vi) Support to the development of firebreaks; and (vii) providing support for the construction of silos and other storage facilities. For the period 2015/16 to 2017/18 a total amount of R772,9 million has been budgeted.

10. DRDLR - River Valley Catalytic Programme

This programme offers a framework for integrating water planning and management with environmental, social, and economic development. The goals are to promote optimal development of natural resources, agriculture, infrastructure and other social services. The intention is to attract development into the river valley area and promote sustainable rural development. Further, the key driver is to ensure sustainable use of natural resources for increased food security, and enterprise development. The scope includes: (i) Grant funding for irrigation schemes (ii) Irrigation of communal land along rivers. In both cases support can be provided for: the construction of internal roads, buildings, bulk water infrastructure, irrigation systems, etc. This scheme does not support grant funding neither for production inputs nor for mechanisation equipment is being supported. For the period 2015/16 to 2017/18 a total amount of R326 million has been budgeted.

11. DRDLR - Commodity Value Chains Programme

The purpose of enterprise and industrial development programme support to rural people within commodity value aims to stimulate and expand community-driven inputs, agricultural production, processing and marketing to address food Security enterprise development and job creation in rural areas. The commodity value chain models promote rural commercial activities, by rural households and enterprises, which ultimately lead to the creation of new jobs, improved rural livelihoods and growth. The main focus is to add value to rural production, promoting employment and generating income through micro, small and medium-sized rural enterprises. The agricultural sectors that are targeted include: poultry, red meat, grains, livestock, dairy and fruit. The scope of this programme facilitates grant support to the following activities: (i) Poultry and red-meat value chain development (profile community assets, identify value chain, analysis of the value chain to find wealth and job creation opportunities, inputs into the areas identified for business opportunities, business development); (ii) Primary, secondary and tertiary cooperatives support (business development, production inputs, mechanisation, capacity building) and in communal areas, land-reform farms and restitution farms. (iii) Infrastructure on communal and state land (High-value crops, hydroponics, nurseries for vegetables, indigenous vegetables, plants and seeds); (iv) Training of agricultural paraprofessional (community-based people). For the period 2015/16 to 2017/18 a total amount of R532,3 million has been budgeted.

12. DTI – Cooperative Incentive Scheme (CIS)

The CIS is a 90:10 matching cash grant for registered primary cooperatives which comprises at least five or more member who are historically disadvantaged individuals (HDIs). This programme provides an incentive for cooperatives in the emerging economy to acquire competitive business development services, and the maximum grant that can be offered to one cooperative entity under this scheme is R350 000. The objectives are: (i) Promote cooperatives through the provision of a matching grant; (ii) Improve the viability and the competitiveness of cooperative enterprises by lowering the cost of doing business; (iii) Build an initial asset base for emerging cooperatives to enable them to leverage other support; and (iv) Provide an incentive that supports BBBEE.

To be eligible for CIS, a co-operative enterprise must satisfy all the mandatory requirements as set out below: (i) Be incorporated and registered in South Africa in terms of the Co-operatives Act of 2005; (ii) Emerging co-operatives with a majority black ownership; (iii) Have projects in any of the different economic sectors; (iv) Adhere to cooperative principles; (v) Be owned by HDIs; (vi) Be biased towards women, youth and people with disabilities.

The following activities are eligible and the intended projects activities must aim to enhance the viability of a cooperative through: (i) Business development services (e.g. feasibility studies; business, manufacturing and production systems; and production efficiency and improvement, etc.); (ii) All must be linked to the activities applied for and not exceed more than 20% of the value applied for (i.e. total cost of all activities applied for); (iii) Technological improvements; (iv) Machinery, equipment and tools; (v) Commercial vehicles; (vi) Infrastructure linked to the project (e.g. 3-phase electricity; boreholes, etc.); (vii) Working capital: (a) Existing cooperatives: not more than R140 000; and (b) Start-ups: Up to 40% of the actual activities applied for R350 000 (DTI 2013).

13. DTI - Integrated Strategy on the Promotion of Entrepreneurship & Small Enterprises

A key-policy directive to be taken into consideration in the development of small-scale entrepreneurs in the agriculture, forestry and fisheries sectors is the DTI's Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises, which was approved by Cabinet in 2005. This

Strategy follows on and updates the White Paper on National Strategy for the Development and Promotion of Small Business in South Africa (1995), which laid the foundation for the promotion of small enterprise in South Africa. It identifies the small enterprise sector as a key driver of development in post-1994 South Africa. The 2005 strategy works from the premise that a lot is already known and accepted of what should be done to support small enterprise development and that the main challenge is how this support should be structured and rolled out. The strategy emphasises the importance of a cooperative and integrated approach to service delivery involving all spheres of government and the private sector. The strategy calls for steps to co-locate as many small enterprise support agencies as possible, in order to create integrated access points for existing and aspiring entrepreneurs. Finally, the strategy recognises the need for sector strategies that focus on small enterprise development for priority sectors and proposes that programmes be developed after thorough examination of the support needs of small businesses in those sectors. It also states that individual departments within each sector will play a key role in leading the conceptualisation and design of sector-specific support programmes (DAFF 2012a).

