



REPUBLIC OF SOUTH AFRICA

**Third (Final) Report
of the
Commission of Enquiry
into Agriculture**

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COMMISSION

BY THE STATE PRESIDENT
OF THE REPUBLIC OF SOUTH AFRICA

TO:

- * DR STEPHANUS JOHANNES DU PLESSIS
MR GABRIEL JACOBUS JOHANNES BOTHMA
MR LOUIS CHRISTIAAN RUDOLF BÜHRMANN
MR STEPHANUS JANSEN JACOBUS DE SWARDT
MR DE LA HARPE DE VILLIERS
- + DR PHILIPPUS DEMPSEY HENNING
MR GERRIT ADRIAAN VAN ROOYEN
MR STEPHANUS ABRAHAM DIRKSE VAN SCHALKWYK
MR FRANCOIS PIETER RETIEF VAN WYK

GREETINGS

Whereas I deem it expedient to appoint a Commission to enquire into, report upon and make recommendations on the matters mentioned hereinafter;

Now, therefore, by reason of the great trust I repose in your learning, judgement and ability, I do hereby authorise and appoint

You

- * Dr Stephanus Johannes du Plessis, as chairman,
Mr Gabriel Jacobus Johannes Bothma
Mr Louis Christiaan Rudolf Bührmann
Mr Stephanus Jansen Jacobus de Swardt
Mr De la Harpe de Villiers
- + Dr Philippus Dempsey Henning
Mr Gerrit Adriaan van Rooyen
Mr Stephanus Abraham Dirkse van Schalkwyk
Mr Francois Pieter Retief van Wyk

as members of a commission with the following terms of reference, namely:

TO:

- (a) lay down the basic principles for healthy farming systems in the Republic, both economic and biological;
- (b) determine in what respects, in what branches and in what regions the present farming systems fall short and why;
- (c) make recommendations to eliminate such shortcomings; and

- (d) specially investigate and make recommendations in respect of the reconstruction of agriculture in regions particularly subject to drought conditions and to report thereon.

And I do hereby desire and require that you do, as soon as this can be conveniently done, using all diligence, report to me the result of your enquiries;

And I further direct that this Commission shall continue in force until you have finally reported upon the matters and carried out the duties aforesaid, or otherwise until this Commission shall by me be revoked, and that you shall sit from time to time at such place or places as you shall find necessary for the purpose aforesaid;

And in order that you may be better able and in a position to attain the purpose of this my commission I hereby give and grant you full power and authority to interrogate such persons as you may deem necessary or as are, in your opinion, necessary to furnish you with better information on the matter hereby submitted to you for consideration and on any matter related to it, and also to requisition, have access to, obtain, inspect and make extracts from any such books, documents, papers and registers of the Government as you may consider necessary and as may contain information on the subject of this enquiry, and to conduct the investigations into the subject matter of this enquiry in any other authorised manner.

GIVEN under my Hand and the Seal of the Republic of South Africa at PRETORIA this seventh day of May, One thousand Nine hundred and Sixty-six.

C.R. SWART
STATE PRESIDENT

BY ORDER OF THE STATE PRESIDENT-IN-COUNCIL

-
- * Appointed Chairman on 11 September 1970 after Dr M.D. Marais had resigned as a member of the Commission in that capacity
 - + Appointed a member of the Commission on 28 December 1970 to fill the vacancy resulting from Dr M.D. Marais' resignation

FOREWORD

TO THE STATE PRESIDENT OF THE REPUBLIC OF SOUTH AFRICA

MAY IT PLEASE YOU:

We, the undersigned, appointed in terms of a commission issued by you on 7 May 1966 have the honour to submit our Third and Final Report. This Third Report deals mainly with economic matters relating directly to the farming industry. The Interim (First) Report, which dealt exclusively with the reconstruction of agriculture in areas severely subject to drought conditions, was submitted in March 1968, while the Second Report, which was tabled in May 1970, dealt mainly with factors affecting biophysical stability in agriculture.

In the execution of its terms of reference with regard to the Third Report, the Commission adopted mainly the following procedures:

(a) Apart from memoranda submitted by various parties at the invitation of the Commission through the press and over the radio, the Commission also studied a wide variety of relevant documents of both local and foreign origin.

(b) The Commission undertook various tours to hear oral evidence in various regions, namely the Western Transvaal (Klerksdorp), the Eastern Free State (Bethlehem), the Western Cape (Stellenbosch and Paarl), the Eastern Province (Port Elizabeth) and Natal (Durban).

(c) At Pretoria the Commission also heard the evidence of Government and semi-Government institutions such as the National Marketing Council, the Department of Agricultural Credit and Land Tenure and the Land Bank, and private parties such as Organised Agriculture and the five principal commercial banks.

(d) The Commission also made use of documents specially prepared by experts at its request.

(e) For the rest, information on agricultural financing and related matters was obtained through correspondence and questionnaires.

S.J. DU PLESSIS, CHAIRMAN
G.J.J. BOTHMA
L.C.R. BÜHRMANN
S.J.J. DE SWARDT
DE LA H. DE VILLIERS

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S.A.D. VAN SCHALKWYK
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J.P.J. VAN VUREN, SECRETARY

Pretoria, 5 November 1971

ACKNOWLEDGEMENTS

Now that its task has been completed with the submission of this the Third and Final Report, the Commission wishes to express its gratitude and appreciation to all bodies and persons who have in any way contributed to its work, orally or in writing, since its appointment in May 1966.

The Commission wishes to mention the names of a few bodies and persons who rendered exceptional services and to whom special thanks are due, namely: Organised Agriculture at both national and provincial levels for its cordial co-operation in making all the arrangements to enable the Commission to hear oral evidence in the course of its tours; the Division of Agricultural Engineering of the Department of Agricultural Technical Services

for its part in preparing documents on mechanisation as required for the chapter on co-operation in agriculture; Mr J. O'Connell of the Department of Agricultural Economics and Marketing who, since the appointment of the Commission, has attended all its proceedings, and who prepared special documents and constantly checked statistical information; Mr J.J. Bornman of the Department of Agricultural Technical Services for his loyal support and services as Assistant Secretary; the typists of the Department of Agricultural Technical Services for their exceptional helpfulness, patience and cordiality at all times; and the Division of Agricultural Information of the Department of Agricultural Technical Services for its part in the preparation of copy and in making arrangements to expedite the publication of this report.

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CHAPTER I

THE IMPORTANCE OF AGRICULTURE IN THE ECONOMIC PROGRESS OF SOUTH AFRICA

1.1 Nothing in nature is static; all forces tend towards a state of equilibrium that is never reached. The activities of all living beings are aimed at wresting from nature their means of existence and ensuring the survival of the species.

This necessitates an unending succession of conflicts and adjustments between the living being and nature. The degree to which the individual succeeds in this struggle determines whether the species will grow and survive, or whether it will retrogress and become extinct. This interplay of conflict and adjustment between man with his special faculties and the rest of nature with its strongly conservative tendencies is the greatest motive force behind the eternal revolution, which causes constant change in the face of the earth and man's mode of existence.

1.1.1 Agriculture in the process of change

This process of change has accelerated markedly since the machine, which extended man's capabilities tremendously started the Industrial Revolution in the first half of the nineteenth century. But the rate of change has become even more rapid as science and technology have placed ever more powerful instruments at man's disposal during the past half-century. The changes caused by this so-called technological revolution are now following each other in such quick succession and are so far-reaching, drastic and radical that man is finding it more and more difficult to keep pace with and adjust to the changes and their implications.

In considering these changes one should ensure that aspects important to the existence and survival of man are not pushed into the background by less important but perhaps more striking aspects, so that an imbalance is created. Gutkind (1967)* has the following to say about this: "No structure can grow beyond its organic size, for, if it does, it destroys the internal coherence and functional efficiency. Therefore, the results of every human interference with nature should be evaluated with relation to the entire variety of environmental conditions, not to one condition only."

Therefore it is important that, caught up as we are in rapid technological developments and the striving for ever higher growth rates in the various sectors of our national life, we should not lose sight of the basic fact that man cannot live without

food and water and that most of the other necessities of life still have to be drawn from our natural resources with the aid of biological production processes. It is in fulfilling this function that the farmer plays a key role in ensuring the survival of a nation. In the national economy as a whole the farmer, through his production activities, is playing an essential part in the interrelationship and interaction between man and nature. In fulfilling this role the farmer has the responsibility of ensuring that this interaction will be conducive to exploitation of the available natural resources in such a way that, in the first instance, man will have enough food to live and work. That is why it has become customary to classify countries as "developed" or "developing" according to the extent to which they themselves can produce or afford to buy the necessities of life, particularly foodstuffs which will ensure a satisfactory level of nutrition.

It is true that, for various reasons, agriculture is relatively slow to adjust to change. While the technological revolution is producing changes in ever more rapid succession, changes which are having an ever greater impact on man's activities, agriculture is tending to lag behind in the process of economic development, even in countries that are highly developed in the field of technology.

1.1.2 Structural changes and biophysical stability in agriculture

According to Brand and Tomlinson*, the crux of the matter is how agriculture adjusts in the course of economic growth. "If a sound policy with regard to structure is to be formulated for agriculture, it is important not to allow the structural problem to fade into the background while attention is given to transient problems occasioned by the vagaries of nature." (Translation)

1.1.2.1 Number of White farmers in South Africa

In its Interim and Second Reports the Commission gave its attention to various aspects of the conditions affecting agricultural production on White farms.

What struck the Commission was the fact that the data furnished by various bodies in this regard in recent years were so divergent and had had such a marked influence on the results and conclusions arrived at through analyses of economic as well as of sociodemographic situations. The Commission

* Gutkind, E.A. (1967): *Our World from the Air: Conflict and Adaptation in Man's Role in Changing the Face of the World*, 7th Impression - pp 1-44, University of Chicago Press, Chicago & London

* Brand, S.S. and Tomlinson, F.R. (1966): *Die plek van die landbou in die Suid-Afrikaanse volkshuishouding*. S.A. Journal of Economics, Vol. 34, 26-49.

therefore considered it essential first to obtain statistics on White farmers which would form a reliable basis for calculations and conclusions before giving further attention to economic trends in agricultural affairs.

To this end the Commission first had to get a clear idea of what is meant by the term "farmer" so as to be able to assess the data furnished by various bodies on the basis of the definition decided upon. (The definition accepted for this purpose after careful consideration was that laid down for the 1959/60 Agricultural Census (No.34) by the then Bureau of Statistics in consultation with the Department of Agricultural Economics and Marketing:

"A farmer or holder is the manager or any other person operating the farming enterprise."

Careful consideration was given to statistical returns on Whites engaged in agriculture as furnished by various bodies and persons. Having taken everything in this regard into account, the Commission came to the conclusion that the statistics collected by the then Bureau of Statistics and further processed by the Division of Agricultural Marketing Research of the Department of Agricultural Economics and Marketing gave the most reliable picture of the true position in White agriculture in South Africa. These data on the White population, White farmers and White farms are summarised in Table 1.1.

TABLE 1.1 - Total White population, White farmers and farming units in White areas from 1936

Year	Total number of Whites		Farming units [†]	
	Population	Farmers	Year	Farming units
1936	1 017 874	132 000*	1937	105 000
1950	2 641 689	126 000*	1946	112 000
1960	3 080 159	106 000*	1950	117 000
1965	3 398 000	95 000 [‡]	1960	106 000
1967	3 563 000	93 000 [‡]	1962	106 000
1970	3 728 000	90 000 [‡]	1964	101 000

Sources: *Information obtained on 8 October 1970 from the then Bureau of Statistics in regard to primary producers 16 years of age and older.

[‡]Estimates, Department of Statistics.

[†]Department of Agricultural Economics and Marketing (1971): Abstract of Agricultural Statistics, Table 6, p. 6.

It should be remembered that each completed agricultural census form accepted by the census-enumerators until 1954 was counted as a "unit". After that year census returns were deliberately limited as far as possible to farming units, regardless of the number of units with separate title deeds.

1.1.2.2 Structural problems

As has been mentioned, the Commission, in both its earlier reports, studied various problems such

as uneconomic farm sizes and environmental and other problems experienced by the farmer on the farm. In those reports various causes of biophysical instability in agricultural production were laid bare, most of which are very closely bound up with the vagaries of nature. From these findings it was abundantly clear how important good farm management is and how great the need is for regional and production planning and for guidance on sound systems of land use. Biophysical stability in agriculture can be achieved and the problem of nature's changeability can be overcome if farming systems are adapted to climatic conditions and ecological conditions.

In its Second Report the Commission also gave attention to various economic problems, particularly those relating more specifically to the activities of the farmer on the farm. In its concluding remarks in the Second Report, however, the Commission stated that it would, in continuing its investigation, give special attention to those economic factors which although operative mainly outside the farm, have a direct bearing on the farmer's financial position.

In discussing several of these matters, the Commission will often refer to agriculture in relation to the other sectors and to the financial conditions under which the South African farmer is obliged to carry on farming. The Commission therefore considers it desirable first to give more detailed information on the position of agriculture in the South African economy, its contribution to the economic growth of the country and the share the farmer has in the growing economic prosperity of South Africa.

1.1.3 Agriculture's contribution to the gross domestic product

In their submission to the Commission the Departments of Agriculture pointed out that the relative share of the agricultural sector in the gross domestic product is declining (see Fig. 1.1). In this connection these Departments expressed the following view:

"There are those who feel that, since the relative contribution of the agricultural sector to the gross domestic product is showing a downward trend, the agricultural sector's share in the economic progress and prosperity of the national economy is declining accordingly. Of course, such a deduction is not correct. This is characteristic of a progressive economy, i.e. that agriculture's contribution shows a relative downward trend, although maintaining a steady increase in absolute terms. This is also a feature of the trend in South African agriculture's contribution to the gross domestic product." (Translation).

Information furnished by the Department of Agricultural Economics and Marketing shows that agriculture's contribution to the gross domestic product at current prices increased from R273,7 million in 1947/48 to R951,1 million in 1969/70 (i.e. it has more or less trebled in 22 years). In

spite of this, agriculture's contribution expressed as a percentage, dropped from 10,7 per cent to 9,0 per cent over roughly the same period (1950 to 1968).

If, in the course of economic progress, due account is not taken of certain basic facts, it may happen that those sectors of the national economy where technological innovations most readily gain acceptance will attract most attention and capital, the result being that such sectors will advance more rapidly and more spectacularly. This may very well lead to increases in the growth rate, but it may, at the same time, result in a lack of balance between sectors of the national economy.

Nel* points out that, to maintain a relatively high rate of economic growth over a long period, it would be essential to bring about some "equilibrium" between the growth rates of the various sectors (primary, secondary and tertiary). For example, the agricultural sector should not be allowed to dwindle, unless it is economic for the country concerned to import more and more of its food requirements in exchange for manufactured goods. Unless such a trend were justified by economic or other considerations, a constant decline in agriculture's contribution to the general growth rate of the economy would eventually lead to a position where higher food prices would be followed by higher wages and therefore higher costs. These factors, together with the effect which larger imports of food requirements would have on the balance of payments, could result in a reduction in the general rate of economic growth.

According to the Departments of Agriculture, the average annual growth rate of the gross domestic product during the period 1947 to 1965, expressed in real terms, was 4,7 per cent. The growth rate of agriculture's real contribution to the gross domestic product increased by an average of 2,8 per cent per annum during this period.

1.2 The role of agriculture in our national economy

South African agriculture, until as recently as 1910 firmly based on traditional ideas dating back to the earliest years of settlement at the Cape, has left a lasting imprint on the country's national life and in its pioneering stage played a most important part in opening up the unknown interior and preparing it for White settlement.

The Departments of Agriculture point out that in the course of its development South Africa was in the fortunate position of having certain agricultural industries which had been built up with a view to the export trade, and of having a mining sector which became an important economic factor at a very early stage. The expansion of the mining sector acted as a strong stimulus to agricultural development, so that mining and agricult-

ure formed the basis of almost all economic activity until the industrial sector began to gain importance in the early thirties.

Agriculture really only became fully commercialised about the middle of this century; yet, in spite of nature being highly erratic in spite of several serious setbacks, in this short time it has already succeeded admirably in fulfilling its twofold function of supplying local requirements economically and earning as much foreign exchange as possible (Van Biljon*). In fact, it has been so successful that there is full justification for regarding the agricultural sector as one of the Republic's key industries.

1.2.1 Physical volume and value of agricultural and food production

1.2.1.1 Volume and value of production

The data given in Table 1.2 show that the physical volume of agricultural food products and of non-food products has increased considerably since the Second World War - by an average of 4,4 per cent and 2,3 per cent per annum, respectively - and that agricultural production as a whole has shown an average increase of 3,9 per cent per annum. With this rate of progress in agricultural

TABLE 1.2 - Indices of and percentage increase in the physical volume of agricultural production, and the size of and increase in the population of South Africa from 1947/48 to 1969/70

Year	Field products	Horticultural products	Animal products	Total volume of agricultural production	Food products	Non-food products	Population
	Base year: 1947/48 to 1949/50 = 100						(million)
1947/48	68	53	70	67	65	70	11,69
1952/53	74	68	86	78	76	85	18,73
1957/58	87	89	95	91	89	90	
1962/63	124	119	105	115	114	118	
1967/68	135	172	120	134	138	121	
1968/69	136	170	127	138	142	125	
1969/70	157	166	131	147	151	137	
Annual growth rate (percentage)	4,4	3,5	2,6	3,9	4,0	3,0	2,36

Source: Division of Agricultural Marketing Research of the Department of Agricultural Economics and Marketing

* Nel, L.W.A. (1968): The Importance of the Contribution of the Agricultural Sector to the Rate of Growth of the S.A. Economy. Agrekon, Vol. 7 No. 4, 14-20

* Van Biljon, F.J. (1966): The Economic Nature of the Challenge to S.A. Agriculture. Agrekon, Vol. 5 No. 1, 4-8

production South Africa compares favourably with the developed countries and is head and shoulders above the so-called developing countries.*

After analysing the real contribution of agriculture (including forestry and fisheries) to the gross domestic product since 1920, Nel⁺ draws attention to the great fluctuations in the agricultural sector's contributions during the twenties and the thirties. These fluctuations have become much smaller as a result of firmer Government policy, better utilisation of technical aids, and financial assistance since the Second World War. But it has not been possible to eliminate these fluctuations, mainly because of the effect of varying and unpredictable weather conditions. He goes on to show that, apart from the effect of the weather, labour productivity and the use to which the economically active population is put are the most important factors on the long term. That is why it is considered to be of the greatest importance to agriculture that labour productivity should be stepped up considerably and that the rate of increase in the employment of hired labour should decline. These conclusions again underline the findings and recommendations submitted by the Commission in this connection in Chapter X of its Second Report.

1.2.1.2 Food supply

The data in Table 1.2 show that agricultural production, including the production of foodstuffs, has increased considerably faster than the population. This applies particularly to horticultural and field production which have more than trebled and doubled, respectively, over the past two decades. So far as quantities are concerned, the agricultural sector has therefore been very successful in increasing production at a much faster rate than the rate of increase in population; but most of the products concerned are foodstuffs rich in starch and sugar. It is striking, however, that the percentage increase in animal products was not much greater than the growth in population. Much of our animal production is not food, but products like wool, mohair and other fibres. Especially as regards the supply of red meat, the agricultural sector in South Africa has not, however, been so successful during the past decade. If the production of animal proteins in particular is to be increased, production and regional planning require careful attention as already emphasised by the Commission in its Second Report.

Comparison of the nutritional status of South Africa's population with that of other countries^o clearly shows that, as regards both quantity and

quality, ours is still far above the internationally accepted standard, and that, as indicated by the South African Agricultural Union in its submission*, the Republic ranks high among the countries of the world in this respect. Therefore the agricultural sector has not only succeeded in feeding the population fairly well, but has also made one of its most valuable contributions in raising the standard of health of the population by maintaining such a good standard of nutrition.

According to information furnished by the Department of Agricultural Economics and Marketing, the daily per capita intake of protein rose from 75,8 g in 1949/50 to 87,6 g in 1967/68. The per capita calorie intake rose from 2 659 to 3 229 a day during the same period.

In spite of great fluctuations caused by erratic weather conditions over much of the country and in spite of a relatively high rate of increase in the population, the agricultural sector has therefore been fairly successful so far in meeting the country's most basic needs. If this is to be maintained, attention will have to be given in good time to measures for adapting production systems to environmental conditions and for making agriculture less vulnerable to periodic droughts.

1.2.2 Supply of raw materials to secondary industries

The data submitted to the Commission by the South African Agricultural Union⁺ show the size of the secondary industries dependent on agriculture for their basic raw materials. This information is given in Table 1.3.

According to the Agricultural union*, the role of agriculture as the supplier of raw materials to secondary industries is clear from the following:

- "(i) that industrial concerns obtaining their most important raw materials from agriculture, forestry and fisheries, comprise more than 32% of all industries in the country;
- (ii) that this group employs approximately a quarter of a million employees who represent approximately 32% of all employees in the service of industry;
- (iii) that the gross return of these industries exceeds R1 000 million which is approximately 37% of the total gross return of all industries;"

The Commission has other supplementary information to the effect that about 48 per cent of

* Du Plessis, S.J. (1970): Man involved in a Triangle of Forces. Conf. Roy. Soc. Prom. Health. (April 1970)

+ Nel, L.W.A. (1968): Op. cit.

^o du Plessis, S.J. (1968): Protein Food Outlook. Protein Symposium. Bloemfontein, April 1968

* S.A. Agricultural Union (1967): Memorandum to the Commission of Enquiry into Agriculture

+ S. A. Agricultural Union (1967): Op. cit.

the total value of domestic agricultural production is absorbed by secondary industries.

TABLE 1.3 - 1961/62 Census returns for industries in South Africa dependent upon raw materials supplied by agriculture, forestry and fisheries*

Type of Industry	Number of establishments	Employment: All races	Gross value of return R1 000	Net return R1 000
Flour and grain mills	377	14 079	170 342	24 359
Bakeries	499	19 153	67 470	23 467
Coffee, chicory and tea	40	2 691	33 747	10 577
Feeds, bone-meal, lucern	60	2 995	32 225	5 290
Wool and cotton works	20	2 130	5 130	2 660
Distilleries and wineries	103	5 800	61 095	17 623
Bantu beer breweries	58	3 787	23 567	12 213
Butter and cheese	95	3 810	45 265	8 873
Condensed milk and milk powder	17	1 639	14 343	7 013
Ice-cream	51	1 963	6 858	3 442
Tobacco, cigars, cigarettes, snuff	37	4 591	42 102	18 161
Sugar mills and refineries	18	12 078	90 519	26 367
Sweets and chocolates	54	7 761	28 760	12 946
Preservation of fruit	96	14 614	62 224	23 295
Tanneries and fellmongering	28	2 529	13 919	3 823
Harnesses saddlery	67	2 190	6 038	2 964
Preservation of meat, sausage casings, lard	93	4 208	24 108	6 315
Tartar, vinegar, jelly	60	4 034	25 394	11 865
Beverages	321	15 605	103 284	39 715
Spinning, weaving and finishing of other woollen products	15	5 179	21 159	8 858
Footwear	97	17 694	52 841	25 668
Repairs of footwear	393	2 005	2 861	1 912
Tanning extract	8	1 067	7 775	1 976
Total	2 557	151 702	941 006	299 382

* Submitted by the South African Agricultural Union

TABLE 1.3 (Continued)

Type of Industry	Number of establishments	Employment: All races	Gross value of return R1 000	Net return R1 000
Sawmills, carpentry and joinery works	489	28 185	45 683	20 877
Plywood, cork works and wood products	156	5 206	13 833	7 551
Furniture and cabinet making	564	16 966	48 267	25 404
Paper and paper-board	14	8 648	49 209	28 816
Paperbags, etc.	62	17 458	43 208	16 772
Stationery	20	1 690	7 774	3 563
Other paper products	46	2 427	13 057	5 450
Total	1 351	70 580	221 031	108 433

*Submitted by the South African Agricultural Union

INDUSTRIAL CENSUSES - 1961/62 (FISHERIES)

Fish	93	4 208	24 108	6 315
Total of above -mentioned groups	4 001	226 490	1 186 145	414 130
All industries	12 428	706 602	3 213 008	1 324 784

As regards agricultural products in particular, more than 40 per cent of the total quantities of vegetables and fruit produced annually by the agricultural sector is processed by canneries. Although factory processing of agricultural products (with the exception of a few small grain mills and dairy factories) was negligible in 1910, the total value of agricultural products (at farm prices) absorbed by various industries in 1962 was said by Burger* to be R275 million, and the gross value of all agricultural products marketed that year was put at about R650 million.

According to Du Plessis⁺, agriculture's contribution to the development of these industries is impressive, not only as regards its direct

* Burger, O.E. (1965): Socio-economic Development in South African Agriculture. Agrekon, Vol. 2 No. 3, 31-37

+ Du Plessis, S.J. (1965): "Groei en leef: Vooruitgang in die Republiek van Suid-Afrika op die gebied van die landbou, bosbou en visserye." Paper. S.A. Akademie vir Wetenskap en Kuns, 47-81

supply of raw materials for processing, but also as regards its participation in the establishment and maintenance of several of these industries, inter alia, factories for vegetable and fruit canning, for the processing of tobacco, sugar cane, dairy products and parts of cereal products, and for wine-making. The activities of the secondary industries situated in rural areas in turn have an important effect on the progress and prosperity of those areas.

1.2.3 Agriculture's contribution to the wholesale and retail trades

It is often not realised to what extent the flow of agricultural products from, and of means of production and consumer goods to, the farms keeps the wheels of transport and industry turning to provide a livelihood for the thousands of workers in those sectors. The differences between the prices paid for commodities at the farm gate and at the consumer's doorstep give one an idea of the share which commerce, industry and services are taking for their contribution towards the handling of agricultural products. Detailed studies in this field have not yet been undertaken in South Africa, but data for the United States* indicate that:

"The American farmer receives:
41 cents of each \$1 spent for food,
2,6 cents for the corn in a 31-cent box of cornflakes,
65 cents of each \$1 spent for choice beef,
2,6 cents for the wheat in a 23-cent loaf of white bread,
27,6 cents from a half-gallon of milk sold in stores for 55 cents."

In this regard, too, agriculture continues to be the source of fresh supplies, creates earning opportunities and supplies the whole population with the essentials of life.

The value of intermediate goods and services as well as of capital goods purchased by agriculture over the past two decades is shown in Table 1.4.

On the assumption that the farmers' support of businesses in the cities and industrial areas compensates for the support that country businesses do not receive from agriculture (directly or indirectly), the South African Agricultural Union, on the basis of data obtained for 1960-61 from the then Bureau of Census and Statistics, drew the Commission's attention to the following:

- "(i) that 44%, or more than 18 000, of the total wholesale and retail concerns are established in the rural areas;
- (ii) that these concerns offer employment to more than 100 000 people, representing 34% of total employment in this type of concern;
- (iii) that these rural concerns earn a trade income exceeding R1 000 million which

TABLE 1.4 - The principal intermediate goods, services and capital goods purchased by agriculture during the period 1949/50 to 1969/70

Year	Packing materials	Fuel	Fertilisers	Stockfeed	Dips and sprays	Tractors, vehicles and implements	Mechanical services
R million							
1949/50	10,8	21,1	15,0	16,8	2,0	38,8	11,1
1954/55	17,9	31,2	21,1	27,0	3,8	58,8	23,7
1959/60	21,9	49,0	33,9	41,9	8,5	60,3	32,6
1964/65	25,9	41,1	47,8	48,3	11,4	71,0	42,4
1968/69	34,2	46,6	63,2	76,0	14,8	85,0	52,5
1969/70	34,5	48,1	68,1	85,8	15,4	89,6	54,5

Source: Division of Agricultural Marketing Research of the Department of Agricultural Economics and Marketing

represents 28% of the total, whilst their net profit approximates R40 million which is less than 25% of the total net profit of all commercial concerns."

To this should be added the trading activities of the co-operative organisations, with which the agricultural sector is closely connected and which had a turnover of about R1 266 million in 1968/69, i.e. R987 million in agricultural products, R256 million in farming requisites and R23 million in services.

This means that agriculture, forestry and fisheries, indirectly through secondary industry, commerce and services -

- (a) provide employment for about 340 000 people, which is about one-third of the total employment in this type of undertaking, and
- (b) grossed more than R2 000 million and netted about R450 million in the early sixties.

So the agricultural sector is not only important as a supplier of food and clothing materials, but also exerts a very strong influence on the country's commerce and industries.

1.2.4 Exports of agricultural products

Since the earliest years exports of agricultural products have played an important part in the development of South Africa. These exports, at first mainly of products in unprocessed form, and in recent years more and more in processed form, have been one of the most important earners of foreign exchange, and have thus created possibilities for the importation of capital goods and intermediate goods.

The data in Table 1.5, as supplied by the Departments of Agriculture, point to a sustained

* Office of Information, U.S. Department of Agriculture, Washington D.C., April 1968

TABLE 1.5 - Value of exports and imports: Total for South Africa and for agriculture

Year	Total exports*	Agricultural exports				Imports	
		Processed products	Unprocessed products	Total	Agriculture as % of total exports	Total	Agriculture
		R million				R million	
1957	802,6	133,2	224,4	357,6	44,6	1 099,7	37,4
1959	787,1	142,8	173,3	316,1	40,2	973,6	50,4
1961	849,8	137,7	212,4	350,1	41,2	993,8	45,1
1963	917,7	163,4	280,9	444,3	48,4	1 202,9	62,6
1965	964,5	165,5	207,0	372,5	38,6	1 752,5	37,3
1967	1 244,7	186,8	266,5	453,3	36,4	1 913,9	68,9
1968	1 387,9	179,9	322,6	502,5	36,2	1 876,8	40,0
1969	1 403,6	190,5	241,5	432,0	30,8	2 128,0	53,9
1970	1,421,8	202,0	229,9	431,9	30,4	2,540,1	60,5

Source: Division of Agricultural Marketing Research of the Department of Agricultural Economics and Marketing

*Excluding gold bullion

increase in the earning of foreign exchange with agricultural exports since 1950, an increase which was interrupted only in 1965 by the adverse effects of severe droughts on crops in large parts of the Republic.

It is clear from these data that agricultural exports form an important part of the country's total exports. The value of our agricultural exports in creating a favourable balance of trade is obvious if these exports are compared with the imports required by the agricultural sector for its production. After analysing the data for 1956/57, Du Plessis (1962)* shows that imported inputs to the value of 13c went into every R1's worth of production in agriculture, forestry and fisheries, as against 46c in the mechanical industrial sector and 73c in the textile industry. There are further indications that agriculture is becoming less and less dependent on imported inputs.

These data show that the agricultural sector, through its export activities, is playing a very important role in the economy as a whole. People often fail to appreciate this fully when they talk about agriculture's relative contribution to the gross domestic product. After the gold mining industry, agriculture is the largest net earner of foreign exchange and is therefore playing an essential part in maintaining a favourable balance of trade, thereby making the purchase of capital goods and other goods abroad possible.

As regards future developments in South Africa, the Departments of Agriculture point out -

"that, it may be expected that certain mineral deposits, which have up to now made an extremely important contribution towards economic development, will become exhausted. If economic growth is to be maintained, their place will have to be filled by industrial expansion with a view to the local and export markets. The establishment of such industries will also

to some extent depend on agriculture." (Translation)

The necessity of expanding exports as far as possible cannot be emphasised too strongly. Without considerable improvement in its export performance the Republic will find it difficult to afford the tremendous volume of essential imports in the long run.

In this connection certain problems have recently arisen which tend to have a dampening effect on all exports. Some of these problems have stemmed from local conditions, whereas others are bound up with developments abroad. Certain of these problems have already assumed such proportions that they will have to be given urgent attention.

For the Republic's agricultural exports, there are two aspects which are of particular importance: in the first place, Britain's entry into the European Common Market (E.E.C.), which at this stage appears to be a foregone conclusion, and, secondly, the question of ever-increasing production and export costs.

The Commission does not consider it necessary to go into detail about the possible effects of Britain's entry into the Common Market on the Republic's various export industries. Not all will be affected to the same extent. However, the fact of the matter is that the Republic will not only have to prepare itself for a decrease in its tariff preferences on the British market, but will also have to reckon with the payment of the common import tariffs of the Common Market. This is something which can be expected to have a marked effect on the competitiveness of the fruit and canning industries.

In addition, costs have risen in various respects. Freight rates have, for example, been raised three times in a single year, the increases being as follows:

1 October 1970	-	7½ per cent
15 March 1971	-	6 per cent
23 August 1971	-	12½ per cent

These increases are claimed to have been necessitated by sharp rises in fuel costs, wage

* Du Plessis, T.A. (1962): An Analysis of Certain Structural Aspects of the South African Economy. Finance and Trade Review, Vol. 5, No. 3

increases, delays due to congestion in harbours, the higher cost of vehicle repairs and maintenance, as well as by increased freight handling costs and harbour dues.

There can be no doubt that the agricultural industries concerned will be hard hit by these increases. The Citrus Board estimates, for example, that the three increases in freight rates will cost the citrus industry over R2,8 million per annum.

In view of the important role played by exports of agricultural products in South Africa's economy, the Commission is disturbed about the adverse effects which ever-increasing costs could have on the agricultural export industries.

All things considered, it would appear that South Africa is now entering a difficult period as regards its ability to compete successfully on foreign markets and to push up its export earnings to higher levels. In fact, it will be difficult for certain export industries to remain in production unless steps are taken by the authorities to obtain relief for them from the restrictive influences to which their export drives are at present subject.

The Commission therefore welcomes the recent decision by the Government to appoint a commission to investigate thoroughly and report on all the matters and factors adversely affecting the export trade and also to make recommendations on how these factors can be combated in order to promote a sustained increase in the Republic's export trade.

1.2.5 Capital investment in agriculture

Agriculture can also play an important part in economic development by making capital available to other sectors. Traditionally, however, the South African farmer tends to reinvest in agriculture. Table 1.6 reflects the extent of capital investment in agriculture.

On studying developments in regard to capital formation since Union, Brand (1969)* came to the conclusion that it was unlikely that the agricultural sector played as important a role as a source of capital development in South Africa as it did in several other countries. It appears that since 1910

"rather than having developed in a capital-saving manner which would have increased its ability to provide other sectors with capital, the agricultural sector in South Africa has developed in a capital-using manner compared to other sectors of the economy (p.147). At least part of this net inflow consisted of government transfers in various forms." (p. 159.)

Among other things, the following may be inferred from these data and studies:

* Brand, S.A. (1969): The Contributions of Agriculture to the Economic Development of South Africa since 1910. D.Sc. Agric. Thesis, University of Pretoria

TABLE 1.6 - The value of capital assets in agriculture from 1955 to 1970

Year	Land	Fixed improvements	Machinery, implements, vehicles and tractors	Livestock inventory	Total
R million					
1955	2 103,6	792,9	473,3	746,2	4 116,0
1956	2 072,0	821,4	482,4	840,8	4 216,6
1957	2 162,1	848,7	492,4	893,7	4 396,9
1958	2 191,0	876,3	501,4	891,3	4 460,0
1959	2 469,8	904,3	508,1	889,7	4 771,9
1960	2 495,4	930,4	514,5	908,8	4 849,1
1961	2 524,8	960,4	515,1	896,7	4 897,0
1962	2 679,2	991,7	515,1	923,4	5 109,4
1963	2 815,3	1 021,3	523,4	978,3	5 338,3
1964	2 960,0	1 052,6	539,9	1 006,0	5 558,5
1965	3 100,0	1 082,3	554,4	1 013,6	5 750,3
1966	3 260,0	1 110,3	570,3	1 040,5	5 981,1
1967	3 357,8	1 141,8	593,8	1 116,1	6 509,5
1968	3 458,5	1 179,5	619,1	1 163,1	6 420,2
*1969	3 545,0	1 216,4	644,5	1 146,7	6 552,6
*1970	3 633,6	1 253,6	674,6	1 129,1	6 690,9

Source: Division of Agricultural Marketing Research of the Department of Agricultural Economics and Marketing

*Provisional

TABLE 1.7 - Gross Capital Formation in Agriculture 1955-1970

Year	Fixed improvements	Machinery, implements vehicles and tractors	Livestock inventory	Total
R million				
1955	48,4	59,1	+ 4,4	111,9
1956	44,4	56,4	+12,1	112,9
1957	43,7	58,2	+ 7,9	109,8
1958	44,6	58,2	+ 2,8	105,6
1959	45,5	56,8	+10,5	112,8
1960	44,2	57,2	+ 6,5	107,9
1961	48,6	52,0	+ 4,9	105,5
1962	50,5	51,5	+ 4,8	106,8
1963	49,4	59,8	- 3,5	105,7
1964	51,7	68,8	-45,2	75,3
1965	50,9	68,5	-47,5	71,9
1966	49,7	71,3	-21,2	99,8
1967	53,7	80,5	- 4,3	129,9
1968	60,5	84,7	+20,9	166,1
1969	60,5	87,3	+ 0,4	148,2
1970	61,5	94,6	- 9,2	146,9

Source: Division of Agricultural Marketing Research

(a) Capital formation in the agricultural sector has tended to be relatively poor for several decades now. This tendency is, therefore,

in all probability not due to new circumstances which arose or policies which were adopted during the past two or three decades. The initial causes of this weakness will obviously have to be traced much further back in the history of the agricultural sector's development than the Second World War or the post-war years. The search will have to go far beyond recent events.

- (b) According to the data on investment in agriculture as such, the amount of capital invested up to 1970 seems to be remarkably large, viz R6 691 million. This may be the case, but the S.A. Agricultural Union nevertheless feels that the annual growth rate of capital investment in agriculture compares very unfavourably with capital investment in the rest of the national economy.

The South African Agricultural Union is also concerned that the low growth rate in capital formation may result in an absolute decrease in the total net income of the agricultural industry.

- (c) The data in Table 1.6 show that more than half the increase in capital during the past 15 years (1955 to 1970) was invested in land. One might well ask what proportion of this capital was spent unproductively to bridge the widening gap between the production value and the market price of agricultural land. Tomlinson and Van Wyk (1966)* refer in this connection to the far stronger trend in South Africa towards private ownership of land agriculture than in most other Western countries, and continue:

"In this young country of ours capital continues to be one of the most limiting factors of production, and the limited amount of capital (available) is largely tied up in fixed capital by the farmer, the result being a perpetual shortage of operating capital." (Translation)

This again underlines the findings of the Commission as given in Chapter VII of its Second Report, especially in paragraphs 7.8.7 to 7.8.7.3.1.4, where attention was drawn to the magnitude of the problem of high market prices for agricultural land and the adverse effects of these conditions. The Report recommended that a special study be made of this problem.

- (d) It is accepted that investment of capital in machinery, farm implements and tractors has become essential in modern farming; nevertheless, on the basis of the available data, the Commission, in Chapter X of its Second Report, came to the conclusion that the productivity of labour had not increased to the same extent as South African agriculture had become

mechanised. It was shown in that report how the agricultural sector is adversely affected in various ways by this state of affairs.

- (e) Consideration of various aspects of the creation and use of capital in agriculture again highlighted various shortcomings in the structural pattern of agriculture in South Africa, several of the most important of which the Commission has already discussed in its two previous reports.

1.2.6 Agriculture as employer

According to the returns of the then Bureau of Census and Statistics, about 114 000 Whites and 1 522 000 non-Whites were economically active in agriculture in 1960. About 659 000 of these non-Whites were working on White farms in 1966, when wages totalling more than R90 million were paid out in cash to Whites and non-Whites combined. In addition, many of these workers received fringe benefits e.g. rations, housing and grazing rights.

According to Groenewald* the number of Whites engaged in agriculture has declined in recent times, whereas the number of Bantu labourers on farms has increased. This increase is ascribed to a natural increase in population rather than to the migration of workers from Bantu areas.

The conditions in regard to the relatively high percentage of uneconomic farming units as described in Chapter IV of the Commission's Second Report are such that vigorous steps will have to be taken to form bigger farms by consolidating units that are too small. Such a process of consolidation of uneconomic farms, regardless of whether it is allowed to proceed without Government intervention or whether it is carried out under the direction of the Government, will inevitably mean that many families now trying to eke out a living on undersized farms will have to give up their farms and make a living elsewhere.

As regards non-White labourers on farms, it has already been pointed out that, if, in the national interest, the productivity of labour is to be raised far above the present level, the number of non-White labourers engaged in agriculture will have to be reduced sharply.

This discussion of agriculture's contributions to the Republic's economic growth shows that this sector has been highly successful in two important functions: that of supplying food and other necessities of life to the population, and that of earning foreign exchange on the export market.

According to De Swardt⁺, it has become -

* Tomlinson, F.R. and Van Wyk, S.P. (1966): Identifikasie van die kernprobleme in ons landbou. Annual congress of the Agricultural Economics Society of South Africa

* Groenewald, J.A. (1969): "Die Suid-Afrikaanse landbou: Ontwikkeling en beleidsimplikasies." Paper. S.A. Akademie vir Wetenskap en Kuns

+ De Swardt, S.J.J. (1969): Achievements of and Challenges to South African Agriculture. Agrekon, Vol. 8, No. 1, 14-17

"the most important function of agriculture to provide food and fibre as efficiently and economically as possible for the population and the manufacturing industries in general, so as to maintain the South African economy in a healthy competitive position *vis-à-vis* its competitors in international trade."

This review has also revealed that several basic reforms are desirable in agriculture to

ensure that it will not lag behind the economy.

From the foregoing it is clear that agriculture in South Africa is an important part of the national economy and is interlinked in a multitude of ways with the other sectors of the economy. There are, however, indications that this fact is not always fully appreciated, so that agriculture is often pushed into the background when development is contemplated, attention being given mainly to industrial development.

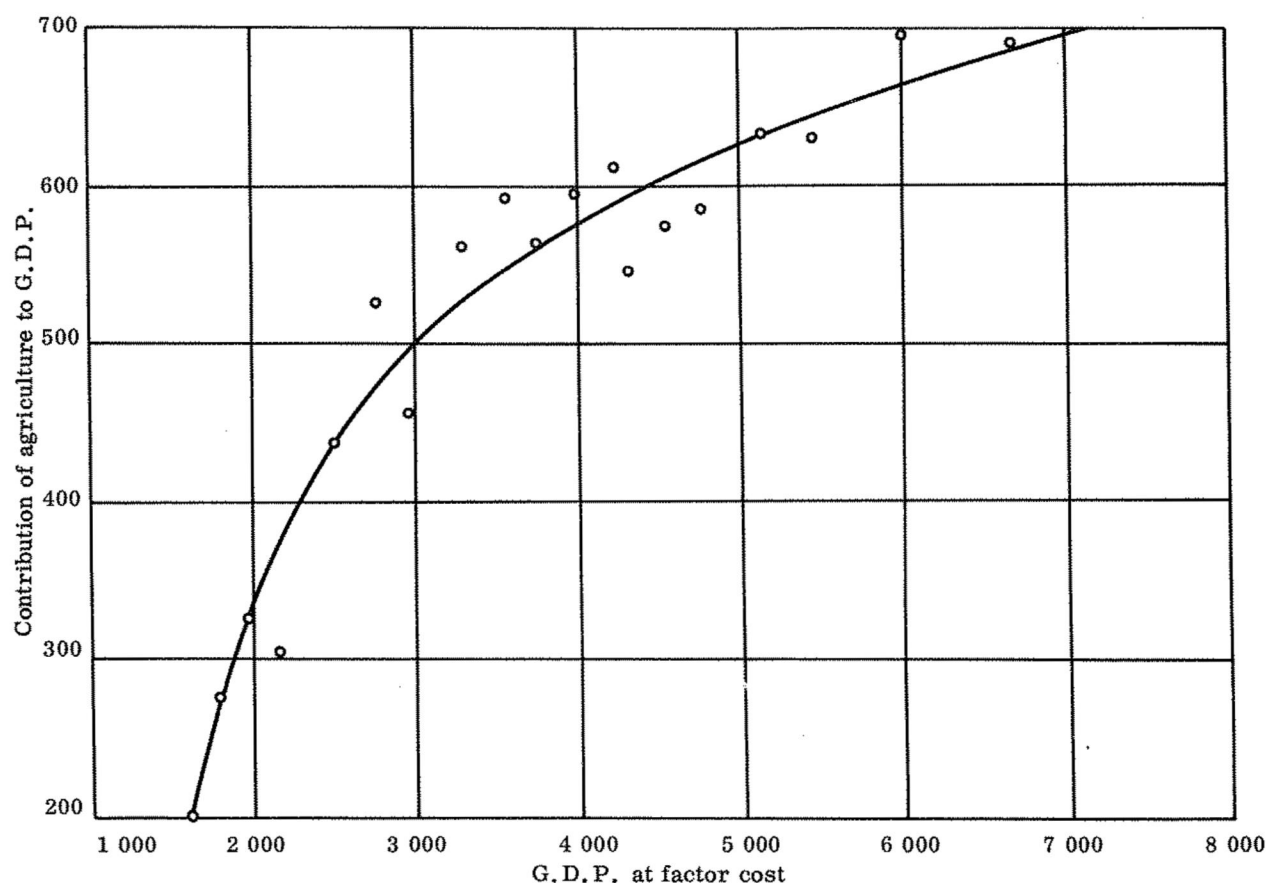


FIGURE 1.1 - The relative share of S. A. agriculture in the gross domestic product

CHAPTER II

THE SOUTH AFRICAN FARMER'S FINANCIAL POSITION AND THE CONDITIONS INFLUENCING IT

The Commission accepts that the general aim should be to maintain the per capita income in agriculture at parity with that in the rest of the national economy. However, since farming units are very seldom completely specialised in one branch of production, it is difficult to lay down this aim, as such, for any particular branch of production. For this reason the Commission prefers to take as a general aim the maintenance in the agricultural sector of a rate of growth in terms of real prosperity equal to that in the national economy in general.

This statement must, however, be qualified immediately. The farming community would only be entitled to share in the real prosperity of the community if it made a proper contribution towards increasing that prosperity. By this is meant that the long-term increase in the farmer's productivity per unit of production factor must keep pace with that of the rest of the community.

2.1 The relative position of agriculture to be seen in the right perspective

In Chapter I the agricultural sector's achievements were shown to be phenomenal. These achievements are even more significant if it is borne in mind that the number of farmers involved is relatively small and that their production was subject to highly variable climatic conditions and therefore to a high degree of risk. Because agriculture is of such value to the national economy, it is of cardinal importance that the relative position of agriculture should be maintained and that its importance should always be assessed at its true value. It is unquestionably in the national interest that a balance should be maintained between the various sectors of the economy.

In studying the information on this matter, the Commission found that no data were readily available to indicate simply but conclusively the extent to which the farmer is sharing in the prosperity of the country. The Commission therefore found it necessary to subject data on various aspects of income from agriculture to further analysis so that an idea could be gained of the income position of the South African farmer.

2.2 The question of prices in agriculture

Prices of agricultural products are a matter in which producers in particular are, understandably, intensely interested as one of the most important factors determining their prosperity and progress. This accounts for the tendency shown by certain groups of producers to press continually for higher prices.

Agriculture, like any other enterprise, can promote its economic prosperity mainly by increasing the prices of its products or by ensuring greater

efficiency in the enterprise itself, i.e. a bigger yield per unit of primary resource employed, or by reducing the prices of its inputs, including capital goods.

