BIZCOMMUNITY

Turning around the failure of South Africa's land reform projects

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Two important developments have recently taken place on the ongoing land reform discussion front. Firstly, it is the appointment of the advisory panel of experts on land reform challenges by President Cyril Ramaphosa on 21 September 2018.

The expert panel is expected to provide useful perspectives to achieving the main objectives of land reform project, including attaining equality in land resource access and ownership, resolving challenges in agrarian reform as well as achieving viable and equal urban land development.

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Second, it is the thirty-page leaked 'critical comment', signed by the Thabo Mbeki Foundation, on the resolution of the 54th ANC's conference on land expropriation without compensation, which propels the land reform debates to new heights.

Among other things, the document puts under scrutiny the very nature and historical evolution of the ANC as a social democratic movement and political party. The critique is also resoundingly written in the style of the former president of the Republic, Mr Thabo Mbeki. It is interesting that the former President Thabo Mbeki's document also provides some historical guidelines and ideological principles on which a successful land reform project should respond to the 'land question' within the broader scope of what is termed the 'national question' in the history of the ANC's thought process. In this sense, the document from the Foundation can provide some roadmap on which the panel of experts can base or conducts some of its work.

In light of these political developments, and still within significant failures thus far to achieving sustainable inclusion of black farmers in the commercial agricultural sector, almost 25 years post-democracy, strategies to aid emerging black smallholders would promote the economic sustainability of farmers and therefore a more successful land reform project in the long term in South Africa.

Helping emerging small farmers

Some of the problems associated with the failure of South Africa's land reform projects are linked to limited market access for emerging black farmers. These problems will not go away unless they are systematically reviewed and replaced with workable strategies. Primarily, the problems stem from information asymmetries in business agreements and agricultural markets. The lack of transparency in contracts reported within joint-ventures and lack of information on possible products to cultivate and lack of data on buyers lead to high transactional costs that ultimately collapse smallholders.

In the search for workable solutions that will produce a better outcome for black smallholders and help develop a more inclusive agricultural sector, a recent study of Kenyan smallholders within the region of Kilifi County that was conducted as recently as August this year, provides a compelling example for South Africa. The Kenyan agricultural sector, which accounts for almost 75% of the workforce and contributes 26% to GDP, adopts a flexible approach to production and marketing rather than a one-size-fits-all.

The study illustrates that for whichever business model is in place to support small farmers, the internal and external re-organisation of the agricultural sector should be aimed at reducing the risks associated with transactional costs. The study also looks at complementary models for finding markets for smallholders in South Africa's land reform project.

Innovative ideas aimed at limiting risks have been successfully harnessed in Kenya to support the country's smallholders. These start from the production process to marketing initiatives that ensure that high-income returns and business sustainability are achieved for farmers. Furthermore, farmers on smaller pieces of land outperform their peers (per acre of land) when they diversify their production and use a varied number of marketing avenues to sell their goods. In addition, smallholders have a higher incentive to employ innovative strategies when they own (not rent) the land on which they farm.

Post-apartheid models

Besides the dispossession of land from black people, apartheid policies also reconfigured the modes of farming and business management for black farmers.

After 1994, the emergence of the out-grower model, led by agri-business capital was supported by various imperatives including policies aimed at black economic empowerment, which would require capital injections into businesses. In addition, marketing networks, which came often with business partners of out-growers in joint-ventures were required. The partners tended to be mostly white commercial farmers, who previously owned the land on which black farmers were now resettled through the land reform project.

The benefits of the joint venture would be:

• To bring in financial capital;

• To introduce new technologies;

• To transfer skills for mechanisation required for large-scale production;

• Large-scale agribusiness would bring in new national and foreign markets/buyers; and

• Large volumes would improve the standard of produce to satisfy demanding consumers.

It is partly against the promises of marketing networks and buyers by agribusiness that the joint-venture model of farming has been promoted and piloted for black smallholders in South Africa's land reform projects.

Challenges to joint ventures

But challenges in the model have emerged and have been documented, including cases where black farmers would hand over pooled land to business partners and wait as "'armchair farmers' for money to come or not". Skills have hardly been transferred in many projects. Employment opportunities of community members who benefited from land transfers are limited.

The challenges mean that venture businesses need some reconfiguration to work more efficiently and that other modes of business should be advocated alongside the joint-venture model.

While it is likely that for some crops, with value chains that have export markets (e.g. large scale citrus and sugarcane) ventures may be more appropriate, for other agricultural products such as quickly-perishable cash crops, joint-ventures may not be the best model for success.

In this sense, different modes of farming, business management arrangements, values chains, geopolitics, economics and so on, are variables to be considered, with different implications, for what models would lead to successful farming and marketing cases for small farmers.