14. DTI - Accelerated and Shared Growth Initiative for South Africa (AsgiSA)

AsgiSA (2006) and the National Industrial Policy Framework (NIPF) 2007, both emphasise the importance of promoting and developing small enterprise as a strategy to stimulate growth in the 2nd economy and for meeting the Millennium Development Goals. The objective of AsgiSA was to attain a growth rate of at least 6% per annum by 2010. A growth diagnostic analysis was undertaken as part of the process and through the analysis, the following constraints to growth were identified (National Treasury, 2008): (i) Volatility and level of the real exchange; (ii) The cost, efficiency and capacity of the national logistics system; (iii) Shortage of suitably skilled labour; (iv) Barriers to entry, limits to competition and limited new investment opportunities; (v) The excessive regulatory burden on small and medium businesses; (vi) Deficiencies in State organisations, capacity and leadership (DAFF 2012a).

15. DTI - National Industrial Policy Framework

In January 2007, the Cabinet adopted the National Industrial Policy Framework (NIPF), which sets out government's broad approach to industrialisation. Guided by the NIPF, the implementation of industrial policy was set out in the Industrial Policy Action Plan (IPAP). In August 2007, the Cabinet approved the first 2007/08 IPAP, which reflected chiefly 'easy-to-do' actions. The 2007/08 IPAP has largely been implemented. However, there has been growing recognition that industrial policy needs to be scaled up from 'easy-to-do' actions to interventions that government 'needs-to-do' to generate a structurally sound new path of industrialisation. A process of intensive consultation and analysis has culminated in a revised IPAP for the period 2010/11 through 2012/13, with the idea of updating on an annual basis. The 2010/11–2012/13 IPAP represents a significant step forward in industrial policy efforts. The agriculture, forestry and fisheries sectors' deliverables are included in the 2010/11–2012/13 IPAP, the fulfilment of which is expected to contribute towards growth and development. These require intergovernmental cooperation and coordination (DAFF IDGP 2012).

16. DTI - Market and trade policies

One of the major policies that have an impact on South Africa's agriculture, forestry and fisheries sectors has been the progressive deregulation of markets since the 1990s. This market deregulation process went hand-in-hand with another process, namely the foreign trade liberalisation, which had already started prior to the new democratic dispensation as South Africa sought to fulfil its commitments under the World Trade Organization's Agreement on Agriculture of 1994. Furthermore, at around the same time, a wide range of other instruments used to subsidise agricultural production among commercial farmers, such as fixed improvements, conservation works, fencing and emergency relief, were removed (Committee to Review the Agricultural Marketing Environment, 2006). Openness to trade has long been regarded as an important element of sound economic policy towards economic growth and the alleviation of poverty. The question, however, is how strong a force trade liberalisation is in economic growth and how economic growth transmits such benefits to the poor. While there seems to be consensus among growth and development economists that economic growth will, in general, lead to increases in income, there is growing evidence that suggests that high levels of inequality hamper the pace at which an economy can benefit from liberalisation, which means that growth on its own cannot be an adequate antidote to inequality (Wagle 2007).

While the impact of trade liberalisation on food security in South Africa remains uncertain, increasing trade remains a priority and there are several challenges that the industry faces to fully realise its export potential. One challenge, for example, is the poor state of market intelligence on international agricultural markets; another is the absence of effective trade promotion strategies; and a third is the persistence of high tariff barriers to agricultural imports among some of South Africa's major trading partners. The composition and direction of trade is not optimal. Issues to consider include: (i) South Africa's positioning in Africa (i.e. Africa requires special interventions, for example, to mitigate trade risks, standardise Non-Tariff Measures where policy space allows, etc.) given the opportunities that exist, but also the lack of capacity on trade issues in Africa; and (ii)

Redirecting trade to new and possibly more sustainable markets, e.g. Asia. Innovative interventions are required to capitalise on the opportunities that exist. In this regard public-private partnerships are vitally important, as well as closer cooperation between relevant government departments, state-owned enterprises and agencies. It is imperative that more emphasis is put on the potential impact of bilateral trade agreements since it has implications for policy space and South Africa's future trade direction (DAFF 2012a).

17. DTI - Aquaculture Development and Enhancement Programme (ADEP)

ADEP is a response to DAFF's National Aquaculture Framework (NASF) of 2011. The intervention is also advocated in policy documents such as the NGP and the IPAP2. According to NSAF, an incentive for aquaculture has become a government priority that recognises the socio-economic opportunities that aquaculture presents to meet key constitutional obligations for a fairer and equitable society. The aims and objectives of ADEP is to stimulate the investment in the aquaculture sector with the intention to: (i) Increase production; (ii) Sustain and create jobs; (iii) Encourage geographical spread; and (iv) Promote broaden participation in the aquaculture sector. ADEP offers a reimbursable cost-sharing grant of up to a maximum of R40 million towards qualifying costs for: (i) Machinery and equipment; (ii) Bulk infrastructure; (iii) Owned land and/or buildings; (iv) Leasehold improvements; and (v) Competiveness improvement activities.