2.2.1 Post-war price trends

In their submission to the Commission the Departments of Agriculture briefly outlined some of the more important developments in the economy since the end of the Second World War. Those Departments then pointed out how important it is that the base year taken for the compilation of a series or the determination of growth rates should be a period when fairly normal economic conditions prevailed, since deciding on a base year or years in a boom or slump phase can lead one to the wrong conclusions, unless this is constantly guarded against. In dealing with economic and agro-economic trends since the Second World War, the Departments of Agriculture in their submission to the Commission put the matter briefly as follows:

"The period just after the Second World War was characterised by a rise in the price of goods and services which was stimulated further by devaluation in 1949. At the time of these inflationary conditions the outbreak of the Korean War gave economic activities a further stimulus. In reviewing this period it is important, so far as the agricultural sector is concerned, to note the high wool prices obtained from 1951 to 1953. After the Korean War the rate of economic activity declined, tailing off to a marked downward trend in about 1958. Since then the economy has again shown a gradual trend which was interrupted by events in 1961. On the other hand, the value of the agricultural sector's output rose fairly rapidly at the beginning of the fifties, the rise thereafter being more gradual, with 1956/57 as a relatively good season. The rapid increase in the years immediately after the war may be ascribed for the most part to rises in producer prices which had been kept low during the war years in order to combat inflation ...

"In contrast with the economy which has shown sustained growth since 1962, agriculture has been hard hit by droughts since that date - resulting in disastrous conditions in certain parts." (Translation)

The good rains of 1966/67, on the other hand, brought record summer crops in 1967. Unfortunately this was followed shortly afterwards by yet another drought in various areas, which again reduced the yields in those areas.

2.2.2 Price formation and price stability

Price formation in South African agriculture is, as will be explained further below, characterised by a considerable measure of Government intervention. Primary agricultural products, representing nearly 90 per cent of the value of total agricultural production, are handled in accordance with statutory marketing regulations. The remaining products, such as vegetables, certain kinds of fruit, table poultry, fresh milk in certain parts of the country and various less important products, are still marketed without any direct intervention by statutory bodies.

As had been intended, controlled marketing resulted in a reasonable degree of price stability during the past decades and did much to make the rational planning of farming possible. The Departments of Agriculture point out, however, that stable prices do not offer a complete solution to the problem of variable income in agriculture since the size of the farmer's crop may vary appreciably.

"The adverse effects of droughts and other natural phenomena cannot be offset effectively by means of price adjustments since, usually such phenomena do not occur uniformly throughout the country or even within particular regions. A solution to the problem of varying farm incomes should rather be sought in other measures, such as the further improvement of financial facilities ...

"Although there are various respects in which agricultural prices formed in a free market do not give the desired results, supply and demand cannot be left out of account in the determination of prices. On the one hand, the product has to be sold and one cannot dictate to the consumer that he must buy certain quantities of a product at a particular price or the same quantities at higher prices. On the contrary, the consumer will be inclined to cut down his purchases of particular products as their prices rise. On the other hand, the price must provide sufficient incentive for the producer, so that the quantities required will be produced. For certain products, however, an outlet has to be sought on foreign markets, their prices being formed on an international basis.

"The use of price adjustments to regulate agricultural production has certain snags, but this is still virtually the only effective measure. Use of such adjustments can hardly be avoided if an economically sound agricultural structure is to be maintained.

"For sound reasons the process of price formation in agricultural products does not depend entirely on the operation of the free market mechanism. Intervention in this process naturally requires special knowledge, insight and information to stabilise prices and production in such a way that the agricultural sector will get its rightful share in times of economic prosperity but that it will also make its proper contribution when economic conditions are less favourable." (Translation)

Groenewald (1970)* mentions that the prices of agricultural products rose by an average of more than 2 per cent per annum over the 20-year period 1947/48 to 1967/68, while the prices of agricultural requisites advanced at the same time by 2,35 per cent per annum, i.e. more rapidly than the producer prices.

The Commission considers it essential that, apart from the economic considerations that should apply to price formation, the price policy followed should be conducive to the successful operation of farming systems, optimally adjusted to environmental conditions and geared to conservation principles.

2.2.3 Price parity

By "price parity" is meant the ratio between the prices farmers have to pay for their requisites and the prices they get for their products. Lombard et. al.⁺ have calculated this ratio in regard to South Africa by comparing producer price indices and a combination of (a) the consumer price index (farmers' cost of living), (b) the indices for intermediate inputs (cost of farming requisites such as seed, fertiliser and other means of production), and (c) the index of other costs, particularly wages and interest on capital.

In Fig. 2.1 the indices of producer prices, prices of intermediate inputs, wage levels and consumer prices since 1947/48 are shown in separate graphs. Fig. 2.2 is a graph of the calculated ratio between the producer price index range and the composite price index range of the abovementioned cost items since 1947/48.

These graphs show that the price parity index rose very sharply to the advantage of the South African farmer until the early fifties, but subsequently showed a sharp downward trend for a full decade until 1960/61. It will be seen that the price parity index reached the lowest point in 1961/62 and continued virtually unchanged until 1963/64. Post-war developments in South African agriculture, as indicated in these graphs, show that the price parity ratio between sales of farm products and expenditure by farmers (farming purchases) at the beginning of the seventies was nowhere near the level at which it had stood in the first decade after the Second World War.

As indicated by the graphs in Fig. 2.1, this is largely due to the following:

- (a) In contrast with consumer prices and farm wages, the producer price level remained virtually constant during the late fifties.
- (b) On the other hand, in the sixties (excluding 1967/68) producer prices rose steadily and appreciably, this increase being proportionately larger than that in the various cost items separately and combined.

* Groenewald, J.A. (1970) : The State of South African Agriculture, Annual Congress. Agricultural Economics Society of S.A.

+ Lombard, J.A. et al. (1969): Die aandeel van die landbou-entrepreneurs in die groeiende ekonomiese welvaart van Suid-Afrika. Special report: Bureau for Economic Policy and Analysis. University of Pretoria

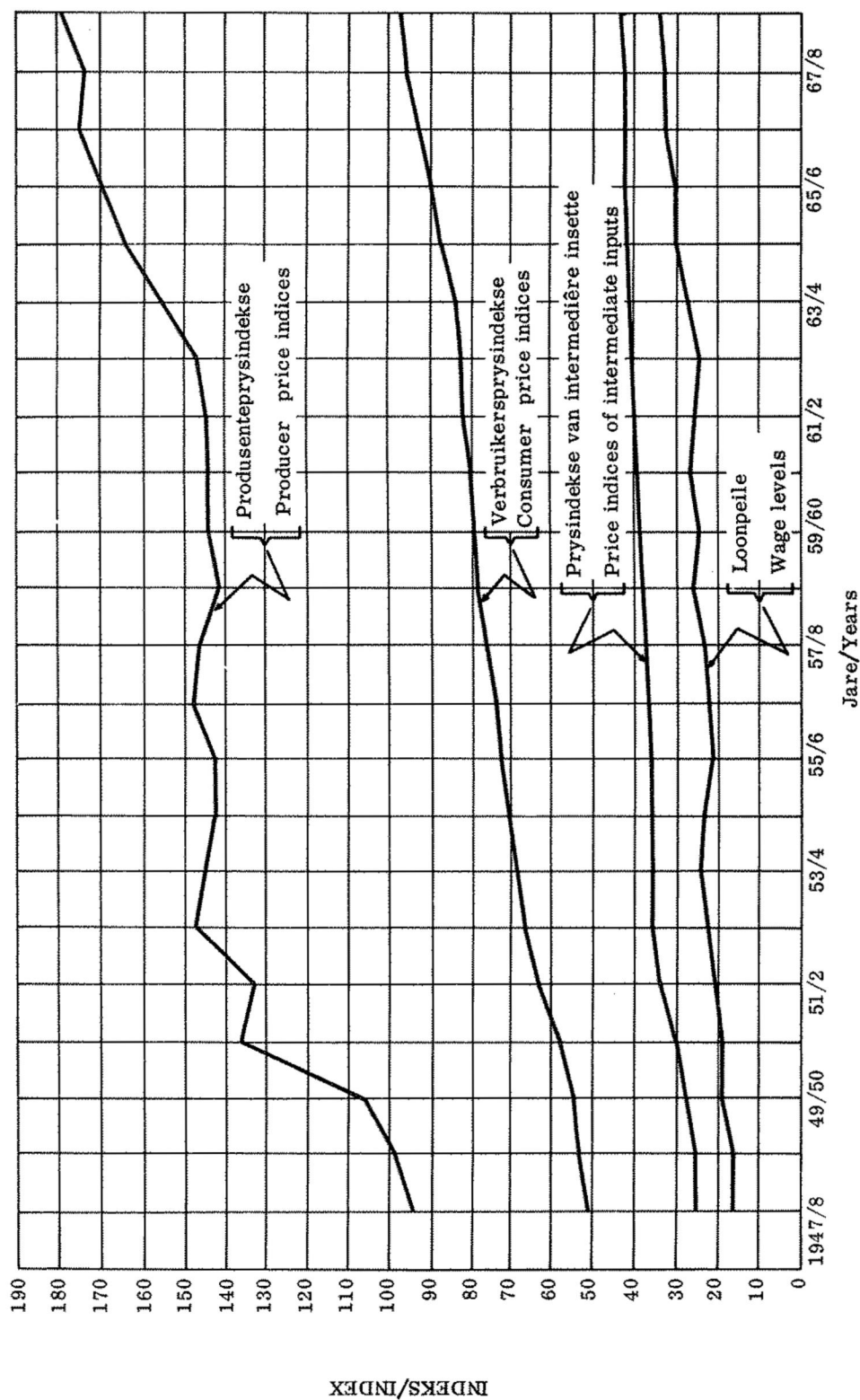


FIG.2.1 - Indekse van produsentepryse, verbruikerspryse, intermedieë insette en loonpeile, in die landbou vanaf 1947/48 tot 1968/69

Indices of producer prices, consumer prices, intermediate inputs and wage levels in agriculture from 1947/48 to 1968/69

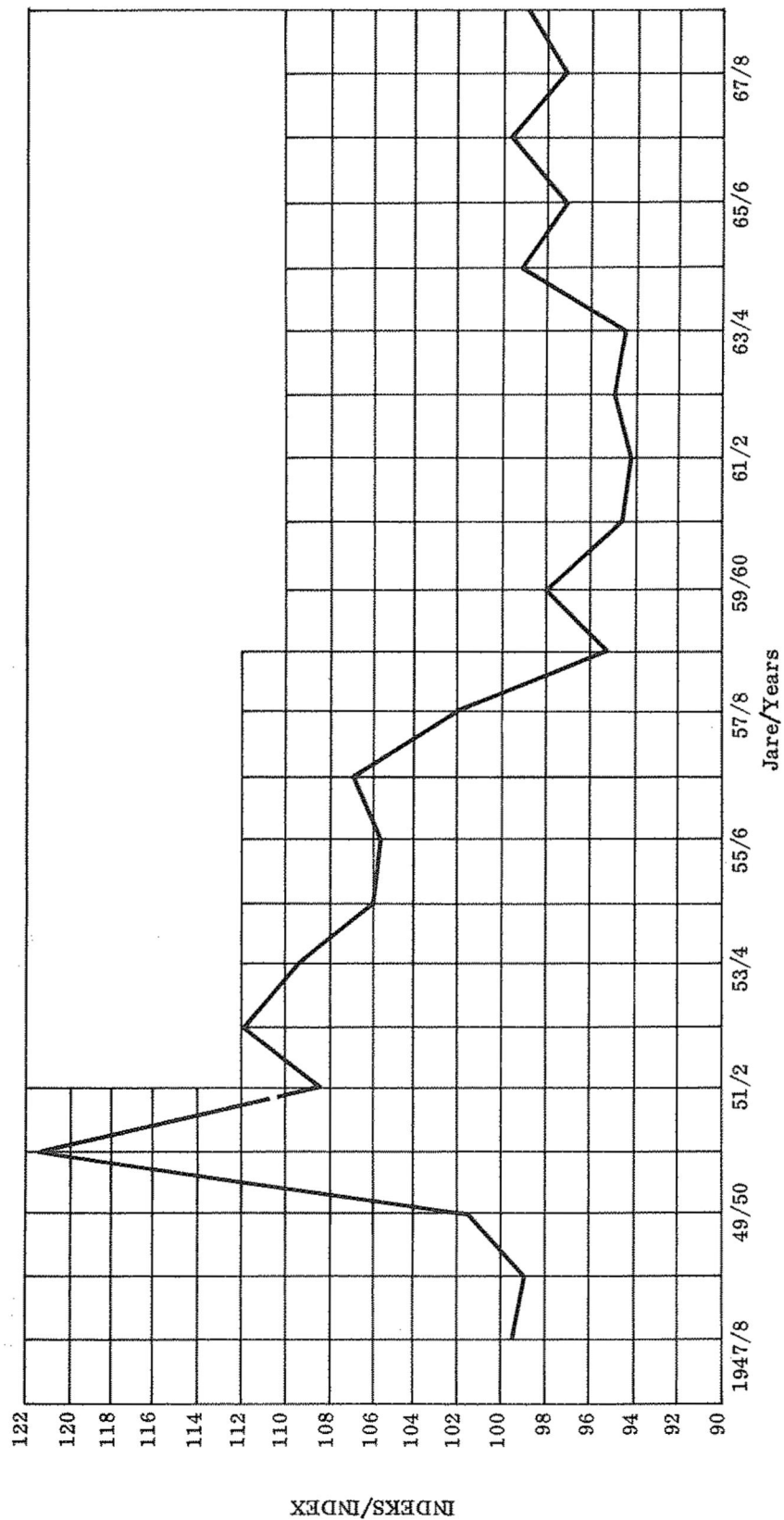


FIG. 2.2. - Die verhouding van prysreeks van landbouprodukte tot die saamgestelde prysreeks van koste-items (pryspariteits-indeks) vanaf 1947/48 tot 1968/69

The ratio of the price range of agricultural products to the composite price range of cost items (price parity index) from 1947/48 to 1968/69

2.3 Volume of agricultural production and inputs

Although the information given above throws considerable light on the course of affairs since the Second World War as regards the prices of agricultural products in relation to the prices of inputs and other agricultural requisites, it is realised that price ratios by themselves are really an inadequate yard stick for assessing the farmers' share in the country's economic progress. The position can be greatly influenced by changes in the physical volume of production and of farming requisites or inputs such as machinery, fuel, seed, fertiliser and so forth.

A review has already been given in paragraphs 1.2.1.1 and 1.2.1.2 of the rise in the physical volume of agricultural production and, separately, of agricultural food products produced after the Second World War, as well as of the value of this contribution to the national economy. It is also important, however, to investigate how efficiently the factors of production are employed in South African agriculture in order to keep the supply of agricultural products at reasonable prices in step with the expansion in the demand for such products.

The studies of Groenewald* + on how inputs of primary factors of production have changed in respect of field crop production (area of land under field crops), horticultural production (number of fruit trees in production) and animal production (number of animals used), have shown that the inputs of these primary resources rose considerably from 1945 to 1963 and that in this period increasing yields were obtained per unit of primary resource. The rise was more marked in horticulture than in field husbandry, but showed a clear tendency to lag in animal production. These analyses strongly suggest that the overall structure of South African agriculture is beginning to change.

Du Plessis[†] pointed out quite recently that South Africa was falling behind in the production of animal proteins and particularly of red meat. In a subsequent article, however, he expressed concern about the way in which the resources, soil and water, are being affected by production practices and are deteriorating to an alarming extent. It is striking that the major part of the area to which Du Plessis refers in this regard is that part of the Republic which is most closely involved in animal production.

Fig. 2.3 reflects the trends in the physical quantities produced by the agricultural sector since 1947/48, as well as the trends in intermediate inputs and labour used by agriculture. It is evident from Fig. 2.3 that intermediate inputs rose appreciably during the fifties and sixties in particular. This rise must be seen in relation to the increase in physical volume if an idea is to be gained of the productivity of agricultural technology. As indicated in Fig. 2.4, this productivity ratio was very much against the farmer in the late fifties, but was considerably more favourable in the sixties.

* Groenewald, J.A. (1964): Changes in Primary Resources in South African Agriculture. Agrekon, Vol. 3 No. 3, 22-29

+ Groenewald, J.A. (1965): Differences in the Growth in Three Sectors of S.A. Agriculture. Agrekon, Vol. 4 No. 1, 27-34

[†] Du Plessis, S.J. (1970): Op. cit.

It is important, furthermore, to note that the trends in the physical ratios (i.e. production to inputs) correspond to a large extent to the price parity trend. (Compare Fig. 2.2 with Fig. 2.4) This shows that the economic climate for agriculture deteriorated greatly during the late fifties, but that the position improved appreciably in the sixties. In considering these developments, the tremendous fluctuation in productivity ratios from 1964/65 to 1968/69 must be borne in mind, a fluctuation which may be expected to have a very marked effect on agriculture.

2.4 Net farm income of White farmers

According to the Departments of Agriculture* the net farm income of White farmers in South Africa rose from R149,7 million in 1947 to R549,7 million in 1970. If, on the basis of the data in Table 1.1, it is accepted that there were about 127 000 White farmers in South Africa in 1947 and an estimated 90 000 in 1970, then the net farm income rose from an average of R1 179 per White farmer in 1947 to R6 108 in 1970.

The statistical series on net farm income are a good gauge of the prosperity of the farming community. According to these data it would appear that during this period farmers, on the basis of average real net farm income, fared reasonably well. The relative prosperity of the White farming community may be determined by comparing this progress with that in the rest of the national economy. Since the only data available on personal income are those in the Reserve Bank series, which include South West Africa, Botswana, Lesotho and Swaziland, they are not considered suitable for the purposes of such comparisons.

Further information submitted to the Commission by the Division of Agricultural Marketing Research of the Department of Agricultural Economics and Marketing indicates that interest as a cost factor expressed as a percentage of total farm expenditure amounts to approximately 9 per cent.

Lombard et al.⁺ also went into the question of net farm income and in this connection furnished the following information:

2.5 Personal farm income

In order to obtain a more precise indication of the level of economic prosperity in agriculture, attention was given to personal farm income, i.e. the difference between the gross value of production and the sum of the various costs attached to farming.

The trend in the indices for personal farm income, the production index and the cost indices (intermediate inputs, labour and interest on capital) is indicated in a graph in Fig. 2.5. According to

* Departments of Agriculture (1968): Submission to Commission: Part 1: Landbou-agtergrond, p. 1/30

+ Lombard, J.A. et al. (1969): Loc. cit.

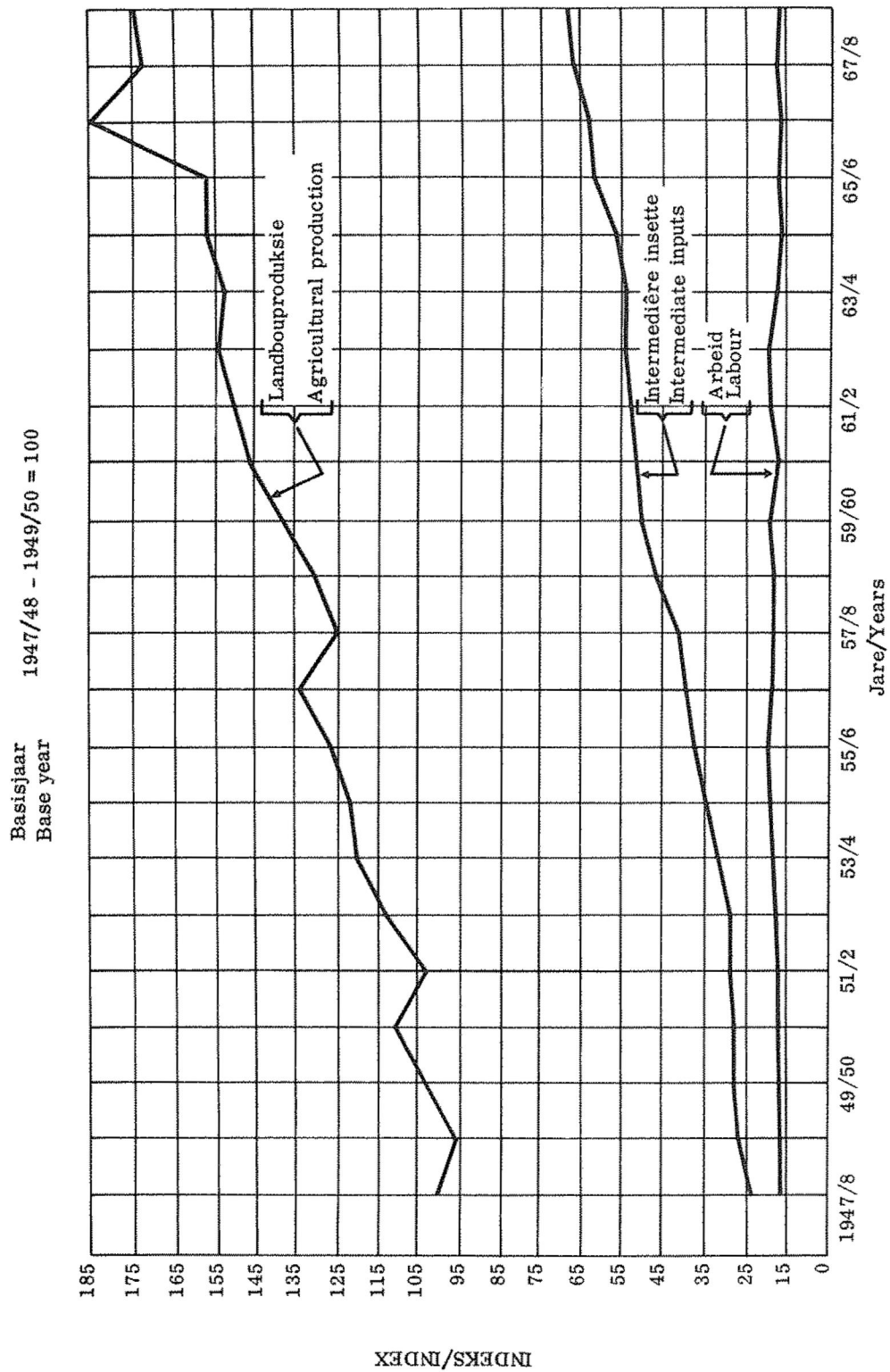


FIG.2.3. - Tendense ten opsigte van fisiese produksie deur landbou vanaf 1947/8 en die van intermediêre insette en arbeid vanaf 1947/48 tot 1968/69

Trends in physical volume of agricultural production, intermediate inputs and labour from 1947/48 to 1968/69

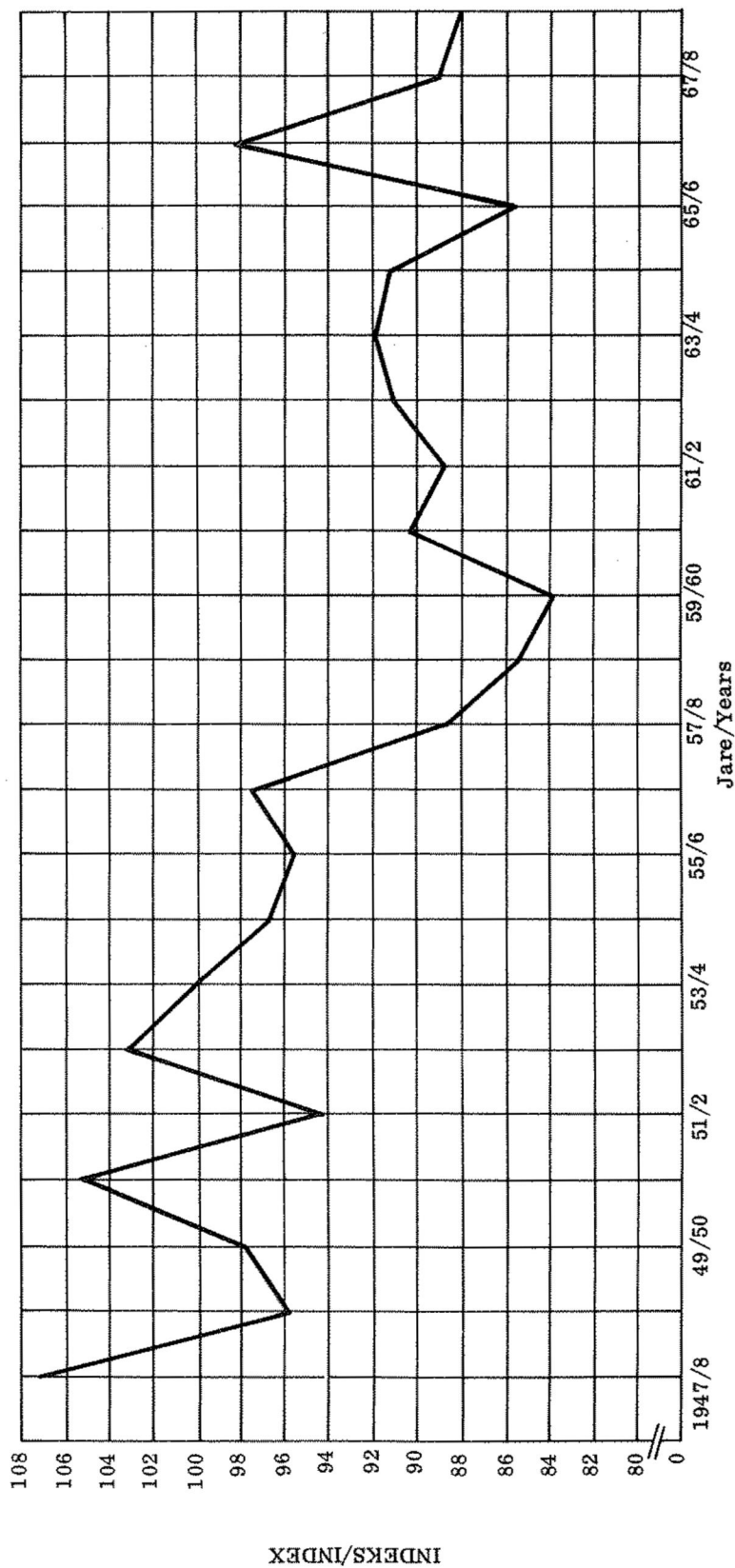


FIG. 2.4. - Die verhouding van indekse van reële landbouproduksie tot die saamgestelde indekse van reële insette vanaf 1947/48 tot 1968/69

The ratio of indices of real agricultural production to the composite indices of real inputs from 1947/48 to 1968/69

Basisjaar 1947/48 - 1949/50 = 100
Base year

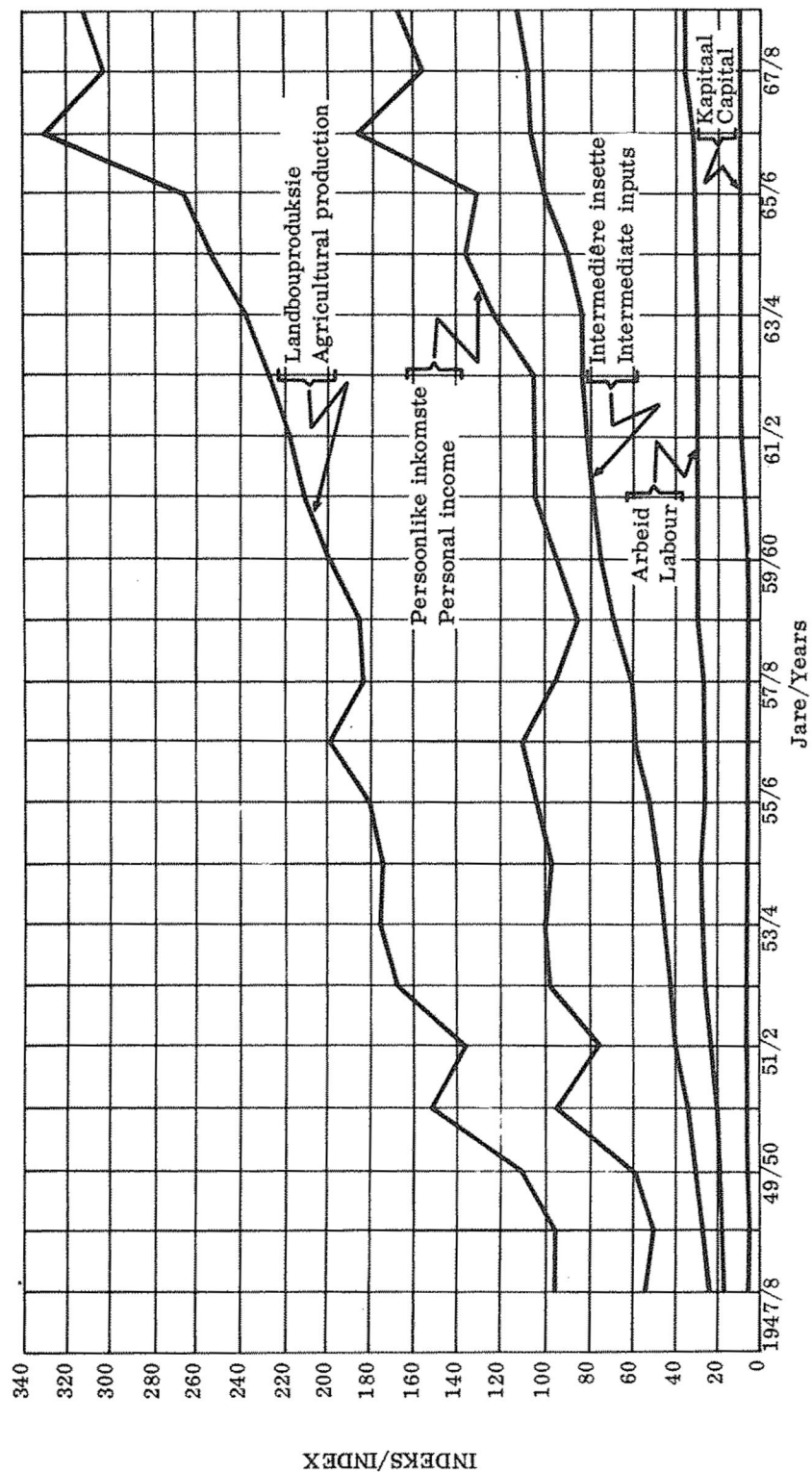


FIG. 2. 5. - Indekse ten opsigte van persoonlike boerdery-inkomste, produksie en koste (intermediêre insette, arbeid en kapitaal.)

Indices of personal farm income, value of agricultural production and costs (intermediate inputs, labour and capital)

Basisjaar
Base year

1947/48 - 1949/50 = 100

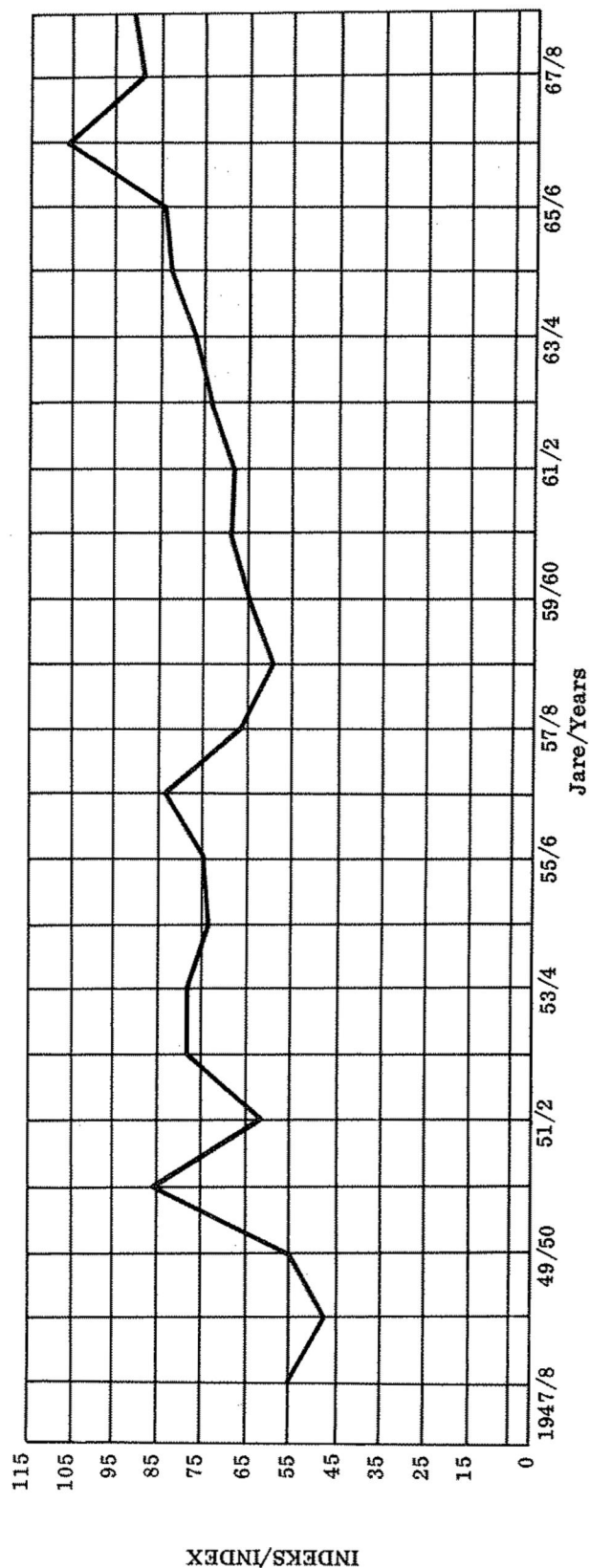


FIG. 2. 6. - Indeks van reële persoonlike inkomste van landbouproduksie gedurende die tydperk 1947/49 tot 1968/69
Index of real personal income of agricultural producers during the period 1947/48 to 1968/69

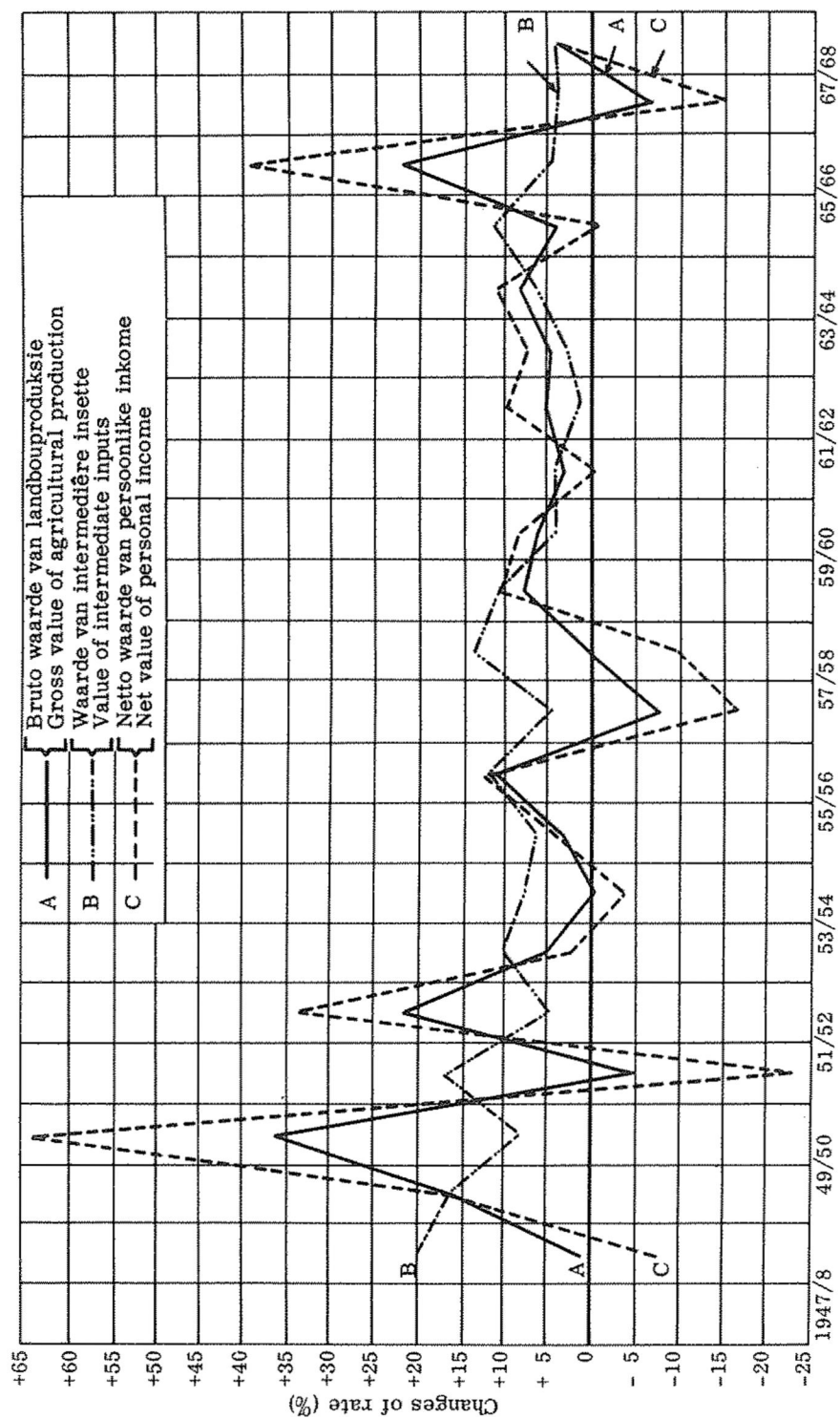


FIGURE 2.7 - Gross value of agricultural production, value of intermediate inputs and personal income of agricultural producers from 1947/48 to 1968/69

these data, personal farm income during the period concerned averaged 53 per cent of the gross value of production, while costs averaged 47 per cent.

It is also evident from Fig. 2.5 that personal income grew at a slower rate in the fifties (an average of 4.4 per cent per annum) than in the sixties (7.2 per cent per annum). The slower rate of growth in the first post-war decade was apparently due to the sharper rise in the cost of wages and of intermediate inputs.

The trend in personal income (converted to real values in accordance with the rise in the consumer price index to compensate for the decrease in the value of money), shown in the graph in Fig. 2.6, very clearly reflects the extremely poor period from the mid-fifties to the mid-sixties. It may be assumed that the economic conditions prevailing in agriculture during those years must have had very adverse effects on South African Agriculture and particularly on the less well-to-do farmer. It may be noted that it was during this period that urgent representations for the appointment of a commission of inquiry into agricultural matters reached a peak.

These graphs and the data summarised in Table 2.1 also show, however, that the trend in personal income during the sixties as a whole points in real terms to a rise of 4.8 per cent per annum, which does not compare unfavourably with the trend in real personal income outside agriculture. Although it might seem that this could also have been the case with per capita income, such an inference cannot be made with absolute certainty since there are no reliable data for calculating the personal income of the White population employed in other sectors and no significant results can be obtained for purposes of comparison.

The data on the real contribution of agriculture to the gross domestic product (see paragraph 1.1.3), as well as the rise in real net farm income from 1947 onwards, show that on the whole the economic progress of the agricultural sector since 1947/48 has kept pace fairly well with that of the rest of the national economy. While stating this conclusion, however, the Commission, is fully aware that such a generalisation based on averages for agriculture is probably an over-simplification of the actual state of affairs and does not reveal the extent and nature of the actual underlying deviations.

2.6 Instability and uneven distribution of agricultural income

2.6.1 The problem of instability

The information furnished in the foregoing paragraphs on growth trends in South Africa in regard to agricultural production, producer prices and prices of consumer goods and inputs since the Second World War leaves little doubt that the average growth trends in economic prosperity among farmers have been reasonably favourable, particularly during the past decade. There are indications, however, that developments in the economic sphere were much less favourable to the

South African farmer in the late fifties. The Commission suspects, furthermore, that the adverse effects of the serious difficulties experienced have not yet been wiped out completely.

It is accepted that these effects are heightened by the very marked fluctuations from year to year to which South African agriculture is subject. Although these fluctuations are evident from the preceding graphs showing long-term trends, they are (as appears from the graphs in Fig. 2.7) strikingly wide and persistent in the case of personal income in particular. These fluctuations indicate serious instability in physical output, inputs and real income, an instability which is reflected in almost exactly the same way in the monetary values of production, costs and income.

2.6.2 Uneven distribution of income

Groenewald (1970)* and Lombard et.al. (1969)[†] made a study of the returns of the taxable income of persons (with their income classified in groups according to source of income) for the tax years 1958 to 1960 and 1964 to 1965, as furnished in the annual reports of the Secretary for Inland Revenue (see Table 2.2). They found that these incomes were distributed very unevenly among individual farmers and very much more so than those of persons employed in other groups. Lombard et.al point out that the more uneven distribution of income among farmers places their economic position in a worse light than ordinary arithmetic averages do. They found that the average income of farmers actually increased more rapidly than that persons outside agriculture. They consider that the reason why farming is overtaking the rest of the economy is that the number of farmers is decreasing, whereas the number of economically active persons outside agriculture is increasing.

As regards the above-mentioned returns of taxable income from farming it should be borne in mind, however, that the circumstances surrounding these returns and calculations are such that the phenomenon of uneven distribution of income can be accepted as significant, but that the given taxable incomes cannot simply be taken as an indication of net personal income, owing to various permissible deductions.

Data furnished by the Department of Agricultural Economics and Marketing on the value of farm products sold in 1961/62, classified according to the size of the farms on which they were produced (see Table 2.3), reveal some unevenness in the distribution of income, but not to the same extent as would appear from the data of the Secretary for Inland Revenue.

There is therefore good reason to suppose that average income in agriculture, in real terms, was at a relatively high level during the past two decades, that the average rate of growth in such income kept pace to a reasonable extent with the

* Groenewald (1970): The State of South African Agriculture. Annual Congress. Agricultural Economics Society of S.A.

[†] Lombard, J.A. et al. (1969): Op. cit.

TABLE 2.1 : Average changes in rates in South African Agriculture during the two decades from 1951

Period	Production growth rate (percentage)			Growth rate of primary inputs (percentage)			Growth rate of personal income (percentage)		
	Physical volume	Price trend	Gross value	Quantities	Price trend	Cost of intermediate inputs	Real gross value of personal income	Consumer price trend what the farmer pays	Net value of personal income
1951/52 - 1959/60	3,8	1,2	5,2	7,3	1,5	8,8	1,5	2,9	4,4
1959/60 - 1968/69	2,9	2,4	5,3	3,3	1,2	4,6	4,7	2,3	7,2

Source: Lombard, J. A. et al. (1969): Die Aandeel van die landbou-entrepreneurs in die groeiende ekonomiese welvaart van Suid-Afrika. Special report: Bureau for Economic Policy and Analysis, University of Pretoria.

TABLE 2.2 : Average frequency distributions of taxable incomes of persons in receipt of farm incomes, classified in groups according to source of income. Republic of South Africa, 1958 to 1960 and 1964 to 1965

Income Group	Interval	1958 - 1960		1964 - 1965	
		Number of Persons	Percentage of Total	Number of Persons	Percentage of Total
R	R	1 000	%	1 000	%
Loss	-	12,8	11,8	3,6	4,7
0- 599	600	27,0	25,1	14,2	18,7
600- 999	400	14,0	13,0	9,5	12,5
1 000- 1 199	200	6,0	5,6	4,3	5,6
1 200- 1 599	400	10,3	9,5	7,4	9,8
1 600- 1 999	400	8,0	7,4	6,0	7,9
2 000- 3 799	1 800	-	-	16,6	21,6
2 000- 3 999	2 000	19,0	17,6	-	-
3 800- 5 999	2 200	-	-	7,8	10,2
44 000- 5 999	2 000	5,9	5,4	-	-
6 000- 9 999	4 000	3,3	3,1	4,5	6,0
10 000-13 999	4 000	1,0	0,9	1,3	1,7
14 000-17 999	4 000	0,3	0,3	0,5	0,7
Over 17 999	-	0,3	0,3	0,4	0,5
Total	-	107,9	100	76,1	100

Source: Annual reports of the Secretary for Inland Revenue

general rate of growth in the economy as a whole, and that personal per capita income calculated for farmers apparently did not lag behind that of the rest of the population either. Various experts point out, however, that, notwithstanding this relatively favourable impression regarding the general share of agriculture in the country's prosperity, the instability and particularly the unevenness in the distribution of income in agriculture point to serious income problems for certain farmers - problems which are presumed to be closely associated in certain respects with the occurrence of rural poverty in South Africa.

2.6.3 Production and structural situations in agriculture

According to certain experts, the instability and unevenness in the distribution of income in agriculture must be ascribed to one or more situations closely connected with production and structural agricultural matters in South Africa.

2.6.3.1 Annual fluctuations

In its Interim and Second Reports the Commission repeatedly stressed the high degree of variability in climatic conditions, particularly rainfall, the regularity with which fairly severe droughts occur in large parts of the country and the high degree of risks to which agricultural production in South Africa is subject.

In its Interim Report on the drought problem the Commission pointed out inescapable obligations regarding the adjustment of grazing systems and stocking rates to the productive and carrying capacity of agricultural land under all conditions which are characteristic of each area, the timely and effective provision of reserves of feed on the farms concerned, and conservation farming.

In its Second Report the Commission indicated, inter alia, that biophysical stability is a pre-

TABLE 2.3 : A classification of morgen of farm land and farmers according to the value of farm products sold in 1961/62

Value of Farm Products Sold	Morgen													
	1 - 9,9		10 - 99,9		100 - 499		500 - 999		1 000 - 4 999		5 000 - 9 999		10 000 +	
	Number of Farmers	%	Number of Farmers	%	Number of Farmers	%	Number of Farmers	%	Number of Farmers	%	Number of Farmers	%	Number of Farmers	%
R1 - R199	8 222	100	2 892	35	2 915	35	1 659	20	295	4	21	1	8	0
R200 - R499	7 913	100	1 686	21	2 462	31	2 505	32	509	6	48	0	7	0
R500 - R999	9 053	100	1 009	11	2 486	27	3 364	37	955	11	73	1	16	0
R1 000 - R1 999	13 493	100	845	6	3 059	23	2 238	17	2 054	15	167	1	49	0
R2 000 - R4 999	22 690	100	550	2	4 026	18	4 342	10	5 246	23	675	3	142	1
R5 000 - R9 999	16 655	100	201	1	2 168	13	4 598	28	5 028	30	893	5	283	2
R10 000 - R19 999	11 253	100	123	1	990	9	2 545	23	3 823	34	760	7	348	2
R20 000 - R19 999	4 994	100	55	1	366	7	970	19	1 921	38	354	8	261	6
R50 000 +	1 185	100	14	1	104	9	180	15	512	43	114	10	99	8
None and not indicated	10 553	100	4 281	41	3 215	30	1 665	15	642	6	35	1	28	1
Total	106 011	100	11 656	11	21 791	21	30 251	29	20 985	20	3 140	3	1 242	0
-B-														
R1 - R1 999	38 681	100	6 432	17	10 922	28	12 599	33	3 813	10	309	0	81	0
R2 000 - R4 999	22 690	100	550	2	4 026	18	7 694	34	5 246	23	675	3	142	1
R5 000 - R9 999	16 655	100	201	1	2 168	13	4 598	28	5 028	30	893	5	283	2
R10 000 - R49 999	16 217	100	178	1	1 356	8	3 515	22	5 744	35	1 114	7	609	4
R50 000 +	1 185	100	14	1	104	9	180	15	512	43	114	10	99	8
None and not indicated	10 553	100	4 281	41	3 215	30	1 665	15	642	6	35	1	28	1
Total	106 011	100	11 656	11	21 791	21	30 251	29	20 985	20	3 140	3	1 242	0

requisite for economic stability in agriculture. In following up its findings stated in the Interim Report, the Commission analysed a number of factors contributing to biophysical instability in South African agriculture and made numerous recommendations on how certain shortcomings in agricultural production should be remedied. These recommendations relate particularly to the devising and application of farming systems optimally adjusted to environmental conditions (particularly as regards soil and climate) in the area concerned, the planning of agricultural production on a regional as well as on a national basis, the rationalisation of mechanisation and labour in agriculture, and equipping the farmer in both the technical field and the business field to achieve the best possible success in his farming operations.