Smallholders, value chains and markets

Different crops, different farming methods and different economies mean that different value chains and marketing strategies would face smallholders. As value chains are neither predictable nor set they can be modified or created as and when required.

The political aspiration to empower black South Africa farmers has led to efforts to try and integrate smallholders into the more lucrative value chains via the implementation of joint-venture businesses.

Longer value chains are normally associated with larger profit margins and bigger businesses, mainly because big producers can afford mass production, storage and transportation costs associated with their products. Smallholders can participate in longer value chains through government support or by participating in joint-ventures or cooperatives to benefit from economies of scale.

However, it would not be possible for all new small farmers in land reform projects to be partners in joint-business ventures. Again, this means that other approaches or business models besides joint-ventures need policy attention.

The Kenyan experience provides some lessons on how to support smallholders who operate outside the joint-venture model. The efforts to assist and develop these farmers should, therefore, focus on all segments of the business spectrum and activities in the sector. These would be supported on value chain and market analysis, production, storage, transportation, commercialisation, market access (including online platforms), partnership formation, business and financial management, etc., and irrespective of where farmers are located along the different value chains.

Scale, scope and information challenges

Ventures provide benefits from economies of scale and scope but only if the arrangement is supported by and promotes better information flows. For example, bigger networks of collaborating smaller firms involved in the producing complementary goods or services could ensure better information flows. Although beyond a certain point of growth these benefits diminish, in what is termed diseconomies of scale. Therefore, in business agreements, it is important to promote scale and scope only if they are supported by information flow and transparency. Otherwise, the typical problems currently being reported for failures in joint-ventures, including defaulting on contractual obligations, would emerge.

For this reason, the study has identified information asymmetries as the primary challenge to ventures specifically and agricultural markets in general. This is also why many of the innovative ideas aimed at maximising farmer performances across Africa are aimed mostly at improving information flows and avoiding transactional costs. These include diversifying cultivated goods and selling to different types of buyers including selling of agricultural products, equipment, and services via online platforms like Facebook, Whatsapp, OLX, etc., by Keny’s digital farmers.

Key lessons from Kenya

1. **Innovation** - the first lesson from the Kilifi County is that small farmers can succeed outside the modes of irrigation schemes and joint ventures with bigger commercial players that are typical in South Africa. With innovative ideas in environments that support entrepreneurship, the smallest farmers can run successful businesses. What is key for them is to find or have buyers at good prices through diverse avenues.

2. **Brokering agreements, building networks** – while South Africa’s commercial farmers play a significant role in agricultural joint-ventures, in Kenya this role is undertaken by brokers who connect smallholders to new networks including buyers that otherwise would not be available to smallholders. As with brokers, big commercial partners can enter into agreements with different small farmers to supply them with products. Therefore, as is the case between a broker and a farmer, trust between partners in a joint venture is very important.

3. **Agreements to reduce risk** – the content details of the agreements entered into in joint-ventures should go a long way in mitigating against the transactional cost (i.e. risks). The degree to which agreements are clear enough on the responsibilities of each partner reduces these transactional costs and improve transparency.

4. **A proactive and flexible approach by smallholders** – when the responsibilities of each party are not clearly outlined or are not legally binding farmers can also find other innovative ways outside existing agreements with current 'brokers' to limit their exposure to abuse and to maximise profits.

However, as has been reported for many South African cases, having good contracts in place is only part of the solution. Smallholders should still work hard to meet the required standards of quality and quantity of production. It can also be argued that when smallholders are not 'protected' by venture contracts with big business they tend to be more proactive at acquiring production and marketing skills to compete with big business. This means that venture contracts should always have an expiry date.

5. **Embedded understanding of skills transfer** – perhaps the lesson for South Africa is to outline clearly in contracts what skills need to be transferred at the end of the contract and how the transfer of skills can be monitored and measured throughout the duration of the contract.

Ultimately, the end of the contract should ensure that smallholders can operate on their own and with a similar level of successes which were observed with small farmers in Kilifi county. One of the ways to ensure this happens quicker is for agreement contracts to allow smallholders to engage in other businesses alongside the venture model.

6. **Diversification** – like the big commercial partners, smallholders themselves do not only have to work with just one partner in a joint venture. They can diversify their produce to have more partners for different products.

This would mean entering into more than one agreement to reduce potential risks to smallholders. The role of government and donor agencies would be to always look out for the interests of smallholders from the negotiation and implementation of contracts, skills acquisition to produce and sell in diverse markets.

7. **Size versus ownership** – overall, farmers on smaller pieces of land (around 3.4 acres) would outperform those on bigger plots, in terms of strategies used for monthly incomes generated per acre, if they also owned their land with a title deed in place.

ABOUT THE AUTHOR

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