18. DTI - Competition Act

The new South African competition law forms an important part of reforms designed to address the country's historical economic structure and encourage broad-based economic growth. Addressing the trend towards increasing concentration in agriculture, forestry and fisheries, requires robust application of competition policy, although this is unlikely to be sufficient on its own. The objectives of such an intervention must encourage free and fair competition, prevent the concentration of economic power and thereby promote "balanced development" within agriculture, forestry and fisheries (DAFF 2012a).

19. DTI - Black Business Supplier Development Programme (BBSDP)

BBSDP is a cost-sharing grant offered to black-owned small enterprises to assist them to improve their competitiveness and sustainability to become part of the mainstream economy and create employment. The programme provides grants to a maximum of R1 million: (i) R800 000 for tools, machinery and equipment on a 50:50 cost-sharing basis; and (ii) R200 000 for business development and training interventions per eligible enterprise to improve their corporate governance, management, marketing, productivity and use of modern technology on a 80:20 cost-sharing basis.

The objectives of the incentive scheme is to: (i) Fast-track existing small, medium and micro enterprises (SMMEs) that exhibit good potential for growth into the mainstream economy; (ii) Grow black-owned enterprises by fostering linkages between black SMMEs and corporate and public sector enterprises; (iii) Complement current affirmative procurement and outsourcing initiatives of corporate and public sector enterprises; and (iv) Enhance the capacity of grant recipient enterprises to successfully compete for corporate and public sector tenders and outsourcing opportunities. The qualifying criteria of the incentive scheme are: (i) Fifty-one per cent black majority shareholding; (ii) R250 000 to R35 million turnover per year; and (iii) One year in operation and trading as a business; and (iv) Enterprises formally registered for VAT (DTI 2014).

20. NEF – Rural and Community Development Fund (RCDF)

This fund was designed to promote sustainable change in social and economic relations and supporting the goals of growth and development in the rural economy, through financing of sustainable enterprises. This would be achieved through the mobilisation of rural communities in legal entities or cooperatives, in order to participate in the broader economic activities and realise the economic transformation goals in rural South Africa. The fund has three products: (i) Acquisition finance; (ii) Expansion capital; and (iii) Project finance (i.e. new venture, start-up & greenfield projects) with the funding threshold ranging from a minimum of R1 million to R50 million. The following sectors are being funded: (i) Agro-processing and manufacturing; (ii) Eco-tourism; (iii) Forestry and fisheries; (iv) Commercial property; (v) Aqua and marine culture; and (vi) Non-farm activities but rural based. The key criteria of this product are: (i) Projects must be financially sustainable; (ii) BEE applicants should be actively involved in the day-to-day operations of the business; (iii) Technical partners should be actively involved in the day-to-day operations of the business; (iv) The NEF will invest using debt, equity and quasi-equity instruments; (v) Minimum black ownership of 25,1% is a requirement; (vi) Joint-ventures between black and non-black partners to support skills transfer; (vii) The business should be able to repay NEF's investment; (viii) The business must have a clear value-add with a sustainable business case; (ix) The NEF will exit from the investment in 5 to 10 years; (x) The NEF reserves the right to oblige applicants to participate in the NEF mentorship programme; and (xi) Medium sized new venture projects with total funding requirements of between R1m and R50m.

The RCDF offers three financial products: (i) *Acquisition*: This product was designed to cater for rural entrepreneurs or communities seeking to buy equity in existing rural and community enterprises focusing on small to large ventures where partnerships between NEF, BEE parties or community entity and technical partner is involved; (ii) *New Venture Capital*: New Venture Capital product is aimed at assisting rural entrepreneurs and co-operatives and communities with equity contribution towards establishment of sustainable new ventures in Agri-sector including forestry, tourism, processing, etc.; (iii) *Expansion Capital*: This product facilitates involvement and ownership by communities in projects promoting social upliftment of rural and community projects using entities such as co-operatives and private companies.

21. DBSA – Jobs Fund

The Jobs Fund (DBSA 2014) creates jobs by supporting initiatives that generate employment in innovative ways. The Fund offers once-off grants in the areas of enterprise development, infrastructure, support for work seekers and institutional capacity building. Established by the South African government in 2011, The Jobs Fund awards grants to organisations through a competitive project application process where only the best ideas are funded. The Jobs Fund operates on challenge fund principles. Funding allocations are transparent, open and competitive, and are made by an independent Investment Committee. The Jobs Fund accepts applications from the private, public and non-governmental sector during calls for proposals. Project partners are required to share both risk and costs by matching the grant fund allocation on a 1:1 ratio for private sector partners or 1:0.2 for non-private sector partners.

