WHAT IS THE CONTRIBUTION OF AGRICULTURAL FINANCE TO FARMER LIVELIHOODS?

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ABSTRACT

We assessed the contribution of agricultural development financing in rural development and farmer livelihoods in KwaZulu-Natal, using the Agribusiness Development Agency as a case study. Data was collected using structured questionnaires and in-depth key informant interviews from a purposefully selected sample of ADA beneficiaries, ADA officials and government stakeholders. The findings showed that farmers who had received financial and technical support experienced positive changes in their business operations. However, the ADA’s model for providing support and implementing activities does not allow for maximum participation from the beneficiaries. The beneficiaries have limited decision-making powers and minimal influence on overall project activities. The results of the study highlight the importance of targeted agricultural financing approaches, accompanied with capacity building of farmers.

Keywords: Farmer perceptions, Finance, Food security, Livelihoods, Qualitative study

1. INTRODUCTION

Improving investments in the agriculture sector is one of the most effective ways of reducing poverty and promoting food security and growth in the sector (Goyal & Nash, 2016). Since the adoption of policies such as the Comprehensive Africa Agriculture Development Programme (NEPAD, 2003) and Malabo Declaration (African Union, 2014), government expenditure on agriculture development in some sub-Saharan African countries has increased. Currently five countries (Senegal, Malawi, Mali, Ethiopia and Burkina Faso) have spent above the required 10% during 2012-2014 period (Pernechele, Balié, & Ghins, 2018). Generally, policy focus on agriculture has resulted in the development of policies favouring growth in the sector at national level across the continent. In South Africa (SA), these strategic policies include the National Development Plan, the Comprehensive Agricultural Support Programme (CASP), Agricultural Policy Action Plan (APAP) and New Growth Plan (DAFF, 2014). A variety of programs such as the Land Reform, Micro-Agricultural Financial Institutions of South Africa (MAFISA), Agri BEE fund, institutions such as the Land and Agricultural Development Bank (Land Bank, 2020) and financing opportunities in the form of grants or loans have also been initiated to assist black farmers to be more active in the economy. Finance programs have not

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The Agribusiness Development Agency is an entity of the KwaZulu-Natal Provincial Department of Agriculture and Rural Development (KZN DARD), established in 2009 as a “Special Purpose Vehicle” to assist entrant black emerging farmers. Its mandate is based on enabling the development of a robust agribusiness industry in KZN that is dynamic, inclusive, and economically sustainable. The role it plays has the potential to contribute positively towards rural development and eliminating poverty in KZN (ADA, 2015). The main aim of this study was to assess the contribution of agricultural development assistance provided by the ADA and its contribution to livelihoods in uMzinyathi, uThukela, eThekwini and Amajuba districts, KwaZulu-Natal, South Africa. The specific objectives were:

1. to determine the perceived outcome of the support provided by the ADA from the perspective of the beneficiaries and ADA officials; and
2. to determine the strategy used by the ADA when providing support and its impact on project outcomes.

Agriculture plays a significant role in many developing countries in the Southern African region, particularly when it comes to the creation of employment opportunities and supporting livelihoods for rural dwellers. This study makes a contribution towards knowledge available on the success of government agricultural development initiatives aimed at reducing poverty, improving farmer livelihoods and promoting sustainable agriculture. In particular, it provides the Agribusiness Development Agency with information useful for evaluating their own priorities as enablers of sustainable rural development. The research adopted a qualitative approach, focused on analyzing perceptions and experiences of the beneficiaries and staff members from the Agribusiness Development Agency.
2011, majority of the population was classified under the lower income category (KZN Treasury, 2017). For poor households, agriculture is important for ensuring household food security and as a source of household income. About 18,6% of households practised agriculture, predominantly poultry production, livestock production, vegetables, grains and food crops (Stats SA, 2018). Approximately 2289 small scale farmers in KZN (1704 individual farmers and 1225 co-operative members) received support from Lima Rural Development Foundation. Additionally, it is estimated that 10 860 small-scale black farmers in SA received support from other government, private sector organizations and NGOs. Only 8,65% (n= 939) of those farmers were from KZN (Okunlola, Ngubane, Cousins, & Toit, 2016). These farmers were supplying a combination of formal and informal markets, wholesale and fresh produce markets.