Although the analyses in the foregoing paragraphs have again turned the spotlight on the instability of, and thereby on the riskiness of South African agriculture, the Commission wishes again to stress the importance of its findings and recommendations as presented in the above-mentioned reports. The Commission is firmly convinced that attempts to remedy the instability in agriculture by financial measures alone have little chance of success if the basic causes of biophysical instability in agricultural production are not removed on the farm itself.

2.6.3.2 Regional incomes, farming systems and un-economic farming units

In 1967 the Division of Agricultural Marketing Research of the Department of Agricultural Economics and Marketing started work on geographic classifications and the collection and study of statistical series on a regional basis. The regional totals were for the most part based on the totals for the various magisterial districts, but data on net farm income and capital formation or investment are still collected and presented on a regional basis. A summary of data collected in this manner appears in Table 2.4.

Wissing (1965)* points out, before analysing the contribution of various agro-economic regions to the gross domestic product, that income per farming unit cannot simply be deduced from the net value of production per morgen. The data furnished by him show that in 1959/60 -

"the average net value of agricultural production on 26,5 million morgen (21 per cent of the total area in the Republic utilised for agriculture) was less than R1 per morgen. On 78,9 million morgen (64 per cent of the area utilised for agriculture) it amounted to R4 and less, whereas on only 5 million morgen (4 per cent of the area utilised for agriculture) the net value exceeded R16 per morgen."

According to these data, the major part of the Republic is used for extensive farming.

* Wissing, G.J. (1965): The Regional Contribution of Agriculture to the Republic's Gross Domestic Product. Agrekon, Vol. 4 No. 2, 19-27

According to Kotzé (1969)*, economic development has not taken place at the same rate everywhere either. He considers that there are agricultural areas where the level of prosperity is such that they may be described as economically developed, and other areas which have to contend with problems of retarded development. Each of these areas has its own specific problems, but he considers that the problems in areas with retarded economic development are far more difficult. To get to know more about the nature and extent of this phenomenon of subnational differential economic development would require more penetrating studies of the prevailing conditions and factors underlying the differential rates of growth, like the studies already carried out by Kotzé and his collaborators in regard to the Upper Orange Region and Griqualand East. In those studies account was taken not only of the development of the areas in regard to agriculture with its characteristically slower growth rate, but also in regard to industry and other spheres showing more rapid growth trends. It was found that in the Upper Orange Region the gross value of agricultural output per rand of intermediate goods and services (taken at 1954/55 prices) decreased from R3,2 to R2,6 from 1954/55 to 1959/60. This raised the question -

"whether the decrease in productivity is the result of delayed technological development or whether it has not produced the desired results".

In contrast with the Upper Orange Region, Griqualand East is still at a stage of constant returns according to the scale of the enterprise. After analysing shortcomings that would have to be remedied in order to improve the prospects of development in each of the areas, Kotzé† came to the conclusion -

"that the adjustments required by the local communities in the two areas differ widely. A uniform development policy is thus decidedly unsuitable."

According to Lombard et al. (1969)‡, the data show that a generalisation based on averages to indicate the progress and prosperity of the farming community does not reflect the true state of affairs. They point out that, according to the data on regional incomes, the position of grain farmers is actually better than that of cattle and sheep farmers. Fairly comprehensive data on yield and costs for grain farmers show that their position as regards prosperity is reflected more or less correctly by the overall figures. Although there has been a long-term deterioration in the ratio between price per bag and cost per morgen, this has been more than offset by the increase in the physical yield per morgen.

In his findings in this regard Groenewald (1970)§ arrived at the conclusion that the problem is

* Kotzé, H.A. (1969): Features of the Economic Growth and Development of Rural Areas. Agrekon, Vol. 8 No. 2, 27 - 39

† Kotzé, H.A. (1969) : Loc. cit.

‡ Lombard, J.A. et al. (1969): Op. cit.

§ Groenewald, J.A. et al. (1969): Op. cit.

TABLE 2.4 - Estimate of debt ratios, net Farm Income and the share of each of the Areas in the gross Domestic product as in 1955/56

Farming Area Code *	Agro-economic Region number	Debt (% of Capital Investment) (1966)	Net farm income		Agriculture's Contribution of G.D.P. (%) (1965/66)	Magisterial Districts
			Average + (R per morgen) (1965/66)	% of Capital Investment (1965/66)		
A. (Summer- rainfall field- cropping area)	70	24,6	13,4	12,9	9,5	Bloemhof, Coligny, Christiana, Delareyville, Klerks- dorp, Lichtenburg, Potchefstroom, Schweizer-Rene- ke, Ventersdorp, Wolmaransstad.
	71	17,0	6,7	6,9	1,8	Bultfontein, Hoopstad, Theunissen, Wesselsbron.
	72	15,6	15,9	14,1	3,6	Bothaville, Kroonstad, Ventersburg, Viljoenskroon.
	73	19,9	10,8	11,4	1,8	Heilbron, Koppies, Parys, Vredefort.
	74	17,7	8,3	8,9	3,4	Bethlehem, Lindley, Frankfort, Marquard, Reitz, Senekal.
	75	20,5	11,4	12,4	1,5	Clocolan, Ficksburg, Fouriesburg, Ladybrand.
	77	16,7	9,6	8,8	3,5	Bethal, Delmas, Heidelberg, Nigel, Balfour, Stander- ton.
	78	10,5	21,4	18,5	1,0	✓ Hennenman, Odendaalsrus, Virginia, Welkom.
	80	48,7	22,9	14,9	2,3	✓ Alberton, Springs to Krugersdorp and Randfontein.
	81	30,5	16,3	5,5	0,5	✓ Pretoria.
	82	27,2	21,3	17,4	0,8	✓ Vanderbijlpark and Vereeniging.
	83	8,1	-6,0	-6,1	-	✓ Sasolburg.
B. - CATTLE-RANCHING AREAS (B1 - Northern, B2 - North-western, B3 - Transvaal, B4 - Natal Lowveld)	92	24,5	12,6	14,0	2,0	Bronkhorstspuit, Cullinan, Witbank, Groblersdal.
	90	24,8	4,1	7,7	2,4	Brits, Marico, Rustenburg, Swartruggens, Thaba- zimbi.
	91	25,1	2,9	6,4	3,5	Messina, Pietersburg, Potgietersrus, Soutpansberg, Warm Baths, Waterberg.
	40	18,4	1,5	9,1	1,7	Gordonia, Postmasburg.
	42	20,2	1,9	5,4	1,4	Barkly West, Fartswater, Herbert, Hopetown, Kim- berley, Taung, Warrenton.
	45	17,5	1,4	4,7	1,8	Kuruman, Mafeking, Vryburg.
	65	17,3	29,5	10,3	4,5	Eshowe, Hlabisa, L. Tugela, L. Umfolosi, Mtunzini, Ubombo

Farming Area Code *	Agro-economic Region number	Debt (% of Capital Investment) (1966)	Net farm income		Agriculture's Contribution of G. D. P. (%) (1965/66)	Magisterial Districts
			Average + (R per morgen) (1965/66)	% of Capital Investment (1965/66)		
C. - MIXED FARMING AREAS (C. 1 - South-eastern Free State, C. 2 - Natal, C. 3 - Eastern Cape)						
C. 1	44	13, 1	0, 3	0, 7	0, 2	Boshof.
	50	14, 6	4, 0	5, 5	1, 8	Brandfort, Bloemfontein, Dewetsdorp, Reddersburg, Thaba Nchu, Winburg.
	51	13, 5	2, 3	3, 9	1, 1	Bethulle, Edenburg, Philippolis, Rouxville, Smith- field, Trompsburg, Wepener, Zastron.
C. 2	60	13, 9	3, 2	4, 4	1, 6	Babanango, Dannhauser, Dundee, Glencoe, Newcastle Paulpietersburg, Utrecht, Vryheid.
C. 3	30	15, 3	4, 1	5, 7	1, 3	Adelaide, Bedford, Cathcart, Fort Beaufort, Stutter- heim, Kongha.
D. - DRAKENSBURG GRAZING AREAS (D. 1 - Northern Drakensberg, D. 2 - Southern Drakensberg)						
D. 1	76	13, 7	6, 4	9, 1	1, 9	Harrismith, Vrede.
	93	17, 8	3, 4	4, 5	0, 9	Amersfoort, Piet Retief, Volksrust, Wakkerstroom.
	94	15, 9	2, 8	4, 1	1, 4	Belfast, Carolina, Ermelo, Middelburg, Waterval- Boven.
D. 2	32	12, 0	5, 2	9, 2	1, 1	Barkly East, Elliot, Hershel, Maclear, Lady Grey.
	33	20, 4	2, 9	5, 5	1, 4	Albert, Aliwal North, Indwe, Molteno, Queenstown, Tarkastad, Sterkstroom.
	61	5, 7	7, 3	7, 7	2, 6	Bergville, Estcourt, Klip River, Lions River, Mooi River, Impendle, Underberg, Weenen.
	66	11, 7	6, 6	9, 7	0, 7	Matatiele, Mount Currie.
E. - FROST-FREE BORDER AREAS (E. 1 - Eastern Transvaal, E. 2 - Eastern Natal, E. 3 - Eastern Cape)						
E. 1	95	12, 7	12, 1	9, 7	5, 4	Barberton, Lydenburg, Letaba, Nelspruit, Pilgrim's Rest, Sibasa, White River.
E. 2	63	33, 8	7, 5	5, 8	1, 2	Camperdown, Kranskop, New Hanover, Pietermaritz- burg, Umvoti.
	64	2, 6	19, 7	20, 0	0, 4	Mahlabatini, Mtonjaneni, Nqutu, Nongoma.
E. 3	3	5, 7	75, 6	11, 5	7, 8	Durban, Inanda, Pinetown.
	31	11, 3	4, 8	5, 0	1, 8	Albany, Alexandria, King William's Town, Kirkwood, Bathurst, Peddie, East London.
	62	33, 8	7, 5	5, 8	1, 2	Alfred, Ixopo, Port Shepstone, Richmond, Umlazi, Umzinto.

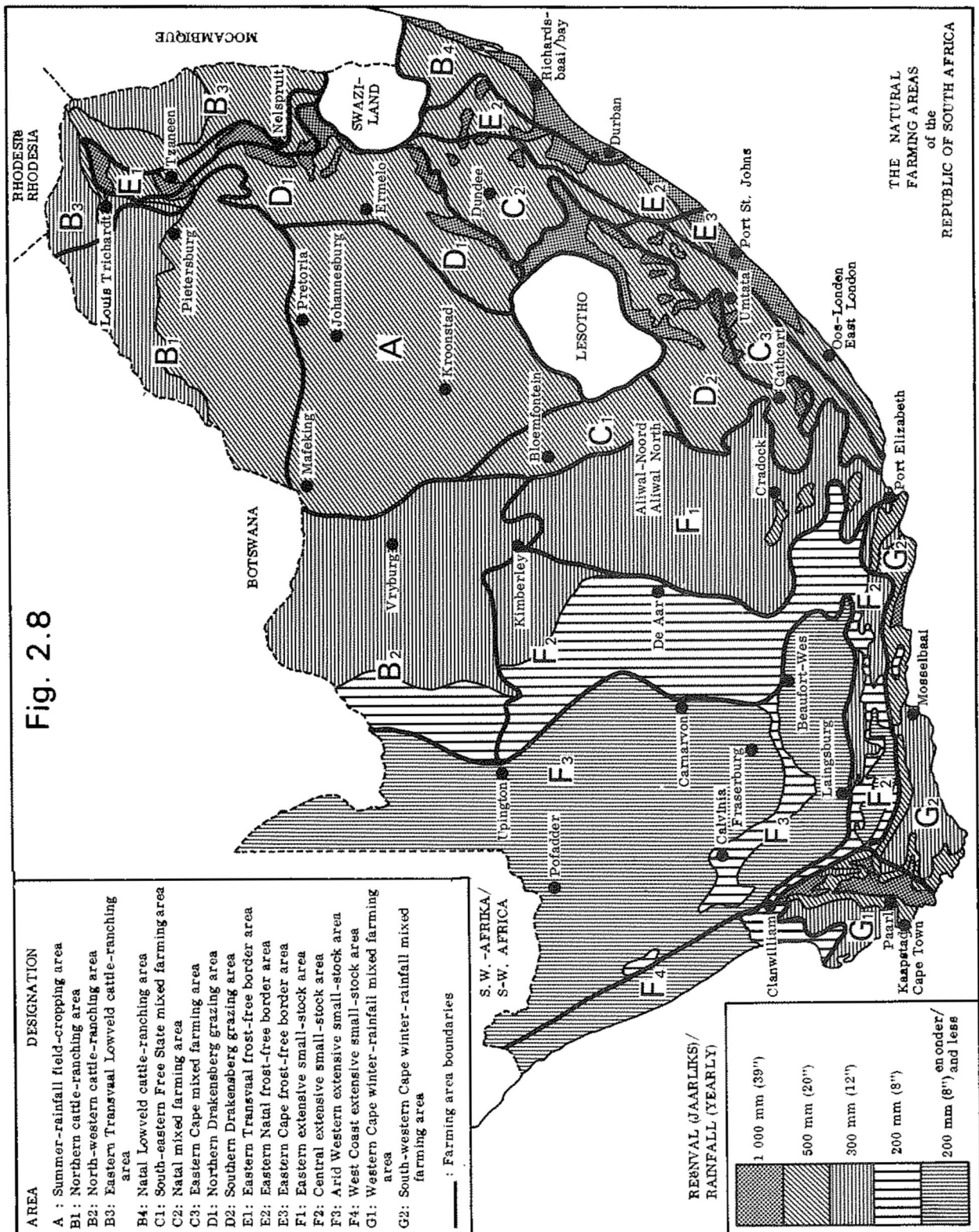
Farming Area Code *	Agro-economic Region number	Debt (% of Capital Investment) (1966)	Net farm income		Agriculture's Contribution of G. D. P. (%) (1965/66)	Magisterial Districts
			Average + (R per morgen) (1965/66)	% of Capital Investment (1965/66)		
F. - EXTENSIVE SMALL-STOCK AREAS (F. 1 - Eastern, F. 2 - Central, F. 3 - Arid Western, F. 4 - West Coast)						
F. 1	23	14,4	1,1	3,8	1,3	Colesberg, Graaff-Reinet, Hanover, Middelburg, Murraysburg, Richmond, Steynsburg, Venterstad.
	25	15,8	2,2	4,9	0,9	Craddock, Maraisburg, Pearston, Somersset East.
	43	13,4	0,5	1,4	0,3	Fauresmith, Jacobsdal, Jagersfontein, Koffiefontein, Petrusburg.
F. 2	22	19,4	0,9	3,7	0,4	Britstown, De Aar, Philipstown.
	24	27,8	0,7	2,5	0,4	Aberdeen, Jansenville, Steytlierville, Willowmore.
	41	14,4	0,6	4,1	0,8	Hav. Kenhardt, Prieska.
F. 3	20	16,4	1,0	8,1	2,0	Calvinia, Carnarvon, Fraserburg, Victoria West, Williston.
	21	20,9	0,8	6,7	0,8	Beaufort West, Laingsburg, Prince Albert, Sutherland.
F. 4	10	10,3	1,0	7,8	0,9	Namaqualand, Vanrhynsdorp, Vredendal.
G. - WINTER-RAINFALL MIXED FARMING AREAS (G. 1 - Western Cape, G. 2 - South-western Cape)						
G. 1	1	46,8	103,2	18,1	1,1	≠ Bellville, Cape, Simonstown, Wynberg.
	11	17,2	6,9	9,5	2,9	Clanwilliam, Hopefield, Malmesbury, Piketberg, Vredenburg.
	12	31,4	17,6	14,1	7,3	Ceres, Montagu, Robertson, Paarl, Tulbagh, Somerset West, Wellington, Worcester.
G. 2	2	38,0	8,4	15,0	0,7	≠ Port Elizabeth, Uitenhage.
	13	15,1	5,7	6,4	2,8	Caledon, Bredasdorp, Heidelberg, Hermanus, Riversdale, Swellendam.
	14	12,9	7,9	10,4	3,4	Calitzdorp, George, Humansdorp, Joubertina, Knysna, Ladismith, Mossel Bay, Oudtshoorn, Uniondale.
Weighted Average for Republic	-	19,2	4,2	8,4	100	

* See Fig. 2, 8

≠ Areas with large cities or large concentrations of industries and/or mines.

+ These net farm incomes are the averages for all types of farming found in the magisterial district concerned.

Fig. 2.8



more serious in the extensive grazing areas and in certain other areas where crops involving a high degree of risk are cultivated, in particular, than in the more stable grain, horticultural and irrigation areas.

On the subject of how the problem of rural areas that are lagging behind should be dealt with, Kotzé* states as his considered opinion that the present and growing tendency to determine the value of the platteland in the national economy and to select the methods of planning its development merely in terms of economic farming units is one-sided and even holds great dangers for the future. In this connection he subscribes to the view expressed by the late Professor J. de W. Keyter that the development of the urban areas and the countryside surrounding them (i.e. the farms) should be approached in terms of an integrated community and should be organised and planned in terms of the total potential of that larger community and not merely in terms of economic farming units.

Kotzé* adds that the complex problems caused by uneconomic farming units make it essential to have a very comprehensive programme of development. This would have to provide for a variety of measures complementing each other in such a way as to cover every aspect of the problem. The problem of uneven distribution of farm income should then be seen as one of the elements of retarded economic development of the platteland with agriculture as the most important operative sector. The problems of such an area cannot be solved by *ad hoc* measures since there is every indication that such measures do not pay and would not be of any lasting value.

Kotzé concludes his article on the economic growth and development of rural areas by putting forward the following views:

"A regional development programme must firstly be founded on those basic values which are indispensable for the maintenance of a mature community in the true sense of the word. Secondly such a programme must be drafted and based on an intimate knowledge of all the activities of the local community in their separate and combined context. Thirdly it will be necessary to evaluate the function of a particular region in its wider national context. Finally such a development programme must be carried out with the full collaboration of the local community and under co-ordinated and expert guidance."

During a recent study tour of Western and Southern Europe+ it was found in some of the countries visited that this was also the approach to the problem of the uneven distribution of income in the agricultural sector, in particular, and rural poverty in its wider regional and national contexts, and to the drawing up and carrying out of rural development programmes.

Consideration of the economic position of certain farmers on certain farms, in certain branches of farming and in certain regions in South Africa again focused attention, although from a different angle on the problem of farming units on which - for various reasons - income is too small and even less able to advance at a rate more or less in step with the economic progress of the country. On the strength of these findings the Commission considers the matter to be of such importance that the conclusions arrived at in Chapter IV of its Second Report should be repeated here:

"The Commission has become convinced that (a) this (i.e. the question of uneconomic farming units) is not only a matter that concerns retired farmers and their families but in fact whole communities in specific rural areas, (b) in addition to certain agricultural matters, a considerable number of other aspects (among others annuities for the aged, housing, health, education, community facilities, labour supply, etc.) are of practical concern in this respect, and (c) because of the manifold aspects of the matter, various Government departments and local authorities also have an interest in it."

2.6.3.3 Income distributed unevenly among individual farmers

In regard to the question of unevenness in agricultural incomes, Lombard *et al.* (1969)* have drawn attention to an important fact, namely that incomes are often distributed very unevenly among individual farmers.

The differences in the means of individual farmers are apparent from the data in Table 2.3, which indicate that there are some farmers who, on small areas of agricultural land (i.e. on units of, for example, less than 10 morgen each), achieve an output with a very high gross value. On the other hand, there are also quite a number of farmers who in 1961/62 apparently grossed less than R1 000 on farms even bigger than 5 000 morgen each.

Hattingh (1969)+ quotes illuminating data collected by the Department of Agricultural Economics and Marketing in surveys of various areas and various branches of farming, which show the differences in the financial results obtained by the best third and the poorest third of farmers farming under comparable conditions in certain areas. These data are reflected in Tables 2.6, 2.7 and 2.8.

The data in Table 2.6 show that over a period of four years the net farm income per R100 of capital investment achieved by the best third of the farmers in all the areas mentioned was two to five times greater than that of the poorest third of the farmers.

* Kotzé, H.A. (1969): Op. cit.

+ Du Plessis, S.J. (1970): Verslag oor studiereis na Wes- en Suid-Europa gedurende Mei tot Junie 1970. Pretoria, pp. 1-103.

* Lombard, J.A. *et al.* (1969): Op. cit.

+ Hattingh, H.S. (1969): Farm Management - A Prerequisite for Sound Agricultural Development. Agrekon, Vol. 8 No. 2, 54-59

TABLE 2.6 - A comparison of the net farm income per R100 of capital investment of farmers who showed the best financial results with that of the farmers who showed the poorest results

Net income per R100 of capital investment						
Area	Group	1961/62	1962/63	1963/64	1964/65	Average
		R	R	R	R	R
Bethal/Standerton	Best third	13,62	11,49	17,07	16,55	14,68
	Poorest third	2,14	1,47	3,66	5,04	3,03
Frankfort/Villiers	Best third	12,45	22,24	20,56	22,15	19,33
	Poorest third	3,52	6,77	8,48	9,07	6,96
Bethlehem/Reitz	Best third	16,43	17,94	16,99	26,20	19,39
	Poorest third	4,51	3,41	4,99	8,31	5,32
N.W./O.F.S.	Best third	21,82	15,56	13,68	18,95	17,50
	Poorest third	6,99	4,19	4,39	3,11	4,66
Western Transvaal	Best third	19,83	20,43	11,34	5,12	13,93
	Poorest third	7,08	6,68	0,82	-1,27	3,33

Source: Hattingh, H.S. (1969) - loc.cit.

TABLE 2.7 - Efficiency of maize production for the best third and the poorest third of the producers and for the average of all farms in the sample Bethlehem/Reitz, 1962/63

Maize producers			
	Best third	Poorest third	Average of all producers in sample
Gross income per morgen R	86,40	34,56	52,95
Yield per morgen bags	30,00	12,00	18,40
Seed costs per morgen R	1,14	0,78	1,08
Fuel costs per morgen R	4,22	2,95	3,70
Fertiliser cost per morgen R	11,34	3,63	6,33
Kinds of fertiliser per morgen			
(a) Nitrogen, 1 b N	55	11	24
(b) Phosphates, 1 b P ₂ O ₅	85	40	56
(c) Potash, 1 b K ₂ O	18	5	10

Source: Hattingh, H.S. (1969) - loc. cit.

These findings are borne out by results collected in various other areas of the Republic, including the Elliot/Maclear area, in regard to which further analyses of income and expenditure, similar to those in Table 2.7, are given in Table 2.8.

Hattingh emphasises that to raise the efficiency of agricultural production three requirements must be met in regard to farm management and technical expertise namely:

- (a) the farmer must know and be able to do all the practical work required in the enterprise concerned;

TABLE 2.8 - Efficiency of sheep farming of the best third and the poorest third of the farms in the sample in the Elliot/Maclear area, 1966/67

Item		Elliot/Maclear, 1966/67	
		Best third	Poorest third
Gross income per LSU	R	43,03	23,63
Wool per sheep	lb	9,91	6,70
Price per lb of wool	c	36,88	35,26
Ewes in flock	%	56,86	51,78
Lambing percentage	%	84,50	69,63
Feed costs per LSU	R	13,74	8,57
Gross income less feed cost per LSU	R	29,29	15,06
Moralities and other losses	%	3,06	3,71
Costs of veterinary services and remedies per LSU	R	1,39	0,85

Source: Hattingh, H.S. (1969) - loc. cit.

- (b) the farmer must be familiar with the scientific principles of crop and animal production and
- (c) he must know the basic principles of business and be able to apply them judiciously in accordance with common farming practices and scientific principles.

The analyses given in Tables 2.7 and 2.8 show that higher productivity in stock farming and cash crop production in the cases in question was due to higher inputs, both as regards quality and quantity, and to a more judicious and advantageous dovetailing of production operations resulting not only in higher yields but also in lower production costs per unit.

According to Hattingh* it is much more difficult for the successful farmer of today to tell

* Hattingh, H.S. (1969): Op. cit.

what his highest income could be. His view is that the enterprising farmer who wants to make a success of farming under modern conditions should not only have greater managerial ability and technical expertise than ever before, but should also have more capital to be able to achieve the highest possible net income. This is in fact, very clear from the data in Tables 2.7 and 2.8. Even an enterprising farmer would be seriously handicapped if he had to do without a scientific and technical knowledge of agricultural matters, and without credit facilities. His problems would also be much greater if he had to regulate his production in isolation according to the demand for the various agricultural products, particularly food, in respect of which the income elasticity of demand at the farm gate is so low. That is why the system of controlled marketing through the marketing boards is such a valuable aid also, in fact particularly, to the more successful farmers.

2.7 Dual nature of problems in South African agriculture

Closer examination of the problems in South African agriculture therefore reveals that they are basically twofold, i.e. there are certain problems experienced by the less successful farmers and others with which the more successful farmers have to contend.

Although virtually all farmers have problems of a structural nature, it is problems relating to defects in agricultural structure and personal shortcomings that are of decisive importance in the case of the less successful farmers. The problems hampering the more successful farmers who have succeeded better in rectifying the structural defects in their enterprises are, however, mostly economic ones.

2.7.1 Structural problems in agriculture

These problems stem from defects in the foundations underlying the agricultural industry. It is impossible to have a solid, permanent building on defective foundations: it is equally impossible for a sound and flourishing agricultural industry to develop and stand up to all the vicissitudes over the years if it is based on a poor production structure.

2.7.1.1 Weaknesses in agricultural production systems and practices

In its Interim and Second Reports the Commission dealt with a number of matters considered to be of decisive importance in ensuring greater stability in agricultural production. In those reports many important recommendations were made on various aspects of the matter, particularly the following:

The drought problem which, in the first instance, every farmer has to solve for himself on his own farm by using properly adapted production systems and practising conservation farming, by adjusting grazing practices to the nature and carrying capacity of the pastures on his farm, and by producing and storing adequate supplies of fodder on his farm as a form of insurance against droughts.

Production planning which must be tackled on a national basis to determine the main fields of

production according to needs and marketing possibilities, and on a regional basis in order to tailor production as far as possible to local conditions and the potential of the natural resources.

Rationalisation in the application of production resources, aids, mechanisation and labour in order to achieve optimal productivity.

Guidance to farmers and raising their standards of efficiency by research, training and extension in regard to both the technical and business aspects of modern farming.

The Commission is convinced that the extent to which the recommendations made and fully substantiated in the previous two reports are implemented successfully will be the extent to which their beneficial effects will be felt by the agricultural community, their influence making itself felt on the biophysical as well as on the economic instability and unevenness of income distribution in agriculture.

2.7.1.2 Farming units too small

Tomlinson and Van Wyk (1966)* draw attention to the depressive effect on agriculture of farming units that are too small:

"in that technological development and general economic growth are inevitably retarded, human material does not move away from agriculture, the land is ravaged and income is forced down. What is more, on units that are too small it is usually impossible to apply the farming system dictated by natural limitations with any economic success, the result being that the worst soil destruction often takes place on such units." (Translation)

On the subject of the exploitation of resources Tomlinson and Van Wyk have further expressed the opinion that the South African farmer is actually oriented towards extensive farming and that this is probably a basic reason why the prices of agricultural land are comparatively high. According to these authors, there is an unaccountable disproportion between the level of exploitation in intensive regions and that in extensive regions. The potential of extensive regions is exploited to a relatively greater degree than the potential of the more intensive regions, where the marginal productivity of inputs ought to be much higher. The result of this is disproportionate capitalisation, i.e. in terms of inherent production potential, capitalisation in the extensive regions is generally disproportionately heavy. Effective identification of potential is lacking and this causes the imbalance found so generally between farming and the climatology of the area concerned, particularly in areas with a lower and more erratic rainfall pattern.

In Chapter IV of its Second Report the Commission has already given special attention to the problem of uneconomic farming units and has shown how essential it has become in South Africa that this matter should be the subject of special further investigation. Such an investigation is urgently

* Tomlinson, F.R. and Van Wyk, S.P. (1966): Identifikasie van die kernprobleem in ons landbou. Annual Congress, Agricultural Economics Society of S.A.

needed so that socio-economic and other measures can be devised to overcome this problem which is having such a harmful effect on agriculture and therefore the platteland as well.

2.7.1.2.1 Economic relief measures

In his review of the economic growth and development of rural areas Kotzé (1969)* shows that the downward trend in agricultural income in the Upper Orange Region has resulted in a decrease in the income per unit of area. If, therefore, the number of farmers in that region were to remain constant, income per farmer would also decrease. The basic adjustment indicated in this instance in order to improve trends in income is to enlarge the farming units and reduce the number of farmers. There are also a number of other areas in South Africa where conditions in agriculture are such that the consolidation of farms is of primary importance. According to Kotzé the process has already started, but should be accelerated in various ways because at present it is so slow that the position is becoming more and more serious since there are farmers who cannot keep pace with the overall economic development.

On the other hand, in the case of Griqualand East, where the agricultural sector has made relatively good progress, the indications are that for this region programmes should preferably be drawn up to enable agriculture to exploit the existing growth possibilities to the full.

Kotzé is also firmly convinced that the problem of uneven distribution of farm incomes is one of the hidden elements in the retarded development of the platteland. In his view a comprehensive development programme is called for to solve the complex problems arising from uneconomic farming units.

So long as the unit farmed is so small that investment in it and the factors of production applied to it cannot provide a farmer of average managerial ability with a decent net income, it remains indefensible to keep an enterprise in operation by artificial means when its continued existence is not justified. It is therefore doubtful whether it would be possible to solve the problem of such farming units by ad hoc measures, such as the extension of credit facilities, or more generous subsidisation, or similar financial relief measures.

The continued existence of such unremunerative units is only hampering progress in agriculture. What is more, so long as the position remains unchanged, the farmer will lose assets that could still be realised if he sells out soon enough. Furthermore, the spending of funds from private or public sources on a farming unit which leaves so much to be desired as regards its structure is as futile as pouring money down a bottomless pit.

2.7.1.2.2 Price policy

On the possibility of solving the problems of uneconomic units and other rural questions by means of price adjustments, the Departments of Agriculture have the following views:

"Stable and even higher prices are no permanent solution to the problem of farm income, particularly where the problem arises from farming units being too small, production systems not being adjusted optimally to local conditions, or natural resources being overtaxed or impaired. Any increase in producer prices above a level justified under prevailing conditions cannot in the long run ensure a higher income level for the farmer. Such an increase would lead to a higher cost structure and a rise in land values and would create marketing problems which might in the long run result in lower incomes, unless recourse were had to drastic measures such as the introduction of production and marketing quotas and control of land prices, measures which, because they constitute a greater degree of interference with the freedom of the farmer as an independent entrepreneur, cannot be supported." (Translation)

Groenewald (1970)* also points out that the problems of uneven distribution of income and rural poverty in South African agriculture cannot be solved by means of price policy. In his view most of the benefits of a very generous price policy will inevitably go to persons already getting a good income from farming under the existing price system.

Lombard et al. (1969)+ are of the opinion that even South Africa's present policy of fixing the prices of agricultural products cannot, for various reasons, eliminate the problems of instability and unevenness in the distribution of agricultural incomes. They suggest that more attention should be given to price measures to remedy these weaknesses and promote structural adjustments.

It is therefore clear that the mere fixing of prices for agricultural products cannot solve the problem of uneven incomes in agriculture so long as the basic structural weaknesses, *inter alia*, uneconomic farming units, continue to exist in agriculture.

Prices which are unrealistic, particularly viewed in the light of conditions prevailing in farming enterprises operated at an average level of efficiency, have the effect of keeping farmers on units which are too small or are badly run. This does not solve the problems of unevenness in incomes and low farm incomes; rather, it helps to perpetuate and even aggravate them. As a result, these units are keeping a great deal of manpower tied up which should actually have been released for other sectors.

A system of differentiation in producer prices favouring farming units with low incomes, i.e. uneconomic farming units, cannot be supported either. It would cause dissatisfaction and discourage the farmers concerned from making essential adjustments and improvements, thereby only perpetuating uneconomic production on such farms. Once differentiation has been introduced, even as a temporary measure, it will not be easy to abolish and, in any case, it is doubtful whether it would serve any useful purpose. A system of

* Kotzé, H.A. (1969): Op.cit.

* Groenewald, J.A. (1970): Op. cit.

+ Lombard, J.A. et al. (1969): Op. cit.

supporting prices on a uniform basis would, in the opinion of the experts quoted above, offer only limited benefits to the farmer with a low income; it is the farmer with a high income who would derive the greatest benefit from such a scheme.

It is accepted that provision for price certainty to a moderate degree may be necessary and desirable to support programmes of rural reform. In some cases price differentiation may be desirable for certain areas or branches of farming, but it is doubted whether this would be feasible in all cases.

2.7.1.2.3 Increasing personal farm income by enlarging farming units

In their submission the Departments of Agriculture indicate that with few exceptions it is agreed in the economic literature on agriculture and its development that a prerequisite for economic expansion is for numbers in agriculture (i.e. farmers and labourers to be reduced and productivity to be increased in order to enable the remaining farmers to make a better living on larger farming units.

In fact, almost all the free countries in the Western world are at present deeply concerned about the problem of uneconomic units, the extent of the concomitant rural poverty and the way in which this hampers the economic progress of agriculture and the marketing of agricultural products.

In the United States of America and in Canada extensive programmes to overcome these problems by means of far-reaching agrarian reform have been in operation for some time now. The countries of the European Community, however, have only recently begun to realise that a common economic policy would have little chance of success unless certain structural improvements are made in agriculture. The growing difficulties which the E.E.C. countries have encountered in recent years in regard to marketing planning have shown up various basic weaknesses in agricultural structure and the urgent need for agricultural reform. The proposals for this reform or structural improvement are concerned particularly with reducing the number of farmers and enlarging operating or farming units (Du Plessis, 1970)*.

Lombard et al. (1969)⁺ point out that considerable technological progress in agricultural production has made it possible for ever larger quantities of food to be produced by an ever smaller number of workers. This, together with the tendency for a smaller percentage of income to be spent on food as income rises in the rest of the national economy, makes a decrease in the number of persons engaged in agriculture inevitable. For this very reason it is also inevitable that, if the per capita income of agricultural entrepreneurs is to be raised or even maintained, a considerable number of farmers will have to leave agriculture, quite apart from the improve-

ments to be effected in the production and marketing of agricultural products. They point out, however, that even if this is accepted as a natural migratory trend, it is not a solution which would not entail problems of its own.

Groenewald (1970)* is also of the opinion that the income problem, the problem of uneconomic farm sizes, technological problems, soil erosion problems, etc. (all of these being problems which have a bearing on agricultural structure), make it essential that a group of agricultural producers should withdraw from agriculture.

Hattingh (1969)⁺ also refers to the new technology, saying that it demands much more of a farmer in the way of managerial ability and technical expertise than a generation ago and that it is the farmer with special aptitudes and abilities who has the best chance of measuring up to these high standards and making a success of farming. The other less competent farmers will inevitably have to withdraw from agriculture sooner or later.

2.7.1.2.4 Withdrawal of White farmers from agriculture

In this regard it should be borne in mind that, when uneconomic farms have to be enlarged physically by consolidation into economic units, two or more small farms will have to be joined together to form one economic farm. This can only be done if one or more owners relinquish their uneconomic farming units to find some other place to live and work. Agricultural reform through consolidation is therefore not possible unless certain farmers in the areas concerned give up farming, except in cases where special conditions are created, for example, by large-scale irrigation schemes, but the possibilities of creating such conditions are naturally limited.

In regard to farming conditions in South Africa, Brand and Tomlinson (1966)[§] refer to the earlier attitude that everything possible should be done to curb the decrease in the White rural population (actually White farmers), and the newer attitude which accepts that, owing to economic development, it has become inevitable and even essential that the White rural population should drop.

The Commission is aware that efforts to stop the White depopulation of the platteland are actuated by a desire to prevent the platteland from being populated solely by non-Whites or the ratio of White to non-White in the rural areas, and particularly on White farms, from swinging too far against the Whites. The Commission is equally anxious to see this aim achieved, but has the following views on the subject:

(a) The White depopulation of the platteland must be seen not as a phenomenon affecting White farms only but as part of a complex set of conditions involving many communities, particularly in certain rural areas.

* Groenewald, J.A. et al. (1969): Op. cit.

+ Hattingh, H.S. (1969): Op. cit.

§ Brand, S.S. and Tomlinson, F.R. (1966): Op. cit.

* Du Plessis, S.J. (1970): Op. cit.

+ Lombard, J.A. et al. (1969): Op. cit.

(b) The tendency of some White farmers to give up their farms is due to three factors: In the first place, the demands made on the entrepreneur by technological progress in agricultural production are becoming so high that those lacking the necessary know-how, capital, managerial ability and business sense are forced to give up farming; secondly, the farmer who finds it impossible to make a living on a farm which is much too small is eventually forced to give up farming - often, unfortunately, only after he has been reduced to poverty by mounting debts; and thirdly, the exceptionally high market value of agricultural land is a very strong inducement to farmers to sell their farms, even if many of them are farming on economic units.

At present, however, the rate of withdrawal is very slow and the process is fraught with many hardships for the families involved, hardships which could greatly be alleviated if more planning went into the process.

(c) This withdrawal of those farmers who are trying without supplementary earnings to eke out a living on farm units which are much too small must be seen as one of the most essential processes in the programme of structural reform in agriculture. This is one of the best ways of promoting more efficient agricultural production on economic units, of increasing personal agricultural income, of keeping progress in agriculture in step with that of the rest of the national economy and of ensuring the balanced progress of the country as a whole on the basis of optimum utilisation of all the available resources and means. These farmers should not be forced to withdraw, but, if the process is to be successful, efforts should be made to ensure that it is not too slow.

(d) Such a voluntary but selective and planned withdrawal of White farmers and their families from their farms could be very beneficial to them as well as to agriculture and the country as a whole. The need for skilled and semi-skilled White manpower in certain sectors of the country is at present so great and employment opportunities are so favourable that there are now excellent chances for anyone who is reasonably employable to make a good living outside agriculture - in most cases a much better one than he could ever have hoped to wrest from an uneconomic farm.

(e) As regards the concern about the possibility that the movement of White farmers away from agriculture will result in a widening of the numerical ratio of White to non-White, particularly on the farms, the indications are that this trend will continue, no matter what financial relief measures may be devised to keep farmers and their families on the farms, particularly those on uneconomic farms. What is more, data furnished by the Commission in Chapter X of its Second Report indicate that the ratio of the non-White labour force on White farms to Whites is already, in spite of mechanisation, very wide and is widening to an alarming extent.

(f) Apart from the hopes held out by the Stock Reduction Scheme introduced on 1 October 1969 as a result of the recommendations made by the Commission in paragraphs 7.3.6 and 8.3.2.5 of its

Interim Report, the Commission has information which indicates that, when the Scheme is carried through to the stage of complete withdrawal of stock, owners of uneconomic units in particular will be eager to offer themselves for employment elsewhere and to withdraw from farming for shorter or longer periods.

In the opinion of the Commission such a situation would present a golden opportunity for the authorities discreetly to encourage owners once they have left their farms, to give up farming for good so that such farms could be consolidated with other neighbouring or nearby uneconomic units and converted into truly economic farming units.

The Commission therefore recommends that the Departments concerned in this matter should make a deliberate effort to make it easier for owners of uneconomic farms, in particular, to give up farming. Special attention must also be given to methods of financing to assist farmers who remain on uneconomic farms and merit consideration for special assistance. Assistance of this kind should be such as to enable such farmers to enlarge their own uneconomic farms to form economic units by purchasing other uneconomic farms which become available when vacated in these circumstances.

2.7.1.2.5 Assistance to farming enterprises that have fundamental weaknesses

After due consideration of the conditions responsible for the instability in agriculture and the unevenness in the distribution of agricultural incomes, it was found that these problems could not be solved by more generous provision of credit or subsidisation, nor by price concessions benefiting farm enterprises run below subsistence level. Such measures can do little to remove the causes of these evils and can do virtually nothing to reform the structural pattern or the defective foundations on which such agricultural enterprises are based. The information obtained in this regard leads the Commission to the conclusion that what the application of funds for such cases where there is virtually no possibility of any lasting rural reform really amounts to is the futile pouring of public funds down a bottomless pit. Financial relief measures cannot be successful so long as there are such serious structural defects in the agricultural pattern of these farming units. Rural reform, particularly when it comes to farm sizes, farming systems, the standard of entrepreneurship and precautionary measures, must therefore be seen as a prerequisite for the application of any policy in regard to financing and marketing. Such policies must be founded on economic principles which ought to be valid for farming enterprises run on an acceptable structural basis and managed at a level of at least average efficiency.

The Commission considers that when certain farmers' prospects of making a living have fallen below the level at which there is still a reasonable

chance of recovery, such cases actually no longer fall in the category of a normal agricultural enterprise to which measures can be applied according to accepted principles of agricultural economics. Such cases verge more closely on "rural poverty", for which financial relief measures should be devised and applied with a predominantly sociological approach.

The Commission considers that the percentage of uneconomic farming units in South Africa is high at present, that rural reform, so far as this matter is concerned, will take many years to carry into effect, and that many families will not yet, particularly at this stage, be willing to give up their small uneconomic farms for the sake of consolidation. Such cases will therefore have to be taken into account for some considerable time, and their interests should, for understandable reasons, be looked after in the mean while. Such relief measures as may be taken should, however, be planned as interim measures to assist such cases until a favourable opportunity arises for them to give up their farms.

It is known, however, that there are at present also many cases where farmers are trying to make a living on farms which, with the present approach or the present level of management or under the existing systems of farming, have to be classified as uneconomic, but which, with proper planning and good management, could be converted into economic units. In view of this possibility it would therefore be desirable for the Departments of Agriculture to identify such borderline cases in good time and to employ every means in regard to planning, training, extension, co-operation and financial relief measures for the purpose of converting uneconomic farm units into economic units as soon as possible. Such assistance and financial relief measures should, however, be provided on the express understanding that they are subject to certain conditions and that, within a specific time, the farmer must convert his enterprise into self-sufficient concern, so that what was an uneconomic farming unit will be a truly economic enterprise.

The Commission is convinced that the question of uneconomic units and the related question of rural development are so important that these matters should receive the urgent attention of the authorities as soon as possible. The Commission is therefore pleased to note that, in pursuance of its recommendation in paragraph 4.15.3 of its Second Report, the Minister of Agriculture on 12 March 1971 announced the appointment of an inter-departmental committee to inquire into and report on rural reform in South Africa, with special reference to the matters mentioned by the Commission in paragraphs 4.15.3.1 to 4.15.3.10 of the above-mentioned report.

2.7.2 Agro-economic policy

The progress made by South African agriculture during the post-war years in the production of food and other commodities, as well as in regard to productivity and net farm income, is striking even considered on the basis of averages. In view of

this, there should be no doubt about the value of agriculture's contribution to the economic progress of the country, nor about the fact that this sector has proved itself to be one of the main buttresses of our national economy.

However, South African agriculture has achieved what it has in the force of certain conditions which merit special consideration:

- (a) Instability in agricultural income, which reflects the tremendous variations in environmental conditions and particularly the important effect of droughts of shorter or longer duration on South African agriculture;
- (b) unevenness in the distribution of personal farm income, owing to differences in regional income, farming systems and personal shortcomings; and
- (c) the great number of uneconomic farming enterprises.

Careful consideration of these circumstances forces one to the conclusion that the progress made by the more successful farmers in South Africa on economic farming units during the post-war years has been phenomenal. As stated in paragraph 3.4.2.1.7 of Chapter III of the Commission's Second Report, 20 per cent of the farmers were, according to the 1962/63 Agricultural Census, responsible for 70 per cent of agricultural production and well over 90 per cent of the output was accounted for by the approximately 60 per cent of the farmers on economic units. That these more successful farmers were, in spite of the seriously restrictive factors mentioned above, able to raise the average long-term rates of growth to such a high level that the agricultural growth rate compares so favourably with that for the rest of the national economy was a notable achievement. The contributions of this section of our farming community alone justify the conclusion that our agriculture is, if properly planned, optimally adapted and well managed, basically sound in spite of the country's highly variable climatic conditions, and that there is not so much wrong with it, nor with present agricultural policy, as is sometimes alleged.

The impression has been gained in recent years, however, that the problems of that section of South African agriculture where the worst structural defects occur have been given such prominence and have so widely been claimed to be representative of the broader agricultural sector that the true nature and the importance of the problems with which the most valuable group in the agricultural sector actually have to contend have seldom received enough attention.

It is a known fact that many of these farmers are also faced with fundamental farming and economic problems of a greater or lesser nature. Depending on the circumstances in each individual case, these farmers may be presumed to be more in need of preventive assistance. These measures should enable them to rectify such defects as may still hamper their enterprises so that they can steadily increase productivity in their farming operations and, through timely adjust-

ments, be better able to keep pace with the effects which technology has on agriculture.

In the interests of agriculture and of the country as a whole it is important that the problems of this section of the farming community should be diagnosed correctly. Effective measures (both biophysical and economic) must be devised and applied in good time for these deserving farmers, in particular, to prevent their progress from being hampered to such an extent by defects in systems of production, financing and marketing that their farming enterprises cannot stay the pace and so fail to meet the increasing demands of a rapidly growing economy. Unless this is done, there is a very real danger that many of them will founder and get bogged down in the weaknesses of their production systems, sinking down to that category where remedial measures, instead of preventive measures, are imperative.

In its inquiry into economic matters reported on in the following chapters the Commission has therefore considered it necessary to give close consideration to farming conditions, as prevailing at present, where enterprises are operated on a structurally sound basis and where optimal biophysical stability is possible. It is against this background, therefore, that the Commission has studied and weighed the information placed at its disposal on credit facilities and other methods of financial assistance, the marketing of agricultural products and price policy, and crop insurance and co-operation in agriculture. In this inquiry the Commission has endeavoured to make its recom-

mendations with the above in mind and to formulate them in such a way that the measures recommended will promote structural reform in agriculture and permanently improve the White farmers' chances of making a living. The recommendations in this report were decided upon in the conviction that the measures suggested in them will achieve the desired end only if, and in so far as, they serve to promote sound farming systems and practices which are optimally adapted to the potential of our natural resources, environmental conditions, marketing possibilities and financial circumstances. It is only in this way that these measures will succeed in ensuring the biophysical stability of agricultural production units and a full share in the country's prosperity for the farming community.

In this regard it is not the intention of the Commission that the circumstances and needs of that section of the farming community dealt with in paragraphs 2.7.1 to 2.7.1.2.5 of this chapter should be left entirely out of account. In dealing with each of these matters the Commission never lost sight of the position of these farmers and, where compatible with the important principles underlying its approach, has tried to formulate recommendations in such a way that they can also be applied to very deserving cases among less successful farming enterprises of that kind. In the main these would include cases where there seems to be a good chance of converting farming enterprises from uneconomic into fully economic farming units through the necessary adjustments, improvement of farming systems, precautionary measures and management techniques.

CHAPTER III

THE PROVISION OF AGRICULTURAL CREDIT ABROAD AND IN THE REPUBLIC OF SOUTH AFRICA

3.1 INTRODUCTION

During the past few decades the agricultural industry underwent revolutionary changes. It changed from a primarily self-sufficient industry where the farmer was largely able to meet his own capital requirements to one which became progressively more specialised and assumed the character of a business enterprise. What characterises agriculture today are the large amounts of capital invested in the industry and a sharply increasing need for credit.

Adequate capital and special credit facilities, as well as judicious expenditure of capital and the necessary managerial ability and technical and economic know-how on the part of the entrepreneur, have become prerequisites for the success of any farming enterprise. If these requirements are not satisfied and the farmer is unable to adjust to the changed circumstances, there is little hope of success.