The current *Jobs Fund 5th Funding* round will be open from 12 January to 28 February 2015. The round will focus on the agriculture sector, with specific focus on subsectors that continue to require labour intensive farming practices. The Jobs Fund is seeking innovative approaches that will provide comprehensive support packages to smallholder farmers. This support must address constraints that hinder smallholder productivity and commercial viability. These constraints include but are not limited to: access to appropriate finance, markets, infrastructure and integration into the existing agricultural value chains. To reach smallholder farmers, the agriculture round will emphasise partnerships and collaboration with large experienced intermediaries. Interventions must focus on projects that have potential to create jobs on a large scale and promote broader systemic impact. The total grant allocation for supporting interventions that benefit smallholder farmers is R600 million. The principal funding objective for this theme area is to catalyse improved efficiencies and scale in a manner that is inclusive of smallholder farmers. To support this objective, grant sizes will range from a minimum of R20 million to a maximum of R200 million. The Fund is looking for proposals that: (i) Display evidence that the proposed project is focused on unlocking long term job creation, or overcoming barriers to job creation in the agriculture sector; (ii) Innovatively includes smallholder farmers into existing supply chains; (iii) Have piloted the proposed product-service-business model, are able to produce evidence of this and that are ready to take the initiative to scale. It is also important to note that project applications must provide support to smallholder farmers by: (i) Presenting evidence of sustainable market demand for product; (ii) Focusing on high potential, high labour intensive value chains; (iii) Focusing on linking smallholder farmers into existing markets in a holistic, systemic way; (iv) Promoting commercial viability of farmers; and (v) Providing evidence of sustainability beyond the period of Jobs Fund support.

APPENDIX C: STRAUSS COMMISSION FINDINGS

The following is a summary of the findings and the recommendations of the Commission of Inquiry in the Provision of Rural Financial Services (Strauss Commission) in 1996.

- The commission provided a framework for the provision of financial services to smallholder farmers, rural households, and entrepreneurs.
- The commission considered the role of government to provide access to financial services for the rural people i.e. transmission services, saving products and loan products (production loans and consumption smoothing).
- Government's role is to facilitate and coordinate the provision of financial services – especially to women.
- The commission has tasked the Land Bank to fulfil this role while at the same time the Bank, the state and its agencies as well as other institutions must be in support of the market. The inherent weakness in its institutional fabric of these institutions should be acknowledged and there should be support for these institutions to enable them to participate actively in the rural reconstruction.
- The limited coordination of policies and delivery of services between government departments and parastatal institutions results in less than optimal delivery.
- Rural financial services have to be in the context of a integrated rural (and agricultural) development strategy – issues such as land-reform, housing, infrastructure development, capacity building and training, mentoring / extension services, etc.
- There is a lack of service delivery in the rural areas as well as an overlap in the policy briefs between the different government departments and agencies.
- The commission referred to the various National Development Financial Institutions (NDFIs) i.e. DBSA (infrastructure, NHFC (housing), DBSA (infrastructure), IDC (large agro-industrial projects) and Khula (now SEDA – SME funding).
- The commission also supported the Land Bank to take the role as both wholesaler and retailer to address the special needs of the beneficiaries of the land-reform programme.
- The commission also recommended that the role of the planned (at the time) Provincial Development Corporations (PDCs) should be through a consultative process between all the NDFIs, Treasury and provincial governments. It was also proposed that there should be a development council to provide guidance on this.

- Various players can play an important role on a rural retail level: SA Post Office, commercial banks, NGOs, and others (micro-lenders, etc.).
- There is a need for an entity to coordinate and guide the activities of development finance institutions.
- There is a need for harmonisation of legislation that is governing agriculture, banking and land.
- A process is needed to transform the rural financial services sector.
- The long-term sustainability of the retail financial services network is a concern and monitoring and evaluation will measure the performance.
- There should be an exit strategy for subsidies to avoid dependency from the outset.
- The Land Bank's wholesaler role should be expanded to provide leadership and capacitate local and provincial rural financial institutions that will retail agriculture-related financial services.
- The main responsibility of DAFF is to promote agricultural economic development however, it was recommended to suspend policy initiatives where it plays a role as a direct central wholesaler.
- A wide range of financial services that are needed and potential rural clients have been identified.
- Some guidelines on the application of subsidies and institutional transformation have also been provided.
- The proposals made and guidelines provided are inline with international best-practice.
- <u>The guidelines are important and should include views on</u>: (i) access to financial services; (ii) application of commercial principals; (iii) diversification in different financial services and serving different sectors; (iv) ensuring that existing capacity is not eroded; (v) Existing financial institution (overlapping competencies and lack of coordination) adapted, rationalised and better coordinated; (vi) Flexibility where differences is acknowledged and in policy and strategy; (vii) incentive-based approaches; (viii) improving information flow to improve decision-making; (ix) Manage risk and structure the rural financial system in order to minimise covariant risk; and (x) State is rarely successful when intervening directly into financial markets.
- <u>Main objectives - both wholesale and retail financial institutions should adhere to basic requirements</u>: (i) Development capacity: The ability to reach a large proportion of the total rural market and remain sustainable; (ii) Long-term sustainability: Financial institutions should ne structured and financed in such a way that sustainability be achieved in the long-term. Political interference should be limited for instance.