Figure 1: Map of KwaZulu-Natal district municipalities (DAFF, n.d)

2.2 Data collection and sampling procedure

The data for this qualitative study was collected using questionnaires and in-depth key informant interviews. A purposive sampling strategy was used to select and recruit participants, based on their knowledge and expertise (Flick, 2007). Selected employees and government officials (strategic partners from the Department of Cooperate Governance and Traditional Affairs (COGTA) and the KZN DARD) who were involved within the various aspects of the project cycle such as planning, implementing, managing, monitoring and evaluation. The nature of the questions asked was to understand the kind of support the beneficiaries had received from the ADA, their experiences and the influence that the ADA's activities had on them, their livelihoods and communities. For the staff members, the nature of the questions asked was focused on the effectiveness of the organization's strategy, individual experiences of working with the project beneficiaries, and the overall perceptions on the impact of ADA’s
activities on the beneficiaries and their communities. Initially, the target group was a total of 35 participants based on the project visit schedule provided by the ADA. However, in the end, a point of saturation during data collection was reached. The respondent group was made up of 28 participants (16 staff and officials and 12 beneficiaries of the ADA projects). Three staff members withdrew from taking part in the study, while the other two did not respond at all, despite various attempts made by the researcher to get a response. The ADA had a total of 16 projects for the 2017/18 financial year. However, only 10 of these projects were operational and had received support and the remaining six were new projects where feasibility studies were still being conducted. The research was conducted on six operational projects (fruit and vegetable agro-processing n= 2, smallholder dairy production n=3, hides and skins processing n=3, commercial dairy production n=1, beef production n=1 and vegetable production project n= 2). The projects where information was collected during the data collection period were those which the Agribusiness Development Agency was visiting as per their planning, monitoring and evaluation schedule. The researcher accompanied the project section staff and the planning, monitoring and evaluation unit of the organization during project visits. From there, the researcher was introduced to the farmers.

2.3 Data analysis

In this research, data was coded based on emerging themes related to the research objectives. It was analysed using the Microsoft Excel program. Themes were given structure by the questionnaire. In order to achieve the research objectives, the responses from the questionnaire completed by staff and beneficiaries were analysed to determine patterns and themes related to the objectives (see table SI 1 and SI 2, supplementary information).

3. RESULTS

3.1 Sample characteristics

Majority of the ADA beneficiaries in this study belonged to cooperatives and only 15,4% of the respondents were below the age of 35 (see Table 1). From the available records, majority of the respondents were male (53,8%) and approximately 47,2% were females. From the projects sampled, 50% were commercial farmers and the other 50% were smallholder farmers. About 20% of the farmers were involved in agro-processing activities (fruits and vegetables and tannery), 20% were dairy farmers and the remainder were involved in beef and vegetable production. Most of the respondents were from rural areas, with the exception of members of the agro-processing project from eThekwini municipality and members of the dairy production project (labour tenants) who came from peri-urban areas.
Table 1: Characteristics of ADA beneficiaries who participated in the study

<table>
<thead>
<tr>
<th>Local municipality</th>
<th>District municipality</th>
<th>Categories of farmers (smallholder/commercial)</th>
<th>Project description</th>
<th>Number of years receiving support from ADA (as at 31/01/2017)</th>
<th>Size of land (ha)</th>
<th>Beneficiaries</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Total Male Female Youth</td>
</tr>
<tr>
<td>Hillcrest</td>
<td>eThekweni</td>
<td>Commercial</td>
<td>Agro-processing of Fruit and Vegetables</td>
<td>2</td>
<td>300 square meters</td>
<td>2 0 2 2</td>
</tr>
<tr>
<td>Newcastle</td>
<td>Amajuba</td>
<td>Smallholder</td>
<td>Dairy production</td>
<td>2</td>
<td>1104 ha</td>
<td>64 Records unavailable 4</td>
</tr>
<tr>
<td>uMnambithi</td>
<td>uThukela</td>
<td>Smallholder</td>
<td>Agro-processing-hides and skins</td>
<td>3</td>
<td>0.5 ha</td>
<td>11 6 5 1</td>
</tr>
<tr>
<td>Kokstad</td>
<td>Greater Kokstad</td>
<td>Commercial</td>
<td>Dairy production</td>
<td>2</td>
<td>842 ha</td>
<td>21 15 6 11</td>
</tr>
<tr>
<td>eMadlangeni</td>
<td>Amajuba</td>
<td>Commercial</td>
<td>Beef production</td>
<td>1</td>
<td>560 ha</td>
<td>1 1 0 0</td>
</tr>
<tr>
<td>Umvoti Municipality</td>
<td>uMzinyathi</td>
<td>Smallholder</td>
<td>Vegetable production</td>
<td>3</td>
<td>64.7 ha</td>
<td>18 6 12 0</td>
</tr>
</tbody>
</table>