3.2 SPECIAL CIRCUMSTANCES IN AGRICULTURE OF IMPORTANCE TO AGRICULTURAL FINANCING

The Study Group which conducted an inquiry into agricultural credit* pointed out various special circumstances in agriculture which distinguish it from other sectors of the national economy. Owing to these special circumstances, agricultural financing is complicated and the agricultural sector finds it difficult to compete with the other sectors for the available credit. To ensure that adequate finance becomes available to agriculture and is used as advantageously as possible, it is desirable that in the planning and use of the available financing facilities careful consideration should be given to the various factors of importance in this regard, particularly the following:

3.2.1 Agricultural production subject to the vicissitudes of nature

The varying weather conditions to which agriculture is subject make production unstable and agricultural financing highly risky and in certain cases even speculative. Factors such as droughts, hailstorms, unseasonable frosts, stock and crop diseases and pests give rise to so much uncertainty that only limited provision can be made against them.

"In the financing of agriculture the credit supplier must therefore take into consideration the fact that the debtor will possibly not be in a position to meet his commitments on due date, but even that he will have to be given further assistance for making good damages and/or producing the next crop."*

Often, however, many farmers and those who lend them large sums of money lose sight of two important facts, i.e. the fact that financial losses resulting from unfavourable climatic factors can be heavy at any stage in farming and, furthermore, the fact that economic trends in agriculture are never stable. The importance of these two facts is often underestimated, particularly during periods favourable to the farmer. Many farmers, optimistically assuming that good production and favourable price ratios will continue, are inclined to take on excessive financial responsibilities. This is the cause of many of the cases of financial embarrassment which have become so acute in agriculture over the past ten to fifteen years.

3.2.2 Low elasticity of demand for agricultural products

It is generally accepted that the elasticity of the demand for most agricultural products is slight. "Generally speaking, the consumption of foodstuffs in normal times will increase only slightly in the event of a considerable drop in prices; conversely, the consumers must pay high prices for food in times of scarcity."*

But in most cases agriculture, unlike commerce and industry, is unable to pass on any increase in its cost structure to the end consumer. What is more, an important consideration is to keep food prices as low as possible in order to curb the rise in the cost of living as far as possible.

3.2.3 To what extent agricultural production can be adjusted to demand*

Agricultural production cannot easily be adjusted to demand. "If the price level is low, farmers will try to maintain their production, since curtailment results in only a very small saving in costs. A rapid expansion of production is hampered by biological factors and rising marginal costs on a limited area.

"As a result of the small price elasticity of both the demand for and the supply of most agricultural products there is a tendency to an unstable balance in market prices. Great price fluctuations can therefore occur and in the absence of stabilising measures on the part of the Government, agriculture is to be regarded as a speculative field of investment."

* De Swardt, S.J.J. et al. (1961): Report of the Study Group for Inquiry into Agricultural Credit. U.G. 16/1961

* De Swardt, S.J.J. et al. (1961): Loc. cit.

3.2.4 Structural changes in agriculture take time

If a switch is made from one type of farming to another, or even if major internal changes are made in farming systems, income from the enterprises concerned often, even with good management, tends to be relatively low for the next year or so, before rising to or above the level at which it had stood before the changes were made. A similar lag in income is often experienced when new farming operations are started.

It is important that these peculiarities of agriculture be taken into account in agricultural financing and that terms for credit be adjusted accordingly in deciding on rates of interest and the arrangements that should be made for the payment of interest or instalments.

3.2.5 Periodicity of agricultural production*

In agriculture there is no continuous turnover of products as, for example, in commerce, secondary industry and mining. "This fact is of importance to a credit supplier who must maintain the liquidity of his own funds. A continuous stream of transactions may also serve as a criterion to a credit supplier of his debtor's activities, but in agriculture the transactions are for the most part sporadic and seasonal."

3.2.6 Numerous small production units*

Agriculture is characterised by a large number of relatively small production units spread over a large area. The credit supplier in agriculture therefore has to make special arrangements to keep in touch with his debtors in view of the possibility of a deterioration in his security. This is of particular importance when arrangements are made with debtors for the riskier type of credit and, especially, shorter-term credit.

3.2.7 Land: The most important capital asset in agriculture*

In agricultural financing it should be borne in mind that the purchase price of land is often determined subjectively. Apart from this, land is something in which people invest and speculate. Consequently the purchase price of agricultural land is in most cases much higher than its estimated value for agricultural production.

3.2.8 Movable assets and products of agriculture: Non-durable and dispersed*

Assets are often mobile, difficult to identify and liable to be handled by unskilled labourers. These factors are of direct importance in the financing of agriculture, especially if the assets have to serve as security. In this regard, the personal qualities of the entrepreneur, such as his integrity and managerial ability, are very important and it is essential that the credit supplier should know the debtor personally and keep in fairly close touch with him.

* De Swardt, S.J.J. et al. (1961): Loc. cit.

3.2.9 Structural shortcomings in agriculture

As indicated in Chapter IV of the Commission's Second Report and in Chapter II of this report, it is thought that on an average over 30 per cent of the farming units are so small that, given normal conditions, farming on them cannot be economically successful. There are also indications that the percentage of uneconomic units is much higher in certain regions than in others. These factors should exert a strong influence on the credit-worthiness of entrepreneurs in agriculture in the areas concerned and therefore also on the extent to which credit suppliers should help such entrepreneurs with their financing needs if the long-term interests of the entrepreneur are also taken into account.

3.2.10 Intensity of investment in agriculture

Studies of the economics of agricultural production in different regions of the Republic indicate that investment in relation to output potential is significantly higher in livestock production than in crop production, and higher in dryland farming than in irrigation farming. What is of particular importance in agricultural financing is that the intensity of investment in stock farming under the riskier conditions in the arid extensive livestock regions is clearly higher than the level of investment in stock farming in the areas with a higher and more regular rainfall. Factors like these are by no means unimportant when it comes to financing the various types of farming in the respective regions.

The above-mentioned special conditions in agricultural production therefore merit serious consideration where agricultural financing is being contemplated, particularly when some of these special conditions coincide with other events of national importance which might influence the financial position of agriculture. In recent years, for example, many agricultural regions on several occasions had serious setbacks in the form of recurring droughts, high feed costs, big stock losses and crop failures. Unfortunately, these setbacks coincided with a high rate of growth in total domestic spending and inflationary trends of such magnitude that the Government was obliged to introduce restrictive monetary measures and to permit appreciable increases in interest rates. Clearly, such a combination of events poses such a serious threat to the financial position in agriculture that certain branches of agriculture and farming areas may be faced with financial ruin, if this is not averted timeously by effective corrective measures.

3.3 CAPITAL INVESTMENT AND MORTGAGE BURDENS IN AGRICULTURE

According to the Division of Agricultural Marketing Research of the Department of Agricultural Economics and Marketing, the value of capital assets in agriculture increased as follows over the period 1950 to 1970:

* Division of Agricultural Marketing Research (1971): Abstract of Agricultural Statistics

TABLE 3.1 - Value of capital assets in agriculture in 1950 and 1970

Year	Land and fixed improvements (Rmillion)	Mechanical equipment, vehicles and tractors (Rmillion)	Live-stock (Rmillion)	Total (Rmillion)
1950	2 065,5	318,2	517,1	2 900,8
1970	4 887,2	674,4	1 129,7	6 690,9

The value of capital assets has therefore more than doubled over twenty years. According to an estimate by the South African Agricultural Union, capital assets at present stand at R7 661,4 million.

In the U.S.A.* capital investment per farm and per worker also rose phenomenally from 1950 to 1967. Over the period concerned capital investment per farm and that per worker increased from \$17 400 to \$74 000 and from \$9 500 to \$41 500, respectively. These increases were due mainly to appreciation in land, the enlargement of farming units, the rise in the price of other capital goods, and a reduction in the number of farm workers.

J.P. Campbell, Undersecretary of Agriculture in the U.S.A., put investment per worker at \$46 000 in 1969, stating replacement of labour by mechanisation to be one of the important reasons for the high level of capital investment per worker.

According to a survey† by the European Economic Community, the working capital per active person required in agriculture averaged less than 15 000 French francs in 1960. In 1967 the figure stood at 25 000 francs, representing a rise of about 75 per cent over seven years. To this figure must be added the capital invested in land per worker.

The foregoing data underline how important it is to use labour rationally if farming is to be economic and profitable - an aspect which, as pointed out by the Commission in a previous report,‡ leaves much room for improvement in the Republic and to which special attention must be given.

According to the 1957/58 Agricultural Census, the total debt burden of farmers amounted to about R430 million, of which R305 million was mortgage debts. Preliminary data obtained from the 1968/69 Agricultural Census show that the total debt burden of farmers in the year concerned

rose to R982 million, of which R659,2 million was mortgage debts. Mortgage debts therefore more than doubled from 1958 to 1969.

The rise in the debt burden of farmers is a world-wide phenomenon. In the U.S.A.* it rose from \$12,4 billion to \$45,8 billion from 1950 to 1967. In 1969† the total mortgage burden was \$52,0 billion, of which \$27,1 billion was mortgages on land and the rest other debts.

In the U.S.A. mortgages constituted about 52 per cent of the total debt burden, whereas in the Republic they amount to about 67 per cent of the total debt burden. It appears furthermore that agricultural debts in the U.S.A. are rising faster rate than in this country.

3.4 FORMS OF AGRICULTURAL CREDIT

Farmers may require credit for various purposes for shorter or longer periods. Accordingly, a distinction is usually drawn between three types of credit, namely long-term credit, medium-term credit (or intermediate credit) and short-term credit. The need for and availability of these forms of credit were dealt with in detail by the Agricultural Credit Study Group‡. These forms of credit may, with specific reference to situations in South Africa, be briefly described as follows:

3.4.1 Long-term credit is required and used for the purchase of land and for the erection of fixed improvements. The period for which such credit is granted is usually between twenty and sixty years. Such loans are normally secured by mortgages on fixed property.

Before the Agricultural Credit Act, Act 28 of 1966, came into operation Government loans for fixed improvements in soil conservation and irrigation were secured by charge loans which enjoyed preference over mortgage debts. With the coming into operation of the said Act, this form of security fell away and ordinary non-preferential mortgage debts took its place.

3.4.2 Medium-term credit is required mainly for purchasing stock, implements, tractors and certain farming requisites. Such credit is normally provided against security of hypothecs on movable property. Occasionally, however, mortgages are required as security. The period for repayment ranges from five to ten years.

3.4.3 Short-term credit is required for the defrayal of seasonal expenditure in connection with the production, harvesting, processing and marketing of crops. Such credit is usually granted for one or two years and is covered by a lien on the crops concerned.

* Financing the Changing Structure of Agriculture in the United States and the Resulting Debt Situation of Farmers - R.B. Tootell

† International Study Meeting on Farm Credit Problems, 1969. The problems of agricultural financing in Europe - M.L. Gayraud

‡ Second Report of the Commission of Enquiry into Agriculture (1970), Chapter 10

* Farm Credit Facilities in the United States - Specialized Functions of Private and Public Sources of Credit - Norman J. Wall

† Agricultural Review, Vol. 30, United States Dept. of Agric.

‡ De Swardt, S.J.J. et al. (1961): Loc. cit.

3.5 SOURCES OF AGRICULTURAL CREDIT

Agriculture can meet its credit requirements from various non-organised and organised financial sources.

Credit facilities on a non-organised basis are for the most part provided in the form of long-term credit by sellers of land, private money-lenders and sometimes the farmer's relatives. The credit supplied by merchants (and here only credit for production requirements is referred to) is, in the nature of things, short-term credit which might sometimes be extended to medium-term credit by force of circumstances. Unfortunately, there are no data on the amount of credit obtained from non-organised sources.

According to data obtained by the South African Agricultural Union in a survey of farmers' debts farmers at the beginning of 1970 owed R65,3 million to practising farmers and other private persons and R36,7 million to general dealers, garages, doctors, dentists and other parties. It is not known, however, how much of the latter amount was incurred for factors of production and how much for ordinary necessities of life.

There are, however, various organised financial institutions which have for many years played a major role as suppliers of credit and have made important contributions to agricultural financing. In this regard special mention may be made of the commercial banks and institutional bodies.

Although commercial banks usually play a minor role in the provision of long-term credit, they do play a very important role, as will be indicated below, in the provision of short-term credit for agriculture. Such credit is normally given on current account and is often secured by cession of life insurance policies, security bonds and even mortgages.

Owing to the instability of operating income and the comparatively low profitability of investments in agriculture, there is an increasing tendency for credit to be transferred from agriculture to the more stable and remunerative sectors of the national economy.

Institutional bodies such as insurance companies, boards of executors and trust companies also play an important part in supplying credit to farmers. This credit is usually secured against mortgages or hypothecs.

The role played by these bodies varies in importance from country to country. In Austria and Finland such institutions provide 41 per cent and 28 per cent, respectively, of the credit in agriculture, whereas in the Netherlands they meet only about 10 per cent of the agricultural credit needed. For the most part they play a minor role in countries where there are well-organised agricultural credit institutions.

3.6 APPROACHES TO AGRICULTURAL FINANCING, AND AGRICULTURAL CREDIT INSTITUTIONS ABROAD

In many countries special credit institutions have come into being to provide suitable credit for agriculture. These institutions were created

on the initiative of both the Government and private parties - with or without Government support. The result is that in the various countries there is a tremendous variety of agricultural credit institutions differing in form of enterprise and structure.

3.6.1 The Netherlands*

In the Netherlands there is no overall statutory control of banking. Consequently, the agricultural credit banks are not subject to any restrictions as regards their organisation and method of operating. These banks obtain their funds mainly from savings accounts entrusted to them. Unlike the commercial banks, they provide mainly long-term and medium-term credit.

A feature of banking in the Netherlands is that competition between the various banking institutions is keen, which has the advantage of making interest rates competitive. Like the other banks, the agricultural credit banks grant credit at the ruling rates of interest. The Government does not grant interest subsidies to borrowers in agriculture, nor does it make funds available to the agricultural credit institutions.

The agricultural credit banks consist of two rural organisations, namely the Coöperatieve Centrale Boerenleenbank and the Coöperatieve Centrale Raiffeisen Bank.

The share of the various institutions in providing credit to agriculture is shown in Table 3.2.

According to the data in Table 3.2, a borrower's relatives are the most important source of long-term credit, followed by the agricultural credit banks. In 1965 these two sources supplied 73 per cent of the long-term credit to farmers. It would appear, however, that the role played by the agricultural credit banks in this regard is growing in importance.

There is no distinction between short-term and medium-term credit in the available sources of information, but, as already mentioned, the agricultural credit banks play virtually no part in providing agriculture with short-term credit. In the Netherlands, merchants and undifferentiated suppliers of credit provided farmers with almost 90 per cent of the short-term credit in 1965. This is in sharp contrast with other countries where commercial banks play a major role in regard to short-term credit. With money made available from the United States of America under the Marshall Plan +, a loan guarantee fund was created in the Netherlands in 1951 to aid agricultural development by means of credit guarantees for borrowers lacking the required security. The fund itself is not used as a source of loans but

* Landbouwkredietwezen in Nederland.
Published by the Coöperatieve Centrale Boerenleenbank and the Coöperatieve Centrale Raiffeisen Bank

+ Landbouwkredietwezen in Nederland: Loc. cit.

TABLE 3.2 - Capital lent to agriculture by the various financing institutions in the Netherlands

Financing institutions	Percentage distribution		Percentage contribution in 1965
	1957	1965	
Long-term loans			
Farmer's relatives	33,8	30,6	39,6
Agricultural credit banks	13,8	25,6	33,1
Other banks and institutional investors	8,0	10,9	14,1
Other long-term loans	14,2	10,2	13,2
Total long-term loans	69,8	77,3	100
Short and medium-term loans			
Agricultural credit banks	3,6	3,1	13,7
Other banks	0,9	0,9	4,0
Merchants	13,3	13,5	59,4
Other short-term loans	12,4	5,2	22,9
Total short-term loans	30,2	22,7	100

Source: Adaptation of data furnished in OECD Agricultural Policy Reports. Capital and Finance in Agriculture, Vol. II, 1970

is limited to guaranteeing them. Money is therefore made available only if the borrower cannot meet his obligations under the contract of guarantee. The granting of such guarantees is subject, however, to the findings of a business economics investigation of the enterprise which is conducted by the Government Information Service.

As appears from the data given above, the Government plays no direct role in the provision of agricultural credit in the Netherlands.

A study group in the Netherlands recently recommended the establishment of a land bank* to assist the so-called skilled farmers with the purchase of farming enterprises.

The land bank would grant financial assistance to the following:

- Young farmers wishing to set themselves up as independent entrepreneurs (usually taking over enterprises from parents or parents-in-law);
- entrepreneurs holding agricultural land under lease;
- entrepreneurs wishing to enlarge to a considerable extent the land on which they farm.

3.6.2 The United Kingdom

Table 3.3 shows the nature and extent of the loans granted to farmers by various money-lenders in the United Kingdom in 1966.

* Rapport van de werkgroep grondfinanciering: Nieuwe financieringsvormen voor landbouwgronden, March 1969

TABLE 3.3 - Estimated loans to farmers in the United Kingdom, November 1966

Type of loan	Amount £ (million)	Percentage of total
Long-term loans		
Private mortgages	300,0	52,0
Commercial banks	150,0	26,0
Agricultural Mortgage Corporation	78,5	13,6
Scottish Agricultural Securities Corporation	6,5	1,1
Lands Improvement Company	2,0	0,3
Insurance companies	25,0	4,3
Building societies	15,0	2,6
Industrial and Commercial Finance Corporation	0,5	0,1
Total	577,5	100,0
Medium-term loans		
Commercial banks	100,0	69,0
Co-operatives	30,0	20,7
Hire purchase	15,0	10,3
Total	145,0	100,0
Short-term loans		
Commercial banks	250	62,0
Merchants, auctioneers and others	153	38,0
Total	403	100,0
Grand total	£1 125,5	

Source: Adaptation of data from Agricultural Policy Reports: Capital and Finance in Agriculture. Volume II, 1970

Of the total amount granted in loans 51,3 per cent, 12,9 per cent and 35,8 per cent were long-term, medium-term and short-term loans, respectively.

In 1929 the Agricultural Mortgage Corporation (A.M.C.) was established under the Agricultural Credits Act with a capital of £650 000 subscribed by the Bank of England. Since its establishment this institution has received advances amounting to £1,7 million and £10 million in the form of interest-free loans from the Treasury. All these moneys are, however, repayable. The Corporation raises the funds which it lends by issuing debentures. The funds are borrowed on long-term loan at a fixed rate of interest and are then lent to farmers at a rate about $\frac{1}{2}$ per cent higher. From 1944 to 1949 loans were granted to farmers at a rate of interest of 3,5 per cent. Since then, however, the rate of interest has been increased considerably, so that in February 1969 it stood at 10,25 per cent.

Two types of loans are available from the Corporation*, one of them being first-mortgage loans on immovable property for a period not exceeding sixty years. The rate of interest is pegged for the currency of the loans. These loans

* Finance for Farmers and Growers - Martins Bank Ltd, 1966

cannot be called up so long as the conditions of the loan are complied with. Loans are restricted in size to two-thirds of the long-term agricultural value of the property, as determined by the Corporation's valuers.

Then there are loans for financing fixed improvements on the farm which are granted to landowners for a period not exceeding forty years. These loans are normally not secured by mortgages but by a so-called rent-charge which takes priority over any other charge or encumbrance.

The Lands Improvement Company grants loans for farm improvements on more or less the same basis as the A.M.C. As may be seen from Table 3.3, however, this body has a very minor role in this regard. From the data given above it is clear that the official and semi-official bodies play a very subordinate part in providing credit loans for farmers. The financial contribution of the latter amounts to only about 15 per cent of the long-term loans granted, while they make very small contributions in regard to medium-term and short-term loans. The last-mentioned forms of credit are provided chiefly by commercial banks and merchants and, to a lesser extent, by corporations.

In the United Kingdom the Government's contribution towards financial assistance for farmers consists mainly of donations, subsidies and similar aids and incentives aimed at promoting sound agricultural practices and in this way helping the agricultural industry.

3.6.3 The United States of America

Table 3.4 shows the extent to which various financing institutions in the U.S.A. participate in agricultural financing.

TABLE 3.4 - Mortgage loans and non-mortgage loans (non-real estate debts) during 1966 in the United States of America

Source of credit	Mortgage loans Percent- age con- tribution	Non-real estate debts Percent- age con- tribution
Individuals (sellers, relatives, merchants)	40	41
Insurance companies	23	-
Commercial banks	14	41
Federal land banks (co-operative credit)	20	-
Production Credit Associations (P.C.A.) (Co-operative credit)	-	14
Farmers Home Administration (F.H.A.) (Government controlled)	3	4

Source: Tootell, R.B. (1967): Financing the changing structure of agriculture in the United States and the resulting debt situation of farmers 4th Congres Mondial du Credit Agricole - Zurich

These data indicate that about 40 per cent of the long-term credit, as well as of the medium-term and short-term credit, is provided for agriculture in the United States of America by private individuals who, in the case of non-real estate debts, are chiefly merchants.

The insurance companies were responsible for 23 per cent of the mortgage loans and the commercial banks for 14 per cent, although the figure for the latter is 41 per cent in the case of non-real estate debts. The merchants and the commercial banks together provided 82 per cent of the medium-term and short-term credit. Of the 41 per cent of this credit made available by the commercial banks, 44,3 per cent was used to finance current expenses in agriculture and 32,3 per cent for the purchase of livestock, machinery, vehicles and other production requirements.

The Federal Land Banks, which are co-operative credit institutions, were established in 1916 under the Farm Credit Act. The central unit of this institution (the Federal Intermediate Credit Bank) provides 20 per cent of the mortgage loans for farmers through a Farm Credit System. As regards medium-term and short-term credit, the Intermediate Credit Bank does not grant loans to farmers direct but supplies funds to the Production Credit Associations which were also established on a co-operative basis and which for the most part grant short-term loans to farmers. The Federal Land Banks moreover contribute 58 per cent to the short-term credit required by agricultural co-operatives.

All the capital initially needed by the Federal Intermediate Credit Bank was provided by the Government. When the Bank was established it was laid down, however, that any farmer borrowing from the Bank had to plough back a part of his capital (5 per cent of his loan) into the Bank. The idea behind this was that the farmers' capital should in due course replace the Government's contribution, meeting all the capital requirements of the Bank. This aim was achieved in 1968 when the Bank's capital was in fact held exclusively by farmers.

This Bank and its subsidiaries may not receive deposits but have to depend on capital and funds generated internally and collected through the sale of their securities to the public. Although the transactions of these banks are under Federal Government supervision, control is vested chiefly in the farmers elected to serve on their control boards and county committees.

By law, credit may be granted under the financing scheme of the Farmers Home Administration (FHA) only to farmers unable to obtain financial assistance elsewhere. This scheme is therefore similar in certain respects to that instituted in the Republic of South Africa under the Agricultural Credit Amendment Act, Act 45 of 1968.

It is accepted in the United States that the applicant who approaches the Farmers Home Administration for credit is lacking in some aspect of managerial ability or is in financial difficulties owing to circumstances beyond his control. Such

an applicant would therefore be in need of both credit and guidance. Consequently, after a person has applied for financial assistance, his farm is visited, problems are discussed and a plan is drawn up for his enterprise. The application is granted only if the plan indicates that income will exceed expenditure and that it will be possible for the farmer to repay the loan in due course. Depending on circumstances, the credit granted may be a short-term, medium-term or long-term loan.

After the loan has been granted, the applicant is visited as often as necessary by a specially trained officer of the Administration and is helped to solve any problems that may arise and, if necessary, to make adjustments for any contingencies. The progress made is taken into account and the enterprise further planned so that provision can be made timeously for any further financing, if this is justified. Supervision benefits both the lender and the borrower. It creates possibilities for the borrower to improve his managerial ability and knowledge, while it gives the lender the assurance that his money is used advantageously and will be paid back. Through its county offices, which number about 1 600, the Farmers Home Administration keeps in very close contact with the farmers to whom credit is granted in order to ensure that the credit is used effectively.

During the 1969 financial year this credit institution made \$275 million available for such loans, as well as a further amount of \$120 million for emergency loans at 3 per cent interest for farmers suffering serious losses as a result of droughts, floods, hailstorms or other disasters. It is stated, however, that the amounts requested in FHA loans are much larger than the funds available for this purpose.

The suppliers of agricultural credit in the United States insist furthermore that farmers being considered for credit should draw up an operating plan, since they consider it to be of cardinal importance that sound business principles should be followed consistently when credit is made available to agriculture. Even commercial banks, urban as well as rural, have created so-called farm departments to help farmers with farm accounting and good managerial practices. Experience has shown that banks with agricultural credit specialists on their staff have the fewest problems. As money-lenders, they are aware that farmers cannot keep going for long by substituting regular credit for normal income.

It is also striking that in the United States of America the Government itself plays a very minor role in agricultural financing.*

* Agricultural Financing in the United States, the Operations of the Coöperative Farm Credit System - Glenn G. Browne - International Study Meeting on Farm Credit Problems in the U.S.A., April 1969.

3.6.4 Canada

A large number of institutions are involved in extending credit to Canadian farmers.* The Federal Government provides credit through the following:

- (a) The Farm Credit Corporation operating under the jurisdiction of the Department of Agriculture;
- (b) the Veterans' Land Administration falling under the Department of Veterans' Affairs;
- (c) the Farm Improvement Loans Act administered by the Department of Finance;
- (d) the Prairie Grain Advance Payments Act administered through the Canadian Wheat Board under the jurisdiction of the Department of Trade and Commerce;
- (e) the Industrial Development Bank, a subsidiary of the Bank of Canada;
- (f) the ARDA-FRED programmes undertaken by the Department of Regional Economic Expansion.

In addition to the above-mentioned Federal institutions, the ten different provincial bodies are also involved in providing credit for farmers. As in other countries, ordinary commercial banks, statutory institutions, merchants and other private parties also play an important part in providing credit for farmers.

It should be noted that the agricultural credit provided for farmers in 1967 was as follows: long-term (over 10 years) 17,1 per cent, medium-term (18 months to 10 years) 23,0 per cent and short-term (up to 18 months) 59,8 per cent.

The Farm Credit Corporation is the most important supplier of long-term credit in Canada. The maximum loan granted is \$55 000 per individual and \$100 000 for two or more persons farming together. The loans are secured against land, livestock and machinery, and their use is supervised. Preference is given, however, to mortgage loans on land.

This Corporation also administers the Farm Machinery Syndicates Credit Act. Under this Act three or more farmers may be granted a loan for the purchase of machinery for co-operative use. The maximum amount granted is \$15 000 per member, with a total maximum of \$100 000 for the co-operative unit regardless of the number of members.

The Farm Improvement Loans Act permits commercial banks to grant medium-term and short-term loans to farmers, subject to a guarantee by

* Canadian Agriculture in the Seventies. Report of the Federal Task Force on Agriculture, Dec., 1969.

the Government to bear 10 per cent of the losses on loans granted under the Act. The maximum amount granted is \$25 000 per farmer. From the coming into operation of the Act in 1945 up to 1967 more than two-thirds of these loans were made to the Prairie Provinces and about 80 per cent of these were used for the purchase of machinery, 8 per cent for the purchase of livestock, 8 per cent for the construction, repairs or alteration of buildings, and the rest for other improvements.

In 1967 official sources of credit provided about 92 per cent of the long-term credit for farmers. As regards medium-term credit, these bodies played a very subordinate role. The most important were commercial banks which (under the Farm Improvement Loans Act) supplied 40 per cent of the credit, private individuals about 25 per cent and the Credit Unions about 18 per cent; various other minor bodies accounted for about 17 per cent.

As regards short-term loans, banks (non-FILA) provided approximately 56 per cent, Supply Company Finance 26 per cent, merchants about 8 per cent and private individuals and other minor bodies about 10 per cent.

Official bodies in Canada therefore concentrate mainly on long-term credit to farmers and play a minor role in providing medium-term and short-term credit. The commercial banks, on the other hand, are by far the most important suppliers of these forms of credit to farmers. It is noteworthy that until 1967 banks were not allowed, under the Canadian Bank Act, to grant mortgage loans on farms. In that year, however, the Act was amended, and at present banks are able to secure loans by mortgages.

Until recently, commercial banks in Canada made no attempt to provide specialised credit facilities for farmers. Recently, however, various banks created agricultural departments because

the need to make provision for specialised credit for farmers is being realised to an increasing extent.

3.7 THE PRESENT SITUATION IN AGRICULTURAL FINANCING IN THE REPUBLIC OF SOUTH AFRICA

According to the data collected in the 1968/69 Agricultural Census, agricultural indebtedness as at 30 June 1969 was as shown in Table 3.5.

3.7.1 Share of various bodies in agricultural financing

So little information is available on the nature of the financial assistance given to agriculture by non-official bodies that only a brief review can be given here.

3.7.1.1 Banking institutions

As appears from Table 3.5, banking institutions or commercial banks indubitably play a very important role, especially as a source of medium-term and short-term credit for farmers.

As commercial banks have to maintain their position and comply with certain monetary regulations and control requirements in terms of the Banks Act, they are primarily suited to providing short-term credit. In the provision of such credit an important part is played by subjective factors such as the bank manager's ability to judge character and the integrity of the farmer. Banks greatly prefer to give credit to clients regarded as good business risks.

In the case of new clients, particular attention is given to the asset position of the applicant. The asset position of old clients applying for additional credit facilities is reconsidered and due account is taken of their past credit record.

TABLE 3.5 - Total debt burden of farmers as at 30 June 1969

Source of financing	Mortgages on land		Other loans and debts		Total debts	
	Rand (million)	Percentage of total mortgage burdens	Rand (million)	Percentage of total other loans and debts	Rand (million)	Percentage of total debt burden
Land Bank	190,2	28,9	15,6	4,8	205,8	20,9
Government departments	61,6	9,3	19,0	5,9	80,6	8,2
Insurance companies	68,4	10,4	8,9	2,8	77,3	7,9
Agricultural co-operatives	14,8	22,2	38,9	12,1	53,7	5,5
Banking institutions	101,8	15,4	116,6	36,1	218,4	22,3
Other financial institutions	89,3	13,6	31,6	9,8	120,9	12,3
Private persons						
(a) Active farmers	37,0	5,6	19,8	6,1	56,8	5,8
(b) Other persons	85,4	13,0	44,5	13,8	129,9	13,2
Other	10,7	1,6	27,9	8,6	38,6	3,9
Total	659,2	100,0	322,8	100,0	982,0	100,0

Source: 1968/69 agricultural census

Banks often require short-term loans granted by them to be secured by the cession of life policies or by security bonds. Owing to the short-term nature of the credit, banks furthermore expect the seasonal settlement of the debt burden. If short-term obligations are not met, the overdrawn accounts are secured, where possible, by the registration of mortgages.

During periods when restrictions are placed on credit certain credit institutions tend to discriminate against agriculture. Preference is then given particularly to the older, financially stronger clients. At such times banks also tend to help clients already on their books rather than to open new accounts. According to the available information, banks are usually accommodating in their attitude towards the applications of deserving clients. According to certain banks, no less than 25 per cent of the total amount available for loans was channelled into the agricultural sector.

The rate of interest at which short-term loans are granted is fairly high, with a prime rate fixed at about 9 per cent in 1971.

Medium-term credit is provided by hire-purchase banks. The term of redemption varies from two to five years. The rate of interest for such loans is excessively high. The so-called finance charges, of which the rate of interest is one component, vary between 12 and 22 per cent according to the amount and the type of loan. Bonds for such loans are secured by a lien on the articles purchased with the money borrowed.

According to Table 3.5, banking institutions in 1969 held 15,4 per cent of the total mortgage burden and 36,1 per cent of loans and debts. The commercial banks are therefore adapted particularly to providing short-term credit. Presumably, many of the mortgages held by them originate in the initial provision of short-term credit, probably because overdrawn and arrear accounts are secured by mortgages if farmer clients cannot meet their short-term obligations.

3.7.1.2 Insurance companies

Unlike banking institutions, insurance companies concentrate mainly on long-term loans, the duration of which varies from 20 to 40 years. About 10 per cent of the debt burden covered by mortgages is carried by insurance companies. As suppliers of short-term credit they play a minor role, their contribution in this regard amounting to only about 2 per cent of the total short-term and medium-term debt burden of farmers.

Insurance companies tend to be more careful and selective in negotiating mortgages; one company describes its policy as follows:

"Not only do we look at security but we also take into account the applicant's moral risk and his ability to pay. It does not pay to have to foreclose on mortgages even if the security is adequate. That would be bad publicity."

3.7.1.3 Private persons

These include active farmers as well as other private persons. According to Table 3.5, the mortgages held by this group in 1969 were R122,4 million or 18,6 per cent of the total mortgage debt of farmers; in that year active farmers contributed R37,0 million of the R122,4 million in agricultural credit.

Next to the Land Bank, private persons are therefore the most important source of mortgage loans. Unfortunately, there are no data available about the term over which and the rate of interest at which such loans are granted. It is known, however, that some of these loans are granted over a relatively short term.

Private persons play an equally important role in granting short-term and medium-term credit, the figures being (see Table 3.5) about R64,3 million or approximately 20 per cent of this type of debt burden in 1969.

3.7.1.4 Other financial institutions

According to Table 3.5, the contribution of this group, which includes boards of executors, trust companies and others, was R120,9 million or 12,2 per cent in 1969. Further particulars of the investment policy applied by these bodies are not available. According to the Study Group for Inquiry into Agricultural Credit*, the vast majority of the loans granted by them are secured by mortgages on fixed property. Loans are also sometimes granted against securities such as security bonds, the cession of life policies, crops, shares and fixed deposits. Since the funds of these bodies consist chiefly of private investments, a cautious financing policy is followed and loans are granted selectively.

3.7.1.5 The Land Bank

Upon Union in 1910 the Land Bank was established through the consolidation of the existing colonial land banks. It is a financial institution created to meet the need for financing specially adapted to agriculture.

Initially, the Land Bank granted long-term loans only. In 1938, however, statutory provision was made for the granting of short-term credit and in 1959 for medium-term credit. The Land Bank is therefore functionally organised to provide long-term, medium-term and short-term credit.

The role played by the Land Bank in the five-year period 1965 to 1969 in both the direct and the indirect financing of farmers appears from the data furnished in Tables 3.6 to 3.8 below.

3.7.1.5.1 Long-term loans

From the data given above it appears that the number of mortgage loans granted during the five years concerned increased only during the

* De Swardt, S.J.J. et al. (1961): *Loc. cit.*

last two years of the period. The total annual amount granted has, however, increased so sharply since that time that in 1969 it stood at over R69 million. This is more than double the amount granted in 1965.

TABLE 3.6 - Long-term mortgage loans granted by the Land Bank from 1965 to 1969

Year	Number of loans	Amount (R)	Average amount per loan (R)
1965	2 986	33 371 775	11 176
1966	2 746	29 783 524	10 846
1967	2 274	31 141 736	13 694
1968	2 715	45 376 713	16 713
1969	3 538	69 333 450	19 596

Source: 1969 Annual Report of the Land Bank

TABLE 3.7 - Charge loans* granted by the Land Bank from 1965 to 1969

Year	Number of loans	Amount (R)	Average amount per loan (R)
1965	151	145 225	962
1966	235	288 330	1 227
1967	98	201 810	2 059
1968	78	179 050	2 295
1969	97	286 520	2 953

Source: 1969 Annual Report of the Land Bank

* A preferential charge in favour of the Land Bank noted against the possessions of the borrower

Over the five years the Land Bank granted an average of 81,7 per cent of the mortgage loans applied for. The amount granted per application averaged 60,1 per cent of the amount requested.

The considerable rise in the total amount granted in mortgage loans is ascribed chiefly to the fact that the number of applications for the purchase of land increased and that larger amounts were granted per application. In addition, owing to droughts and rising rates of interest on mortgages, farmers sometimes found it difficult to meet their mortgage obligations to other bodies.

When these mortgages were called in or this was threatened by the mortgagor, the farmers turned to the Land Bank for help.

Charge loans are of minor importance and applications for them have decreased in the past three years. The amount granted per application more or less doubled over this period.

As regards long-term loans secured by mortgages and charges on fixed property, farmers owed a total amount of R259 881 721 at the end of 1969. At that date arrear payments and interest amounted to R2 951 887 (1,14 per cent) and R4 663 361 (1,79 per cent), respectively.

More than half of the total amount granted in mortgage loans was intended for the purchase of land; about a quarter was granted for the repayment of bonds; approximately 16 per cent was spent on the consolidation of debts; and less than 5 per cent of the total amount for which mortgage loans were granted was for fixed improvements and the purchase of stock and equipment. This is what can normally be expected because the last-mentioned form of financing is usually effected through medium-term and short-term loans.

The purposes for which the mortgage loans were granted are shown in Table 3.8.

3.7.1.5.2 Medium-term loans

Medium-term credit against security of movable property has been granted by the Land Bank to farmers since 1959. Initially, this credit was granted only for the purchase of livestock, implements and tractors. In recent years the assistance has been extended to include the financing of the purchase of other farming requisites, such as bulk-cooling tanks and appurtenances for farms, light trucks and weighing scales for cattle. Funds have similarly been made available under the hypothec scheme for the purchase of spray pumps, to combat downy mildew in vineyards.

Farmers in the grain-producing areas of the country often find themselves in urgent need of credit to purchase tractors, implements and other farm machinery. In order to make loan facilities available for this purpose with the least possible delay, certain co-operatives have made the necessary arrangements with the Land Bank. Under the scheme, a co-operative assist members in the completion and transmission to the Land Bank

TABLE 3.8 - Purposes for which mortgage loans were granted by the Land Bank

Year	Purchase of land		Repayment of bonds		Consolidation of debts		Fixed improvements		Purchase of stock and equipment	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
1965	18 493 088	55,2	6 864 349	20,5	7 053 852	21,0	375 449	1,6	585 037	1,7
1966	14 825 688	49,8	7 839 820	26,3	5 505 653	18,5	580 893	1,9	1 031 470	3,5
1967	18 217 877	58,5	7 116 686	22,9	4 475 245	14,3	371 831	1,2	960 097	3,1
1968	24 072 274	53,0	11 991 487	26,4	7 474 464	16,5	528 865	1,2	1 309 625	2,9
1969	41 355 921	59,7	15 907 996	22,9	9 128 689	13,2	1 051 993	1,5	1 888 881	2,7

Source: Adapted from data in the 1969 Annual Report of the Land Bank

of applications for hypothec loans on goods purchased at the co-operative.

A basic requirement for the granting of medium-term credit is that the applicant should make a cash contribution towards the purchase price. Depending on the purchase, the contribution required varies from 15 per cent to 25 per cent. The security pledged to the Land Bank normally consists solely of the assets purchased with the advance.

Under an amendment to the Land Bank Act in 1959, the Bank may make an advance to a farmer against the security of a hypothec over any movable property of which he is the owner. The hypothecated property may not be attached by another creditor in execution of a judgement.

Owing to the vulnerability of the securities for this type of loan, the financial standing and character of the debtor are of the greatest importance. For this reason such loans are usually granted only to established farmers. The period for which such loans are granted varies according to the purposes for which the money is required.

Particulars of hypothec loans granted during the period 1965 to 1969 are given in Tables 3.9 and 3.10.

TABLE 3.9 - Hypothec loans granted by the Land Bank during 1965-1969

Year	Number of loans granted	Amount granted	Average amount
		(R)	(R)
1965	697	1 060 099	1 529
1966	941	1 699 047	1 805
1967	1 058	2 325 340	2 197
1968	1 210	2 910 037	2 405
1969	2 188	6 687 972	3 056

Source: 1969 Annual Report of the Land Bank

The data in Table 3.9 reflect a progressive increase in the number of hypothec loans, as well as in the average amount granted per loan. The total amount granted rose more than sixfold from 1965 to 1969. This increase is ascribed partly to the expansion of the scheme and partly to the fact that medium-term financing through the co-operatives was gaining popularity with the farmers.

The purposes for which the above-mentioned hypothec loans were granted are shown in Table 3.10.

TABLE 3.10 - Purposes for which the Land Bank granted hypothec loans from 1965 to 1969

Year	Purchase of sheep	Purchase of cattle for			Purchase of other livestock	Purchase of tractors	Purchase of other implements	Total
		Fresh milk production	Industrial milk production	Meat production				
	R	R	R	R	R	R	R	R
1965	274 624	121 133	222 310	128 751	23 730	273 745	16 975	1 066 099
1966	354 576	186 150	137 574	142 839	9 890	127 450	140 568	1 699 047
1967	362 780	176 872	127 000	249 244	16 251	891 236	390 113	2 325 340
1968	405 885	106 610	356 983	399 231	2 000	947 582	619 746	2 910 037
1969	387 318	356 629	614 006	1 055 590	2 900	2 688 904	1 581 625	6 687 972

Source: Adapted from data in the 1969 Annual Report of the Land Bank

The totals for 1965 and 1967 include R4 831 and R2 638, respectively, which were amounts granted for the redemption of debts under hire-purchase agreements for the purchase of stock and implements. Since 1968 the granting of loans for the redemption of hire-purchase debts has been discontinued. Over the five years concerned the amount granted for hypothec purposes increased from just over R1 million to about R6.9 million. The biggest rise in the granting of hypothec loans was in respect of beef cattle, tractors and other implements. In comparison with 1965, the amounts granted in 1969 increased almost tenfold for beef cattle and tractors, while the increase for other implements was almost a hundredfold.

The total amount applied for in 1969 was R7 770 590. Of this, as already indicated, R6 687 972 or 86.1 per cent was granted, which must be regarded as favourable.

As at 31 October 1970 farmers owed the Land Bank R8 408 655 in capital on medium-term loans, while at the said date interest arrears and capital arrears were R63 650 (0.76%) and R371 338 (4.42%), respectively.

3.7.1.5.3 Short-term loans to farmers

Short-term loans are granted to farmers by the Land Bank for defraying seasonal expenses incidental to the production, cultivation, gathering, processing and marketing of certain crops.

Initially (1938) loans of this kind were granted only to sugar-cane growers under section 34 of the Land Bank Act. Since that time these loans have also been made available to fruit and wine farmers in recognised fruit and wine producing areas in the Cape, to wattle growers in the Republic and also to citrus growers for the purchase of packing material, waxing plants and bulk-handling equipment. Such loans are secured by a lien on the crops growing or to be grown, provided that the rights of the holder of a prior bond over such crops are not affected without his consent in writing. Financing under this scheme was expanded as the need arose and where the crops concerned were marketed on a controlled and organised basis.

The extent to which farmers made use of these loans over the past five years is shown in Table 3.11.

TABLE 3.11 - Short-term loans granted to farmers by the Land Bank from 1965 to 1969

Year	Sugar-cane growers		Fruit and wine farmers		Citrus growers		Wattle growers	
	Amount drawn in the year	Balance owing at end of year	Amount drawn in the year	Balance owing at end of year	Amount drawn in the year	Balance owing at end of year	Amount drawn in the year	Balance owing at end of year
	(R)	(R)	(R)	(R)	(R)	(R)	(R)	(R)
1965	136 010	109 394	337 310	239 646	1 048 017	208 502	-	-
1966	256 479	108 144	259 334	212 478	1 176 935	330 052	-	-
1967	367 761	112 659	245 556	194 121	1 220 581	318 545	3 000	1 000
1968	276 068	120 936	280 842	209 629	1 538 186	187 831	1 300	1 300
1969	335 696	138 362	355 638	184 070	1 365 343	203 163	2 000	3 231

Source: Adapted from data in the 1969 Annual Report of the Land Bank

With the exception of wattle growers, farmers have made reasonable use of these loan facilities. No upward or downward trends are, however, observable in the use of these loan facilities. Seasonal conditions apparently determine the extent to which use is made of these loans each year.

3.7.1.5.4 Financing of farmers through agricultural co-operatives and of the co-operatives themselves

Short-term credit is granted to co-operatives for primary production purposes, such as the purchase of seed, fertiliser, fuel and bags, and for hail insurance premiums. No reasonable requests for loans for these purposes are refused by the Land Bank, so there is no reason why there should be any shortage of credit for these purposes where farmers are organised in co-operatives.*

Apart from the usual seasonal facilities under cash credit accounts, the Land Bank also extends special credit to agricultural co-operatives in exceptional circumstances to enable them to grant special assistance to their members, for example, for the purchase of stock feed and factors of production when droughts and crop failures have made this necessary. Sometimes the term for repayment of existing cash credit accounts is extended so that co-operatives can, in turn, grant members extensions for amounts owing on factors of production.

These loans are supplementary to the co-operative's own funds which consist of contributions by members in the form of paid-up share capital and levies from reserves built up annually from surpluses.

The extent of the loan facilities offered by the Land Bank depends on the members' own cash contributions and the ability of a co-operative to meet its liabilities.

The Land Bank is the chief source from which the agricultural co-operatives can draw the finances they need. Under the provisions of the Land Bank Act, the Land Bank provides long-term

credit in the form of instalment loans and seasonal facilities (short-term credit) in the form of cash credit accounts.

Further details of the nature and size of the above-mentioned loans are as follows:

3.7.1.5.4.1 Instalment loans

Instalment loans are of two kinds, i.e. -

- Instalment loans for normal capital expenditure are granted to co-operatives for the acquisition of fixed property, the erection of buildings, the installation of machinery and the financing of other capital expenditure. However, the Board of the Land Bank has to be satisfied as to the co-operative's own contribution towards the cost and of the necessity and payability of the project. In the course of 1969 co-operatives applied for R5 896 450 for the financing of normal capital expenditure. Of this total, R5 621 250 was granted.
- Instalment loans in respect of facilities for the bulk handling and storage of grain. With the approval of the Government, a start was made in 1952 with the financing of schemes for the bulk handling and storage of grain. Initially there was some reluctance to use these facilities. Gradually, however, the position changed and applications for loans increased so that from 1970 an amount of R8 million is being made available annually for a period of five years for the expansion of the above-mentioned facilities.

The adoption of modern methods of handling grain in bulk have made the erection of such facilities essential. More and more grain farmers are switching to bulk handling and delivery of grain. Similarly, millers are also changing over to taking delivery of their grain requirements in bulk. What is more, virtually all the maize and grain sorghum exported is handled in bulk. The erection of grain elevators requires high capital expenditure, and co-operatives are obliged to make extensive use of loan funds.

* Memorandum to the Agriculture Commission by the Land Bank, 16 November 1966.

The size of loans already made available and to be made available to co-operatives for the bulk handling of grain is shown in Table 3.12:

TABLE 3.12 - Loans for bulk handling projects granted to co-operatives by the Land Bank

Period	Amount allocated (R)	Loans granted (R)	Capacity (200 lb bags)
1952-60	10 000,000	7 397 055	4 143 000
1960-65	10 000,000	9 963 536	6 037 000
1965-70	11 500,000	11 050 209	5 583 000
1967-75	49 500,000	17 203 473	10 946 076

Source: 1969 Annual Report of the Land Bank

Particulars of instalment loans granted by the Land Bank to co-operatives for normal expenditure and for bulk handling and storage facilities over the past five years, as well as the amounts still owing at the end of each of the years concerned, are summarised in Table 3.13.

TABLE 3.13 - Instalment loans granted by the Land Bank to co-operatives and amounts still owing at the end of the year concerned

Year	Normal capital expenditure		Bulk handling and storage	
	Amount granted (R)	Amount owing at end of year (R)	Amount granted (R)	Amount owing at end of year (R)
1965	6 707 000	20 288 344	2 424 000	11 119 734
1966	6 129 245	25 375 600	2 941 000	13 360 369
1967	3 322 011	27 920 548	6 205 896	17 703 248
1968	4 368 700	28 904 922	4 288 489	21 279 029
1969	5 621 250	29 802 783	4 444 823	25 726 371

Source: 1969 Annual Report of the Land Bank

The amounts owing at the end of each of the years concerned show a progressive rise over those in the previous year.