- <u>Generic issues to be considered</u>: (i) Role of government: Should not directly be involved in financial markets; (ii) Institutional considerations: A multitude of public institutions with an overlapping mandate and lack of coordination. The creation of new institutions is cautioned (limited skilled capacity and high costs) and existing institutions should be rationalised and transferred to serve the reconstruction and development process; (iii) Flexibility for different circumstances and dynamic development s neither desirable nor possible to have a blueprint for a new development financial institutions (DFIs) – rather a coherent framework and a basic structure – where the structure could be adjusted within the overall framework based on development expertise' (iv) Minimising systemic risk for the DFS and DFIs should spread their risk through diversification (clients, locations, sectors) and also a funding structure (prudent regulation and strict commercial principals); (v) Minimising institutional risk by sound management information systems – timely, reliable – to measure performance and act fast in a changing financial environment; (vi) Mobilising financial resources: Institutions should operate on commercial principals; (vii) Resource allocation: Price regulation (interest rate intervention) in the allocation of resources could impact sustainability negatively and should be avoided. Market failures should be identified in time, utilise risk-sharing arrangements (co-fund with private sector), develop innovative financial instruments to address neglected and emerging markets (venture capital). Coordination in the allocation of resources important to ensure transaction costs and project cycles are kept a minimum; (viii) A successful delivery system will provide incentives required for successful development. DFIs should provide appropriate incentives and penalties to users of their services; (ix) Coordination: Development impact is only achieved if the development investment made is coherent and economically sustainable through a coordinated approach by all role-players. Coordination of the investment effort to achieve its objectives is applicable at all levels i.e. policy, strategic planning and budgeting as well as operational levels (van Zyl: 1996).

The government must also take cognisance of the current gap in rural finance service delivery and potential duplication that may occur with that of state-funded national development financial institutions (NDFIs). The role of the NDFIs such as the Land Bank (LB), Industrial Development Corporation (IDC) and Development Bank of Southern Africa (DBSA) and other would continue with their mandates in rural areas. The commission also supported the Land Bank to provide special focus on the needs of rural communities and the land-reform beneficiaries. The commission also recommended that the future role of provincial development corporations were to be discussed with all stakeholders including the national and provincial departments, national development financial institutions and the PDCs. The SA Post Office has also been identified to play a prominent role in providing services to poorest communities while NGOs also assisted to fill the gap. Commercial banks' role was also expected to be intensified in the rural areas.

APPENDIX D: BROAD GENERAL PRINCIPLES

In the provision of sustainable financial assistance, it is important to have a clear understanding of the financial needs of farmers while at the same time the financial institution or the government involved should also be able to consider the risks when loan funding is being provided to a smallholder farmer. The following broad principles have been identified (DAFF 2008):

- Assured equitable access to efficient financial services: A low percentage of smallholder farmers are part of the formal banking system. Studies suggest that most financial institutions, whether in the private or public sector, serve only a part of the agricultural sector. Many black smallholders and part-time farmers therefore did not previously have access to services. A specific problem area that should be addressed is the financing of beginner farmers and those who lacked sufficient negotiation power to leverage funding. The challenge to specialised agricultural financial institutions is to render an effective service determined by demand. This can be accomplished if these institutions can identify the needs of different groups of farmers and the characteristics and needs of rural financial markets. A structured financial support system should be effective and also reach large number of clients, improve their income, build up their assets base, mobilise savings, lower transaction costs, reduce financial regulations and implement risk reducing mechanisms.
- Financial management training and advice to farmers: Farmers wishing to use credit from financial institutions should be trained and advised so that they understand budgets and cash flows, the role of interest rates, and the need to repay to ensure future creditworthiness. The government has to facilitate and sometimes subsidies the costs of training in order to reduce the burden on financial institutions. Non-governmental organisations may also be involved in these activities.
- Market-related interest rates to farmers and rural entrepreneurs: It is often argued that a subsidised interest rate benefits the borrower as it reduces the loan-serving cost. When interest rates are at very low levels financial institutions are forced to ration credit and this contributes towards the inability of the institutions to recoup lending costs. Low interest rates also act as a disincentive to farmers to repay loans as the opportunity cost of the funds to repay the loan is much higher. Considering that interest rate subsidies still apply to certain groups of farmers, a change towards market-related rates must be carefully managed with the aim of preventing unnecessary disruptions.

- Ability of farmers to repay: Farmers who do not have title deeds to the land they farm or cannot meet the other conventional commercial bank security requirements are often excluded from access to agricultural finance. It is suggested that for such farmers the main criterion should be the ability of the borrower to repay rather than the traditional collateral requirements. Repayment guarantees could include loan guarantees and group lending, as well as greater use of character references and incentives. With any of these options, the best incentive to repay a loan will be access to future loans. Financial institutions need to show greater flexibility in rescheduling loans or adjusting the payback period to suit the cash inflow of the client. With the ability to repay as a major criterion the purpose of the loan and the source of the repayment do not necessarily have to coincide.