3.2 The perceived outcome of services provided by the ADA to beneficiaries and their communities

The support received by beneficiaries was organized into four categories (knowledge and information services, the supply of production inputs and assets to farmers, agribusiness facilitation services and agribusiness market infrastructure services) (see Table 2), based on the various components of beneficiary support identified by the ADA as their priority functions in their strategy. Table 2 below represents the definition of each category is based on the knowledge of staff and the corresponding services received by beneficiaries.

Table 2: Comparison of services provided by the organization and services received by the beneficiaries

<table>
<thead>
<tr>
<th>Knowledge and information services provided as reported by ADA staff</th>
<th>Knowledge and information services received by beneficiaries</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Keeping the beneficiaries up to date with new developments to enhance farming operations</td>
<td>1. Received training and knowledge on animal husbandry, herd selecting, breeding and branding</td>
</tr>
<tr>
<td>2. Assisting with strategic plan development for farmers’ capacity building through training</td>
<td>2. Mentorship for primary production</td>
</tr>
<tr>
<td>3. Communication of important information to farmers about new</td>
<td>3. Attended conferences and training</td>
</tr>
<tr>
<td>developments in agriculture and legislature</td>
<td></td>
</tr>
<tr>
<td>---------------------------------------------</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Supply of production inputs and assets to farmers</th>
<th>Production inputs and assets received by beneficiaries</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Provision of production inputs</td>
<td>1. Provision of animal feed, bull calves</td>
</tr>
<tr>
<td></td>
<td>2. A contractor hired to plant and fertilize grazing pastures</td>
</tr>
<tr>
<td></td>
<td>3. Provision of farming equipment and implements for planting</td>
</tr>
<tr>
<td></td>
<td>4. Financial assistance</td>
</tr>
<tr>
<td></td>
<td>5. Provision of diesel and fertilizer</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Agribusiness facilitation services provided by ADA</th>
<th>Agribusiness facilitation services received by beneficiaries</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Resource utilization management</td>
<td>1. Refrigerated vehicles and mobile trailer</td>
</tr>
<tr>
<td>2. Technical support to ensure legislative compliance</td>
<td></td>
</tr>
<tr>
<td>3. Logistical support</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Agribusiness market infrastructure services provided by ADA</th>
<th>Agribusiness market infrastructure services received by beneficiaries</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Infrastructure development</td>
<td>1. Acquired a processing building for the co-op</td>
</tr>
<tr>
<td>2. Technical support to ensure optimal design and construction of infrastructure</td>
<td>2. Acquired a processing factory Access to markets</td>
</tr>
<tr>
<td>3. Assisting farmers in agro-processing and meeting market compliance standards</td>
<td></td>
</tr>
</tbody>
</table>

From the perspective of staff, support provided by the ADA resulted in four main impacts shown in Figure 2 below (see supplementary information table SI 3), whereas, from the perception of beneficiaries the support provided by the ADA had six main impacts as shown in Figure 3 below (see supplementary information table SI 4 and SI 5).
Figure 2: Staff perceptions of project impacts on the beneficiaries and their communities

Referring to Figure 2 above, 68.8% (n=13) staff members who participated in the research reported that the support provided by the organization had positive impacts on the lives of beneficiaries and their communities. About 84.6% (n=11) experienced an increase in job creation, 76.9% (n=10) saw an improvement in well-being, nutrition and standard of living, and 15.3% (n=2) experienced increased production capacity and productivity, with some projects being able to provide raw materials for further business ventures and securing more markets. About 23% (n=3) reported experiencing skills development, including beneficiaries passing on the skills they had learned to other people in the community.