3.7.1.5.4.2 Cash credit loans

Cash credit or seasonal loans are granted by the Land Bank to co-operatives on a seasonal basis for terms which normally vary from twelve to eighteen months. Apart from marketing their members' products, co-operatives often also supply members with factors of production, implements and other operating requisites. These short-term loans are made available from the so-called cash credit accounts. Co-operatives may withdraw money from these cash credit accounts to make advances to producers.

The amounts granted annually under cash credit accounts to co-operatives over the past five years, as well as the amounts still owing at the end of each year, are shown in Table 3.14.

There is direct correlation between the amount of the seasonal loan debt on the one hand and the size of the crops and rate of marketing on the

other hand. The debt increases as products are delivered to co-operatives and advances are made to producers. It decreases when products are marketed and payments are made to the Land Bank by the control boards.

TABLE 3.14 - Seasonal loans granted by the Land Bank to co-operatives and the amount owing at the end of the year concerned

Year	Amount granted during the year concerned (R)	Balance owing at the end of the year concerned (R)
1965	325 820 600	129 342 415
1966	349 642 300	167 020 909
1967	507 844 500	324 283 011
1968	502 526 700	251 072 277
1969	520 763 000	259 228 787

Source: 1969 Annual Report of the Land Bank

According to the purposes for which they are used, seasonal loans may be grouped as follows:

- Handling of products,
- production and packing material,
- purchase of implements and farming requisites,
- processing of agricultural products on a co-operative basis, and
- special loans.

There is no further discussion of loans in categories (d) and (e).

3.7.1.5.4.2.1 Loans for the handling of products

The Land Bank pays co-operatives the advances on producer prices fixed by the control boards. For this purpose co-operatives furnish the control boards with an irrevocable authority to pay the full advances on producer prices, plus any remuneration which the control board may owe the co-operatives for handling and storing the products, to the Land Bank when the products are sold. Table 3.15 shows the amounts of the loans drawn on the Land Bank for the various agricultural products during the past five years.

3.7.1.5.4.2.2. Loans for production and packing

Through the co-operatives the Land Bank also finances a good deal of the farmer's primary requirements for the production and packing of products. Particulars of loans granted in this connection over the period 1965 to 1969 are given in Table 3.16.

3.7.1.5.4.2.3 Loans for the purchase of implements and farming requisites

The Land Bank normally restricts loans for this purpose to a reasonable percentage of the value of the stocks carried by co-operatives in the or-

TABLE 3.15 - Loans in respect of the various agricultural products, drawn on the Land Bank by the agricultural co-operatives since 1965

Season	Maize	Grain sorghum	Wheat	Barley, oats and rye	Oilseeds	Dairy products	Tobacco	Dried fruit	Lucerne Hay	Cotton	Wine grapes	Sugarcane
R	R	R	R	R	R	R	R	R	R	R	R	R
1965/66	89 783 524	7 578 651	35 084 463	1 375 182	15 315 190	9 239 980	1 193 500	2 724 506	1 597 140	2 331 006	7 047 380	9 086 521
1966/67	124 568 392	3 540 781	30 591 494	1 388 518	17 445 917	13 447 040	1 291 881	2 507 536	1 207 140	1 402 300	4 312 694	8 264 326
1967/68	264 809 227	19 641 739	63 964 108	3 351 092	32 195 012	15 955 993	2 480 300	2 522 313	1 878 000	1 073 989	4 079 149	18 262 367
1968/69	131 109 840	763 389	74 754 338	2 527 425	18 448 729	22 723 202	2 541 000	3 255 073	2 246 629	2 037 788	6 780 242	11 401 213
1969/70	136 629 842	630	33 631 332	260 000	28 384 265	27 903 716	2 923 998	4 282 794	1 020 100	2 635 304	6 713 174	9 954 082

Source: Adapted from data in the 1969 Annual Report of the Land Bank

TABLE 3.16 - Loans granted to co-operatives by the Land Bank since 1965 for factors of production and packing purposes

Purpose of advance	Year				
	1965	1967	1968	1969	1970
	(R)	(R)	(R)	(R)	(R)
Grain bags	12 150 145	8 878 980	17 711 024	16 865 562	11 484 585
Fertilisers	12 199 331	13 743 539	16 821 859	22 350 124	23 336 653
Seed	4 160 164	4 657 711	5 825 251	6 325 260	6 722 762
Packing material	4 666 953	5 059 868	5 721 031	5 440 617	4 921 134
Hail insurance premiums.	580 719	246 648	337 405	585 431	656 991

Source: 1969 Annual Report of the Land Bank

dinary course of business. The loans granted under this head over the past five years are shown in Table 3.17.

TABLE 3.17 - Loans granted by the Land Bank to co-operatives for the purchase of implements and farming requisites

Year	Average monthly indebteduers (R)	Balance owing at end of year (R)
1965	16 105 669	10 860 439
1966	13 154 270	13 318 560
1967	14 953 993	14 560 869
1968	17 717 920	21 034 974
1969	21 423 933	22 601 594

Source: 1969 Annual Report of the Land Bank

The demand for this type of financing increased progressively over the period concerned. This is ascribed mainly to the continued intensification of farming, which means that co-operatives have to carry larger and more expensive stocks to meet members' needs.

Apart from the above-mentioned loans, the Land Bank finances various co-operative manufacturing enterprises which convert primary products into consumer goods, e.g. the milling industry and the canning industry. In addition, the Land Bank also grants the control boards short-term loans for any purpose for which control boards may borrow money under the Marketing Act.

3.7.1.5.5. Principles according to which the Land Bank finances farmers*

Personal requirements: Present policy is that loans are granted only to persons engaged in farming full time and not to persons engaged in any other trade or profession. A further requirement is that the applicant must have sufficient security and must normally live and work on his farm personally and on a full-time basis.

Financial policy: There are no statutory provisions restricting the Board of the Land Bank regarding the amount granted and the form of loans. Owing to the setbacks experienced in the agricultural sector, especially during the past decade, as a result of unfavourable climatic conditions and rising rates of interest and production costs, the need for a suitable system of financing in agriculture became more urgent. The Land Bank takes due accounts of this and of the fact that proportionately, large farmers have to contend with the same problems as the average smaller type of farmer, so that it would be wrong to regard the Bank as an institution that only caters for the smaller farmer.

For the purchase of land, loans are granted only if the applicant is not already a landowner, or if it is necessary to increase the size of the

unit to economic proportions. An applicant is, furthermore, expected to contribute 20 per cent of the purchase price in cash from his own funds and to have sufficient factors of production (stock and implements) to ensure the success of his enterprise.

Taking over of debts: As it would be impossible to try and take over all the mortgage debts of farmers who apply to the Bank for this, "a system of selectivity is applied" and assistance is given, in the first place, to the farmer whose mortgage bond has been called in in writing and who is therefore in danger of being excused.

In view of current monetary policy, the Bank is also not prepared to take over covering bonds in respect of overdrawn bank accounts on a large scale, but, depending on circumstances, the Bank would be prepared to consider taking over not more than 40 per cent of the bank overdraft for farming, provided that, through circumstances beyond his control, the farmer cannot meet his obligations the commercial bank and has been called upon by the bank concerned to reduce his overdraft.

Valuation of security: In terms of the provisions of the Land Bank Act, the Board is authorised to advance up to 80 per cent of its valuation of the security offered for a loan for crop farming and stock farming purposes.

Only the Board of the Land Bank may grant loans: Loans may be granted only by the Board of the Land Bank which has its headquarters in Pretoria. Branch offices only process the applications they receive and then send them to Pretoria for consideration.

Credit-worthiness of applicants: Persons applying for a loan must be credit-worthy. There is no restriction on the debt ratio in so far as the various kinds of farming are concerned. Full particulars of the applicant's assets and liabilities are, however, available to the Board and each application is considered on merit.

Guidance: The Bank gives farmers no direct guidance. The farmer is expected to approach the official extension service for advice. On being granted a loan for the purchase of livestock, the applicant is expected to purchase healthy and, if necessary, immunised animals.

Inspection services: Officers of the Bank inspect the farm from time to time to ascertain whether the loan is being used for the purpose for which it was granted and whether the terms and conditions concerned are being complied with.

As indicated in the foregoing paragraphs, credit of various types is made available by the Land Bank to the farmers direct or through the co-operatives. The credit facilities include long-term credit in the form of mortgage loans, medium-term credit chiefly in the form of hypothec loans made available to farmers direct and short-term loans granted from cash credit loans through the agricultural co-operatives and in a few special cases to farmers direct.

* Letter to the Agricultural Commission from the Acting Managing Director of the Land Bank, 7 January 1971

The Land Bank is also by far the most important source of short-term loans for the cash credit accounts with which agricultural co-operatives can finance the purchase of supplies, and of long-term credit in the form of instalment loans for the purchase or erection of fixed assets by co-operatives.

Short-term loans from cash credit accounts are also made available through the Land Bank to co-operatives to enable them to pay farmers upon receipt, on behalf of the control boards concerned, of certain agricultural products under the system of controlled marketing.

In 1969 the Land Bank provided 28,5 per cent of the farmers' long-term credit and 4,8 per cent of medium-term and short-term credit and in the same year granted loans from cash credit accounts amounting to a total of R520 763 000 to agricultural co-operatives for the financing of farmers, the co-operatives themselves and the intake and handling of the crops that were controlled at that time, about R250 million of this total being for the last-mentioned purpose.

From the data given above, it appears that the Land Bank is an institution whose financing services are specially tailored to the needs of agriculture. The Managing Director of the Land Bank* describes the Land Bank's functions as follows: "Judging by its functional organisation, the Land Bank in actual fact consists of two separate departments. One department operates mainly in the long-term capital market, while the other is in effect a short-term institution falling in the monetary banking sector. In the short-term department cash credit advances are for the most part furnished on a self-liquidating basis to agricultural co-operatives for the intake of the members' products and to provide them with factors of production. In addition, short-term loans are furnished to control boards established under the Marketing Act for the purposes for which such boards may lend money under the Marketing Act." (Translation). According to the Annual Report of the Land Bank for 1969, the Bank has always succeeded in finding sufficient funds for short-term financing at a pattern of interest rates determined to a large extent by the official bank rate, but, as a result of the prevailing conditions in the long-term capital market, the Bank is finding it more and more difficult to keep pace with the growing demand for long-term financing without increasing the rates of interest in this department of its financing.

3.7.1.6 Financing through the Agricultural Credit Board

With the coming into operation of the Agricultural Credit Act (Act 28 of 1966) various Acts were repealed, including the State Advances Recoveries Act, 1935, the Farmers' Assistance Act, 1935, and the Land Settlement Act, 1956. The provisions and operation of these Acts were consolidated in the new Act. The credit facilities provided by various Government bodies were co-

ordinated and placed under the administration of a single department, namely the Department of Agricultural Credit and Land Tenure. In addition, the new Act considerably expanded the field of financing.

Under the provisions of the Act the Minister of Agriculture appoints the members of the Agricultural Credit Board which is an autonomous body. The Board determines whether or not an applicant should receive assistance. If assistance is given, the Board also determines the nature and extent of such assistance. In its decisions the Board is bound solely by the broad principles of policy laid down in consultation with the Minister of Agriculture.

An agricultural credit committee of three to four farmers under the chairmanship of the local magistrate is appointed for each magisterial district. The function of the committee is to advise the Minister or the Board. The committee has to report and make recommendations on any investigation or matter referred to it by the Minister or the Board and has to perform the functions or exercise the powers delegated to it by the Board.

An applicant applies for assistance by completing a comprehensive questionnaire in which he must, among other things, furnish particulars of his assets and liabilities, indicate why debts were incurred and when, and the amount and nature of the assistance he desires, and give details of the land on which he farms or which he wishes to purchase and his production over the past three seasons. Applications have to be made through the magistrate concerned. The committee then further investigates the potential of the farm and checks the data furnished by the applicant. A personal report is then prepared and forwarded with the necessary recommendations to the Board for consideration.

3.7.1.6.1 Basis for the rendering of financial assistance

Certain basic principles are adhered to in considering applications for financial assistance. In this connection, particular attention is given to the following aspects, and action is taken accordingly.

3.7.1.6.1.1 Government financing of agriculture not a substitute for credit from other sources

This assistance is intended particularly for applicants who, in the views of the Agricultural Credit Board, are still credit-worthy and deserving and whose financial position is such, owing to factors beyond their control, that they will not normally be assisted by other credit institutions such as the Land Bank, commercial banks, boards of executors, etc. Persons classified in the report of the Study Group for Inquiry into Agricultural Credit as Category III farmers qualify for such assistance. Persons who have paid too much for land and are therefore over-capitalised or who have conducted other unprofitable transactions or operations do not qualify for assistance through the Agricultural Credit Board, irrespective of whether other bodies can or will assist them.

* Smit, J.M.C. (1971): Landbank speel groot rol - Landbou-oorsig, Die Transvaler, 10 May 1971

The Agricultural Credit Board has pointed out that it was not established to find solutions to the problems created by credit restrictions and rising rates of interest.

3.7.1.6.1.2 Financial assistance to be economically justified

Briefly, this implies that given the assistance an applicant who is in difficulties should stand a reasonable chance of meeting his obligations in due course, so that he would eventually be on his feet again. In practice this means that the assistance given should enable him to cover his current farm expenditure, meet his interest and redemption liabilities and, further, maintain at least a reasonable standard of living for himself and his family.

3.7.1.6.1.3 The merits of the applicant

In this regard the Board would not only be interested in the personal qualities, characteristics and knowledge the applicant would need in order to make a success of farming, but it would also have to satisfy itself of the applicant's sound judgement and insight when it comes to land transactions and other agricultural dealings.

3.7.1.6.2 Manner in which assistance is given

Before being considered by the Agricultural Credit Board, loans for soil conservation works and for the construction of water works as provided for in the Water Act must first be recommended by the Minister concerned or his deputy. Apart from such assistance, the Agricultural Credit Board may also grant assistance to any White person who carries on or undertakes to carry on farming operations, on the terms and conditions determined by the Board. Such financial assistance is given in the following ways:

3.7.1.6.2.1 By granting a loan for a purpose tending to safeguard or stimulate the farming industry.

3.7.1.6.2.2 By selling or letting to such person immovable or movable property of the State, which in the opinion of the Board is suitable for farming purposes.

3.7.1.6.2.3 By endeavouring to bring about a compromise with creditors.

3.7.1.6.2.4 As a rule assistance takes the form of credit or a compromise with creditors. There is no supervision of the farmer nor is he advised on farming practices.

3.7.1.6.3 Nature of assistance

3.7.1.6.3.1 Consolidation of debts

Deserving applicants are assisted in the consolidation of debts against security of immovable and/or movable assets. Debts resulting from injudicious and irresponsible actions are not consolidated.

3.7.1.6.3.2 Purchase of private land

The farmer qualifies for financial assistance for the purchase of private land, if the following requirements have been met:

(a) The land to be purchased must form an economic unit; where an applicant owns an uneconomic unit, additional land may be purchased provided the transaction results in his own uneconomic unit being enlarged to form an economic unit. If an applicant already owns an economic unit, he does not qualify for financial assistance for the purchase of more land, unless adjoining or in the vicinity of such economic unit there is an uneconomic unit, in which case the Board will consider financial assistance for the consolidation of the units concerned. There is at present a great disparity between the market prices and agricultural values of land; in fact, there is often absolutely no relation between the two values. As will be indicated below, this is a factor which hampers the granting of such assistance.

(b) Applicants must have a certain minimum amount of capital at their disposal in the form of cash and/or movable and/or fixed assets. The reasons for this requirement will be discussed in detail below.

In the case of extensive forms of farming, which are capital intensive, such as cattlefarming, proportionately larger capital contributions are required than for intensive farming, for example, irrigation farming which is capital extensive.

3.7.1.6.3.3 Purchase of State land

From time to time the State has land at its disposal which is made available to farmers. Depending on circumstances, such land is either used to convert neighbouring uneconomic units into economic units, or, particularly if large contiguous pieces of land are available, it is subdivided into economic units and granted to deserving applicants.

In all cases such land is granted to the applicants concerned at its productive value. The land is advertised and those applying are then selected on merit as farmers and according to the capital at their disposal. As in the case of private persons for whom land is purchased, applicants have to have a minimum amount of capital. Applicants with ample capital resources and those lacking the minimum amount of capital required do not qualify. Similarly, persons who already have economic farming units do not qualify.

Both private and State land purchased with the assistance of the Agricultural Credit Board may not be subdivided without the Minister's consent. Similarly, an applicant to whom State land has been sold may not sell the land within ten years of its being granted to him.

3.7.1.6.3.4 Purchase of livestock and implements

Where an applicant requires supplementary operating capital for the purchase of implements and/or livestock to be able to make effective and economic use of the potential of his land, favourable consideration will be given to the granting of such capital in deserving cases.

3.7.1.6.3.5 Loans for soil conservation works

As mentioned above, only those loans which have been recommended by the Minister of Agriculture or his deputy are considered. This assistance was introduced primarily to conserve the soil and combat erosion. For this reason the financial position of the applicant is disregarded in considering the assistance requested. In exceptional cases a negative means test is applied and the assistance requested is refused if the applicant's financial position is so hopeless that he would not be able to comply with the prescribed measures or construct the prescribed works without an intolerable financial burden being placed on him. Such loans are granted to landowners as well as to companies.

3.7.1.6.3.6 Loans for irrigation works

Applications for loans for irrigation works are considered by the Agricultural Credit Board only if they have been recommended by the Minister of Water Affairs or his deputy.

Except in the case of sprinkler irrigation loans and irrigation loans over R9 000, no means tests are applied in the granting of loans. Irrigation loans over R9 000 are, however, subject to a means test. Nevertheless such loans are granted, but the Agricultural Credit Board may, in its discretion, decide whether the loan should be granted at 5 per cent interest or at the current Reserve Bank discount rate on long-term stocks (at present $8\frac{1}{2}$ per cent). Applicants who have the means are expected to pay the higher rate of interest.

In considering loans, the Agricultural Credit Board must in every case be satisfied that the assistance recommended is essential and economically justified and that it would not place unjustified capital burdens on the applicant. Such loans are available to landowners and company farmers.

3.7.1.6.3.7 Loans for the housing of non-White labourers

Loans for the housing of non-White labourers have been available from the Agricultural Credit Board since 1969. The maximum number of houses for which financial assistance may be granted is ten per applicant. The applicant has the option of erecting three-roomed and/or four-roomed dwellings. Loans not exceeding R500 and R600, respectively, are granted for the erection of each of the above-mentioned dwellings. In addition, R40 per unit is granted for laying on water.

The plans of the houses must conform to the minimum standards laid down for non-White labourers' dwellings and be approved by the local authority concerned. Such loans are also available only to landowners and company farmers.

3.7.1.6.3.8 Production loans

Production loans for the purchase of means of production for the next season's crop are

granted on "revolving-credit" basis and were introduced to provide financial assistance for deserving farmers who, owing to factors beyond their control, do not have adequate funds and cannot get assistance from other quarters.

The Agricultural Credit Board grants loans up to a maximum of R4 000 for the purchase of seed, fertiliser, fuel (not petrol), lubricants, sprays for the control of pests, parts for tractors and implements and for repairs. Of the R4 000 not more than R1 000 may be used for the production of feed.

The number of applications for this kind of assistance is determined chiefly by the extent to which crops failed in the previous season. The vast majority emanate - often repeatedly - from the marginal field cropping areas of the Cape, Transvaal and O.F.S.

3.7.1.6.3.9 Distress relief loans

Distress relief loans are granted on an *ad hoc* basis and are provided locally whenever farmers are hard hit by natural disasters such as droughts, hail and floods. The following distress relief schemes were in operation recently in certain areas:

3.7.1.6.3.9.1 Stock feed loans

The stock feed loan scheme was introduced under the Agricultural Credit Act to give farmers financial assistance in scheduled grazing distress areas for the purchase of feed, the lease of grazing and the transportation of feed and livestock. Applications for loans can be considered under the following relief measures:

1. The purchase of stock feed to a maximum of -
 - (a) R2,50 per head of large stock per month
 - (b) 50 cents per month per head of small stock older than six months, and 20 cents per head of small stock between the ages of three and six months
 - (c) R1,00 per ostrich per month.
2. The lease of grazing at a maximum amount of 50 cents per head of large stock per month and 20 cents per head of small stock per month.
3. The payment of the cost of transporting stock feed or livestock to other grazing and back. Where rail and railway bus services are not available, private contractors can be used.
4. The purchase of fuel for the applicant's own vehicle for the transportation of feed to his farm or for the transportation of his livestock to other grazing and back, in cases where the farmer does not have any funds of his own to purchase the necessary fuel for this purpose.

Normally the loans are limited to the actual amount required for one month, the need for the loan and its size being determined from month to month. Particular emergencies and the problems experienced in purchasing supplies of feed on a monthly basis sometimes justify the granting of stock feed loans on a two-monthly basis.

(a) Stock feed loans and veld reclamation areas

If an applicant participates in the veld reclamation scheme of the Department of Agricultural Technical Services, a loan may be granted for not

more than the number of livestock laid down for that part of the farm which has not been withdrawn from grazing. No loan is granted for stock which should be withdrawn from the farm under the provisions of the scheme.

If an applicant lives in an area where the veld reclamation scheme applies but does not participate in it, he may make use of the loan facilities under the stock feed loan scheme provided that the number of stock kept does not exceed the carrying capacity laid down for the area concerned.

(b) Stock feed loans in other areas

If the applicant lives in an area where the veld reclamation scheme does not apply, stock feed loans may be granted to him under the terms and conditions applicable to an applicant living in a veld reclamation area but not participating in the scheme.

(c) Stock feed loans and participation in the stock reduction scheme

If an applicant participates in the stock reduction scheme introduced by the Department of Agricultural Technical Services, a stock feed loan may be granted to him for not more than the number of stock which he has undertaken to keep under the above-mentioned scheme.

Since the primary object of the scheme is to save the stock in drought-stricken areas, a means test is not applicable. Any White bona fide farmer in the areas concerned may, in the specific circumstances, apply for financial assistance under the stock feed loan scheme provided he complies with the prescribed requirements.

Since the number of loans applied for in distress areas is so large and it is essential that they be granted timeously, the Agricultural Credit Board has authorised its local committees to grant loans themselves within the prescribed limits. If there is any doubt about whether an applicant qualifies for such a loan, the application must be referred to the Agricultural Credit Board.

As may be expected, the number of loans and the amounts involved vary from year to year and from month to month according to the occurrence and seriousness of droughts. In 1969 the loans granted each month varied from about R19 000 to about R175 000. In that year about R1 091 700 was paid out in feed loans. In 1970, when there were severe, prolonged droughts over large parts of the Republic, the monthly amount of feed loans granted varied from about R268 600 to over R1 142 000. During four months of that year more than R1 000 000 was made available in loans each month. The total amount granted in feed loans for 1970 was over R8 000 000 or almost eight times as much as in 1969. In four particular months of 1970 the amount paid out in feed loans each month was as much as or more than in the whole of 1969.

3.7.1.6.3.9.2 Flood relief schemes

Such relief is sporadic. Whenever floods occur conditions are investigated locally and the nature and extent of the assistance are decided upon. In the course of 1967/68 loans amounting to R1 057 815 were granted for the repair of flood damage and water works in the Lower Orange River.

3.7.1.6.3.9.3 Miscellaneous: Extension of agricultural credit in Western Cape earthquake disaster area

(1) For the rebuilding of non-White farm labourers' houses

Credit was provided for the replacement of all houses destroyed. In this instance the normal maximum of ten houses per applicant was not applied in the disaster area and the maximum loan per dwelling was increased temporarily from R600 to R900 per four-roomed dwelling. No means test was applied. Any benefit obtained by a farmer in this area as regards farm labourers' houses through an ex gratia grant by the Central Boland Earthquake Disaster Committee must be paid in to reduce the loan debt.

(2) For the provision of farm outbuildings

Credit was provided for the erection of farm buildings to take the place of buildings destroyed by the earthquake. Grants covered replacements of a nature and to an extent deemed necessary for the farm concerned by the Department of Agricultural Technical Services. Only a negative means test was applied. Any ex gratia amount received by the applicant from the Disaster Committee for the farm buildings destroyed must be set off against his loan debt in this regard.

(3) For farm dwellings for Whites (excluding the farmer's own dwelling)

Credit was provided for the replacement of houses which had been destroyed, only a negative means test being applied. The maximum amount advanced per dwelling was the estimated building cost of a dwelling providing reasonable accommodation for a White family in the area. Any ex gratia grant accruing to the applicant for the dwellings destroyed must be used to reduce the loan debt.

(4) A dwelling for the farmer himself

Credit was provided for the building of a reasonable dwelling for the farmer himself as a replacement for the house destroyed. The Board's customary means test was applied in this case. The maximum amount advanced was the estimated cost of reasonable accommodation for a White family in the area.

3.7.1.6.4 Redemption of loans

The period within which loans under the Agricultural Credit Act must be redeemed varies according

TABLE 3.18 - Particulars of loans granted by the Agricultural Credit Board from 1.10.1966 to 31.3.1970

	Number of applications granted				Amount of loans granted								Total
	1.10.66-31.3.67	1.4.67-31.3.68	1.4.68-31.3.69	1.4.69-31.3.70	Total	1.10.66-31.3.67	1.4.67-31.3.68	1.4.68-31.3.69	1.4.69-31.3.70	Total	R	R	Total
Consolidation of debts	160	572	423	351	1 506	1 974 887	7 386 937	6 783 992	4 255 246	20 401 062			
Purchase of land	114	529	430	334	1 407	2 171 274	9 811 727	10 073 825	8 265 661	30 322 487			
Purchase of Government holdings and farms	101	59	71	71	302	1 437 000	1 406 643	691 639	779 904	4 315 186			
Purchase of livestock	17	72	69	45	203	38 740	164 680	175 680	136 539	515 927			
Purchase of implements	41	94	73	52	260	82 482	217 842	190 006	142 391	632 721			
Improvements	22	89	11	12	134	85 411	383 473	26 611	25 746	521 241			
Water works	11	306	320	248	885	47 653	901 738	788 833	774 211	2 512 435			
Soil conservation works	213	310	334	284	1 141	362 933	610 040	814 458	1 038 718	2 326 149			
Production loans	1 234	1 288	920	641	4 083	1 350 627	1 557 736	1 308 737	984 674	5 201 774			
Housing	-	-	-	53	53	-	-	-	98 830	98 830			
Compromise with creditors	58	200	136	83	477	-	-	-	-	-			
Transfer of assets	-	-	21	7	28	-	-	-	-	-			
Total	1 971	3 519	2 808	2 181	10 479	7 551 007	22 441 104	20 853 781	16 501 920	67 347 812			

Distress Relief Loans

Feed loans	9 187	3 128	4 366	5 782	22 463	4 298 233	1 293 926	1 891 564	2 273 318	9 757 041
Flood loans	-	994	6	-	1 000		1 057 815	23 018		1 080 833
Disaster loans (earthquake)	-	-	-	42	42				186 403	186 403
Rations	410	171	-	16	597	32 882	9 286	-	886	43 054
Total	9 597	4 293	4 372	5 840	24 002	4 311 115	2 361 027	1 914 582	2 460 607	11 067 331
Grand total	11 568	7 812	7 180	8 021	34 481	11 882 122	24 802 131	22 768 363	18 962 527	78 415 143

Source: Adapted from data furnished by the Department of Agricultural Credit and Land Tenure

to the purpose, nature and amount of the loan. In collecting debts the Department follows a sympathetic policy. If, owing to circumstances beyond his control, the applicant is unable, to meet his obligations at the set date, a reasonable extension of time is given for the payment or part payment of his debts.

The period for which short-term loans are granted varies from one to five years. Production loans must, however, be paid back within one year of being granted. Medium-term loans must be paid off within five to ten years, while long-term loans are granted for ten years or longer. Loans for irrigation purposes must be paid within ten years, those for soil conservation and housing within twenty years and those for the purchase of land and consolidation within twenty-five years. The longer periods of grace may be shortened or extended as circumstances dictate.

The rate of interest at which loans are granted is fixed in the Agricultural Credit Act at 5 per cent per annum, and redemption at $2\frac{1}{2}$ per cent per annum.

The Board may, if it considers it necessary, determine that the applicant only pay interest for the first one to three years. This concession has often been made by the Board in the case of deserving persons who, having been granted financial assistance, have a relatively high debt ratio.

3.7.1.6.5 Extent of financial assistance granted by the Agricultural Credit Board

The extent of the various kinds of financial assistance granted to farmers since the Board's establishment on 1 October 1966 up to 31 March 1970, i.e. for a period of $3\frac{1}{2}$ years, is shown in Table 3.18.

According to the data in Table 3.18, the Agricultural Credit Board financed farmers in the amount of R78 415 143 in the $3\frac{1}{2}$ -year period to

which the data relate. Of this total, R11 067 331 was granted in the form of distress relief.

About 51,4 per cent of the total amount (excluding distress relief loans) made available was granted for the purchase of private land and State land. In the process, 1 709 farmers were enabled to obtain economic units.

It is important to note in this connection that over the period concerned the Land Bank also granted 59,7 per cent of its mortgage loans for the purchase of land.

In the period concerned the Land Bank granted 36,1 per cent of the mortgage loans for the redemption of mortgages and the consolidation of debts. The Agricultural Credit Board, on its part, used about 30,3 per cent (excluding distress relief loans) for this purpose.

Next in importance to the consolidation of debts, is the financing of production loans. About 7,7 per cent (excluding distress loans) of the money made available by the Agricultural Credit Board was used for this purpose.

As regards distress relief loans, R9 757 041 or 89,9 per cent of the total amount made available was used for feed purchases, the lease of grazing and transportation of livestock.

In paragraph 3.6.3 it was pointed out that the Farmers Home Administration of the U.S.A. annually grants a limited amount for the financing of farmers and for distress relief, with the result that when the available funds of that organisation are exhausted, no further distress relief is granted.

Since its inception, however, the Agricultural Credit Board has never refused a single application on the grounds that it lacked funds. Applications for distress relief are refused only if the applicants have not complied with the basic requirements laid down by the Board for financing.

READJUSTMENT OF AGRICULTURAL CREDIT IN SOUTH AFRICA

4.1 FINANCING PROBLEMS IN AGRICULTURE

The South African Agricultural Union emphasised, in its written submissions* and during various interviews with the Commission, that the main problems in the agricultural sector revolve round financing⁺ and that the general pattern of agricultural financing should receive the Government's serious attention. In this regard, reference was made to the credit problems of beginners and established farmers, problems that are due mainly to the fact that there are not enough specialised institutions for short-term and medium-term credit.

In its written submission to the Commission* the S.A. Agricultural Union made various recommendations on how agricultural financing should be adjusted to meet the current needs of the agricultural sector. These recommendations included the following:

- (a) Financial assistance by the Government should not be given unconditionally.
- (b) Financial assistance should be granted by the Government only if there is reasonable certainty that the borrower will be able to make a success of his farming operations; should this not be so, the Government should rather help such a person to find some other occupation.
- (c) The Land Bank, as the only specialised institution in the field of long-term agricultural financing, should be more streamlined so that its role in the provision of credit can be expanded.
- (d) Prospective young farmers should be granted credit on favourable terms, and favourable rates of interest should be granted on loans required for enlarging farming units.

Before drawing any conclusions on these recommendations and related matters, the Commission considered it important first to obtain as much information as possible on the progress made in the granting of agricultural credit and the adequacy and effectiveness of such credit in South Africa. It was considered to be of particular importance to find out whether assistance in the form of long-term, medium-term or short-term credit was adequate, or whether it was available to agriculture in such limited amounts that production and progress were being seriously hampered, or whether

credit was perhaps so freely obtainable that agriculture was being adversely affected by an over-supply of credit. The Commission also found it necessary to ascertain the circumstances under which credit in its various forms was being granted and used.

4.2 PRINCIPLES UNDERLYING THE COMMISSION'S APPROACH TO AGRICULTURAL FINANCING

The Commission has already stated that farming has become a business and that relatively large amounts of capital, for which credit facilities are needed, are invested in the industry. It must be pointed out, however, that it is only fair to expect the farmer to make a contribution to the financing of his enterprise from his own savings. The larger this contribution, the greater the benefit to the farmer concerned. Any amount that has to be obtained for other sources must be raised in accordance with business principles, due allowance being made for problems peculiar to agriculture.

This cannot be over-emphasised, especially in times such as the present when high rates of interest are demanded. When rates of interest on borrowed money were relatively low, as was the case after the Second World War when agriculture was entering a period of tremendous development and rising prices, big profits were made with borrowed money. During the sixties, however, conditions changed fundamentally, and it became very risky to undertake expansions with a high debt-to-asset ratio.

In the granting of credit, therefore, there are various basic principles that must be carefully observed, namely:

4.2.1 The rational granting of credit

Agricultural problems cannot be solved merely by granting credit on easier terms. On the contrary, granting credit injudiciously or excessively can aggravate an applicant's financial problems and help him from the frying-pan into the fire.

Often, a lack of capital is not the main drawback in farming. There are many farmers who are fully conversant with the practical aspects of their enterprise and are able to maintain a reasonable output; even so it often happens that one or more factors are present which eventually give rise to financial problems. Personal shortcomings may play a part: for example, an imperfect understanding of economics, insufficient technical know-how, poor managerial ability, injudicious spending - all of them factors which are often at the root of economic problems. Besides these, there are the various structural defects in farming practices (see Chapters IV, V, VII and X of the Commission's Second Report and Chapter II of this report), for instance, undersized non-viable farming units,

* S.A. Agricultural Union: (a) 1967 - Memorandum to the Commission of Enquiry into Agriculture, May 1967 (b) 1971 - The Financing Problem in South African Agriculture, Doc. 1/71

⁺ "Agricultural financial assistance" as referred to by the S.A. Agricultural Union in its submissions concerns "agricultural credit".

production system that are not properly adapted to the soil and climatic conditions peculiar to an area, inadequate provision against time of scarcity, unsatisfactory conservation practices, overcropping and the disadvantageous use of machinery and labour. These defects are the cause of so much instability in production that such farming enterprises are subject to a high degree of economic instability and risk.

The rational granting of credit calls for a careful study of the above-mentioned inherent weaknesses and shortcomings, and, wherever advisable, an applicant whose farming operations show these defects should be discriminated against or some other form of action should be taken. Unless this is done, it would not be possible to strike at the root of the problem and the help given would serve merely as a temporary measure which would not solve the problem but often have the effect rather of hiding its true causes.

4.2.4 Recoverability of credit

Financial assistance should not be granted unless there is a reasonable chance of the debts incurred being paid back within a reasonable time. The questions which the borrower as well as the lender should answer before application is made for a loan and before the loan is granted are whether the income which, due allowance being made for the expected production risks, can be expected over a particular period would be sufficient to enable the borrower to pay back the loan plus interest thereon, whether his income adequately remunerates him for the risk he has taken and whether he will have enough left to make a reasonable living.

The Commission wishes to sound a warning against attempts at stabilising or putting things right in farming enterprises by granting further credit on easier terms. In practice, the approach should rather be on the following lines:

4.2.2.1 Agriculture must be financed on an economic basis, in other words, the financial assistance granted should be such that it can be used to enable the applicant to place his farming enterprise on a sound footing and build it up into a selfsupporting unit.

4.2.2.2 The applicant's debt ratio should, depending on the type of farming and his managerial ability and knowledge, be within definite and reasonable limits if favourable consideration is to be given to his application for financial assistance. The debt ratio should, after credit has been granted, leave reasonable latitude for the formation of the applicants own means and capital. This is absolutely essential for the development and continued existence of any farming enterprise.

4.2.2.3 Land values being a key factor in the assessment of a farmer's debt burden, the productive value of the land should be the main determinant when it comes to deciding on a realistic debt ratio.

4.2.2.4 The merits of the borrower are of decisive importance because the optimal utilisation of a farming unit's potential and the profitability of the undertaking depend very much on the farmer's experience, managerial ability, know-

ledge, judgement and spirit of enterprise. These qualities should therefore turn the scales in deciding on the merits of a case and the nature and extent of the credit that can be granted.

4.2.3 Farm-enterprise planning

A farming plan and an analysis of the long-term prospects of the farm are considered essential for rational agricultural financing. Such an analysis should therefore accompany every application for credit.

Preparing and submitting a farming plan promotes good farm management and helps the applicant to conduct his affairs systematically and with a definite purpose in view. It also enables the lender to tell whether the applicant's propositions are realistic, whether there is a good chance that the financial assistance applied for will be used judiciously and effectively, whether the farmer will keep abreast of technical developments, whether the farming system envisaged is suited to the natural conditions and whether the assistance applied for will be conducive to the optimal and effective exploitation of the resources concerned.

4.2.4 The granting of agricultural credit to be conditional

The granting of financial assistance should be conditional and made subject to the keeping of proper farming records, the conservation and judicious use of the natural resources, the use of farming systems suited to the natural conditions concerned and the regular submission of reports on the progress made in the enterprise.

4.3 PROGRESS IN THE GRANTING OF AGRICULTURAL CREDIT

The data furnished in paragraphs 3.7.1.5 to 3.7.1.5.4.2.3. of Chapter III of this report indicate the extent to which the Land Bank has granted credit to farmers as well as to the agricultural co-operatives and control boards.

The data on the activities of the Land Bank summarised in Table 4.1 show how remarkably this Bank has expanded its role of advancing money to and in the interests of agriculture since 1948. This is also very evident from information* given recently by the Managing Director of the Bank on the expansion of the credit facilities for agriculture in recent years. In order better to fulfil its credit function, the Land Bank increased its branch officers from ten to twenty-one over this period. Furthermore, the Land Bank has from time to time made adjustments in its credit system as justifiable needs arose.

* Smit, J.M.C. (1971): Landbank speel groot rol. Landbou-oorsig. Die Transvaler - 10 May 1971

TABLE 4.1 - Long-term, medium-term and short-term loan moneys owed to the Land Bank by farmers and agricultural co-operatives in the Republic of South Africa in 1948, 1965 and 1969*

Type of loan	1948	1965	1969
	R	R	R
By farmers:			
Long-term (mortgages)	39 155 338	152 170 769	226 854 223
Charge loans	1 039 390	634 109	873 570
Medium-term	-	4 300 316	8 408 655
Short-term (cash credit)	27 940	557 542	528 826
Total	40 222 668	157 662 736	236 665 274
By co-operatives:			
Long-term	5 804 112	31 408 079	55 171 583
Short-term (cash credit)	44 860 440	129 342 415	258 747 729
Total	50 664 552	160 750 594	313 919 312
Grand total owed by farmers and co-operatives ...	65 452 609	437 954 865	550 594 586

Source: Data furnished by the Land Bank in its Annual Reports for 1948, 1965 and 1969

* The figures do not include the indebtedness of agricultural control boards, statutory agricultural institutions and non-co-operative bodies

As shown by the data in Table 4.2 the Agricultural Credit Board (established on 1 October 1966) has also granted agricultural long-term, medium-term and short-term credit in various forms (see paragraph 3.7.1.6.5. of Chapter III) and on a much larger scale than that granted by the former Department of Lands during the preceding years (1961 to 1965) under various Government schemes in the form of State advances and other loans.

The data for the 1965/66 fiscal year were left out of account because the Agricultural Credit Board took over the credit function of the Department of Lands, as well as State advances, on 1 October 1966.

According to these data, the Agricultural Credit Board in the first four fiscal years after its establishment granted approximately 225 per cent more credit than was granted by the Department of Lands and in the form of State advances. As stated in paragraph 3.7.1.6.5 of this report, 51.4 per cent of the total amount granted by the Agri-

cultural Credit Board (excluding distress relief loans) was in the form of long-term loans for the purchase of private and State land.

The above summary of data on the credit granted by the Land Bank and the Agricultural Credit Board shows the extent to which Government loans have been made available through those bodies to or in the interest of agriculture, particularly during the past few years.

What is of special importance in this regard is that during the past few years neither of these credit institutions has refused a single application for a loan on the grounds that funds were lacking. According to the evidence of these bodies, it was only where the applicants could not satisfy all the requirements set for the granting of credit that applications were turned down.

It was not possible to obtain detailed information on the expansion of credit facilities provided for the agricultural sector by all the private sources of credit together during the past two

TABLE 4.2 - Credit granted under the State Advances Recoveries Act and by the former Department of Lands for purchases and allotments of land in the period 1961/62 to 1965/66 and by the Agricultural Credit Board for the period 1966/67 to 1969/70

Financial year	Assistance under the Act	Allotments by the Department of Lands for the purchase of agricultural land	Total of State advances and allotments for purchases of land	Agricultural Credit Board
	R	R	R	R
1961/62	3 219 387	2 893 477	6 112 864	
1962/63	3 021 803	2 219 790	5 241 593	
1963/64	3 556 926	2 481 389	6 058 316	
1964/65	6 297 309	8 857 311	15 154 620	
Totaal			32 567 393	
1966/67				19 276 408
1967/68				20 748 436
1968/69				20 890 495
1969/70				17 868 954
Totaal				78 602 293

Source: Department of Agricultural Credit and Land Tenure

decades. According to the data in Table 3.5, however, the share of these private bodies in agricultural financing was considerable, i.e. R392,6 million in the form of mortgages and R249,3 million in the form of loans and debts, which as at 30 June 1969 represented 44,5 and 76,6 per cent, respectively, of the total mortgage and non-mortgage indebtedness of farmers in that year. As will be noted below, there are good indications that the contributions made by these bodies to agriculture in the form of long-term and short-term credit have also increased appreciably in recent years.

4.4 ADEQUACY AND EFFECTIVENESS OF AGRICULTURAL CREDIT

4.4.1 Consideration affecting agricultural credit

In interviews with the Commission representatives of Organised Agriculture affirmed that there was no serious shortage of credit in the agricultural sector under normal conditions. However, it emerged from the discussions that the following considerations were important as regards the granting of agricultural credit:

(a) The capital requirements of agriculture, and therefore also the demand for credit, were rising constantly.

(b) Interest rates were rising concurrently with capital requirements. Interest rates had now risen to a level above the earning capacity of even good farmers under favourable production conditions. The profitability of agriculture was such that, under average conditions, these high rates of interest could neither be met from the farmer's income not absorbed by agriculture.

(c) These high capital requirements and rates of interest had been particularly burdensome during unfavourable seasons, of which there had been several during the past decade, and in branches of agriculture and areas which had to contend with protracted droughts and price decreases, particularly in the case of wool and mohair.

(d) Most farmers had no difficulty in getting agricultural credit when they needed it. It was only certain farmers who had difficulties, and in any case for some reason or other many of them could satisfy the basic requirements or norms set by Government credit institutions for the granting of credit. Representatives of the commercial banks, which have a large share in agricultural financing in the Republic, expressed the opinion in an interview with the Commission that in actual fact there were more private credit institutions available to the farmer than was really necessary and that it was therefore too easy to get open credit. This tended to result in procedures and concessions incompatible with sound principles of agricultural financing.

(e) Farmers who failed to obtain credit, particularly medium-term credit, from the Land Bank or the Agricultural Credit Board often turned to private bodies for expensive short-term credit, sometimes without even enquiring beforehand about the cost of such credit or entering into negotiations about it. This way of getting expensive short-term credit for the purposes of long-term and medium-term financing in agriculture soon landed many farmers in financial difficulties.

(f) Farmers often purchased means of production, particularly the more durable items such as vehicles and implements, on the ordinary hire-purchase system. The rates of interest charged by private dealers or private credit institutions for this kind of credit were relatively high - so far above what agricultural production could yield that buying means of production on such a system was not desirable in agricultural financing. (For further particulars see paragraph 4.6.2.2.5.2.)

(g) In agriculture it was not at all unusual to find casual debts with commercial concerns gradually infiltrating the agricultural credit pattern, first in the form of short-term credit with commercial banks, and then long-term credit with commercial banks or even with Government and semi-Government credit institutions. The fact that casual debts were undermining the farmer's permanent-credit structure was causing concern, even if such debts were incurred for agricultural production. But there were also cases where such debts arose from the purchase of the ordinary necessities of life and sometimes purchases to maintain standards of living which were above the net income potential of the farming unit under prevailing conditions. The commercial banks' representative with whom discussions were held also felt that the financial situations resulting from this practice had such a bad effect on farming enterprises that it should be discouraged and counteracted in every possible way.

4.4.2 Overcapitalisation in agriculture

It must be admitted that the agricultural sector is not really experiencing a dire shortage of credit. On the contrary, the position is rather that too much credit has been granted to agriculture by too many private lenders - often the wrong kind of credit at the wrong time (particularly when money is plentiful) and credit that is too dear in times of credit restrictions.

It would appear that overcapitalisation is one of the major causes of many of the financial problems in agriculture. Overcapitalisation arises, in the first instance, when the prices paid for agricultural land are out of proportion to the land's productive potential.

Land is one of the most important factors of production and its agricultural value should be based on its yield under average management over a certain period and under certain conditions. In this regard it should not be forgotten that about 54 per cent of the capital expended on a farming unit is tied up in land.

In Chapter VII of its Second Report the Commission stated that there was no relation between the market price of the land and its productive value, pointing out that this had an adverse effect on agriculture.

Admittedly the rise in land values does, however, increase the solvency of farmers. It does not create any real difficulties for the farmer with ample capital resources who wishes to purchase additional land at ruling market prices either as an investment or to expand his existing farming operations, provided that he has an amount of cash with which he can pay off part of the purchase

price and that he also has the necessary operating capital to be able to exploit the potential of the land he is buying to the full. Such a transaction should not, however, have the effect of pushing up his debt ratio to an unfavourable level.

The position is quite different for persons who want to convert their existing uneconomic units into economic units and for beginners lacking the necessary minimum amount of capital in cash and/or movable and immovable assets. The purchase of land at its current market value would cause serious financial problems for such persons. To meet their commitments and make a living, such persons would be dependent on the income they are going to make on the piece of land they intend to buy. If the price of the land is much higher than its productive value, the net return on the capital invested in the land may be lower than the interest the farmer has to pay or in any case not enough for him to meet his commitments from the income the land yields. If, on top of this, such a person were also to suffer setbacks as a result of unfavourable natural conditions, for example droughts, his financial position might become so critical that it would not be easy for him to surmount his difficulties, which would then continue to weigh him down for the rest of his life. This would definitely not be conducive to the establishment of a permanent, solid and thriving farming community on the platteland.

It is striking how often the problems of persons who approach the Agricultural Credit Board for financial assistance can be traced back to the fact that they started farming with insufficient capital or none at all.

In the U.S.A.* attempts were made through the agency of the Farmers Home Administration to set up as farmers young men who wished to enter the industry and had a farming background but lacked the capital. They were given all the credit they needed to buy land and means of production. In spite of the assistance and guidance given to

them and the high level of efficiency they maintained, they could not make a go of it and meet their commitments under the prevailing cost-price ratios. This again bears out the contention that a prospective farmer should not start farming or buy land unless he has a certain minimum amount of capital at his disposal.

The disparity between the market price of land and its productive value not only makes the granting of credit riskier but also makes it difficult to finance young beginners or farmers with uneconomic farms to enable them to buy additional land for the consolidation of existing uneconomic units.

But the present disparity in land prices is also creating problems for other farmers. There are several cases where established farmers who used to make a good living have bought land adjacent to or in the vicinity of their farms at market prices in order to increase their acreage and who have thereby brought insurmountable financial trouble on themselves.

Hattingh* gives an illuminating explanation of how the amount of capital invested in stock-farming affects its profitability. He points out that stock-farming is capitalintensive, i.e. it demands relatively large amounts of capital and yields a low income per unit of capital invested. It is therefore advisable for farmers to take careful note of the amount of capital they are investing in land, fixed improvements and stock, before deciding to buy land. With things as they are at present, it is also very important to realise that the more extensive the type of farming, the bigger the difference between the productive value and the market value of the land. In wool farming, for instance, rates of interest on land, improvements and stock constitute over half the costs.