APPENDIX E: STRAUSS COMMISSION PRINCIPLES

The commission proposed and provided some guidelines that are inline with international best-practice. In the development of a new development finance policy to take note of the following:

- Access to financial services;
- Application of commercial principals;
- Diversification in different financial services and serving different sectors;
- Ensuring that existing capacity is not eroded;
- Existing financial institution (overlapping competencies and lack of coordination) adapted, rationalised and better coordinated;
- Flexibility where differences is acknowledged and in policy and strategy;
- Incentive-based approaches;
- Improving information flow to improve decision-making;
- Manage risk and structure the rural financial system in order to minimise covariant risk; and
- State is rarely successful when intervening directly into financial markets.

APPENDIX F: FINANCIAL SYSTEMS APPROACH

Basic principles and assumptions of this approach:

A new paradigm in development finance started to develop in the 1990s that focussed on the development of efficient and inclusive financial systems and markets. This new approach is called the Financial Systems Approach (FSA) and acknowledges the efficient financial intermediation for economic development and poverty reduction. The basic principles and assumptions of the FSA have been identified (IFC 2011) as follows:

- Financial institutions must be allowed to charge cost covering interest rates in order to grow and provide loans in a durable way;
- Poor clients value reliable and quick access to loans more than their costs.
- Financial liberalisation creates competition amongst financial institutions, which stimulates product innovations and a gradual expansion of financial service provision (the so-called "frontier of formal finance") towards rural areas, low-income clients and riskier economic activities such as agriculture;
- Savings, insurance, and payment services are at least as important as credit for poorer rural households. Moreover, deposit mobilisation can be an important source of funds for financial institutions; and

Due to problems regarding governance, efficiency, and political interference, governments should refrain from directly engaging in financial services provision.

APPENDIX G: INNOVATIVE FINANCIAL INSTRUMENTS

Some innovative instruments and delivery mechanisms have been identified in the text. In the discussion below some additional instruments have been discussed (AFD 2012, IFC 2012):

1. Instruments to manage price risks

There are VCF instruments that are more sophisticated and are more formal type of contract. All of these are based on the fact that future sale of the product is used to repay the loan. There three approaches to this: (i) The flow of products that are currently being produced or processed (e.g. forward contracts); (ii) Products that have already been sold but not paid yet (e.g. accounts receivable); and (iii) Existing stocks of commodities (e.g. warehouse receipts). It can be simple three-way contracts or it can be large and complicated value-chain operations. Forward and future contracting is used to manage price and market risks and these risks can possibly shared by off-takers and banks involved. The risk management of some of these instruments is complicated. For financially illiterate farmers this type of instrument will not be an option.

2. Agricultural leasing

There are different types of leasing. Financial leasing is an investment method of financing where the legal ownership is only transferred once the final payment is made. Operational leasing when the leasing company retains ownership indefinitely – i.e. a long-term rental agreement. The benefit of lease agreements is that no collateral is needed. In case of a default the ownership of the asset is transferred back to the supplier of the asset. Most lease contracts in developing countries are financial leases which is also called hire purchase or rent-to-own. The lessee ensures maintenance and the insurance of the asset. In Tunisia farmers will acquire equipment such as pumps, tools, small mechanisation and on-farm processing equipment through hire purchase. For farmer and agri-SMEs this can be an interesting alternative because no collateral is needed. Leasing can be more expensive than to outright buy the product. This instrument may also help equipment manufacturers and importers to develop new markets and it is a way to avoid risky credit to farmers. In most African countries these kind of financing is not place on a regular basis and in Tanzania it is currently tested to see if there is appetite in the market. In the countries where this is not a known financing instrument, the regulatory environment is also not well-developed to accommodate this kind of finance. New laws need to be passed by parliament and this can be a limiting factor to use in specific countries. Leasing instrument as a financing mechanism in developing countries has a great potential and needs to be promoted. There is however a need to capacitate smallholder farmers to understand the benefits and costs as well as the responsibility to make regular payments to the service provider.

In South Africa leasing is a well-known and regular way of financing medium assets such as mechanisation and processing equipment on commercial farms. Many farmers purchase their bakkies and tractors through hire purchase contracts with their local banks over an estimated 5-year period. It is expected that most smallholder farmers may not have exposed to this type of financing in the local market but may offer an opportunity in some cases.

3. Price smoothing

This is a technique that AFD experimented with in Burkina Faso in the cotton sector (AFD 2010) and it aims to reduce he impact on annual price fluctuations in prices. When the season starts the cotton target price is set on the 5-year moving average of the world market price. If the actual world price after the harvest was delivered exceeds the target price, the balance in paid into a smoothing fund. However, if the world prices are lower than the target price, the difference is paid from the smoothing fund to the farmers. Experience during the 2006 to 2011 period worked well but during this time prices did not fluctuate a lot. It needs to be seen how this will work when year-on-year price movements is much bigger and especially if realised prices go down – especially sharp and unexpected downward trends. This scheme could also decrease the risk for finance providers and help with decisions to make loans to farmers.