Beneficiaries who had received assistance from the ADA experienced changes in their business operations and in themselves. As illustrated in Figure 3 below, 67% (n=8) of the farmers saw improvements in their production levels and cash flow, 42% (n=5) saw improvements in product quality and increased production efficiency. The changes farmers experienced outside the business were an improvement in knowledge and skills 25% (n=3), and being more informed about business operations 25% (n=3), with about 58% (n=7) of farmers feeling an increase in confidence and being hopeful about the future.
Figure 3: Changes beneficiaries experienced after receiving support from the ADA, n=12

3.3 Insights from key informants of challenges as a comparative perspective

When asked about the challenges the ADA staff faced in projects (see supplementary information, table SI 3 and table SI 7), the responses indicated that 53.8% (n= 7) of challenges arise from social dynamics, particularly from projects with many beneficiaries. Other challenges were noted: lack of information on business management; illiteracy of beneficiaries; a lengthy process of acquiring funding; beneficiaries do not know how to create business plans and funding proposals; negligence from service providers who fail to meet contractual obligations. In addition, staff experienced challenges due to negligence by beneficiaries, misappropriation of funds or assets provided by the organization, which lead to delays and complications. Other challenges which emerged from staff responses were due to the way in which the organization is set up. These include legislative processes to be followed, the way in which the organization is funded and the effect that the political landscape has on the organizations’ activities. These requirements tend to slow the organization’s response to the needs of the farmers, which affects the overall impact on farmers and their communities (For more information see Geza, (2018)).

3.4 Insights from beneficiaries on challenges

Through engagements with the beneficiaries (see supplementary information table SI 8) who were cooperative members, it was found that in a cooperative structure, some members expect financial returns before the start of business operations, for trainings which required a limited number of attendees, larger cooperatives elected representatives to attend on behalf of the group. Also, and not everyone is clear on the goals, objectives or values of the cooperative, which can result in conflict and delays. According to the beneficiaries, the decision to be an
individual farmer rather than a cooperative depends on the funding structure of an organization. It was found that some farmers were individual owners who had approached the government for funding in order to expand their businesses. However, individuals were told to form a cooperative before the funding could be approved. After forming these cooperatives, these farmers were then referred to the ADA for assistance. Although they were now a cooperative, these farmers still operated the business as individuals and the other cooperative members were not involved in decision-making, nor did they understand the core business operations of the cooperative.

4. DISCUSSION

4.1 Understanding the ADA and the Political context within which it operates

The ADA is a government entity requiring processes and legislative requirements to be followed. The organization also receives conditional grants from strategic partners and other government departments. These grants are seldom accompanied by a list of projects that the organization is expected to fund (refer to supplementary information). Occasionally, these projects are failed land reform projects or distressed farmers who have acquired a significant amount of debt. Moreover, the political landscape also affects the manner in which the organization operates, for example, unexpected cabinet reshuffles and changes in government strategic goals. Ultimately, this impacts the organization’s response rate and overall project impact. In order to increase the efficiency of public spending, there is a need to manage external political pressures that affect how the organization allocates its budget.

4.2 Perceived outcome of services provided by the ADA to beneficiaries and the communities

The perceived outcome of the support services provided by the ADA to their beneficiaries has positive impacts, from both the perceptions of the staff and the beneficiaries. These outcomes were noticeable in the business operations, the influence beneficiaries had in their communities and the changes beneficiaries saw within themselves. Similarly, Nesamvuni, et al. (2016), a study investing the perceptions of farmers supported by empowerment programs by the Gauteng DARD, found that farmers had positive perceptions of benefits received from support interventions. Majority of the farmers benefitted from receiving infrastructure, agricultural inputs and goods. While fewer farmers benefited from receiving training, informational and marketing. Correspondingly, Buadi et al. (2013), reported that farmers found services rendered by NGO relevant to their work. There was improvement in knowledge, input supply, technology transfer and training. Therefore, farmer’s perceptions of positive program outcomes are determined by their perceptions of what constitutes empowerment.