Comparisons of net income per sheep in a few areas in the Republic and in Australia are given in Table 4.3.

TABLE 4.3 - Net income per sheep in a few areas in South Africa and in Australia*

Area	Period covered by study	Gross income per sheep	Total expenditure (excluding interest costs) per sheep	Net income per sheep unit
		R	R	R
<u>Extensive sheep areas of South Africa</u>				
Pofadder - Kenhardt	1960 - 61	4,64	1,68	2,96
Carnarvon - Williston	1960 - 61	5,33	2,19	3,14
Eastern Karoo	1961 - 62	5,96	2,67	3,29
<u>Drakensberg grazing areas</u>				
Ermelo - Volksrust	1961 - 63	4,18	2,62	1,56
South-Eastern Free State	1962 - 64	4,75	2,48	2,27
Elliot - Maclear	1961 - 67	4,65	2,65	2,00
Bossieslaagte (Lady Grey)	1965 - 66	4,86	2,47	2,39
<u>Summer rainfall cropping areas of South Africa</u>				
Eastern summer rainfall cropping areas	1961 - 65	4,04	2,10	1,94
North-Western Free State	1961 - 65	3,94	1,78	2,16
<u>Australia</u>				
Extensive grazing areas	1962 - 63	4,72	2,74	1,98
High rainfall areas	1962 - 63	6,99	4,35	2,63

* Hattingh, H. S. (1968): *Loc. cit.*

+ Retief, J. C. (1962): Financing of "Category III" Farmers in the U. S. A.

* Hattingh, H.S. (1968): Woolled-sheep Farming - Is it Profitable? Farming in South Africa, November 1968, p. 53, 55-57.

Net income per sheep in South Africa compares favourably with Australian results. But the South African farmer invests far more in land than his Australian counterpart, with the result that the South African farmer's higher net income is swallowed up by the higher rates of interest which he has to pay if he buys land. In the extensive farming areas, the South African farmer's investment varies between R50 and R70 per sheep. The farmer in the extensive farming areas of Australia invests only R30 to R40 per sheep.

It should be borne in mind, however, that Hattingh carried out his investigation from the early sixties to the midsixties. Since then land prices have risen steeply, whereas wool prices have declined and grazing has deteriorated. Therefore the net income per sheep unit would be considerably lower at present than reflected by the figures given above.

The calculated productive investment per sheep per farmer of average managerial ability with a net income of R10 per R100 of capital invested is shown in Table 4.4.

According to the data in Table 4.4, a capital investment of R20,92 per sheep in land and fixed improvements would be justified in South Africa's extensive grazing areas. At a carrying capacity averaging 2 morgen per sheep, this means that R10,46 per morgen can be justified as an average price for the country as a whole. In the areas concerned, however, the market value is appreciably higher than this calculated productive value.

Like wool-growing, beef production is also capital-intensive. According to Van Wyk* a typical ranch in the Molopo or the Bushveld in 1967 required an investment of about R2 000 in land, cattle, and implements and machinery for a net income yield of R100. With a capital investment of R200 per LSU and an expected net income of R10, a cattle farmer could only expect a return of 5 per cent on capital and management. The capital of R200 per LSU was made up as follows:

Land - 6 morgen per LSU @ R20/morgen = R120
 1 LSU cattle = R 70
 Implements and machinery (vehicles,
 tractors, etc.) = R 10
R200

The capitalisation of R200 per LSU given above was, it will be realised, very conservative even for 1967. Today's figure would be much higher. It is not at all unusual at present to find that investment in land and improvements comes to over R150 per animal. The investments of R70 per LSU is equally conservative; at present the figure would probably be closer to R80 per LSU. Owing to the capital-intensity and overcapitalisation of meat production the return on capital in the industry is among the lowest of all the main branches of agriculture in the Republic.

As in the past, the amount of land on offer will be an important factor in determining land prices in the future and, so far as can be foreseen, will not be sufficient to bring prices down. In the U.S.A. the post-war rise in land prices was accompanied by a drop in the number of farmers, and there was a steady rise of about 6 per cent per annum in the price of farm land.

Persons concentrating primarily on maintaining or increasing their real assets will probably continue to invest in land, with the result that financial problems will increase for those wishing to purchase land to earn their living on it as their sole source of income.

As pointed out in Chapter VII of the Commission's Second Report, it is hard to find a solution to the problem of rising land prices. If things go on the way they are at present, it will become impossible to finance beginners or other persons whose capital is insufficient for the purchase of farm land. As an alternative, such persons will have to try to rent land. Land which is to let is, however, fairly hard to come by and rentals have in most cases risen to a high level. So, while things remain as they are, this would not be a solution either. The Government should therefore consider letting land at its disposal to deserving persons on a long-term basis on reasonable terms.

Furthermore, attention must be given to the dilemma that the pressure of high land prices on a particular farmer can largely be offset by increasing his efficiency but that in the community as a whole it is precisely increased efficiency, accompanied by higher profits per morgen, that contributes to the rise in land prices.

TABLE 4.4 The calculated productive investment per sheep per farmer of average managerial ability, at a net income of 10 per cent per unit of capital

Area	Net income per sheep	Total justifiable capital investment per sheep for a 10% net income	Investment in livestock and equipment per sheep unit	Justifiable investment in land and fixed improvements per sheep
	R	R	R	R
Extensive grazing areas	3,13	31,30	10,38	20,92
Drakensberg grazing areas	2,06	20,60	8,60	12,00
Summer rainfall cropping areas	2,05	20,50	8,05	12,45

Source: Hattingh, H. S. (1968): *Loc. cit.*

* Van Wyk, S.P. (1968): Beef Production. Farming in South Africa, November 1968, p. 59-63

In this regard the Commission must again draw attention to overcapitalisation resulting from over-expenditure on mechanisation and labour. In Chapter X of its Second Report the Commission pointed out the serious problems that are weighing down South African agriculture in this regard. The situation is further aggravated by the effects of over-capitalisation on agricultural financing. For example, applications received by the Agricultural Credit Board for the purchase of tractors and implements include many for purchases which are unnecessary because the applicant already has enough of these items or because the amount of work to be done does not warrant expenditure on such purchases. Often there are also applications for the replacement of tractors which, having been used for only a few years, should still be in good repair but which have become unserviceable because of poor maintenance.

Many irrigation plots are only about 10 to 12 morgen in extent. With farming units of this size it would not pay to buy expensive tractors and implements for each plot whenever the farmer presses for them, his contention usually being that the shortage of labour has forced him to use a tractor instead of draught animals to till his land. The fact of the matter is, however, that in such circumstances mechanisation can increase the debt burden of the entrepreneur considerably. The cost of a tractor of the required size, plus a set of implements for it, to be used on an irrigation plot would be about R3 000. This would mean increasing the debt burden on a ten-morgen plot by about R300 per morgen. Under such circumstances it would be impossible to employ the purchased machinery economically because it would be in use for short periods only.

The Commission is of the opinion that there is no sound financing policy that can be devised and put into operation effectively to place farming enterprises with such serious defects on a sound economic footing. This further underlines the importance of the Commission's findings and recommendations recorded in Chapter X of its Second Report on extension services for farmers in connection with the maintenance and use of machinery and the expansion of systems for greater communal use of machinery.

4.4.3 Types of credit for agriculture

During the interviews conducted by the Commission the opinion was expressed that, although agriculture was not hampered unduly by the inadequate provision of credit, the distribution of credit merited consideration. The ratio of capital made available in the form of long-term mortgage loans on agricultural land to the capital which was available in the form of medium-term credit specifically for agricultural production left much to be desired. In support of this view it was asserted that the amount of agricultural land available was not increasing and that the tendency to make mortgage loans fairly easy to get (often even at an unrealistic level of creditworthiness based on the market value of land) helped to push up land prices. Agriculture would stand to benefit more if mortgage loans were not so freely available and if, instead, more ample provision were to be made for medium-term credit specially designed for the pro-

duction of, say, commodities with long production cycles, such as fruit, wine, pineapples, meat, etc. (see also paragraph 4.6.2.2.5.3.1.3.)

What the agricultural sector needed most, it was contended, was not more long-term or short-term credit but greater participation by state and State-aided credit institutions in agricultural financing aimed specifically at agricultural production.

This kind of credit should be granted to the agricultural sector judiciously and according to procedures adapted to the peculiarities of agricultural production, and should be aimed at achieving optimal utilisation of resources at a rate of interest more in proportion to the profitability of agriculture under prevailing conditions. In view of the special needs of agricultural production the Commission came to the conclusion that a system of financing designed to meet these needs had the best chance of success if the periods involved were more closely adjusted to the production processes for which the credit facilities were intended. The Commission is of the opinion that what agriculture really needs is better-adjusted medium-term credit and that the granting of medium-term credit by the Land Bank and the Agricultural Credit Board merits special consideration. Special attention will be given to this matter in paragraphs 4.6.2.2.5 to 4.6.2.2.5.3.2.6.

4.5 FACTORS OF IMPORTANCE IN THE GRANTING OF AGRICULTURAL CREDIT

4.5.1 Basic approach

Agricultural financing, particularly the granting of credit to the farmer, should help the farmer to become more independent and creditworthy and should promote agricultural production on the basis of the conservation of the natural resources. How effective the granting of credit to agriculture will be, will actually depend on the extent to which these goals are achieved through such financial assistance. And, as is evident from the information furnished particularly in this chapter, there is, apart from the question of whether agricultural credit is adequate, good cause for concern about the effectiveness of the credit that is being granted to farmers, especially by private sources.

The various factors which are really important and merit consideration in the granting of credit to agriculture concern the borrower (for the most part the farmer who has to use the credit); the farming enterprise for which the loan granted is intended to be used productively; and the necessary security which has to be given to the lender for his risk in making such an investment.

4.5.2 The borrower

The question of whether farmers are deserving, particularly when it comes to how much they know about the economics and technology of farming and how capable they are as managers, is of paramount importance in the granting of agricultural credit. A high standard of such knowledge and competence, together with practical experience, makes for

efficiency in farming and is a prime consideration in rational financing.

In agriculture, as in other industries, the ability of the entrepreneurs varies considerably - a variation which will therefore also determine their success in farming, even under the same production conditions. However, the extent to which credit concessions are sometimes made to farmers of lesser ability or those on farming units with a rather low productive potential creates the impression that State-aided credit institutions, in particular, are too much inclined to assist less deserving farmers with credit, whereas many of the good farmers are handicapped through not being able to get enough capital for expansion that merits credit.

In assessing the personal qualities of an applicant for agricultural credit it is considered essential to note his integrity, his age, the history of his enterprises, his knowledge of both the technical and the business aspects of farming, his judgement and his managerial ability.

In his studies of the economics of agricultural production Hattingh* came to the conclusion that, if the net farm income realised by the best third of farmers was capitalised at a rate of 10 per cent, the market value of land did not differ much from its productive value. Land in intensive or semi-intensive areas could still be bought by farmers whose managerial practices were sound. Managerial ability considerably above the average was, however, a prerequisite.

The potential of the above-average farmer could not, however, serve as a norm in the valuation of land. Hattingh's views nevertheless serve to emphasise the importance of good managerial ability.

The data furnished in Table 4.5 relate to an investigation conducted by the Department of Agricultural Economics and Marketing into the economics of mutton production (Dorpers) in 1968-1969. These figures clearly show the important influence of superior managerial ability and knowledge on the profitability of this type of farming.

These figures speak for themselves and show how good management can mean the difference between completely uneconomic results and a highly remunerative undertaking. It should also be noted that the poorest farmers with the highest stocking rate and relatively smaller farms kept more sheep per farm than the group of good farmers. This probably resulted in trampling of the veld and poor pasture management and therefore did much to make the poorest group's performance an extremely bad one.

The data in Table 4.6 (furnished by Van Wyk) further illustrate the importance of good management - in this instance to the profitability of beef production.

* Hattingh, H.S. (1970): Markwaarde teenoor produktiewe waarde van landbougrond en moontlike maniere om die gaping te oorbrug. Department of Agricultural Economics and Marketing.

TABLE 4.5 - Investigation into production of mutton sheep (Dorpers) in the Northern Cape, 1968 to 1969 - Comparison of the achievements of the best and poorest farmers

	Poorest group	Best group
Farm size	4 038 morgen	5 407 morgen
Stocking rate	1,68 morgen/ sheep	2,54 morgen/ sheep
Net profit	- R0,65/sheep	R5,86/sheep
Lambing percentage	60 per cent	149 per cent
Ewes per ram	62	32
Average age at which lambs were marked	7 months	5,14 months
Mortality among adult sheep	2,64 per cent	1,50 per cent

Data furnished personally by Mr H.S. Hattingh, Department of Agricultural Economics and Marketing

TABLE 4.6 - The influence of calving percentage and weaning weight on the total cost (plus interest) per pound of weaner produced in the North-Western Transvaal Bushveld, 1965/66, with an investment of R100 per LSU

Calving percent- age	Cost (plus interest) per lb live weight per weaner at a weaning weight of -		
	375 lb	400 lb	425 lb
%	Cents	Cents	Cents
80	7,47	7,00	6,59
60	9,13	8,56	8,06
50	10,92	10,24	9,64

Source: Van Wyk, S.P. (1968): Beef production, Farming in South Africa, November 1968, page 61

It is known that the average calving percentage in the area concerned is about 60 per cent and that with good management and care a calving percentage of 80 per cent or more is by no means impossible. The results show what can be achieved by improving the farmer's ability and knowledge.

The difference in the net farm income of the best third and the average third of the farmers in the areas concerned is also evident from the data in Table 4.7.

According to the data given above, the profit per pound of beef produced rises by over 3 cents per pound if the calving percentage rises from 50 to 80 per cent.

These data also serve to highlight the fact that under the same environmental conditions there are big differences between the net income of good farmers and that of the average and poorer farmers, irrespective of the area or the type of farming.

TABLE 4.7 - Net farm income of the best third of the farmers as compared with average income of farmers in the areas concerned

Area	N.F.I. per R100 of capital investment (average third of farmers)	N.F.I. per R100 of capital investment (best third of farmers in sample)
	R	R
Griqualand East (beef cattle)	7,30	12,37
Northern Natal (beef cattle)	4,27	8,45
Natal Midlands (beef cattle)	4,05	8,60
Zululand (beef cattle)	1,48	5,09
Northern Cape (mutton sheep)	4,76	8,28
Western Transvaal	8,10	13,93
Frankfort - Villiers	12,30	19,38
North-Western Free State	10,80	17,50
Bethlehem - Reitz	11,40	19,39
Bethal - Standerton	9,00	14,68
Kokstad	8,81	12,11
Cedarville	8,54	12,11

Source: Hatting, H. S. (1970): Markwaarde teenoor die produktiewe waarde van die landbougrond en moontlike maniere om die gaping te oorbrug (extract from Table 1)

In Document 161/70 of the S.A.A.U.* it is stated that the distribution of the debt burden of farmers might possibly be uneven. The Union's impression is that 38 per cent of the farmers with investments outside agriculture have relatively little debt and that the remaining 62 per cent are saddled with the major part of the debt burden.

In Chapter II (paragraph 2.6.2) of this report, reference is made to the uneven distribution of the income of farmers, as shown by Groenewald⁺ and Lombard[†] et al. There is possibly more than one reason for the uneven distribution of income. In the said chapter the idea is put forward that in at least some of the cases the uneven distribution of income can be attributed to poor managerial ability and defective knowledge. It is clear that the financial position of farmers with such shortcomings cannot be improved merely through financing. Financing without the necessary advice and guidance, especially in farming business, could land such farmers in even worse straits.

However that may be, the data in the tables given above underline the tremendous differences between the net farm income of the best farmers and that of the average and poor farmers. This is found to be the case throughout the Republic, irrespective of the particular region or type of

farming. The financial position of many of the farmers of poor managerial ability and business-sense can obviously not be improved by granting them more credit. It is essential in such cases to try to improve managerial ability and knowledge and to link this with the provision of better credit facilities.

The data given above stress to what extent managerial ability, expertise and other personal attributes determine the effectiveness with which capital is used. They show how important it is, in striving for more realism in the granting of agricultural credit, to take due account of the applicant's merits in considering his application. Although the Commission is aware that the State-aided credit institutions do try to assess applicants on these lines, there does seem to be much room for improvement in this regard.

The Commission therefore wishes to recommend that, in order to ensure healthy conditions in agriculture, all parties granting agricultural credit should sift applicants on personal merit also and that those who do not qualify for credit on such a basis should be encouraged to seek employment elsewhere.

4.5.3 Farming enterprises

4.5.3.1 Evaluation of farming potential

It is remarkable how many farmers overrate the potential of a farm or a farming unit. There are several reasons for this. Farmers commonly base the potential of a farm or enterprise on the results attained during relatively favourable, above-average or even outstanding years. They fail to take due account of the vagaries of nature, with the result that their assessment rests on false values.

The lack of reliable norms is a problem not only for the farmer but also for the money-lender. Thus, for example, the Land Bank's norms often differ from those of the Agricultural Credit Board, while the norms used by these two bodies often differ considerably from those of other credit institutions. This makes things very awkward for both the lenders and the applicants - a difficulty which will have to be overcome. General norms that would be valid for conditions in all regions should be laid down. Moreover, the various lenders should be persuaded to try to achieve greater uniformity in their norms.

The Commission's view is that, if greater rationalisation is to be achieved in agricultural financing, it would be important in considering applications for credit not only to take careful note of the personal merits of the applicant and his wife or of the solvency or profitability of his farm at the time when he applies for credit, but also to take into account the potential yield of his enterprise based on farm records for previous years and on the prospects for the foreseeable future, assuming that farming practices are adapted to environmental conditions in accordance with the principles of the conservational use of production resources. To enable the lender to ascertain whether the borrower will be successful enough in his farming operations to meet his interest and redemption obligations, the bor-

* S.A. Agricultural Union (1970): Die finansieringspatroon van die Suid-Afrikaanse boer. Doc. 161/70.

⁺ Groenewald, J.A. (1970): Loc. cit.

[†] Lombard, J.A. et al. (1969): Loc. cit.

rower's application should be accompanied not only by a statement of his financial position, but also by a history of his farming operations, a farming plan and an indication of future production programmes and expectations, as well as an appraisal of the expected yield potential of the farm under the proposed production programme.

If due account is taken of these particulars in considering applications for credit, and if the policy in agricultural financing were better co-ordinated than at present, it should be possible to curb the injudicious granting of credit and over-capitalisation.

With a view to rationalising agricultural credit it has become essential, in considering applications for credit loans, to guard very strictly against the kind of over-optimism that arises when the value of land, stock and other assets, or production prospects, are assessed, without taking into account below-average seasonal fluctuations and the viability of the farming unit concerned.

Although the Commission accepts that the so-called Category III farmers have the biggest financial problems and that the Government wishes to keep as many farmers as possible on the land through its agricultural financing schemes, the Government cannot be expected to help all farmers to stay on the land. If a rational and co-ordinated financing policy is to be adopted it would therefore have to be accepted that there must be careful sifting of applications before credit is granted. As the Government should, directly and indirectly, give firm guidance on the policy to be followed in agricultural financing, the Commission strongly recommends that State or State-aided credit institutions should, in dealing with matters of agricultural credit, persist as steadfastly as at present in their policy of thorough screening of applicants. The policy followed should ensure that agriculture does not lose entrepreneurs and farming enterprises of good potential, or it should ensure that such entrepreneurs will enter the industry, but at the same time the inefficient entrepreneurs or enterprises must not be allowed to remain in the industry by the grace of credit injudiciously granted.

4.5.3.2 Adaptedness of the farming system

In Chapter V of its Second Report the Commission dealt at length with the difficulties encountered where farming systems are not adapted to the natural conditions of the area concerned.

Problems arise in the financing of such systems. Financing in the form of production loans to assist farmers in the so-called marginal field-cropping areas does not really accord with one of the most important principles of rational financing, namely that the farmer should, with the aid of the credit he receives, stand a reasonable chance of being able to meet his commitments in due course and to do without further assistance. Financing in these marginal field-cropping areas, where the risk involved in the cultivation of cash crops is so great, is nothing but a gamble.

The data in Table 3.18 show that in the 3½ years from 1 October 1966 to 31 March 1970 the Agricultural Credit Board granted an amount of over R5 000 000 in production loans. The Board also indicated what percentage of the total number of applications in the Republic was for production loans for the years 1967/68 to 1970/71 and what percentage came from ten districts in the summer rainfall area which are regarded as completely or partly submarginal for cash crop production, namely BLOEMHOF, BOSHOFF, CHRISTIANA, HERTZOGVILLE, MAFEKING, NYLSTROOM, PIETERSBURG, POTGIETERSRUS, SCHWEIZER-RENEKE and VRYBURG. Over the four years concerned the percentage was as follows:

Financial year	Percentage of total number of applications for the Republic
1967/68	26,9
1968/69	28,3
1969/70	25,1
1970/71	31,1

The applications for production loans from these ten districts therefore constituted one quarter to about one third of the total for the entire Republic. Apparently applications for loans for cash crop production under such risky production conditions tend to recur year after year.

Further analysis of the applications shows that many of these production loans were granted to the same applicant for two or more years in succession without his having been able to pay back the first loan in full or even in part. There were also cases where persons got production loans for five years in succession or more and where there was no indication that the loans had improved the applicant's financial position to any extent.

The granting of production loans in this way apparently does little to improve the prospects for crop production under such conditions or on such farms. This kind of assistance tends rather to plunge the farmer who persists in producing cash crops under such risky conditions deeper into financial difficulties every time yet another production loan is granted to him and in fact encourages him to persist in following such an unsuitable and unsound farming system to his own detriment and to the detriment of the production resources of his farm.

In practice, the problems of remedying ill-adapted farming systems are both physical and economic ones. But the change-over to an adapted farming system, for example, from field cropping to extensive stock-farming - however essential this might be to place farming operations on a sound footing - is also fraught with difficulties. In the first place, it takes some years before the change-over reaches a stage where full production can be

achieved under the new system. It is obvious that not only will income drop during the transitional period but there will also be a need for extra capital.

The main obstacle to the change-over is that these problem farms are usually overcapitalised already and that they are so small that it is not simply a matter of putting the necessary adjustments into practice. It first has to be determined whether the cost of effecting the necessary structural changes and enlarging the farms is within reasonable financial limits, and to what extent it would be possible to enhance the potential of the farms as extensive farming units through better management and care of livestock. If this is not possible, there is little hope of keeping the farmers concerned on their farms as self-supporting entrepreneurs.

In at least some parts of these marginal areas it would be unrealistic to continue granting production loans for the production of cash crops. Such areas should therefore be clearly identified and demarcated to separate them from the recognised field-cropping areas. In such areas, production loans should be granted only for the production of forage crops. No sound credit policy can be adopted in agriculture unless it is based on adapted farming systems.

In paragraph 7.8.2 of Chapter VII of its Second Report the Commission recommended that financial assistance be given on the basis of conservation areas after acceptance by the authorities of a development plan with all its implications, including consolidation and programmed development; that the present "fragmentary planning" be stopped; and that no further financial assistance be given on this basis.

These and other recommendations made by the Commission in this regard in Chapters V and VIII of its Second Report stress the urgent need for very careful attention to be given to agricultural planning in accordance with production practices that are appropriate to the various areas. This is also considered to be of cardinal importance in the formulation and adoption of a rational and progressive financing policy for agriculture.

The Commission is however, also aware, of the fact that, even if sufficient data on the possibilities of land use and the climatic conditions in the areas concerned were to become available and be published, many farmers in the areas where adjustments to farming systems and practices are considered desirable would not be able to modify or adapt their farming operations accordingly, owing to the financial demands entailed by such adjustments. This is particularly so where cash crop cultivation is so risky (owing to erratic weather conditions and, more particularly, a sub-marginal rainfall pattern) that the farming systems have to be switched from a predominantly crop production pattern to a predominantly stock-farming one. This would mean that the cultivated

land on such farms would either have to be left to revert to pasturage or used for fodder production.

The introduction of such changes would, however, be seriously hampered by the fact that at the time when the farm was bought or when credit was granted, the cultivated land on the farm was valued on the basis of cash crop production (and often on its market value), the calculations being based on years when the rainfall was average or above average. What is more, it often happens that the capital expenditure incurred for cash crop production on such farms is high - farms which, after the change-over, will therefore be less suitable for a new and better-adapted farming system.

The Commission considers it so important to strive for better adaptedness in farming enterprises for the sake of greater biophysical stability in agriculture that the Government must provide financial assistance in this regard in addition to the technical auxiliary services needed to pilot and advance the process of readjustment.

The Commission therefore recommends that, to this end, a voluntary readjustment scheme be devised for application on a regional basis. (See also paragraph 4.6.2.2.5.3.1.2.)

4.5.3.3 Prospects of making a living, and non-viable farming units

There is no doubt that non-viable (uneconomic) farming units are the cause of many farmers' financial difficulties. The chances are very slender that farmers operating such units, particularly very small ones will never become economically independent and be able to maintain a reasonable standard of living.

Where at all possible a credit policy should be adopted which will not have the effect of prolonging the existence of such non-viable units indefinitely. Farmers on undersized units should rather be helped to find some other livelihood, except where they have the makings of excellent farmers and deserve to be considered favourably for resettlement on enlarged farming units. The problems involved in getting farmers to give up uneconomic farming units, enlarging such units and resettling persons who have given up farming are, however, complex and call for closer study. The Commission is pleased to note that an Interdepartmental Committee on Rural Reform has been appointed to investigate and make recommendations on this matter.

It should be borne in mind, however, that no matter what is recommended or done about rural reform and the conversion of uneconomic farming units, a large number of these will remain in existence for many years and in the mean time farmers trying to make a living on them will urgently need credit. As stated in Chapter II of this report, the problems of persons trying to make a living on undersized units are not only economic ones but also largely social ones.

The financing of such units often gives rise to great difficulties. There are many farmers who, although they are farming on uneconomic units, nevertheless have a debt ratio within the required limits. It is hard to imagine how these people keep body and soul together. It may be that they are extremely frugal and content with very little. Applications from such persons for financial assistance should be given favourable consideration, provided that the assistance granted does not make their debt ratio so adverse that they are plunged into worse difficulties.

Persons operating uneconomic units with so great a debt burden that there is little hope of improving their financial position are usually not in a position to settle their debts. Such persons should not be given financial assistance, but they should be persuaded to give up farming and find some other livelihood.

In this country there has probably never been a better time than the present for people who are struggling to make a living in agriculture to switch to a more remunerative occupation outside agriculture.

Therefore no financial assistance should be given for the purchase of uneconomic units unless the purchaser intends to combine the undersized unit purchased with some other non-viable unit, thereby creating a viable one. Whenever financing for the purchase of non-viable farming units comes up for consideration an attempt should be made to prevent such units being transferred from one person to another with the same unfavourable prospects for a livelihood (for example, in the case of the aged). (See the further recommendations of the Commission in paragraphs 4.7 to 4.7.2.3.)

The Commission also considers it very important that a special effort should be made to achieve better co-ordination between the various agricultural credit institutions in regard to the financing of such non-viable, undersized units. (For recommendations in this connection see paragraph 4.6.2.1.3.)

4.5.3.4 Farming enterprises of financial and industrial concerns

In paragraph 3.4.2. of the Commission's Second Report the view is expressed that in a democracy and a free economy, such as the Republic is at present, and from a purely economic point of view, there is no valid reason why big land ownership should be condemned or why there should be opposition to big enterprises belonging to individuals or companies.

In paragraphs 3.4.1 to 3.4.2.6 of that report the Commission also discussed the pros and cons of big land ownership and, dealing more particularly with companies in paragraph 3.5.4, recommended that when the activities of companies in the agricultural field tend seriously to disturb the established rural pattern of South African agriculture, the judicious use of natural resources and the

balance in agricultural production, such cases be referred to the National Advisory Council for the Planning of Agricultural Production (the establishment of which was recommended by the Commission in paragraph 9.7.5) for consideration and recommendations to the Government.

Recently, however, information has reached the Commission which confirms its suspicion that the entry of various financial and industrial concerns into agriculture is already upsetting the balance in agricultural production to such an extent in certain cases that serious consideration and prompt action have become essential.

A feature of developments over the past few years has been that several big financial institutions, industrial concerns and other business concerns with large amounts of capital have become active in agricultural production. At present there are signs that these concerns are expanding their operations through direct participation or through affiliation to or amalgamation with other companies, their aim being to extend the chain of their operations as far as possible in the direction of both pre-production and post-production activities.

Firstly, this kind of expansion reflects the tendency on the part of powerful, influential concerns with tremendous capital resources to dominate certain situations in agricultural production so that farmers, depending individually or collectively on farming for their livelihood, are being placed in an increasingly unfavourable competitive position.

Secondly, there have been various instances where a company set up a processing plant for a certain product in a certain area but at the same time starts its own large-scale farming enterprise, ostensibly to ensure stability in the supply of raw materials to the factory. What has happened in several cases, however, is that once a company has raised the production of its own farming enterprise to a sufficiently high level it makes the position of farmers in the vicinity who supply the same raw materials increasingly difficult through its actions in regard to prices, quality requirements and intake of crops. Where this sort of thing has happened in the production of commodities like timber, vegetables and tomatoes, the effect has been extremely frustrating and obstructive to the farmers, who are systematically forced out of the industry. Meanwhile the company concerned begins to dominate the agricultural production scene in the area having won a position for itself in the marketing channel and being backed up by the necessary capital.

Thirdly, this state of affairs often seriously upsets the balance in agricultural production, as has happened in most of the cases referred to. Recent events in the poultry industry, which showed how seriously the entry of large companies can disturb the balance in the marketing of eggs, made it necessary for the Minister of Agriculture to be given powers, under the Egg Production Control Act, 1970 (Act 61 of 1970), to check the over-production of commercial eggs.

In view of the circumstances described above, the Commission considers it necessary that immediate attention be given to this matter and that steps be taken before it is too late to prevent further development in this direction. The Commission therefore wishes to repeat its recommendation made in paragraph 3.5.4 of its Second Report, as stated above.

The Commission further recommends that a study group be charged with investigating this matter and with making recommendations on the steps considered necessary to remedy the situation.

4.5.4 Security for agricultural credit

As stated in paragraph 4.4.1, agricultural credit, to be effective, must make the borrower more independent and creditworthy and promote agricultural production on the basis of the conservational use of natural resources. Agricultural credit policy should accordingly be based on sound business principles and be adapted to the peculiarities of agriculture as a production undertaking, credit being secured on the prospects of agricultural production conducted on a sound footing. Agricultural financing cannot serve the best interest of the industry if the market value, as opposed to the productive value of the undertaking, is what counts in deciding how much credit can be granted. The granting of credit, as seen by the State-aided financing institutions, by no means depends on the possibility of recovering the borrowed amounts through liquidation but is based squarely on sustained and successful agricultural production on a conservational basis. This is where many of the differences in approach between the Government and private credit institutions should be sought. Creditworthiness on the basis of production should, although this is regarded by some as conservative, in all cases be the corner-stone of the credit policy of the Government credit institutions.

4.5.4.1 Land values

The S.A. Agricultural Union has pointed out that, viewed from all financing angles, full ownership of land - the predominant form of occupation of agricultural land in the White areas of the Republic - makes the greatest demands on the entrepreneur. Prices for agricultural land vary considerably in different parts of the country and between the different branches of the industry. Owing to the high degree of security offered by land as collateral, it is fairly easy to get credit on land. The private lenders usually set the limit of the credit which can be obtained on land at 75 per cent of its market value, so that the entrepreneur has to contribute 25 per cent of the market value of the land from his own capital to finance such a purchase, apart from the substantial further amount of operating capital he has to find in order to get his enterprise going. The Agricultural Union also points out that, except for a few enterprises and entrepreneurs, profitability in agriculture is too low for the farmer to get a high enough net return on his land on the basis of the market prices of land, especially at the high rates of interest that most private lenders are demanding at the moment.

In paragraph 4.4.2 of this chapter the Commission directed attention to the extent to which overcapitalisation occurs in agriculture when prices are paid for land which are out of proportion to its productive value. In this regard, the Commission pointed out in Chapter VII of its Second Report that unrealistic land prices have given rise to a situation which is threatening the stability of the average farming enterprise in many parts of South Africa.

The Commission feels that, in dealing with applications for credit, credit institutions should encourage the adoption of sound and adapted farming systems in the various areas by also considering the degree of adaptedness of farming enterprises (and therefore also their riskiness) to the area concerned and how this affects the productive value of the land. For example, it is common knowledge that the value of land used for maize production is put much higher than that of grazing, in spite of the fact that the area concerned might, owing to climatic conditions, be regarded as submarginal for maize cultivation. The Commission realises that direct intervention by both Government and private credit institutions to force farming systems in certain directions would be unacceptable, but nevertheless considers that the process of adaptation could be advanced by emphasising this in the course of negotiations for credit and by exchanging views on the subject.

In this regard the Commission, in paragraph 7.8.7.2.2 of its Second Report, stated that. The tendency to pay prices for land far above its agricultural value could have several very harmful consequences unless the purchaser could contribute so much money from his own resources that the balance owing would be within the limits of the farm's output capacity. Where persons, especially farmers, who lacked the necessary capital bought agricultural land far above its production value, or where persons were so influenced by these high prices that they made use of credit facilities to an exceptionally high degree and beyond their means, such transactions would be very detrimental to the purchasers or borrowers, their enterprises and the agricultural resources of the properties concerned. (See paragraph 4.6.2.1.7 for a further discussion of this subject.)

4.5.4.2 Debt ratios

All the parties consulted by the Commission considered it essential for a farmer or prospective farmer applying for a long-term loan (particularly a mortgage loan) to have a certain minimum of assets at his disposal so that his debt ratio would be within certain limits. In determining this ratio for use as a norm in granting the farmer credit, it is important that the productive value of the land owned by the farmer - and not its market value - should be taken into account in calculating his assets.

Debt ratio and return on capital investment are two important factors which can be decisive and vital in meeting financial commitments. They must therefore be taken into account when deciding whether an applicant can be financed.

In determining the permissible debt ratio the return on the capital invested in the farming enterprise is of decisive importance. With a debt ratio of 70 per cent, a period of redemption of 20 years and an income of 6, 8, 10 or 15 per cent, approximately 100, 76, 61 and 41 per cent, respectively, of the net income from such a farm would have to be spent every year on interest and redemption. So it is clear that with rational financing the permissible debt burden can increase within definite limits according to the rise in the return on the investment.

Extensive farming is capital-intensive, while intensive farming is more capital-extensive. As mentioned above, this means that the return on a given unit of capital invested will be lower in extensive farming enterprises than in intensive ones.

Van Wyk* states that in the extensive beef production areas of the Molopo and the Bushveld R2 000 must be invested to yield a net income of R100; in the Highveld about R1 000 is needed for the same results with dryland maize farming, while an investment of R700 is required for an income of R100 from irrigation farming at Vaalharts.

These data show clearly that the return per unit of capital invested is determined very largely by the type and intensiveness of the farming enterprise. This again underlines how important it is to take very careful account of this factor in considering applications for credit.

With the exception of the Agricultural Credit Board, which, in considering applications for financial assistance makes allowance for a permissible debt ratio of between 60 per cent and 80 per cent (depending on the nature and type of the enterprise), none of the credit institutions indicated whether the question of debt ratio played a part in decisions on the granting of credit or whether distinctions were drawn between the various farming operations.

The Commission feels that, if credit is to be granted on a rational basis, it would be imperative to give due consideration to the ratio of debts to assets based on agricultural values and therefore recommends that the Government should try to make this standard practice for all credit institutions.

4.5.4.3 Creditworthiness

4.5.4.3.1 Study Group for Inquiry into Agricultural Credit⁺

This Study Group found that the competency and financial capacity of a farmer largely determined

* Van Wyk, S.P. (1967): Some Economic Aspects of Beef Production. Department of Agricultural Economics and Marketing, April 1967.

⁺ Report of the Study Group for Inquiry into Agricultural Credit (1961): U.G. 16/1961.

his credit requirements - not only the amount but also the conditions under which the credit had to be granted if it was to be at all effective.

For the purpose of their report the Study Group distinguished between:

- (a) those farmers who had such a wide margin between their assets and liabilities that they could get the credit they needed from any money-lender at any time (Category I);
- (b) those farmers who could not get credit so readily but did have the necessary creditworthiness to meet the requirements of the Land Bank Act, 1944 (Act 13 of 1944), and whose managerial ability and other qualities provided the necessary assurance of their personal merit to justify their being granted credit specially adapted to agriculture (Category II); and
- (c) those farmers who were strictly speaking still solvent but whose financial position which was such that they could no longer be helped by a financing institution such as the Land Bank (Category III).

The Study Group found that the first two categories could get credit fairly readily from financing institutions, private persons and the Land Bank, but that the Category III farmers who could not get assistance elsewhere had to turn to the Government. The Study Group felt that some other approach was needed for financing these Category III farmers, that Government funds should be made available for this purpose and that a Government department should be specially adapted to undertake such financing. These recommendations were implemented by reorganising the former Department of Lands into the Department of Agricultural Credit and Land Tenure and by establishing the Agricultural Credit Board, an autonomous body whose function was to grant such credit.

4.5.4.3.2 Proposal for the overhauling of credit systems

In this regard the S.A. Agricultural Union* is of the opinion that "the principles governing the granting of credit (by the Land Bank and the Agricultural Credit Board) to creditworthy and uncreditworthy farmers should remain the same, except that greater security should perhaps be required for the latter farmers." (Translation) The Union continues: "The risk in agriculture, particularly as regards short-term and medium-term credit, has always been rather high (and therefore also the interest) and if credit could be provided risk-free the cost could be cut considerably, the result being decreases in interest." (Translation) The Union feels that farmers who are in difficulties should be helped out by being granted credit at a stage when a relatively smaller amount of flexible credit would be sufficient to complete their rehabilitation within two or three seasons. Such credit facilities should be available for long-term mortgage loans, for the enlargement of non-viable units and for short-term production to enable the farmer to cope with a poor season or a crop failure.

* S.A. Agricultural Union (1970): Loc. cit.

To this end, it is suggested, the Department of Agricultural Credit and Land Tenure should be converted into a surety fund and its present credit activities and outstanding debts transferred to the Land Bank. The Union is of the opinion that -

"this surety fund would, with an initial allocation of approximately R50 million from the State, be able to stand surety for an amount of R200 million to R300 million loaned by the Land Bank (and perhaps other financial institutions) to creditworthy and uncreditworthy farmers ... A premium may, depending on the extent of suretyship, be added to the rate of interest, but the institutions lending the money would be able to make do with a much smaller margin than previously, since the money loaned would then be completely risk-free". (Translation)

In this regard the Union continues: "To baulk at the unconventional and revolutionary nature of the conversion process is tantamount to passively accepting a deteriorating and obsolete system, which is why this attempt at reform, which verges on the radical but is nevertheless positive, should be made." (Translation)

4.5.4.3.3 Aspects of revising the agricultural credit systems

In considering this proposal that the Department of Agricultural Credit and Land Tenure be converted into a surety fund, the Commission gave attention to the following important aspects:

4.5.4.3.3.1 As mentioned in paragraph 3.7.1.6, the Department of Agricultural Credit and Land Tenure was established under the Agricultural Credit Act, 1966 (Act 28 of 1966), to replace the Department of Lands. The idea was to co-ordinate the functions under the earlier Acts relating to State advances, farmers' assistance, State settlements and other credit-providing functions fulfilled by various Government bodies, and to place the administration of these and related activities under the new Department, as well as to expand the field of financing. Under the above-mentioned Act, an autonomous Agricultural Credit Board was established which, in consultation with the Minister of Agriculture, decides on the policy to be followed in granting credit and considers and decides on applications for credit.

The credit facilities handled by this Board are not supposed to replace those provided by other credit institutions, but are intended particularly for applicants who are creditworthy and deserving, but whose financial position is such, owing to factors beyond their control, that they cannot be granted the necessary credit by other credit institutions, including the Land Bank. The persons to whom credit is granted by the Agricultural Credit Board are those referred to by the Study Group for Inquiry into Agricultural Credit* as Category III farmers.

4.5.4.3.3.2 As stated by the Study Group and also accepted by the authorities upon the establishment of the Department of Agricultural Credit and Land Tenure and the Agricultural Credit Board, the basic purpose of granting credit in this way is to enable such farmers to become self sufficient, as farmers, on their own land or on State land. This is why the accent falls very strongly on rehabilitation in the arrangements for applications, the assessment of applicants, selection of candidates for settlement on State land in irrigation schemes or elsewhere, and follow-up technical auxiliary services in co-operation with the other Departments of Agriculture.

4.5.4.3.3.3 After probing these aspects of credit extension under such circumstances and subject to such requirements, the Study Group came to the conclusion that the Government would still have to grant money in exceptional circumstances or for special purposes. The Study Group therefore recommended that the Land Bank Act should not be amended to authorise the transfer of such financing to the Land Bank.

4.5.4.3.3.4 Since this type of financing is not only a matter of granting credit but also very much a matter of rehabilitation, it may be justifiable for the Government to provide funds from the Treasury for this purpose with greater leniency and at lower rates than other creditors, who would be guided by stricter business considerations, would be prepared to do. But then circumstances would have to warrant this and the recipients of such credit would have to be deserving individuals, including landowners, tenants and novice farmers.

4.5.4.3.3.5 The information furnished by the Department of Agricultural Credit and Land Tenure indicates that the amount of credit granted by the Agricultural Credit Board on this basis since the new arrangement came into effect in 1968 has expanded considerably. According to this information and evidence submitted to the Commission, this source of credit is so highly rated as an aid to rehabilitation that any change which might in the slightest detract from its effectiveness cannot be supported. Here more emphasis is placed on the contribution towards rehabilitation and the chances of rehabilitation than on the granting of credit as a means of financing the farmer.

4.5.4.3.3.6 According to De Swardt*, by 1946 it had already been realised in the United States that "the problem of the Category III farmer was of a special and continuous nature and that it was necessary to tackle this problem with a new approach and new methods ... It serves no useful purpose to grant credit to a farmer who is no longer creditworthy unless, at the same time, he is also given personal advice and guidance on how he can best apply the money lent to him for the improvement of his farming enterprise and to the benefit of his family."

* Study Group for Inquiry into Agricultural Credit (1961): Lcc. cit.

* De Swardt, S.J.J. (1964): Provision of Credit to Farmers: Aspects of the American Approach to the "Category III Farmer". Government Printer, Pretoria.

This gives one the impression that as regards technical extension services - particularly guidance on business management for farmers who have been granted credit - there are still serious shortcomings which should be remedied to ensure greater success in raising the standard of efficiency in any enterprise backed by such credit. (See also paragraph 4.6.2.1.20.)

4.5.4.3.4 Conclusions on the granting of agricultural credit by the Government

After studying the circumstances surrounding the granting of credit by the Agricultural Credit Board, the Commission came to the conclusion that it could not support the proposal that the credit system as applied by the Agricultural Credit Board in co-operation with the Department of Agricultural Credit and Land Tenure be radically changed and that it should therefore be converted into a surety fund. (For recommendations on this matter, see paragraphs 4.6.3.1 to 4.6.3.3.)

4.6 AGRICULTURAL CREDIT: SOURCES, SYSTEMS AND PROCEDURES

The data in Table 3.5 show that in 1969 the Land Bank and Government departments were responsible for 37,8 per cent of the total long-term credit to agriculture, the commercial banks being responsible for 15,4 per cent, insurance companies, boards of executors, co-operatives and other financial institutions for 27,7 per cent and private persons for 18,6 per cent.

4.6.1 Acceptability of sources and channels of credit

4.6.1.1 The Land Bank

All the representatives of the agricultural sector who gave evidence strongly advocated the establishment of a specialised agricultural credit institution which would be able to meet agriculture's special requirements in regard to financing and maintain a stable rate of interest at a conservative level in keeping with the capacity of the industry.

All these representatives spoke with great appreciation of the valuable financial services rendered to agriculture by the Land Bank. The policy and the methods followed by the Land Bank up to the present in handling agricultural credit matters were supported without dissent.

It was pointed out to the Commission, however, that the Land Bank (either directly or through the agricultural co-operatives) and the Agricultural Credit Board had only about a 33 per cent share in the provision of credit for agriculture; nevertheless the influence of the Land Bank on agricultural financing was very considerable.

The great esteem in which the Land Bank, as an agricultural financing institution, is held by farmers is due particularly to -

(a) the extent to which the Land Bank's financing policy is adapted to serving the interests of the agricultural sector and promoting sound farming practices and steady progress in agriculture;

(b) its consistent and conservative policy with regard to agricultural credit, irrespective of changes in the country's monetary position;

(c) the sympathetic manner in which the credit requirements of the agricultural sector are dealt with, particularly when that sector or parts of it are in difficulties;

(d) the extent to which the policy of granting credit is adapted to the special requirements of agricultural financing;

(e) the relatively favourable and stable rates of interest maintained by the Land Bank;

(f) the system of redemption which is built into the credit system of the Land Bank; and

(g) the insurance scheme provided by the Land Bank for long-term borrowers to cover mortgage loans.

4.6.1.2 The Agricultural Credit Board

The South African Agricultural Union felt* that the tremendous task of the Department of Agricultural Credit and Land Tenure should never be under-estimated and that this Department's role should be regarded as the corner-stone of the rehabilitation effort to relieve distress in agriculture.

In this connection, however, the Union expressed doubt whether there were any farmers who had been fully rehabilitated by such Government assistance and felt that the merits of this method of financing agriculture should be given serious consideration. In its submission the Union expressed the opinion that farmers in difficulties should be assisted at an early stage by means of long-term credit to enlarge non-viable units and by means of short-term production credit to tide them over poor seasons or crop failures.

On the strength of these considerations the Union recommended that the Department of Agricultural Credit and Land Tenure should be converted into a surety fund to back up applications to the Land Bank, by farmers with a low level of credit-worthiness and that the Government's present rehabilitation effort through the Department of Agricultural Credit and Land Tenure should be transferred to the Land Bank.

There is not the slightest intention of abolishing the Agricultural Credit Board. On the contrary, if it is unacceptable that the Department should be converted into a surety fund and its direct financing functions be transferred to the Land Bank in the manner proposed, the Board should be enabled to proceed with its present activities, but then on a larger scale and in closer liaison with the Land Bank than at present.

All parties requested, however, that the system of group insurance to cover mortgage loans should be expanded to include mortgage loans granted by the Agricultural Credit Board.

* S.A. Agricultural Union (1970): Loc. cit.

4.6.1.3 Agricultural co-operatives

As indicated above in paragraphs 3.7.1.5.4 to 3.7.1.5.4.5, the agricultural co-operatives serve chiefly as channels through which the Land Bank, as the principal source of finance, makes short-term credit available to farmers either directly or indirectly. Through these channels long-term credit is also granted in the form of instalment loans and short-term credit from cash credit accounts. Apart from the last-mentioned form of credit, the Land Bank also provides special credit in exceptional circumstances to enable co-operatives to help members to buy livestock and means of production. In exceptional circumstances the Land Bank also permits the extension of periods of redemption for cash credit loans to enable co-operatives, in deserving cases, to give their members extensions of time for the repayment of loans for means of production.

The role played by the co-operatives as channels of Agricultural credit provided by the Land Bank is highly rated. It is felt, however, that the co-operatives, as will be indicated below, could fulfil a still more valuable function in the process of agricultural financing, particularly because of their close contact with local farmers and their production activities on the one hand and with the Government credit institutions on the other.