4. Other innovations

Legislation could be adjusted or be developed that will allow suppliers and buyers that are involved in specific value-chains to open finance companies that can provide finance to farmers that are working only in the specific chain. This will formalise the finance arrangements and it will be easier to fund the value chain through commercial banks. Another example of innovation is where commodity price options have been developed for smallholder farmers. The government sells options for rice to farmers but if the price drop below production costs, the government pays in the difference between the low market price and the price of the option. This approach helps poor families that may be vulnerable and smooth income levels.

APPENDIX H: MEASUREABLE INDICATORS

During the next phase a new policy designed. The policy programme will also include monitoring and evaluation activities that will contain indicators to measure implementation and impact. The following indicators have been identified as a start to measure the impact that funds invested through grant funding and loans had on the beneficiaries:

Beneficiaries

- Number of beneficiaries assisted with financial support?
- Number of beneficiaries settled on farms?
- Number of families / people on a farm?

On-farm Investments

- Investment per farm / hectare / Livestock Unit (LSU)?
- Sales as % of investment grant?

On-farm infrastructure

- Electricity supply?
- Water available?
- Irrigation systems installed?
- Water reservoirs or dams?
- Grazing camps with drinking water for animals?
- Animal handling equipment available?
- Is the farm "farmable" / Can income be generated within the first season?
- Storage facilities & Pack-houses?
- Milking parlour and cooling facilities?

Production inputs and outputs

- Surface area planted? What crop?
- Amount of fertiliser and seed used?
- Production (ton) per farm / hectare?
- Income from sales / hectare?

Off-farm infrastructure

- Kilometre roads built and rehabilitated?
- Number of beneficiaries impacted by improved rural infrastructure (roads, water, etc.)?
- Markets developed, places of product exchange or points of sale?
- Communication infrastructure?

Mechanisation

- Tractor hours used for cultivation & farm work?
- Tractor hours for non-agriculture purposes?
- Surface area cultivated with and without tractor?
- No days operational / broken down?

- Distance to mechanic / spares?
- Maintenance times per year?
- Days of training received?
- Number of implements? What types?
- Hand operated equipment? What types?

Capacity building

- Pre-settlement training received (hours)?
- Post-settlement training received (hours)?
- Type of training received? Financial literacy, Farm management?
- Change in income after training?
- Number of visits by extension officers? (hours per annum)?
- Mentorship by commercial farmers / mentors? (hours per annum)?

Market access

- Distance to market for farm output?
- Cost per km to transport one ton, kg, livestock unit, etc.?
- Prices realised at market per ton, kg, livestock unit, etc.?
- Income generated from sales?

Agro-Processing

- Any processing on-farm? Own use or for selling?
- Own machinery to process?
- Higher sales value?
- Processing for a fee? Income generated for renting out / providing a service?
- Processing off-farm?
- Increase in value after processing?
- Income generated from processing?

Jobs created

- On-farm jobs created? Number of family labour / Non-family labourers?
- Type of jobs? Tractor driver / General farm labour / Other type of jobs?
- Direct cost of labour per day?
- Investment / grant amount per job created?
- Number of labour days per annum / Vacation & sick days?

Finance

- How many bank accounts in family living on a farm?
- Do farmer save money? How much per month?
- Member of savings club or burial society?
- Where does a beneficiary go to if he/she needs to make a loan?
- What interest does he/she pay?
- Does the farmer have any loans? Long-term or short-term? How long and for what purpose?

The above indicators can be utilised to measure impact but it can also be used to develop some measurable objectives.

It should be noted that there are a number of different techniques have been developed to measure impact. The Cost-Benefit Analysis is one such tool that can be used to measure the impact of an investment in a programme or on a farm.

APPENDIX I: DEFINITIONS OF FARMER CATEGORIES

Farmers *Option 1: DAFF AEWG*

According to a DAFF publication (unknown date): *Definitions of Farmer Categories* that was prepared for the Agricultural Economics Working Group (AEWG), has provided the following definitions for subsistence, smallholder farmers and commercial farmers.

- Subsistence farmer: It is a resource-poor farmer producing mainly for household consumption and according to their household food requirements rather than producing surpluses for the market. This group is divided into: (i) Urban & Peri-urban agriculture; and (ii) Survival farmers.
- Smallholder farmer: This is a farmer that produce for household consumption and markets, thus farming is consciously undertaken in order to derive a source of income. These are the new entrants into the mainstream agriculture aspiring to produce for market at profit. Smallholders may have the potential to expand their farming operations and to become commercial farmers. These smallholder farmers are divided into: (i) Lifestyle smallholder farmers; and (ii) Smallholder farmer with commercial aspirations.
- Commercial farmer: It is the owner and manager of a commercial farming operation is defined as an established farming venture undertaken by an individual or business entity for the purpose of the production and sale of agricultural products to make a profit. The farm income must exceed a minimum economic threshold and sufficient to support the farmer and his family. This group of farmers are divided up in three groups: (i) Small commercial farmers where some can

voluntary register for VAT but not all qualify; (ii) Medium commercial farmers where they have to register for VAT (about R1 million turnover); and (iii) Large commercial farmers.