4.3 Strategy used by the ADA when providing support and its impact on project outcomes

The financial and technical support provided by the ADA does contribute towards productivity growth and improvement in beneficiary knowledge. However, the model used by the organization when providing support is not entirely grounded on the principles that promote capacity building and does not allow for maximum participation from the beneficiaries. For example, the findings indicate that during the entire project management phase, the beneficiaries are only involved in assisting to conduct the preliminary resource assessment and
drafting of the project implementation plan. Further than that, beneficiaries are only consulted on occasions when there are any changes in the scope. They are not involved during the process of appointing service providers, mentors or implementing agents. Lauzon (2013) explains that capacity development is synonymous with individual skill development, training, problem solving, participation, local ownership and attending to the local agenda.

Although extension services offer farmers opportunity to access knowledge from various stakeholders, the arrangement of how the support is provided can have negative effects. Similarly, Chowa et al. (2013), found that some extension services create operating structures such as committees, resulting in poor interaction with farmers, inadequate linkages to input and produce markets and poor exit strategies. Furthermore, farmers perceived these ‘actors as people who enter the community to update them on activities they plan to implement and not to discuss with them the plans so as to incorporate farmers’ views, opinions and needs. Consequently, farmers then support projects without fully understanding the scope. Factoring in low literacy levels amongst majority of the ADA beneficiaries and the political landscape the organization operates within, this may be the reason why farmers often drop out of projects, resulting in fruitless expenditure. This then limits the type of learning, engagement and empowerment that can occur during the process. Hence, it becomes challenging for the beneficiaries to fully take ownership of the project, threatening the farmer’s capability to participate in the economy long-term, after the agriculture finance support period is over. Likewise, Moumouni et al. (2009) found that beyond financial assistance and technological incentives, farmer needs must be fulfilled for participation strategies to be effective. This contributes largely towards project effectiveness and motivation of farmers.

Regarding capacity building, learning and empowerment, the ADA only addresses this element through the provision of training. The organization does little to strengthen beneficiaries’ ability to identify, analyse and act upon their own objectives. Another challenge comes from the way in which the organization is structured and funded. The findings indicate that some of the projects handed over to the ADA by strategic partners not only have cash flow difficulties, but the way in which they are structured creates challenges (Geza, 2018). Lerman (2013), highlights the downside of cooperatives that did not evolve organically. These projects tend to breed conflict and create challenges in management, participation, communication and governance. This also negatively affects the sustainability of the project. Whereas, Individual farmers are more likely to have a clear understanding of what type of assistance they require. Furthermore, this may be an underlying reason why the majority of the farmers who participated in the study felt that the support provided by the ADA is more suitable for individual farmers than cooperatives.

4.4 Study limitations

A further restriction required by the ADA was that the research refrains from quantifying farmer’s financial returns from project interventions. The researcher could therefore not ask for information on the level of income, educational level and profits made from the farming enterprises, as it was considered sensitive and could cause unintended negative impacts and conflict, particularly amongst co-operatives. As a result of these limitations, the study is not generalizable and can only be considered as insight from a small in-depth investigation.
5. CONCLUSION AND RECOMMENDATIONS

This study sought to assess the contribution of agricultural development assistance provided by the ADA and its contribution to beneficiary livelihoods in KwaZulu-Natal. From the perceptions of ADA staff and the beneficiaries, the financial and technical support provided by the ADA does contribute towards productivity growth. However, the model used by the organization when providing support and implementing activities limits the participation of the beneficiaries in the economy in the long-term. It is not efficient in terms of providing an enabling environment for transformation to take place. Thus, limiting capacity development for beneficiaries to be able to identify, plan and act upon their own objectives. Also, it is important for government organizations working in development to manage political pressures on budget allocations, to promote participation of project beneficiaries in order for their efforts to be more sustainable.

The results of the study highlight the importance of efficient public spending, using development strategies and financing models that promote agricultural transformation centred around the development of human capacity. The investment in human capital, particularly in rural areas is important for knowledge dissemination to other community members, which ultimately improves the general standard of living overtime.

The study, therefore, recommends the following:

- More effort needs to be made to cater for the illiteracy challenges, through simplifying processes and reducing paperwork and other obstacles that would segregate against illiterate people in government interventions.
- Collaboration with Farmer Support Units outside of government to provide agribusiness and technical support to individuals and cooperatives.
- The ADA should strengthen internal governance procedures to minimize political interference in their operations.
- More effort is required to make the beneficiaries active and engaged members of a project cycle in government interventions. Beneficiaries should be involved in the appointment of service providers, mentors and planning of project activities.

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