Although the S.A. Agricultural Union initially recommended* that a co-operative credit institution should be established in the field of medium-term and short-term financing, the Union in a subsequent submission† said that it was necessary to review the matter in the light of the conclusions reached by the Commission of Inquiry into Co-operative Affairs^ø, viz that there was no urgent need for such a co-operative bank in South Africa and that, if such a need arose, the initiative would have to be taken by the Government.

The Commission of Inquiry into Fiscal and Monetary Policy in South Africa also found itself unable to support the request of the S.A. Agricultural Union that the agricultural co-operatives should be built up into a short-term agricultural financing institution.

In the evidence it was brought to the attention of the Commission of Enquiry into Agriculture, furthermore, that the South African Agricultural Union had been informed, in reply to its representations for the establishment of such a co-operative bank, that those recommendations were not acceptable and that the Government was not prepared to amend the Banking Act for such a purpose. The S.A. Agricultural Union then concluded that it should request the expansion of the Land Bank into an institution which could meet all the credit requirements of agriculture and that the agricultural co-operatives should play as big a role as possible as intermediaries between farmers applying for credit and the official credit institutions.

* S.A. Agricultural Union (1967): Loc. cit.

+ S.A. Agricultural Union (1970): Loc. cit.

ø Report of the Commission of Inquiry into Co-operative Affairs (1967): paragraphs 530-545, p. 100-102.

4.6.1.4 Commercial banks and other private sources of credit

Representatives of the agricultural sector repeatedly addressed strong pleas to the Commission for a greater measure of participation by Government credit institutions in agricultural financing, thereby taking over the present role of private sources of credit. These representatives emphasised, however, that their intention was by no means to disparage the contributions made by private sources of credit to agricultural financing in South Africa, nor to prejudice them. It was noted that these sources had made tremendous contributions in meeting the financial requirements of agriculture. As regards the commercial banks, the Commission was informed that a survey by the S.A. Agricultural Union* had revealed -

"that the banks are in no way unreasonable in granting credit to farmers and that, as regards availability and flexibility the farmers' requirements are being met to a large extent. It is unfortunately also evident, however, that the average farmer disregards the rate of interest he has to pay, the easy availability of credit being the decisive factor." (Translation)

In the same document the S.A. Agricultural Union refers to the paramount importance of personal contact between the bank manager and the farmer and states that these relations underlie the numerous deviations from prevailing policy.

The S.A. Agricultural Union is nevertheless of the opinion that this facet of agricultural financing -

"is the most vulnerable element in the entire structure of agricultural financing, a matter of special concern to agriculture since the credit granted by the commercial banks is not adapted to the farming pattern. In hard times this can create serious liquidity problems for farmers." (Translation)

What is more, short-term credit - especially that granted by commercial banks - tends to accumulate and develop into long-term credit. This makes the position even more difficult particularly when high rates of interest are demanded as is the case at present.

The Agricultural Union also has the following views on the matter:

"On the face of it, it seems that the normal procedure at commercial banks, namely to grant overdraft facilities for a period of one year at a time, has been fully accepted, by agriculture as well. But agriculture is subject to far greater vicissitudes than trade or industry, and in the event of a crop failure it is therefore essential that such short-term credit should be available at least until after the second season. Be-

* S.A. Agricultural Union (1970): Die finansieringspatroon van die Suid-Afrikaanse landbou. Doc. 161/70.

cause of this it has not been possible to give special attention to conditions peculiar to agriculture, for example, the nature of the risk, the length of the term, the nature of the securities and the urgent necessity for loans to be self-liquidating, nor has it been possible in overall economic policy to discriminate in favour of or against the agricultural sector with its special circumstances." (Translation)

In their evidence, representatives of the major commercial banks in the Republic convinced the Commission of the magnitude and importance of their contribution to agricultural financing and of their desire to continue playing their part. In the course of the interviews conducted with the banks, the Commission was given the assurance that they were trying to give sympathetic consideration to the special requirements of agriculture, due regard being had to the special circumstances surrounding agricultural production, particularly when less favourable conditions are experienced.

During the interviews it was evident that, when it came to major issues, the approach of the majority of the banks to agricultural financing and the credit policy they followed in regard to agriculture corresponded to a remarkable degree to the views of the Commission put forward in this chapter.

The Commission was impressed, furthermore, by the extent to which the commercial banks concerned - which have a big share in agricultural financing - keep themselves informed of each individual farmer-client's progress and of the general farming conditions on the farm concerned. This is done in the normal course of handling the farmer's bank account and by means of personal contact between the staff of the numerous branch offices of the banks and the individual farmers. It is also the declared policy of the commercial banks to be highly selective (some more than others) in granting credit, strict preference being given to farmers who are recognised to be successful entrepreneurs with a high degree of managerial ability and business sense.

The Commission was interested to learn that several of the commercial banks had extensive advisory and other services of which farmer-clients could avail themselves. It was found, however, that farmers made disappointingly little use of the facilities provided: one of the commercial banks said that its farmer-clients used less than 10 per cent of the available services.

In considering the memoranda submitted by the commercial banks and the evidence given before the Commission by their representatives, the Commission was impressed by the caution they displayed in agricultural financing. They also held the view that when money was plentiful various other private lenders, particularly commercial concerns, tended to be rather too generous with credit. Loan and debt concessions to the farmer were often increased to the extent to which the farmer's so-called "creditworthiness" had risen - credit-

worthiness being calculated on the market value of his land and on the income from the farming enterprise when things were at their best.

These concerns, particularly the ones that permitted such excessive casual debts and short-term credit, tended to become less lenient when times were bad in agriculture, so much so that many of their debtors were then forced to turn to recognised commercial banks and ultimately to Government credit institutions. Therefore it was not unusual for the level up to which casual debts and credit were allowed by certain commercial concerns and private lenders to be considerably higher than what the Government institutions were prepared to allow upon taking over such credit burdens. The representatives of the commercial banks interviewed were just as concerned about this as the Government institutions and the Commission.

It was because of this that the representatives of agriculture insisted that the Land Bank should accept very much greater responsibility for the long-term, medium-term and short-term financing of agriculture than it had hitherto accepted. It was emphasised, however, that, if their representations were successful, it was not their intention that the Government sources of credit should force the private credit institutions out of agricultural financing altogether. It was expected that, although these private sources might have a smaller share in agricultural financing, they would nevertheless still play a considerable role and continue to make their valuable contribution to agricultural financing, particularly if, as recommended later in this report, the principal credit institutions were to endeavour through better co-ordination to follow a more agriculture oriented and effective financing policy.

4.6.2 Readjustment of agricultural credit: policy, procedures and institutions

The South African Agricultural Union* strongly urged that the Land Bank should be developed into a central body which would take over the financing functions of the Department of Agricultural Credit and Land Tenure and which would be prepared to take over as many mortgage loans as were applied for and were acceptable, and that the Land Bank should enter the field of long-term, medium-term and short-term credit on a wide front in order to meet the agricultural sector's requirements in this regard.

A penetrating study of the available information on the granting of credit to the agricultural sector satisfied the Commission, however, that the sector's position as regards credit was not so critical as to demand drastic or revolutionary changes in the existing systems of credit or in credit policy.

* South African Agricultural Union (1971): The Financing Problem in South African Agriculture. Doc. 1/71.

As indicated above, there was not normally so great a shortage of credit that agriculture was being hampered excessively, particularly not as regards long-term and short-term credit. There were definite indications that credit of this kind was at certain times too easy to come by.

The Commission came to the conclusion, however, that, although the position in regard to credit in the agricultural sector was not critical, there was nevertheless a very real need for an even greater role to be played in agricultural development by the specialised agricultural financing institutions, such as the Land Bank and the Agricultural Credit Board, and for them to be re-organised for this purpose.

The Commission is convinced that the agricultural sector can indeed do with several adjustments as regards rates of interest and the procedure by which credit is granted. This applies particularly to medium-term credit, which should be specially designed to provide financial assistance on a rational basis whenever certain situations arise in farming enterprises with long production cycles. The Commission is convinced that the greatest need is for more credit which is better adapted to the peculiarities of agricultural financing and which will be more conducive to sound production practices and greater financial independence in agriculture.

In interviews with the Commission it was emphasised that, apart from the popularity of the Land Bank and the Agricultural Credit Board on account to their favourable terms for credit, these bodies could, through their conservativeness in granting agricultural credit, have so marked a beneficial influence on agricultural financing that ways of promoting a wider application of their policy merited serious consideration.

For this reason the Commission considers it desirable first to deal with its findings and recommendations on readjustment of the semi-Government and Government credit institutions, namely the Land Bank and the Department of Agricultural Credit and Land Tenure (and the Agricultural Credit Board), on a general basis and then individually. It is hoped that these findings may also serve as broad guidelines for the other institutions which grant agricultural credit.

4.6.2.1 Semi-Government and Government agricultural credit

4.6.2.1.1 Policy on the granting of agricultural credit

There were no objections to the way in which the Land Bank and the Agricultural Credit Board granted credit. In fact, as stated in paragraph 4.6.1.1, it was so acceptable that it was strongly urged that the Land Bank should be expanded to enable it to take on the task of also granting credit to those farmers whose creditworthiness was not what it should be. There was concern, however, about the fact that steps were hardly ever taken to ensure that the borrower ran his farming enterprise according to an accepted programme, applied sound farm business principles, kept proper books or that he regularly submitted reports on his operations.

The Commission gained the impression that the granting of credit by these institutions was very seldom followed up by supervision, nor was much use made of managerial advisory services to ensure that such borrowers effectively applied the credit granted to them.

So strong is the evidence before the Commission that the policy and approach of these semi-Government and Government credit institutions are effective and acceptable, that the Commission recommends that the present approach and policy should be left unchanged, but then credit should be granted conditionally and followed up by proper managerial advisory services.

4.6.2.1.2 Procedures in the granting of credit

In interviews with the Commission several witnesses objected to the unconscionable time taken by the Land Bank to finalise applications for long-term loans, particularly mortgage loans. It was asserted that it might take up to three months before the result of such an application was made known. It was realised, however, that it was not the Land Bank itself that delayed matters, but that the delay was due to the prescribed procedures which require reports and recommendations on applications to be received before decisions can be taken. Witnesses emphasised that many of the applications needed to be treated with the utmost dispatch, this being why it was considered important that the procedures followed by such credit institutions in processing, considering and deciding upon applications should be streamlined as far as possible, especially if applications involved purchases of agricultural land on which comparatively short options had been taken.

The Commission did gain the impression, however, that most of the applications (particularly those for long-term credit and mortgage loans) were weighty matters which depended on a great number of factors, including legal restrictions on the subdivision of land, and which often involved large sums of money. It is therefore understandable that such applications have to be studied carefully and that considerable time must necessarily be taken over them. It would be unwise to compel such an institution to deal with applications too hastily.

The Commission therefore recommends that the semi-Government and Government credit institutions should consider ways of streamlining the procedures for dealing with applications for agricultural credit as far as possible, so that such applications can be finalised with all reasonable speed but without sacrificing thoroughness.

4.6.2.1.3 Non-viable (uneconomic) farming units

In Chapter IV of its Second Report the Commission described the magnitude and importance of the problem of non-viable farming units and came to conclusions which were subsequently underlined very strongly by consideration of the matter from a more strictly economic point of view as set out in paragraphs 2.7.1.2 to 2.7.1.2.4

and paragraph 4.5.3.3. of this report. The Commission deems the recommendations on financial policy for non-viable farming units made in paragraphs 4.14.2.1 and 4.14.2.2 of its Second Report so important that it wishes to repeat here those relating more particularly to the granting of credit:

4.6.2.1.3.1 The Government bodies concerned should do everything in their power to convince all agricultural financing institutions of the necessity of adopting a credit policy which will not perpetuate the existence of units that are unquestionably non-viable.

4.6.2.1.3.2 Special attention must be given to methods of financing farmers on uneconomic farms who are deserving enough to qualify for special assistance. Such assistance should enable these farmers to convert their own non-viable farms into viable units by improving their farming systems and purchasing agricultural land, particularly other non-viable farming units, which has become available as a result of the owner's having given up farming. (See also paragraphs 4.7 to 4.7.2.3.)

4.6.2.1.3.3 The Departments of Agriculture and all other parties involved in the granting of agricultural credit should give special consideration to the provision of extension services on the technical and economic managerial aspects for farmers operating units where there are favourable prospects of converting non-viable enterprises into viable units, even without enlarging farms through the purchase of land. (See also paragraph 4.6.2.1.10.)

4.6.2.1.3.4 Where farming units are too small to be converted into economic units, where the farmer is elderly, or where the managerial ability of the occupant is such that the chances of success are slight, the farmer concerned and the members of his family who do not qualify for credit should be encouraged to give up farming and take steps to change their occupation or, if elderly, to retire.

4.6.2.1.4 Farmers on non-viable farming units who have a sideline*

* Dr P.D. Henning made the following remarks in this connection:

Your Commissioner cannot agree with the recommendation that part-time farmers, as defined in paragraph 4.6.2.1.4 of Chapter IV, should receive assistance for farming purposes from Government and semi-Government bodies.

The part-time farmers referred to here should not be confused with those who are normally full-time farmers but who, as a result of disasters such as protracted droughts, are forced to find temporary employment outside agriculture in order to augment their income from farming and tide themselves over the critical period.

The reasons for your Commissioner's view are the following:

(a) The necessity of sound management for farming to be successful is emphasised throughout the Commission's report. It is inconceivable to your Commissioner how any person can satisfy this requirement if he is able to give his attention to farming only at night and possibly at week-ends. There is no farming enterprise that can be run successfully without its being necessary for the farmer to give his attention to his farming all the time for at least certain definite periods. The matter is not affected materially by the requirement that the family should be resident on the farm. With few exceptions, non-Whites will have to carry out and control farming operations. The possible consequences of this need no further comment.

(b) About 30 to 40 per cent of the farming units in the Republic are at present estimated

to be uneconomic units where as a rule, the farmers concerned are struggling to make a living; this is one of the most difficult problems with which agriculture has to contend. The Commission's view is that as many of these farmers as possible should be encouraged to give up farming, there being all the more reason for this since never in the history of the country has there been a more favourable time for such persons to switch to a more profitable occupation outside agriculture. In view of the existence of large numbers of uneconomic units and the fact that there are at present too many persons actively engaged in farming, there is no sense in assisting persons who already have permanent jobs but who live on uneconomic farming units to convert such units into economic units with the aid of Government or semi-Government funds. Tremendous financial demands will in future be made on the State to help deserving farmers who are eking out a living on uneconomic farms on a full-time basis to consolidate their units and make them economic. Government or semi-Government funds would therefore be used far more rationally if only deserving farmers in the last-mentioned category are assisted.

(c) It is stated further that the part-time system should be regarded as a temporary arrangement and the financing as an interim measure to enable the part-time farmer concerned to convert his unit into an economic unit within a set period. In practice however, it is not possible to tell how long such an interim arrangement should remain in force so that the unit concerned can be raised to a viable level, and, if the objective is not achieved within the period laid down, further assistance would have to be granted, which by its very nature would have the effect of perpetuating non-viable units.

The Commission realises that no matter what is done to convert or enlarge non-viable farming units into viable units, the process of withdrawal, consolidation or enlargement will at best be so slow that many farmers and their families will for many years be forced to try to make a living somehow on such non-viable farming units. Here the Commission has in mind enterprises in the accepted rural areas and not the numerous small holdings situated in peri-urban areas.

The Commission also realises that there are farms which are too small to keep the farmers fully occupied. Sometimes the farmer on such a unit does not get any satisfaction out of a part-time enterprise like this and therefore takes up a sideline to fill in his unoccupied time and to supplement his low income from farming. It is frequently the enterprising and energetic man who in this way tries to keep himself fully occupied, to improve his prospects of making a living and often to prepare himself to enlarge his unit through purchasing agricultural land whenever the opportunity arises. Such a man sometimes has to be absent from his farm for longer or shorter periods if he has taken up a sideline, and then has to leave his wife and family to look after the farm.

The term "farmer" is defined in the Land Bank Act as a person who devotes his attention to farming in the Republic or in South West Africa, either exclusively or together with some profession, business or other occupation. The Commission was informed, however, that the present policy of the Board of the Land Bank is to finance only persons farming on a full-time basis and that the Agricultural Credit Board follows a similar policy. The Commission is deeply impressed, however, by the merits of several cases where farmers on non-viable units wish to improve their prospects of making a living in this way. The Commission therefore recommends that the semi-Government and Government credit institutions should give sympathetic consideration to any deserving application for agricultural credit which might be submitted by a farmer who is operating a non-viable unit but who also has a sideline which might necessitate his periodic absence from the farm: provided, however, that (a) his family continue to live on the farm in order to supervise farming operations, (b) he gives his personal attention to such operations every evening, (c) the part-time system is regarded as a temporary arrangement and the financing of the farm is regarded as an interim measure to assist a deserving individual financially so that he can, within a set period, raise or enlarge his farming enterprise to a viable level, and (d) the financial assistance granted for his part-time enterprises should by no means be treated or used in a manner tending to encourage indefinite and unjustified occupancy of a non-viable farming unit.

4.6.2.1.5 Viable farming units and succession arrangements

The Commission further considered the question whether State and State-aided credit institutions, such as the Land Bank, should also make long-

term credit facilities available to owners of viable, or even bigger, farming units to enable them to enlarge their farms further; if so, on what conditions; and if not, what size limit should be set for farming units.

As regards the purchase, backed by the Land Bank, of land to enlarge farming units more than would be necessary for a reasonably acceptable and viable unit, the Commission's attention was drawn to the following possibilities:

The conception of what constitutes a viable farming unit changes over the years, since, as technological innovations are introduced, as mechanisation increases and as the cost of living rises, the minimum size of farming units might in many cases have to be increased to make them economically viable. The Commission therefore deems it desirable that the Land Bank should give favourable consideration to applications for financial assistance for the purchase of land to increase the size of farming units above what is at a particular time regarded as the minimum for a viable unit and recommends that, with a view to the future, the financing of purchases of land larger than the accepted minimum for a viable unit should qualify for favourable consideration by the Land Bank, due account being taken of the merits of each case, provided that the combined farming unit, after the addition of the land purchased, should not normally be more than twice the size acceptable at that time as a viable size. In this regard it should be noted that the object of purchasing agricultural land for the enlargement of farming units should be to create efficient rather than economic farming units.

It is considered desirable moreover, that the Land Bank's policy in financing purchases of land for the enlargement of farming units should also make provision for the succession of the parent by his child. It should be possible for a father, with the financial assistance of the Land Bank, to enlarge his farming unit by purchasing enough land to be able, before retiring from farming, to pass on at least one viable farming unit to a child who will succeed him in farming, the parent then being able, at least once and not more than twice, to keep a fair-sized farming unit on which he can continue farming until he retires. The Commission endorses the proposal of the South African Agricultural Union that where purchases of land are financed by the Land Bank enough latitude should be allowed so as to encourage farmers on highly viable farming units to make arrangements for succession beforehand, but recommends that for persons actively engaged in farming this should be restricted to provision for succession of the parent by not more than one successor.

As it would be difficult to determine the assets if the successor is a minor, and as the granting of mortgage loans with insurance cover to a fairly elderly parent may be expected to impose an unfair burden on him, parents should qualify for financial assistance for purchases of land only if at the time of the transaction they are below a certain age.

It is envisaged and accordingly recommended that, if a successor (child) has legal capacity and is acceptable as a buyer and borrower, the Land Bank should finance him rather than the parent for the purchase of a viable farming unit. Such an arrangement would be preferable because the successor would then be able to run his own farm at a relatively early age, independently and without the interference of his parent. There would also be none of the uncertainty that surrounds testation, nor would there be any interruption in farming operations while the estate is being wound up.

4.6.2.1.6 Purchasing of land by big farmers

The view is held that the Land Bank's long-term loan facilities should not be used for the unlimited buying of agricultural land by big farmers. In this regard it is to be borne in mind that if big farmers buy one farm after the other it means that several other farmers have to leave their farms, some of whom are capable enough of making a good living on viable farming units which could be passed on to a promising successor. It is felt that the loans granted at low rates of interest by State-aided institutions should not be used for such purchases of land and that big farmers should find private sources of credit if they want capital for this purpose.

The Commission subscribes to the view of the S.A. Agricultural Union and recommends that the relatively favourable financing facilities provided by State and State-aided financial institutions for the purchase of agricultural land should not be used for the purchase of land by persons already owning farms exceeding the limits stated in paragraph 4.6.2.1.5. (See also paragraph 4.6.2.2.3.1.)

4.6.2.1.7 Productive value of agricultural land as a basis for the granting of long-term credit

In Chapter VII of its Second Report and in paragraph 4.5.4.1 of this report the Commission discussed the disparity between the productive value and the market value of agricultural land in South Africa and the adverse effects which the granting of credit might have on agriculture if it is based on creditworthiness which has been calculated on the market value of agricultural land.

All the experts and representatives of the agricultural sector with whom the Commission held discussions repeatedly stressed that the productive value of agricultural land and not its market value should be the main basis for a sound credit policy for agriculture.

The Commission's previous conclusions were therefore so strongly reaffirmed by its present findings that it wishes to repeat here the recommendations made on the granting of agricultural credit in paragraphs 7.8.7.3.1.2 and 7.8.7.3.1.4 of its Second Report:

The Government and semi-Government credit institutions should, when deciding whether to grant credit to the agricultural sector, base such credit

on the productive value of agricultural land and not on its market value, and discourage applicants for credit from stretching their credit in accordance with rising land prices.

The Government should persuade private sources of credit to limit the amounts granted to farmers to a level appropriate to the productive value of the agricultural land concerned.

It was also pointed out to the Commission that, although this was the policy of both the Land Bank and the Agricultural Credit Board, there were often considerable differences in the norms by which these two bodies judged a piece of agricultural land in cases where both were called upon to value the same land. It was in this respect that closer liaison was called for, not only between Government and private credit institutions but also between the Land Bank and the Agricultural Credit Board themselves. (See also paragraphs 4.7 to 4.7.2.)

The Commission was gratified to note that with some of the commercial banks interviewed which had an important share in agricultural financing in the Republic it was already policy to take into account the merits of the borrower and his ability to repay the loan, as determined by the productive value of the land. Although the market value was not considered to be of decisive importance, it was nevertheless of some importance in the consideration of long-term and short-term credit, if the particular circumstances of a deserving borrower necessitated special concessions. The Commission trusts that this approach to the granting of credit to agriculture will be adopted by all the bodies concerned in agricultural financing.

4.6.2.1.8 Emergency financing measures: Stock feed loans

In paragraphs 4.4.6.1 to 4.4.6.3.5, 6.1.5 to 6.1.6.2 and 6.4.4 to 6.4.5 of its Interim Report the Commission treated of the stock feed loans granted by the Government when drought caused distress conditions in certain areas. It was shown how important it is first to note conservation practices and precautionary measures before areas are scheduled for distress relief.

The Commission subsequently, however, received information giving cause for concern, namely that there have been cases where feed loans amounted to more than twice the value of the animals concerned. Such open-handedness, it might be argued, reflects the sympathy felt in official circles for the farming community who have to battle through such periods of distress. In the Commission's view, however, there are various reasons why, even under such serious conditions of distress, the granting of credit not only imposes heavy financial burdens on the farmer concerned but in many cases the credit granted under the feed loan scheme in no way helps to conserve the soil. In fact, stock numbers have increased steadily in spite of serious droughts. Feed loans have indubitably helped to check stock reduction and have therefore contributed to the over-use of the veld.

Loans granted and spent in this way are unlikely to be paid back. This has, in fact, come to be realised so widely that there are farmers who have no compunction about failing to pay back these loans, which has a detrimental effect not only on their sense of responsibility but also on those who do try to pay back the loans.

Excessive financial assistance of this kind also militates against the timely reduction of stock on veld grazing and, once it has rained, exposes such veld to even worse overtaxing than before, stock populations tending to exceed the carrying capacity of the veld to an ever greater extent.

Since the stock feed loan scheme, as applied lately, results in the overspending of the available loan funds, creates financial problems, blunts the farmer's sense of responsibility as regards his loan commitments and results in the veld being overtaxed, and since this kind of assistance merely serves to save animals temporarily, the Commission considers it essential that henceforth feed loans be granted on a sounder and more rational basis than at present.

The Commission therefore recommends that cognisance again be taken of the contents of its Interim Report in which it was pointed out how important it is, where grazing distress areas are scheduled and emergency loans granted, to lay down stricter conditions and requirements as regards soil conservation, grazing management and provision against drought, and that other conservation measures should be adopted and purposeful action taken and sustained in order to promote the recovery of the veld after droughts.

Information recently furnished by the Department of Agricultural Technical Services revealed that, although 72 per cent of the farms in a certain area had been planned, effective veld management was applied on only a few farms. A similar survey in another area revealed that no rational grazing was applied on 48 per cent of the farms in that area and that only 10 per cent of the grazing was properly rested. There were also indications that the position in most of the other livestock areas was equally unsatisfactory. This information must not go unheeded, nor must such a state of affairs be accepted as a valid basis for the granting of credit for distress relief.

4.6.2.1.9 Group insurance cover for mortgage loans

In 1966 the Land Bank entered into a contract with the South African Mortgage Insurance Company whereby a mortgage is redeemed by insurance upon the mortgagor's death, so that the mortgaged land can be inherited by the widow or other heir unencumbered by debts to the Land Bank. By the end of December 1970, 25 479 mortgagors were insured under the scheme at a premium fixed at 1,5 per cent per annum of the mortgage loan, irrespective of the age of the mortgagor when insured.

This group insurance scheme was welcomed in all quarters of the industry and is considered to be so beneficial that urgent representations have been made to the Commission for it to be expanded or for negotiations to be entered into for the introduction of a similar insurance scheme to cover mortgage loans granted by the Agricultural Credit Board. The Commission has satisfied itself that this insurance scheme is most acceptable to all parties concerned and is an important aid to stabilising long-term agricultural financing that is in the form of mortgage loans. (The Commission's recommendation in this regard is given in paragraph 4.6.3.2. of this report.)

4.6.2.1.10 Conditions attached to the granting of credit and follow-up services

It is generally accepted today that farming is essentially a business undertaking which has to be run strictly according to business principles if it is to be successful. For this, it is imperative to keep accurate farming records. Without records it is impossible to determine the profitability of a farming enterprise or branches of farming, or to tell where the weaknesses lie and how they can be remedied.

The value of farming records has recently been demonstrated dramatically in the results achieved by certain study groups. Through keeping records and analysing and discussing them with others, the farmers concerned have been able to pinpoint errors and consequently introduce improvements which have been of tremendous financial advantage to them.

It is dismaying, however, to learn how many farmers there are who keep no or only very unsatisfactory farming records and how many active and prospective farmers still fail to appreciate that knowledge and managerial ability are two of the cardinal factors determining success in farming. Persons applying for financial assistance to enable them to carry on or start farming operations frequently state as a reason for their application that they have not been trained for any other occupation and are therefore only able to farm. It is of vital importance to agriculture in this country that everything possible should be done to cure everyone concerned of this fallacious kind of reasoning.

Keeping farming records will not only enable the farmer to rationalise his methods, but will also, if a farming plan accompanies the application for financial assistance, be of infinite value to the lender when it comes to assessing the merits of the application and deciding whether the applicant is deserving. With records it will be possible to grant credit judiciously and rationally, and not haphazardly as is so often the case at present. Unquestionable, agricultural financing will be placed on a much sounder basis if applications for financial assistance are accompanied by a farming plan and records.

The Study Group for Inquiry into Agricultural Credit* considered that the history and background of the farmers who were able to satisfy

* Loc. cit.

the requirements of the Land Bank Act and who were designated Category II farmers should show that they had the necessary managerial ability and knowledge of farming to enable them to plan their undertakings themselves and make a success of them, but for this purpose they needed credit that was specially adapted to agriculture.

According to the Study Group, however, the Category III farmer "is in need of guidance not only on the technical side but also in the organisation, financing and management of his farming enterprise in such a way that he can work himself up gradually to the second category." This farmer therefore needs special financial assistance, and the planning of his operations should form an integral part of such assistance. The following are required where such assistance is given:

- (a) Technical extension to enable the farmer, in planning his farm, to adapt it in the best possible manner to the conditions peculiar to the ecological region concerned;
- (b) production arrangements adapted in the best possible manner to the general economic pattern of the country and to the farmer's own ability; and
- (c) a production programme which is to be adhered to and revised annually in the light of financial guidance to be given to the farmer.

As stated in paragraph 4.5.4.3.3.6, the impression was gained that good progress had been made with the special credit facilities created for financing these farmers since the establishment of the Department of Agricultural Credit and Land Tenure and the Agricultural Credit Board. There are still, however, serious shortcomings as regards technical and economic extension services, the planning of farms, programming of production, and the follow-up work (after credit has been granted) to ensure that proper farming records are kept, that progress reports on farming operations are submitted regularly every year, and that production plans are revised.

In the evidence placed before the Commission it was repeatedly pointed out that the credit granted by the Agricultural Credit Board to Category III farmers actually consisted of Government funds to be used for a special purpose and therefore obtained on very favourable terms. To ensure that such credit would achieve its purpose, it was considered essential that on being granted credit these farmers should comply with the conditions and allow themselves to be guided by expert advice. The representatives of agriculture agreed that, before the Agricultural Credit Board considered granting credit (especially long-term credit), a farming plan drawn up under expert guidance must be submitted, together with a budget and a future production programme. Moreover, credit should be granted on condition that an acceptable farm book-keeping system is maintained, that returns and reports are submitted annually by the lender or his duly appointed representatives, and that follow-up contact be strictly and regularly maintained between the borrower and an expert unit acting on behalf of the Board.

During the interviews various ideas were put forward on how expert assistance should be given

to a farmer who wants to apply for credit and how arrangements should be made for the follow-up contact after credit has been granted. It was felt that successful farmers in the same area as the applicant could help and that the co-operatives with their expert staff could give valuable assistance too. It was emphasised, however, that such contact and auxiliary services should always be organised in consultation and very close liaison with the local extension officer as far as the technical aspects were concerned, and with an economist specialising in farm business management. The Commission considers that the way in which guidance should be given to these farmers in the preparation of applications for credit and after the granting of credit, should be decided on in discussions between the body granting the credit (in this case the Agricultural Credit Board), the three Departments of Agriculture concerned and the South African Agricultural Union, including its Co-operative Council.

It is considered necessary that these procedures for the preparation of applications, the conditions on which credit is granted, the book-keeping and the subsequent submission of returns and reports on the application of the credit granted and on the progress made in agricultural production should be extended to include farmers who have obtained credit from the Land Bank. In view of the shortage of expert staff to fulfil all these functions satisfactorily, it was proposed that attention should initially be focused on farmers who were assisted through the Agricultural Credit Board and that, as the staff position improved and the preparatory and follow-up processes got under way, these services should be extended to farmers who had been granted credit by the Land Bank.

With further reference to the opinions expressed in paragraph 4.6.2.1.1, the Commission must again stress that it is essential that everything possible should be done to promote the successful application of credit granted to farmers by Government and semi-Government bodies, that such credit should be granted subject to conditions which will have this effect, and that the granting of credit should be followed up by a proper farm management advisory service.

The Commission therefore recommends as follows: (a) the State and State-aided credit institutions concerned should give serious consideration to the provision of expert guidance for the farmers to whom they grant credit, and consultations should be held with the three Departments of Agriculture and the South African Agricultural Union (including its Co-operative Council) to devise plans whereby such contributions as can be made by the available experts of the various institutions can best be linked and co-ordinated to promote the effective application by the farmers concerned of the credit granted; and (b) the State and State-aided credit institutions concerned should ensure that field officers are appointed whose function will be to visit long-term and short-term borrowers personally as often as necessary to see that the records agreed upon are being kept up to date and that the farming plans are being carried out, and to keep in touch with the agricultural extension

officers so as to ensure that the necessary extension is given and applied properly.

4.6.2.1.11 The use of agricultural land under lease

4.6.2.1.11.1 Alternative means of financing

According to the 1962/63 Agricultural Census, approximately 94 per cent of the total area of agricultural land in White areas was owned by private persons or partnerships, 2,8 per cent by registered companies and 3,2 per cent by public authorities. Information obtained by the S.A. Agricultural Union shows that at present 17 per cent of the agricultural land in White areas is held under lease. As mentioned by the Commission in Chapter II of its Second Report, full ownership is still the principal form of occupation of agricultural land.

In paragraph 2.6.3, however, the Commission pointed out that various circumstances had made it very desirable to review the system of tenure of certain classes of agricultural land in White areas, in spite of the deeply rooted tradition for every farmer to have his own farm. In paragraphs 2.10 and 2.11 the Commission accordingly recommended that leasehold of agricultural land should be strongly encouraged and referred in this connection particularly to land which is highly susceptible to erosion, irrigation lands and State land which should be used to enable young prospective farmers of promise to establish themselves in agriculture.

In a recent submission to the Commission, the S.A. Agricultural Union* pointed out that, viewed from all financing angles, full ownership of land made the greatest demands on the entrepreneur. Next to this, leasehold as one of the alternative forms of financing agricultural land was advocated by the Union for the following reasons:

- As regards the solvency position, leasehold is an ideal form of financing. An equally important advantage of leasehold is that it puts a stop to the constant outflow of capital from agriculture.
- From the liquidity point of view, leasehold is also hard to better. There is no question of redemption.
- The only annual payment is the rent which is made up of depreciation and maintenance which also have to be paid in the case of full ownership. Added to this is the net rental which is the owner's return on the capital invested.
- In a period of rising land prices, a relatively low net rental will, as against the interest on the market value of the property, suffice since part of the return will be covered by the appreciation of the land.

* S.A. Agricultural Union (1971): Loc. cit.

- The remunerativeness depends solely on the level of the rental and can also be improved if rent control or influencing is applied. If the rent is set at too low a level (as in the Netherlands at present), there is a danger that outside investors will no longer regard agricultural land as an attractive investment and that the possibilities of this form of financing would then be lost. It would seem that, if this difficulty could be overcome, leasehold would be the solution to the problems that beset the financing of agricultural land.

- In the light of the above findings, it would therefore seem desirable to promote leasehold as a means of financing land and fixed improvements.

The South African Agricultural Union went on to propose that a central body or land trust be established to purchase and then let land to farmers (see further paragraphs 4.7 to 4.7.2). The Union concluded this part of its submission by stating that it was also important that the lease should be made attractive to prospective lessees. A first step in this direction would be to guarantee the lessee's right to use the land for a long period. In the case of a land trust, it would even be possible to grant leasehold in perpetuity. Secondly, leasehold could be made much more attractive if the lessee were compensated at the end of his period of tenancy for the fixed improvements made by him.

In giving evidence, the S.A. Agricultural Union stated that the leasing of agricultural land as a form of financing was on the increase, but felt that the best way of guaranteeing the success of the system would be to make provision for preventing the lessee from exhausting the soil, and to assure him of a long period of tenancy and that he would be paid out for improvements.

The expansion of the leasehold system is seen not only as a valuable alternative means of financing, particularly for the less well-to-do farmer, but also as an important means by which a special institution such as a land trust could enlarge non-viable farming units through the purchase and subsequent letting or sale of small units to deserving beginners or persons who are already farming but who have non-viable units.

4.6.2.1.11.2 Recommendations

4.6.2.1.11.2.1 On the leasehold system as an alternative method of financing further views were put before the Commission, lending further support to the recommendation in paragraph 2.11 of its Second Report, which reads as follows: "The Commission recommends that the system of hiring and leasing agricultural land be encouraged and that serious consideration be given to methods of promoting this system".

4.6.2.1.11.2.2 Since this matter calls for a high degree of expertise and study, the Commission wishes to recommend further that a study group of experts be appointed as soon as possible by the Minister of Agriculture to make recommen-

dations on the steps to be taken to encourage the leasing of agricultural land and on the statutory provisions considered necessary to protect the interests of both lessees and lessors and to place the leasehold system on a sound and well-ordered basis.

4.6.2.11.2.3 The Commission is also aware, however, that many farmers lean heavily on credit (long-term, medium-term or short-term) for the financing of agricultural production, credit which they can obtain from time to time on the strength of their creditworthiness, which is based largely on the productive value (and often the market value) of their farms. It has been asserted that under the leasehold system the farmer would have no land of his own which could serve as security for credit, and that it is hard enough as it is to get sufficient credit for production purposes. The Commission attaches so much importance to this matter that it recommends that if a leasehold system is adopted adequate facilities, particularly for adapted medium-term credit for tenant farmers as well, should be made readily available at the Land Bank, so that agricultural enterprises with relatively long production cycles can be financed and so that it will not be necessary to resort to other forms of credit. (See paragraphs 4.6.2.2.5 to 4.6.2.2.5.3.2.6.)

4.6.2.2 The Land Bank

4.6.2.2.1 Readjustment of the Land Bank

The Land Bank's policy in granting loans to farmers may be described as basically sound. The Bank meets the capital needs of individual farmers and agricultural co-operatives on terms of interest and redemption that are, on the whole, favourable. For the reasons given in paragraph 4.6.1.1, the Land Bank's participation in agricultural financing is rated very highly, and it has been strongly advocated that this institution should be enabled to make a much greater contribution to agricultural financing than at present. As mentioned in paragraph 4.1(c), the S.A. Agricultural Union in its first submission* to the Commission proposed that "the Land Bank, as the only specialised establishment in the field of long-term agricultural financing, should be reorganised and streamlined so that its credit supply activities can be extended."

As stated in paragraph 4.6.2, however, the Commission has come to the conclusion that the extent to which credit has hitherto been available for the agricultural sector has not been so critical as to necessitate revolutionary changes in the existing systems of credit but that various adjustments are required in the granting of credit to agriculture.

4.6.2.2.2 Expansion of credit facilities

In paragraphs 4.6.2.1 to 4.6.2.1.11.2, the Commission reported on various matters brought to its attention in regard to the Land Bank and the Agricultural Credit Board. With respect to the representations that the Land Bank should be enabled greatly to expand its activities in the field of agricultural financing, there are various opinions

and circumstances that have to be taken into account.

4.6.2.2.2.1 Considerations

The Commission of Enquiry into Fiscal and Monetary Policy in South Africa* considers it important that in times of high and rising rates of interest the agricultural industry should be at least partially protected from such rates, and "because the existing private farm mortgage financing market is shrinking while mortgage rates of interest have already risen to high levels, the Commission regards it as desirable that the Land Bank should gradually take over the financing of farm mortgages." The said Commission recommended furthermore "that the mortgage loans of the Land Bank for the purchase of land should be limited to the financing of economic-size farming units only."

In a recent article⁺ the Managing Director of the Land and Agricultural Bank expressed the following views:

"As a result of current economic conditions, the demand for special financing for the agricultural industry may be expected to increase in coming years and not only to exert considerable pressure on the available loan funds but also to call for great circumspection on the part of our financial sources in granting credit in general. To build up and maintain a sound agricultural economy, to ensure that the development of the industry is not hampered at a time when financial assistance for the farmer is most indispensable and to enable the farmer to continue farming, a stable form of long-term credit must be constantly available to agriculture, since with our present system the use of short-term funds for long-term purposes creates serious problems and embarrassment for the farmer.

To make adequate loan funds available to the Land Bank as the most important single source of long-term financing for agriculture in the country, serious consideration will have to be given in future to the expansion of the Bank's capital structure. Investments in the Land Bank by the agricultural sector should make a considerable contribution towards its capital requirements and could be encouraged by exempting the interest earned on such investments from income tax. This would stimulate the flow of surplus funds in agriculture to the Land Bank and make a positive contribution to the expansion of the Bank's functions and the establishment of a financing system which would hold out the prospect not only of suitable credit facilities for all the branches of the agricultural industry but also the rehabilitation of the farmer on a basis specially adapted to his circumstances" (Translation).

The Agricultural Commission has noted the fact that the Land Bank's credit facilities have expanded appreciably in recent years and that up to the present the Land Bank has always, within the framework of its policy and procedures, been

* Loc. cit.

+ Smit, J.M.C. (1971): Landbank speel groot rol. Landbou-oorsig. Die Transvaler, p.9, 10 May 1971

* S.A. Agricultural Union (1967): Loc. cit.

able to mobilise sufficient funds to meet the demand for credit.

The Commission considers it important, however, to direct attention to the following aspects of the granting of agricultural credit:

- (i) The demand for special financing of the agricultural industry through a specialised agricultural financing institution is increasing.
- (ii) It is generally accepted that, apart from the Agricultural Credit Board, the Land Bank is, owing to its organisation and the manner in which it fulfils its functions, the financing institution in the Republic best adapted to the peculiarities of agricultural financing.
- (iii) The rates of interest on Land Bank loans correspond more or less to the earning ability of agricultural production under prevailing conditions.
- (iv) The principles according to which the Land Bank grants credit are basically sound and promote sound production and business practices.
- (v) The available funds derived from private sources of finance particularly for farm mortgage loans are showing a marked downward trend and the rates of interest on these funds have now risen above the earning ability of even the most successful farmer.
- (vi) The income which long-term investments can yield in other sectors of the economy is much better and much more secure than can be expected from loans to the agricultural sector.
- (vii) The possibilities of getting good returns on such investments are at present so remote in agriculture that this sector cannot even succeed in diverting the free capital of well-to-do farmers to the Land Bank or to the agricultural sector direct. According to survey figures furnished by the S.A. Agricultural Union, farmers alone had about R738 million invested outside the agricultural sector as at 28 February 1970.
- (viii) The Department of Agricultural Economics and Marketing gave the Commission the following information on the funds of the control boards:

"Control boards are public bodies and have public moneys at their disposal. Their income is not taxable - because they are regarded as semi-Government institutions - and derives mainly from levies, which are actually taxes on the controlled agricultural products.

"In terms of the provisions of section 46 of the Marketing Act, 1968 (Act 59 of 1968) (formerly Act 26 of 1937), the control boards may deal with their special levy funds and reserve funds in such manner as may be approved by the Minister ...

"In 1957 the Minister of Agriculture therefore laid down, as a matter of policy, that for investment purposes the control boards

should go to the Land Bank and Government and semi-Government investment facilities first. But as various boards had already invested some of their funds with financial institutions other than the Land Bank and Government bodies before a definite ministerial policy on the investment of board funds had been laid down, the Minister at that time authorised control boards to invest 20 per cent of their funds available for investment (but not more than R400 000) with building societies. This policy was left unchanged until 1968 when the Minister again reviewed the matter. At the end of 1968 the control boards were informed that board funds could be invested, without ministerial approval, with the Land Bank for periods not exceeding two years

"This did not preclude the possibility of investing with institutions other than the Land Bank, but meant rather that, since the funds concerned had been obtained from the agricultural sector and since the Land Bank was the most important financing institution for agriculture, the Minister would prefer the control boards gradually to switch all their investments to the Land Bank." (Translation)

It was also stated that in 1969, following representations by the Association of Building Societies, the Minister approved an arrangement whereby, in view of the difficulties experienced by the building societies, the control boards would not be pressed to withdraw the investments which they then had with the building societies over a short period. The concession made in 1969 was viewed as a temporary arrangement since the Minister still upheld the principle that the control boards' funds available for investment should be invested with the Land Bank.

- (ix) So beneficial is the influence of the Land Bank that an expansion of credit facilities to be employed by the Land Bank is considered important owing to the beneficial effects which this would have on agriculture and on the country as a whole.

4.6.2.2.2.2 Recommendations

On the strength of the evidence heard and the information at its disposal, the Commission recommends that the Land Bank should be enabled to expand appreciably the credit facilities which it can make available to the agricultural sector and that the following steps should be taken to obtain more capital in order to meet the expected increased demand of the agricultural sector:

4.6.2.2.2.2.1 The Land Bank should continue issuing Land Bank debentures as authorised by the Land Bank Amendment Act, 1959.

4.6.2.2.2.2.2 To encourage farmers to invest capital with the Land Bank for the purposes of agricultural financing, the interest earned by them on such investments should be exempted from tax provided that this concession is limited to funds derived from farming.

4.6.2.2.2.2.3 Reserve funds held by agricultural co-operatives should, if invested with the Land Bank, also be exempted from tax.

4.6.2.2.2.4 The policy that the control board's funds available for investment should be invested with the Land Bank must be upheld.

4.6.2.2.2.5 If the capital at the disposal of the Land Bank falls short of the justified demand for such capital, the Government should, as in the past, give favourable consideration to augmenting the funds required by the Land Bank, particularly where reasonable success has been achieved in getting capital to flow from the agricultural sector to the Land Bank as described above.

4.6.2.2.3 More generous credit concessions to bigger farmers

The information and views given above on the part played by and the policy of the Land Bank (particularly from paragraph 4.6.1.1 onwards) so convincingly illustrate the value and acceptability of the Bank's role in agricultural financing that there can be no doubt that its activities should be greatly expanded. Various parties take the view however, that, since the Land Bank is still at time dependent on special financial assistance from the State it should to a certain extent be regarded as a State-aided financing institution. It is therefore not considered justifiable for the Land Bank to grant big farmers loans at relatively low rates of interest and on fairly favourable terms.

The Commission considers, however, that if the Land Bank could expand its funds so as to be able to operate without direct State aid, this objection should fall away and it should be acceptable for the Land Bank to grant the various types of credit more freely to farmers with fewer restrictions as regards the size of the farming unit.

It is a well-known fact that the more successful farmer fall into the group whose farming units have a larger turnover. Their contribution to agricultural production and its value to the country are clearly evident from the data given in Table 4.8. It is striking that the gross value of the sales of agricultural products of 38,9 per cent of the country's White farmers constitutes no less than 87,2 per cent of the total gross value of agricultural production. It follows that the share of these bigger farmers in the moneys which the agricultural control boards have invested with the Land Bank is more or less in proportion to the

TABLE 4.8 - Distribution of agricultural production according to farming units, 1964/65

Percentage of farming units	Percentage of production yielded
2,2	20,8
9,0	49,1
21,6	71,7
38,9	87,2
61,3	96,5
74,3	98,8
83,6	99,6
91,5	99,9

Source: Data from the 1964/65 Agricultural Census, adapted by the Division of Agricultural Marketing Research of the Department of Agricultural Economics and Marketing

gross value of their products as a percentage of total agricultural production.

It therefore appears indefensible that those farmers who contribute most to agricultural production, to the supply of the food and raw material requirements of the country and to the earning of foreign exchange should be denied the opportunity to avail themselves of certain benefits in agricultural financing. The Commission therefore feels that, except where mortgage loans for excessive purchases of land are concerned (as referred to in paragraph 4.6.2.1.6), favourable rates of interest and other benefits which the Land Bank would be able to offer if it could obtain more capital should be available to assist the production enterprises of the bigger and better farmers as well. Such concessions would benefit not only them but the country as a whole.

On the expansion of credit facilities by the Land Bank the Commission therefore wishes to recommend as follows:

4.6.2.2.3.1 If the Land Bank can obtain sufficient capital from non-agricultural and agricultural sources (as recommended in paragraphs 4.6.2.2.2.1 to 4.6.2.2.2.4) for it to be accepted as acting relatively independently of direct State aid, favourable consideration should be given to making its credit facilities more widely available to farmers whose means exceed the limits now set, particularly for the granting of long-term and medium-term credit.

4.6.2.2.3.2 If the Land Bank cannot obtain sufficient capital cheaply enough to be able to grant loans to well-to-do farmers at highly preferential rates of interest, the possibility should be explored of granting such loans at a rate of interest which would cover the Land Bank's costs according to the rate of interest at which the Bank has to pay for loans on the open money market.

4.6.2.2.3.3 As, for various reasons, the Commission does not consider it desirable that an agricultural financing institution such as the Land Bank should be involved in purchases of excessively big pieces of agricultural land, a limit should be set on the land purchases for which the Land Bank will grant mortgage loans as recommended in paragraph 4.6.2.1.6.