Option 2: DAFF Directorate Smallholder Development

The Directorate: Smallholder Development of the DAFF identified and defined three smallholder producer types in the *Strategic Plan for Smallholder Support (SPSS) for 2011-2014/15* (DAFF 2013b). The three groups have been differentiated on a '*general sense of the economic returns or turnover of the productive enterprise'*. This approach proposes a basic, qualitative typology based on 'scale' that can assist in differentiating smallholders in a manner that has practical implications for the type of support rendered. The following producer types have been defined:

- Smallholder producer type 1 (SP1): Production is a part-time activity and it is small part of a multiple-livelihood strategy. Agricultural activities may grow but it may be at the expense of off-farm income and therefore risky. More than 50% of smallholder households live in poverty and needs focused support to raise their household incomes above the poverty line.
- Smallholder producer type 2 (SP2): Depends on income from agricultural activities to support themselves. They are not living in poverty, but need further assistance to expand production, make operations profitable, become part of a value addition and get access to markets.
- Smallholder producer type 3 (SP3): Operate commercially but neither has to register for value-added tax nor personal income tax. They are entrepreneurs, demand financial support from government, they are mobile, vocal and have the capacity to be sustainable, grow their operations and have access to loan finance. Some are practicing and retired professionals are included in this group.

Option 3: Consultative Group to Assist the Poor (CGAP)

According to the CGAP (Christen and Anderson 2013) there are three distinct smallholder farmer groups[10]: (i) Subsistence farmers; (ii) Smallholder farmers in loose value chains; and (iii) Smallholder farmers in tight value chains.

It should be noted that the CGAP research made a distinction between smallholders according to the value chains in which they function. Each of these groups of farmers has different finance needs and financial instruments need to be targeted to address the needs of each group. Please note that these groups have been analysed in Section 7.2.7 Segmentation of farmers.

[10] In the original text of the CGAP Focus Note that is referred to, reference is made to: non-commercial smallholders; commercial smallholders in loose value chains and commercial smallholders in tight value chains. Not to confuse the terms in this document and to place it within the South African context, it was decided to rather use the following terms respectively: subsistence farmers, smallholder farmers in loose value chains and smallholder farmers in tight value chains.

Option 4: NAMC Norms and Standards for Development Finance in SA

This study that was launched in 2014 by the National Agricultural Marketing Council (NAMC) and it is expected that it would shed some light on these definitions. This study is still in a draft format and the reviewer did not have access to the work that has been done (NAMC 2014).

Conclusions

Given the above definitions it was decided to combine these groups and the following four groups have been identified. Please note that he medium commercial and large commercial farmers have been excluded.

<u>Subsistence survivalist, Smallholder Type 1</u>: DAFF also classifies them into: (i) Urban & peri-urban agriculture; and (ii) Survival farmers (DAFF AEWG). It could be assumed that the urban and peri-urban farmers have a better chance to have other sources of income and that most of the rural farmers will be survival farmers. There are three different approaches mentioned above. It seems that there is consensus on what is called subsistence or household farmers and also being defined as smallholder producer type-1 (DAFF 2013b) or know as non-commercial smallholder farmers (CGAP).

<u>Lifestyle smallholder farmer, Smallholder Type 2 in loose value chains</u>: The group that is commonly known as smallholders (DAFF AEWG) identified one group to be a Lifestyle smallholder farmer. According to DAFF (2013b) smallholder producer type-2: Not living in poverty, but need further assistance to expand and make operations profitable, become part of a value addition and get access to markets. CGAP (Christen et al. 2013) has defined as a commercial smallholder farmer in loose value chains. It could be argued that this can be one group although there can be overflow into other groups.

<u>Smallholder with Commercial Aspirations, Smallholder Type 2 in loose or tight value chains</u>: The group that is commonly known as smallholders (DAFF AEWG) identified another group to be a Smallholder farmer with commercial aspirations. According to DAFF (2013b) smallholder producer type-2 and will remain the same as in the above category. CGAP (Christen et al. 2013) has defined as a commercial smallholder farmer in loose value chains but in this case it could also be a commercial smallholder farmers in a tight value chain.

<u>Small Commercial Farmer, Smallholder Producer Type-3 in tight value chains</u>: The group that can be one of two groups i.e. (i) Smallholder farmer with commercial aspirations or (ii) Small commercial farmer (DAFF AEWG). According to DAFF (2013b) smallholder producer type-3 who operate commercially but neither has to register for value-added tax nor personal income tax. They are entrepreneurs, demand financial support from government and are vocal. CGAP (Christen et al.

2013) has defined as a commercial smallholder farmer in tight value chains but there is smaller chance that this group of farmers could also be in loose value chain.

It is advised that these definitions be further developed by DAFF in the development of the new policy and at the same time align that with the work being conducted for NAMC as well as align this with other definitions that have been developed within DAFF.