4.6.2.2.4 Long-term credit

4.6.2.2.4.1 Taking over of long-term loans

Representatives of agricultural organisations suggested that the Land Bank should be more accommodating in taking over mortgage loans held with private creditors and that it should even be possible to transfer mortgage loans from the Agricultural Credit Board to the Land Bank. It was established during the hearing of evidence, however, that the Land Bank was not expected to compromise any of its principles by taking over loans in this way. There are farmers who have mortgage loans from private sources and who wish to switch

to the Land Bank so as to be able to share in the benefits attached to Land Bank mortgages.

The evidence heard did not, however, persuade the Commission that it had become necessary for the Land Bank to change its policy or its attitude as regards the taking over of mortgage loans or other forms of long-term credit from other financing institutions.

The Commission also considers that transferring mortgage or other loans from the Agricultural Credit Board to the Land Bank or *vice versa* would unsettle farmers in their approach to credit and would serve no useful purpose. The Commission therefore cannot support the proposal to make such a change-over possible.

4.6.2.2.4.2 Consolidation of casual debts

In paragraph 4.4.1(g) of this chapter the Commission expressed its concern at the way in which and the extent to which casual debts sometimes become part of the long-term credit load of certain farmers. Although some of the branches of agriculture have called for greater leniency in consolidating casual debts, the Commission wishes to recommend that the Land Bank should, as in the past, treat applications for such consolidation with the greatest caution and that such applications should be granted only in highly deserving cases.

4.6.2.2.5 Medium-term credit

As already stated, representatives of agriculture expressed great appreciation of the contribution which the Land Bank has made to long-term financing to the benefit of the agricultural sector. At the same time, however, considerable expansion of the activities of the Land Bank in the field of medium-term and short-term credit was called for.

In this regard the Commission directed attention earlier in this chapter (see paragraphs 4.4 and 4.6.2) to various situations indicating that credit-worthy and deserving units in the agricultural sector are not experiencing such a dire shortage of long-term and short-term credit as to justify radical changes in the existing systems of credit. The indications are, however, that the agricultural sector has an urgent need for more ample medium-term credit facilities designed specially for certain production processes. It is expected that if credit of this kind were available farmers would be less inclined to use expensive short-term credit for the financing of perennial production cycles or to encumber land and other fixed property increasingly with mortgage and other long-term loans obtained in a roundabout way.

The following aspects of medium-term credit for agriculture therefore merit attention:

4.6.2.2.5.1 Hypothec loans

As indicated in paragraph 3.7.1.5.2. of Chapter III, the number of hypothec loans and the average amount per loan have increased progressively since 1965 because such loans and the way in which they are offered through the agricultural co-

operatives are very popular with farmers. Loans of this kind are granted for the purchase of, among other things, sheep, cattle (for meat production as well as for dairying), other livestock, tractors and implements. There has been a very marked rise in loans for beef cattle, tractors and other implements, and similar loans were recently granted for the purchase of spraying equipment to control mildew in vineyards in the Western Cape.

A very special situation in agricultural production has also resulted in a call for special medium-term credit facilities to enable private producers of quality wines to equip their cellars, a process involving tremendous capital expenditure. The attention of the Commission was drawn to the desirability of encouraging, for prestige purposes, the manufacture of estate wines by very competent private wine farmers and of granting them suitable financial assistance. It was stated that the co-operative wine cellars could get Land Bank loans for cellar equipment but that such loans were not available to private wine farmers producing quality wines.

This particular type of production enterprise is so deserving that the Commission has no hesitation in recommending that the Land Bank should give favourable consideration to making medium-term credit facilities in the form of hypothec loans available to such private producers of quality wines as well.

The Commission was informed, furthermore, that when hypothec loans for the control of downy mildew in vineyards were first granted it was found that the old procedure for considering and granting hypothec loans was too involved and took too long for the emergency to be satisfactorily dealt with. The Land Bank then agreed that the procedure should be simplified so that applications for loans could be dealt with fairly quickly with the aid of the local branch of the agricultural co-operative concerned. It is understood that this made it possible to deal with the loans so expeditiously and successfully that the procedure might well be extended. In conjunction with its earlier recommendation in paragraph 4.6.2.1.2, the Commission therefore wishes to recommend that the Land Bank should give favourable consideration to ways and means of simplifying the procedure for dealing with other types of hypothec loans in a similar way.

4.6.2.2.5.2 Hire-purchase systems

It is known that the Land Bank has also put into operation a hire-purchase system on the annuity basis whereby redemption and interest are spread evenly over the whole period for which credit is granted.

It was pointed out, however, in paragraph 4.4.1(f) that credit on the hire-purchase system as granted to agriculture by certain private credit institutions is excessively expensive. It is therefore recommended that a hire-purchase system for agricultural financing should be permissible only if it is arranged on an annuity basis.

The Commission was also asked to recommend that the Land Bank should provide hire-purchase

facilities on the annuity basis through the agricultural co-operatives as well, and that the period of repayment should be determined in accordance with the expected operating results of the enterprise. If such an arrangement created administrative problems, the Land Bank should grant the money to the co-operatives at a rate of interest of about 7 per cent, so that they could then offer hire-purchase facilities on that basis. Such an arrangement might necessitate modification of the present hire-purchase or hypothec loan systems.

As regards the request for repayment arrangements to be made in accordance with the expected operating results of the enterprise, the Commission feels that the same principle of adapting medium-term credit to the particular production conditions should be adopted as has been advocated in the recommendations on special medium-term credit given below (see paragraphs 4.6.2.2.5.3 to 4.6.2.2.5.3.2.6).

4.6.2.2.5.3 Special medium-term ("tiding-over") credit

4.6.2.2.5.3.1 For special production conditions

In the course of its inquiry the Commission came across various situations in agriculture of material importance in agricultural financing and gained the impression that there is a special need for a type of medium-term credit which would assist agriculture as effectively as possible where perennial production is concerned. What is needed is a credit system under which the terms and conditions governing the application of the credit granted, the repayments and the rates of interest are adapted as closely as possible to a realistic expectation of the yield from the undertaking assisted with such credit.

Here the Commission has the following situations in mind:

4.6.2.2.5.3.1.1 Production situations and term over which credit is granted

If farmers are unable to obtain credit from the Land Bank or the Agricultural Credit Board for special production situations which might last for two years or longer (sometimes as a relatively unremunerative transitional phase), they frequently resort to expensive short-term credit, usually from commercial banks or business concerns. This sometimes means that, as the relatively unremunerative phase continues, the farmer is obliged not only to renew the short-term loan but also to increase it. These are also cases where casual debts incurred for production purposes accumulate, sometimes landing the farmer in financial difficulties and forcing him to resort to consolidation or to find some other way out of his trouble (see also paragraphs 4.4.1(e) and (g)).

4.6.2.2.5.3.1.2 Adaptedness of farming systems

In Chapter V of its Second Report the Commission pointed out that in certain areas farming systems were not sufficiently adapted to local en-

vironmental conditions and described the adverse effects of such systems on stability in agricultural production, as well as on economic stability. Further discussion of this situation in paragraph 4.6.3.2 was followed by a recommendation that a scheme for voluntary adaptation should be devised and put into effect on a regional basis to iron out the main problems in agricultural production in South Africa.

As pointed out, the difficulties - particularly the financial ones - foreseen in making such adjustments are such that no progress can be expected unless the adjustment scheme is backed up by a realistic financing scheme which is geared to it and planned carefully in advance for each farm.

To this end the Commission further recommends as follows: (i) Medium-term credit facilities should be made available to help farmers to undertake such an adjustment scheme. (ii) Special medium-term credit, or "tiding-over finance" as recommended by the Commission of Enquiry into Fiscal and Monetary Policy*, should also be granted for this purpose. (iii) If financial assistance of this nature can be provided to help farmers to adapt their farming systems in this way, it should be non-recurring assistance for the farm concerned, granted on such conditions as may be considered necessary and in a way which will ensure that the aims set for such a change-over are achieved within a certain period and not afterwards abandoned.

4.6.2.2.5.3.1.3 Establishment or re-establishment of agricultural enterprises with long production cycles

It was put to the Commission that when vineyards or orchards of deciduous fruit, citrus or other subtropical fruit, or particularly pineapple lands, are laid out it takes quite a number of years after the preparation of the land to produce satisfactory yields, even under favourable conditions. During those years large amounts have to be spent on preparing the soil, fertilising, planting, spraying and maintaining the plantations, although no income worth mentioning can be expected.

A similar situation arises when vineyards, orchards or pineapple land have to be cleared on account of their age or disease or drought and replaced by new plantings. Where this is done, however, it takes even longer before full crops can be produced because, after the removal of the old plants, the lands have to be rested for a few years or used for other purposes to rid them of nematodes and other root parasites. A similar situation was described to the Commission as regards large-stock farmers, particularly those producing red meat. In this regard the opinion was put forward that short-term credit was fairly easy to get but that it was too expensive and not really suited to such production conditions.

* Loc. cit.

4.6.2.2.5.3.2 Recommendations on special medium-term financing

The Commission has good grounds for doubting whether it would be in the best interests of agriculture for short-term credit or any form of long-term credit to be used under the production conditions described above. As already mentioned, short-term credit is too expensive, is of too short a duration and in many cases leads to proliferation of casual debts if new sources of credit have to be sought at the end of each short term; and in the mean time the production situation would remain unchanged. On the other hand, the direct or indirect encumbering of productive land (as a permanent asset) with mortgage loans or other long-term loans would be undesirable if all the farmer needed was credit to tide him over a phase in his farming which might only last a few years - rarely more than a decade. Credit obtained in this way tends not to be paid off as quickly as possible during such a phase and the liabilities incurred in financing one phase therefore tend to be added to those of a previous phase, the result being that an entrepreneur is tempted to depend on credit based on the rise in the market value of land, which in most cases is out of proportion to its productive value.

The Commission is aware, however, that the trends in obtaining production credit described above are caused largely by the lack of medium-term credit facilities adapted as closely as possible to production conditions such as those referred to in the preceding paragraphs. Such production conditions often arise and are experienced by virtually all farmers irrespective of the category of creditworthiness to which they might belong.

The Commission fully supports the recommendation of the Commission of Enquiry into Fiscal and Monetary Policy in South Africa* that special medium-term facilities should be made available by the Land Bank in the form of "tiding-over finance" and wishes to add that it considers this proposal to be so important that it merits top priority and urgent attention.

The Agriculture Commission further wishes to support the recommendations made by the above-mentioned Commission and wishes to add others, considered necessary in the light of its further findings, on the successful use of special medium-term financing as proposed:

4.6.2.2.5.3.2.1 Term over which credit is granted

As stated by the Fiscal and Monetary Commission*, the term for this form of financing should be three years or more, but seldom more than ten years, and it should in any case be adapted to the particular production situation for which it is intended and for which it has to be applied.

4.6.2.2.5.3.2.2. Application of such credit

Special medium-term finance should be available to farmers when, owing to, their particular

* Loc. cit.

production enterprises as described above, they have to be tided over periods longer than two seasons during which establishment and maintenance expenses have to be incurred but when they can expect no or very little income, or if they "find themselves in financial difficulties as a result of unfavourable agricultural conditions."

This Commission also wishes to support the view of the Fiscal and Monetary Commission* that such loans should not be granted to wealthy farmers for the purchase of land and that, in certain circumstances, farmers owing large farms cannot be expected to sell part of their land before they can be assisted in this way.

4.6.2.2.5.3.2.3 Terms of redemption

Since no yield can be expected during the first few years after the establishment or re-establishment of orchards or while similar enterprises with long production cycles are still in their initial stages, the arrangements made for the repayment of the special medium-term credit granted must be adapted to the expected income from the enterprise so that it will be possible for the farmer to start paying off the loan three or four years after starting the project for which he was granted such credit.

This kind of credit should also be used to assist young farmers during the initial stages of their farming operations.

4.6.2.2.5.3.2.4 Rates of interest

Interest on loans of this nature should be payable from the start at rates such as those at present charged by the Land Bank and should be related as closely as possible to the average income expected from agricultural production.

4.6.2.2.5.3.2.5 Rising interest system

The Commission considers it to be in the best interests of agriculture that a medium-term credit system of this kind should incorporate an incentive for borrowers to pay back the money borrowed as soon as possible.

During discussions held in Salisbury in September 1968 with members of the Rhodesian Ministry of Agriculture and representatives of the Rhodesian Farmers' Union, the Commission was informed that a revolving loan system had been introduced in 1966. The Commission recently received further information indicating the tremendous success of this loan system. Jordaan⁺ describes the loan system as follows: "The major advantage of this scheme is that it works according to a system of rising rates of interest. In the first place, the loan has to be paid back over ten years. For the first two years the rate of interest is only 2½ per cent, without any obligatory redemption of capital. Even the interest is transferable. From the third year onwards the

* Loc. cit.

+ Jordaan, J.C. (1971): Gewilde leningsfonds vir Rhodesiese boere. Landbouweekblad, 20 April 1971

rate of interest gradually rises, reaching 8 per cent in the last year. Over the entire period of the loan (10 years) the rate of interest averages $4\frac{3}{8}$ per cent. Therefore the quicker the farmer pays back his loan, the cheaper is his borrowed money. According to Mr Espach, this loan fund is extremely popular with the farmers. From the Government's point of view this is one of the most successful financing schemes ever." (Translation)

The experience gained up to the present with the revolving loan system in Rhodesia is therefore so favourable that the Commission recommends that both the Land Bank and the Agricultural Credit Board should seriously consider incorporating into the special medium-term credit scheme (initially proposed by the Commission of Enquiry into Fiscal and Monetary Policy in South Africa and endorsed in the foregoing paragraphs) a rising interest system at rates of interest yielding an average rate acceptable to both bodies, with suitable arrangements for capital redemption as proposed in 4.6.2.2.5.3.2.3 above.

4.6.2.2.6 Short-term credit

4.6.2.2.6.1 Cash credit accounts

In paragraph 3.7.1.5.4.2 of Chapter III particulars were given of the role played by the Land Bank in granting short-term loans direct to farmers from a cash credit account, long-term credit in the form of instalment loans, and short-to medium-term credit facilities in the form of seasonal credit and cash credit loans for agricultural co-operatives. It appears from these data that the Land Bank is by far the most important source of short-term credit in agriculture, both as regards credit provided through the co-operatives and that granted by the Bank to the agricultural control boards. The Bank's contribution in this regard has expanded appreciably since 1969. As indicated above, such seasonal loans are available for the purchase of implements and means of production such as fuel and fertilisers, as well as for containers and packing material, the handling and processing of agricultural products on a co-operative basis, and for special purposes. The view of Organised Agriculture is that credit granted by the Land Bank in the form of cash through the agricultural co-operatives covers too narrow a field, is inadequate, and should therefore be expanded considerably. The following points were made in this regard:

The cash credit facilities made available through the Land Bank to agricultural co-operatives and through the co-operatives to the farmers may be used only for certain means of production - wages, rations, repairs and other items beyond the usual sphere of business being excluded. It is requested that, since the last-mentioned items may also be regarded as means of production, cash credit should be extended in range to include these items as well.

After considering similar proposals, the Commission of Enquiry into Fiscal and Monetary Policy* came to the conclusion that such a concession could not be supported in view of the difficulties

foreseen in administering and controlling such cash payments.

4.6.2.2.6.2 Short-term credit to be granted to on a larger scale to farmers direct

It was pointed out in paragraph 4.6.1.4 that the normal procedure for commercial banks of granting overdrafts for a period of one year at a time was completely acceptable, also in the case of agriculture, although it was acknowledged that such credit, as mentioned elsewhere, was too expensive in most cases and was often not satisfactorily adapted to the peculiarities of agriculture.

As was also mentioned above, the Commission was unable to support the proposal that the provision of short-term facilities should be extended to include items over which the agricultural co-operatives could not exercise proper control.

In a memorandum submitted to the Commission* the S.A. Agricultural Union stated that to meet the needs of farmers and co-operatives properly, the Land Bank's branch system would have to be expanded more rapidly and that branch offices should be located at strategic points, i.e. at places where the co-operatives have to exercise credit control. It was further recommended in evidence before the Commission that the branch offices should be situated at points enabling the Land Bank to administer and control *in situ* the short-term credit which it has to grant. The Land Bank stated that it increased the number of its branch officers from ten to twenty-one during the period 1948 to 1969, but that the aim of this expansion was not that these branch offices should be used to encroach upon the preserves of the commercial banks through direct short-term activities. The Commission of Enquiry into Fiscal and Monetary Policy† gave several reasons why it was unable to support representations that the Land Bank itself should expand its short-term financing activities as requested.

As mentioned above in paragraph 4.6.1.4, the Agriculture Commission also concluded in the course of its inquiry that the commercial banks should continue provide short-term credit for the agricultural sector and that it was neither necessary nor in the interests of the country for these banks to be kept out of agricultural financing.

4.6.3 The Agricultural Credit Board

In paragraph 4.6.1.2 mention was made of the great appreciation expressed by representatives of agriculture of the role played by the Agricultural Credit Board, assisted by the Department of Agricultural Credit and Land Tenure, in financing the less creditworthy farmers and many other farmers who have to cope with distress conditions. Reference was made to the request submitted to the Commission while evidence was being heard to the effect that, if it was not acceptable for the

* Loc. cit.

* S.A. Agricultural Union (1969): *Uitbouing van die Landbank*. Doc. 121/69

† Loc. cit.

Agricultural Credit Board to be converted into a surety fund as initially proposed, the Board should be enabled to continue providing credit as at present.

4.6.3.1 Recommendation

The Commission here wishes to refer to its conclusion in paragraph 4.5.4.3.4 that the Agricultural Credit Board should not be changed as had been proposed. The Commission recommends that the credit facilities provided by the Government through the Agricultural Credit Board and the Department of Agricultural Credit and Land Tenure should be retained and, if necessary be extended so that, due regard being had for the matters of policy set out in paragraphs 4.6.2 to 4.6.2.1.11.2, the enterprises of deserving but financially weaker farmers (landowners, young farmers and tenants) can be financed and guided towards independence, assistance also being given in the enlargement and conversion of non-viable farming units into viable ones.

4.6.3.2 As regards group insurance to cover mortgage loans (see paragraph 4.6.2.1.9), the Commission wishes to recommend further that the necessary adjustments be made and administrative steps be taken for the creation of a group insurance scheme, similar to that offered by the Land Bank, to cover mortgage loans taken by farmers with the Agricultural Credit Board through the Department of Agricultural Credit and Land Tenure.

The Commission considers, however, that permission for borrowers to join such a group insurance scheme should be considered only five years after the granting of a long-term loan and that the application for such permission 'should be granted only if the borrower produces evidence of his effective use of the credit granted and of his having complied with all the conditions governing such credit.

4.6.4 Agricultural co-operatives and agricultural financing

It has been pointed out that the Land Bank is the main source of finance for co-operatives and that, through the agricultural co-operatives, it plays an important although indirect part in financing agriculture, especially on a short-term basis.

As regards the granting of credit to the co-operatives themselves, the Co-operative Council affirmed that the Land Bank lent the co-operatives virtually the entire amount applied for during the preceding year. The Council added, however, that there were nevertheless still co-operatives that wished to make use of long-term loans from the Land Bank. The Commission believes that its request that the Land Bank should consider every application on merit fully accords with the policy followed by the Land Bank in dealing with all such applications.

In presenting evidence before the Commission, representatives of the S.A. Agricultural Union requested that the Land Bank should give favourable

consideration to applications from co-operatives that process agricultural products for long-term credit at a low rate of interest for the erection of operational buildings, with the proviso, however, that a high rate of interest should apply to such loans if the co-operatives begin trading operations. The Commission foresees such administrative problems in controlling a system of this kind, however, that it doubts whether differentiation on such a basis would be feasible.

Earlier in this chapter the Commission considered and made recommendations on virtually all the proposal regarding long-term, medium-term and short-term credit facilities for farmers submitted by the S.A. Agricultural Union on behalf of the Co-operative Council in Document 121/69*.

It is generally accepted that, in acting as a channel of credit between the Land Bank and the farmer in regard to the matters dealt with above, the agricultural co-operatives play such an important part that there is not the slightest doubt that they should continue in the same way.

However, the S.A. Agricultural Union advocated involvement of local co-operatives in the credit transactions between the commercial banks and the farmer in order to back up the surety system initially proposed. The object of this was to give the farmers co-operative bargaining power which would ensure the granting of this type of credit (short-term credit with commercial banks) at the lowest rate possible. The co-operative would take the initiative in opening a separate account with the bank for the member who would then be bound contractually or otherwise to supply all his products to the co-operative; the co-operative would, in turn, undertake to deposit into the farmer's account the money realised on the products supplied. After each harvest, accounts would be settled and any amount over would be paid out to the farmer. In this way the lender's risk would be reduced and co-operative bargaining power could be used to ensure that this kind of credit is granted at the lowest possible rate of interest.

In the first place, the Commission has already (in paragraph 4.6.1.2) considered the proposal for converting the Agricultural Credit Board into a surety fund and decided that it cannot support such a proposal.

As regards the proposal concerning the intervention of the co-operative in short-term credit arrangements between the farmer and the commercial banks, as well as the exercise of co-operative bargaining power against those banks, it was doubted by most of the commercial banks with which discussions were held, whether such an arrangement would have any effect worth mentioning on the rates of interest carried by commercial banks on loans to farmers. In fact, it was stated that that part of the interest rate which is reckoned as the risk attached to a loan was actually a compensation for the inherent function of or service rendered by a commercial bank and that most banks felt they would not be

* Loc.cit.

prepared to let the agricultural co-operatives, remove this and so relinquish the rate of interest concerned. The basis underlying credit arrangements between the bank and the farmer is known to be quite a confidential and intimate relationship and it would not be desirable for this relationship to be disturbed by the intervention of a fairly impersonal agency, such as an agricultural co-operative, between the credit institution and its client.

As regards medium-term credit, Organised Agriculture proposed that the agricultural co-operatives should become actively engaged in providing security and that a surety fund should be established from the interest, bonuses and levies on members which originate within the co-operative. If the fund became strong enough, financing could be undertaken, but then only for members who qualify by virtue of their participation in the scheme.

There can be little objection to the proposal that members should, under the eegis of a co-operative movement, develop a scheme and build up a fund which would be used to make surety facilities available to those participating in and contributing to such a scheme.

As regards the aim of undertaking financing in due course, the Commission has already noted (in paragraph 4.6.1.3) various circumstances and views which indicate that the South African banking field is already overcrowded and that the creation of additional banking institutions is not warranted under present circumstances.*

4.6.5 Private credit institutions

It was evident from the analyses of and the discussions on the participation of commercial banks and other private credit institutions in agricultural financing that these sources had made valuable contributions to agricultural financing and that they might be expected always to play a significant role in this field.

4.6.5.1 Agriculture-oriented credit

As stated in paragraph 4.6.1.4, however, the Commission considers it desirable that an attempt should be made to orient such participation more towards agriculture, agricultural credit being granted on such terms and administered in such a manner as to be better adapted to the special requirements of the agricultural sector. The private credit sector should therefore also be represented on the proposed body to be established to advise the Minister of Agriculture on agricultural financing (see the recommendation in paragraph 4.8.2).

4.6.5.2 Interest rates and subsidisation of interest

In the course of the inquiry the Commission's attention was directed time and again to the difficulties in which the recent increases in the rates of interest on loans have landed the agricultural

sector. Many farmers were particularly hard hit because either before or at the time of the increases -

- (a) ever greater demands were made on agriculture by post-war technological developments and the accompanying increase in the capital required;
- (b) times were very hard for farmers as regards personal income from the mid-fifties to the mid-sixties, so that it was particularly the less well-to-do farmer in South Africa who was affected (see paragraph 2.4); and
- (c) so many farming regions suffered serious setbacks, particularly during the latter half of the sixties, owing to protracted and oppressive droughts (see the Commission's Interim Report).

The burden of the higher rates of interest was felt all the more keenly by those who, before the rises, had incurred debts at a much lower rate of interest than subsequently required for loans.

It has already been pointed out that the rates of interest required in the normal course of business by private credit institutions on long-term, medium-term and short-term loans have now reached levels considerably higher than the return which average entrepreneurs can expect to make from farming operations under favourable conditions.

The Commission gained the impression that this was one of the main reasons why the parties concerned made such a strong plea for a better deal in interest rates and why some of the changes sought in the agricultural credit system verge on the drastic.

The Commission is convinced that high rates of interest have, for various reasons, had such an adverse effect on agriculture that serious consideration must be given to the question whether steps should be taken to bring the level of interest rates for agriculture more into line with the net yield which can be expected under average production conditions.

In paragraph 5 of Chapter V of this report the Commission deals with the question of subsidising interest for as long as it remains at the present high level.

4.6.6 Outflow of capital from agriculture

In their evidence before the Commission the representatives of agriculture repeatedly asserted that every so often farmers had to bow to circumstances and that this resulted in an outflow of capital and therefore a deterioration in the solvency of agriculture. In this regard special reference was made to the following:

4.6.6.1 Income Tax

The opinion was expressed that for tax purposes the farmer should not be treated as an ordinary individual, but that his farming enterprise should rather be treated as a private company registered under the Companies Act. It was therefore suggested that special legislation be passed for the taxation of farm income.

* Commission of Enquiry into Fiscal and Monetary Policy (1971). *Loc. cit.*

The Commission felt, however, that although it was prepared to consider matters affecting the financial position of farmers, it was not within its terms of reference to look into the tax system applicable to agriculture and that it had therefore not been empowered to do so.

4.6.6.2 Estate duty

It was also argued that, since one pays tax on income during one's lifetime, estate duty should be abolished for farmers, as well as for other members of the community, and that a capital gains tax should be considered instead. This proposal was backed up by the assertion that the levying of estate duty was not conducive to thrift because the heirs of persons who did save were harder hit than the heirs of those who did not.

It was conceded in this regard that (a) the amount collected annually in estate duty (approximately R25 million) showed that the amount per estate was relatively small, (b) appreciable concessions in regard to children and estates worth less than R200 000 had already been made in the latest tax provisions, and (c) experience with a capital gains tax in the United Kingdom had shown that the system was not satisfactory, because there were too many evasions and the cost of administering the system was too great. This form of taxation clearly takes so little from agriculture that the resultant outflow of capital is not important enough to warrant any major change in order to prevent outflow of capital from agriculture.

The Commission wishes, however, to point out here that a farm is not merely a temporary asset, such as a building or a mine, but that its fruits have to be used to sustain a nation from generation to generation. Whether a nation will endure therefore depends on how fruitfully the land is tilled and how its natural resources are used.

The Commission therefore recommends that the machinery for passing on a farm from one generation to the next should be set up with this in mind and that the value of a farm should for estate duty purposes be based on its estimated productive value and not its market value. (See paragraph 4.5.4.1.)

The above-mentioned machinery would, on the one hand, accord with the idea of passing a farm on from generation to generation as a national asset whose intrinsic value lies in its potential yield, and would, on the other hand, encourage sons to follow in their fathers' footsteps where farms are handed down on a similar basis in families, for the reasons outlined in paragraph 4.6.6.3.2.2.2.

It might, under such an arrangement be necessary to make exceptions of cases where land-ownership becomes excessive and the families concerned would therefore benefit unduly, because in such cases there would clearly be too great a tendency to exploit market price situations for financial gain - which would hardly accord with any attempt to encourage patriarchal succession in agriculture.

4.6.6.3 The machinery for succession in farming

4.6.6.3.1 Father-son relationship and transfer duty

In Chapter XI of its Second Report the Commission dealt with certain aspects of the father-son relationship, expressing the opinion (in paragraph 11.3.2) that in agricultural land tenure the patriarchal tradition should be preserved and that special measures should be adopted to ensure that farms pass from parent to child.

In paragraph 4.6.2.1.5 of this Third Report, it was also proposed that in granting mortgage loans to finance the purchase of land the Land Bank should allow sufficient latitude for a farmer to enlarge a viable farm through the purchase of further land to twice the size of a viable unit, in this way creating a favourable opportunity for the parent to be succeeded in farming by at least one child already established in farming.

Kriel* gives various useful hints on how to arrange farming affairs between a father and his son so that the farm can be transferred in a way considered to be in the best interests of all parties concerned, as well as of the farm. He points out that if the farm is large the transfer duty payable if a son buys the farm from his father is a considerable amount which would not be payable if the transfer were effected in terms of the father's will after his death.

As there are circumstances which make it desirable for the legal transfer of the farm from parent to child to take place while the parent is still alive, the Commission considers that by rights the transfer and the amount which the child as successor has to pay the parent should, as regards the levying of transfer duties, not be treated in the same way as an ordinary sale but rather as a means of ensuring continuity in the farming enterprise, as is done under the company system.

The Commission wishes to repeat its recommendation made in paragraph 11.3.2 of its Second Report and recommends that the transfer of a farm from parent to child before the parent's death should be encouraged and that for this purpose a special concession should be made in regard to succession rights, provided that the farming unit concerned is viable.

The Commission has been informed that this principle is already being applied where agricultural land is purchased for an applicant by the Agricultural Credit Board, the applicant being exempted from the payment of transfer duties in such cases.

4.6.6.3.2 Distribution of estates

As the Commission proceeded with its study of the subject, its attention was directed to certain other aspects of testation and succession which

* Kriel, A.F.: Die boer en sy seun. Department of Agricultural Technical Services

significantly impair the solvency position in agriculture and which very seriously affect the credit requirements of the heir, even when he first takes over the inherited farm. These aspects have to do mainly with the parent's testamentary dispositions and subsequent procedure.

The S.A. Agricultural Union* pointed out in its submission that the one-man enterprise is the predominant kind of enterprise in agriculture. The capital invested in such an enterprise is also the private assets of the entrepreneur. However, a feature of this type of undertaking is that it is subject to testation in each generation. The process of succession to property in agriculture is therefore accompanied by a continual outflow of risk capital which causes a recurrent demand for renewed investment. Every generation is therefore obliged to save an important part of the capital required by redeeming loans which had to be entered into upon succession to the property in order to finance that part of the total capital which flowed out upon succession.

In the above-mentioned submission reference was made to various aspects of the machinery for succession and testamentary dispositions which are so detrimental to the structural and financial position of the farming enterprise taken over by the successor that it is essential to look into these matters thoroughly in the paragraphs that follow.

4.6.6.3.2.1 Division of the farm among heirs

In paragraph 3.3.1 of its Second Report the Commission drew attention to this kind of testation. Until recently it was customary in certain parts of the country for a farmer to divide up his landed property or even the family farm among however many children he might have. This was feasible in years gone by when the testator's landed property was sufficiently large for each child's share in the estate to constitute a more or less viable farming unit. As the property of the testator became smaller, however, the heirs to portions of farms were left with farming units on which it was barely possible to make a reasonable living, and in certain cases even with undersized units created by improper fragmentation of the original farm. This kind of testation has played no small part in bringing about the situation outlined by the Commission in Chapter IV of its Second Report in regard to non-viable farms.

The Commission considers, however, that the power vested in the Minister of Agriculture under section 4 of the Subdivision of Agricultural Land Act, 1970, to refuse his consent to the subdivision of agricultural land, including subdivision in accordance with a testamentary disposition or intestate succession, should be enough to prevent farms being further divided among heirs into non-viable units.

4.6.6.3.2.2 Succession of one heir to the enterprise and compensation of other heirs

4.6.6.3.2.2.1 Financial problems

In its submission to the Commission the S.A. Agricultural Union* pointed out one of the main

causes of the outflow of capital from agriculture which gives rise to such crippling financial problems for successors that it should, like the subdivision of agricultural land, receive very serious attention:

"The trouble starts immediately after succession in a family with more than one child, and of course the more heirs there are the greater the difficulties. In a country with about 90 000 farmers, the distribution of estates upon succession is a very common occurrence. In a family with more than one heir, the estate (in such cases, usually a farm) is divided among the heirs on the basis of the property's market value. This means that where only one heir succeeds to the enterprise his financial commitments in buying out the other heirs are usually tremendous. The root cause of the problem is that, particularly in the extensive regions, the disparity between the market value and the productive value is so great - sometimes as much as 496 per cent. Where estates have to be divided among heirs on a market-value basis, the successor to the enterprise is weighed down heavily by all the compensation he has to pay.

This is where his financial resources fall short." (Translation)

The Agricultural Union goes on to give two examples, outlining the straits in which successors have landed as a result of such testamentary dispositions:

"A farmer who, as one of four heirs, inherits a 574-morgen enterprise, or if he buys such an enterprise, would have to pay R26 647 out of his own pocket. If he inherits this amount, he could probably raise the rest by registering a bond over the land. It is unlikely that a prospective farmer purchasing land would be able to find this amount. Even if the prospective farmer is lucky enough to have the necessary quarter of the capital required, his commitment as regards redemption would be excessive. In such a case the net farm income would exceed the annual redemption by R3 393 (case 1). It should be borne in mind, however, that the net farm income indicated is still subject to tax. Annual interest is still deductible, the net margin then being too small to cover the possible annual fluctuations in financial results and still leave the farmer and his family a reasonable income to cover their expenses. A longer period of redemption would improve the position somewhat (case 2). With a period of 60 years it is impossible for the farmer to pay back the loan during his lifetime. The cycle repeats itself in the next generation, while the debt burden of the previous generation still has to be reckoned with. Kriel* comments as follows:

It is therefore up to the testator to ensure that, all other considerations being left aside,

* S.A. Agricultural Union (1970): Loc. cit.

* Kriel, A.F.: Loc. cit.

the son inheriting the farm is compensated for his most productive years by means of testation, if his father failed to do so during his lifetime. The son should not be bankrupted by his inheritance, perhaps having to cut up or alienate the family farm to be able to meet his commitments.

Co-heirs therefore usually inherit cash sums which are in the estate or which have to be paid in by the son(s) inheriting the farm. This would be fair enough if the testators only ensured that such cash sums are realistic. To sum up, for succession to be quite fair, the interests of the parents, the son taking over the farm, the other children and the farm must all be taken into account." (Translation)

4.6.6.3.2.2.2 Factors of importance when enterprise is taken over by one heir

The Commission considers this matter to be of such importance that it wishes to highlight certain factors of particular significance to agriculture as regards the financing policy indicated for one of its most sensitive phases, i.e. when farms have to be handed down from one generation to the next.

1. As stated in paragraph 4.6.6.2, agricultural land should be viewed as a permanent, irreplaceable national asset without which the survival of a nation is impossible. As such, it is entrusted through ownership or lease to an owner or tenant for his lifetime or period of tenancy. The handing over of land from an owner to a tenant or from a parent to a child might appear to be physically and financially comparable to the handing over of any other property, but it differs materially in that it is actually the handing down of a trust of national importance from one generation to the next. To ensure that, as one generation hands over to the next, the value of the soil as the source of life for all generations is impaired as little as possible, such a transfer involving succession, unlike other ordinary bequests, merits special consideration. This asset should therefore be handed down from generation to generation in as good a condition and as unencumbered as possible.

2. "Family farms handed down from father to son are the status symbols of the platteland. It is particularly on these farms that farming traditions are engendered and a farmer élite is cultivated." (Translation) (Kriel*)

3. In most cases testamentary dispositions whereby the child inheriting the farm has to pay out to the other heirs a considerable part of the value of the farm inherited, often on the basis of the estate's total value being divided equally among all the heirs, are extremely detrimental to the financial position of the successor and to the farm:

- (a) A channel is created through which more capital than is justifiable flows out of agriculture;
- (b) in the initial stages of his farming operations, when he can least afford it, the successor is faced with tremendous financial problems which force him to encumber the farm so heavily with mortgages that he is unable to pay off the debt during his lifetime, often even under comparatively favourable conditions;
- (c) in many cases promising children are deterred from making themselves available as successors either before or after the death of the parents.

4. The practice of basing the assets of an estate on the market value instead of the productive value of agricultural land and of calculating payments to co-heirs and even estate duty accordingly is so unrealistic and has such a harmful effect on the successor, as well as on the farm (owing to the financial problems that arise), that it should be discouraged and opposed by every possible means. There are cases where the arrangements for paying out the co-heirs on the basis of the market value actually mean that the successor has to pay them more or less the full productive value of the land, without leaving anything over for himself.

5. Payments to co-heirs can only be derived from savings effected in farming; but profitability in agriculture is said to be so low that it is virtually impossible to save enough from farming, particularly with the current high rates of interest. In such circumstances the successor is forced to turn to credit institutions for assistance.

6. The financial problems created for successor-farmers and the industry as a whole by such testamentary dispositions cannot be solved permanently by adapting or increasing credit facilities to tide them over such difficulties. These situations should be prevented from arising, and such testamentary dispositions should be discouraged. By rights, it should be policy not to grant credit so readily to a successor-farmer who has been burdened in this way by testamentary dispositions; but this can hardly be regarded as fair, especially if the successor-farmer is sufficiently creditworthy, in spite of these problems.

4.6.6.3.2.2.3 Recommendation

It is therefore considered to be in the best interests of future generations of farmers, of the farms and of the country that this matter should be publicised widely. The Commission therefore recommends that the Agricultural Credit Advisory Council to be established should give this matter its constant attention, concentrating particularly on enlisting the co-operation of members of the legal profession (such as, attorneys and advocates), commercial banks and other private credit institutions, Organised Agriculture and agricultural co-operatives so that when they are consulted by farmers they will, in drawing up wills, be able to guide them in the right direction.

The Commission also recommends that, if any Government, semi-Government or private credit

* Kriel, A.F.: Loc. cit.

institutions are approached for credit to finance the payments necessitated by testamentary dispositions referred to in the foregoing paragraphs, the applicant must be made fully aware of their adverse effects. The applicant should then be convinced of the inadvisability of making such dispositions so that he can change his will before it is too late and make the conditions of succession more favourable for the successor to his farming enterprise.

4.6.6.3.3 More favourable testamentary dispositions where a company has been formed

The Commission wishes to point out to farmers and their attorneys that, in the case of farming, where the land belongs to the head of the family or the two parents, there are several advantages in registering the property as a company with a number of shares.

The greatest advantage of a family company is that a farm consisting of one, two or three economic farming units can be handed down as an integral, effective production unit without being impaired by subdivision through testation. Good agricultural land is becoming ever scarcer, and larger farming units are required if they are to be utilised most economically. It is therefore becoming imperative that a farming unit which has been built up and developed to a high degree of efficiency by a father and his son or sons should not be disorganised and subdivided into two, or more, less economic units when the father dies. One way of preventing this would be for the parents to register a private limited liability company under the Companies Act to take over the farm land and the other assets that are essential for farming operations to be continued effectively.

The Commission therefore came to the conclusion that the registration of their enterprises under the Companies Act might be very advantageous to many farmers with effective farming enterprises -- not only would the farmers themselves benefit by such an arrangement but also their heirs who are to succeed them as farmers.

The Commission therefore recommends that such farmers should seriously consider this possibility and obtain further information on the matter from legal practitioners and/or a chartered accountants with a thorough knowledge of the Companies Act and the Income Tax Act.

4.6.7 Credit facilities and South African citizenship

The Commission was asked to recommend that the Land Bank's credit facilities should also be made available to farmers who have not yet obtained South African citizenship.

The Commission was informed, however, that such farmers could in fact make use of such credit facilities if they were able to satisfy the Land Bank as regards their merits, creditworthiness and the guarantees required by the Land Bank in such cases.

4.6.8 Credit facilities for Indian and Coloured farmers

Representations on behalf of Indian farmers were submitted to the Commission by the South African Indian Council* and the Natal Indian Growers' Association+ on problems experienced by Indian farmers, particularly as regards agricultural financing. The said Council put their case as follows:

"Two of the main difficulties which Indian agriculturists face is that they are unable to obtain capital for the development of their properties and have no means of financing their crops before they have been reaped. As regards the first of these two matters the Land Bank has during the past year agreed to long-term credit being made available to bona-fide Indian farmers in certain circumstances provided the properties in question constitute economic farming units. Although a number of applications has been submitted only one has so far been granted. The result has been that Indian farmers have been obliged to fall back largely upon the old inadequate sources of credit viz Indian moneylenders who charge excessive rates of interest and are ever ready to take over their properties. This makes it very difficult for Indians who have not the financial backing to embark on farming careers.

"Secondly there is the question of crop financing. Fertilizer and insecticides have to be obtained and labour paid for during the period in which the crops are growing. This constitutes a great problem for farmers and plot-holders who are not well established as they invariably experience great difficulty in obtaining credit. Where they are able to do so they usually have to pay excessive rates of interest."

It has been found equally difficult to obtain credit from the Agricultural Credit Board, even to finance soil conservation works and other improvements through which agricultural production can be promoted.

Owing to their total inability to obtain cheaper and better adapted credit the Indian farmers are in an impossible financial position. What is more, for them the possibility of intervention by the State is excluded if their creditors apply pressure for the settlement of debts at a time when they lack the necessary capital. They are obliged to turn to commercial banks or other private credit institutions for whatever credit they require. Such loans are granted for periods of only three years and the rates of interest on them are too high to pay, in most cases 10 to 12 per cent, even on first mortgage loans.

Some years ago these farmers were able to use credit facilities provided by the Sugar Association at $7\frac{1}{2}$ per cent calculated monthly.

* Memorandum by the S.A. Indian Council in respect of the role played by Indians in agriculture and the problems confronting Indian farmers and small holders particularly in Natal. 1967.

+ Memorandum submitted by the Natal Indian Growers' Association. April 1971

As a result of financial pressure, these facilities also had to be curtailed recently, with the result that the Indian farmers, who produce 7 per cent of the country's sugar, now find themselves in dire financial straits. They are therefore forced to seek any possible form of assistance.

The evidence convinced the Commission that these Indian farmers are in such straits that special consideration should be given to ways of providing credit facilities adapted to their circumstances and at rates of interest better suited to what their agricultural enterprises can yield. The Commission therefore recommends that the Land Bank and the departments under which this matter falls should hold consultations to decide on the adjustments that would be necessary if the most pressing credit requirements of Indian and Coloured farmers are to be met.

4.7 CREDIT AND OTHER ARRANGEMENTS FOR ENLARGING NON-VIABLE FARMING UNITS

4.7.1 Review of the problem

In Chapter IV of its Second Report the Commission directed attention to the magnitude and importance of the problem of non-viable farming units, the position of farmers and their families who have to make a living on such small farms, and how wide-ranging the programmes needed to improve conditions in rural areas would have to be. The Commission also pointed out that this was a matter of national importance, a matter in which various Government departments and local authorities had an interest and in which they should play a direct or indirect part. The Commission therefore recommended in paragraph 4.15.3 of its Second Report that a programme be launched to improve conditions in rural areas and that this task be entrusted to an autonomous body specially set up for the purpose, invested with the necessary legal authority and provided with the necessary funds.

In Chapter II of this report the Commission again referred to the occurrence of non-viable farming units and, more particularly, to the significance of this problem in the agricultural sector's present economic position. Furthermore, in paragraphs 4.5.3.3, 4.6.2.1.3 and 4.6.2.1.4 the Commission put forward its views on what may be considered an acceptable policy for the granting of credit to farmers operating on non-viable small farms. The Commission repeats its recommendation in paragraph 4.6.2.1.3.4 that:

"where farming units are too small to be converted into economic units, where the farmer is elderly, or where the managerial ability of the occupant is such that the chances of success are slight, the farmer concerned and the members of his family who do not qualify for credit should be encouraged to give up farming and take steps to change their occupation or, if elderly, to retire."

Three kinds of measures are required to solve this problem, namely:

(a) Measures must be taken to prevent the creation of further non-viable farming units. The Commission has noted that the Subdivision of Agricultural Land Act, 1970 (Act 70 of 1970), under which the further subdivision of agricultural land can be prohibited, was recently placed on the Statute Book.

The emphasis has therefore now shifted to the problem of how the non-viable farming units that already exist should best be enlarged. What is needed is a programme providing for two courses of action as outlined in (b) and (c) below.

(b) Socio-economic measures must be taken to encourage farmers owning small non-viable farms which should be vacated, to give up farming; and to give them and their families guidance and aid in finding some other livelihood. Structural reform in agriculture will not be possible unless a number of farmers on small farming units give up farming and are willing to sell their farms and enterprises so that they can be used to enlarge other non-viable farms..

(c) Farms put up for sale as a result of the steps indicated in (b) above must be bought, set aside and looked after until the right opportunity arises for them to be used to enlarge other non-viable farming units belonging to deserving farmers into viable farming units in a manner appropriate to the circumstances.

4.7.2 Trust for White agricultural land

In paragraph 4.14.1 of its Second Report the Commission recommended "that measures to consolidate existing uneconomic units into economic units on a voluntary basis should immediately be made operative, encouraged and speeded up, preferably with the assistance of a board".

By "board" the Commission meant the special Unit to which it referred in its recommendations in paragraph 2.10.8 of that report, i.e. the unit which should be made responsible for dealing with and supervising any agricultural land, including land held by the State for leasing, for the prevention of excessive erosion or for use in enlarging non-viable farming units. With a similar purpose in view the S.A. Agricultural Union proposed the creation of a 'land trust', giving the following reasons:

"The primary aim of creating a "land trust" of this kind would be to assist in consolidating farms into economic units. The relatively large percentage of uneconomic farming units in the Republic is causing great concern in agricultural circles. The Union trusts that measures will be adopted within the foreseeable future to curb the further cutting up of agricultural land into uneconomic units. This would help greatly to prevent further deterioration in the position; but positive steps would also have to be taken to consolidate the existing uneconomic units with or into economic units in due course. The Union considers that the idea of a 'land trust' could be very useful in this regard if the system devised is a practical, workable one ... In short, Organised Agriculture considers that if, for

some reason or other, large areas of land can no longer remain in the possession of individual farmers, such areas should rather be in the hands of the State than in those of other enterprises with large capital resources. In this regard a 'land trust' could probably play an important role" (Translation)

This body should, among other things, take the lead in the programme of converting non-viable farms into viable ones and should co-operate closely with the unit responsible for the socio-economic part of the rural reform programme.

The Commission agrees that various circumstances surrounding the use and provision of agricultural land call for serious attention to be given to the creation of a trust for White agricultural land, an autonomous body which would perform the functions assigned to it with funds from the State, gradually supplemented by the moneys flowing back as a result of its transactions.

4.7.2.1 White agricultural land to be handled by the trust

What is envisaged is that certain agricultural land will be placed under the control of the trust or purchased so that it can be leased to farmers or prospective farmers, sold or held in reserve, depending on circumstances. The agricultural land so to be assigned to the trust for control will include:

- (a) Agricultural land which is highly vulnerable to erosion (see paragraphs 2.4.4.1 to 2.4.4.4)*
- (b) agricultural land which has to be leased or sold to selected candidate farmers on new irrigation projects;
- (c) agricultural land in other farming areas which is held by the State and which is to be leased on a long-term basis or even under the quitrent system (see paragraphs 2.10.7 to 2.11)*;
- (d) agricultural land purchased for mining purposes but remaining available for agricultural production aboveground under a leasehold system (paragraph 7.6.3.2)*;
- (e) agricultural land purchased to enlarge non-viable farming units.

It is considered desirable that steps should be taken to prevent the entry of such a trust to the land market from causing large increases in land prices - a possibility which could seriously hamper attempts to use such land for enlarging farming units. Such a trust should therefore be given pre-emptive rights in the same way as those recently granted to the Department of Community Development.

4.7.2.2 Functions of the trust for White agricultural land

At this stage it would seem that the duties to be entrusted to this body should provide for, among other things, the following:

* Second Report of the Commission. R.P. 84/1970

- (a) The acquisition of agricultural land required for any of the above-mentioned purposes;
- (b) the drawing up, in consultation with the Government departments concerned, of plans for the use of such land and of the conditions to be met in using it;
- (c) the financial arrangements necessary for purchasing, selling or letting such agricultural land;
- (d) the financial arrangements necessary if and when such land is allotted temporarily or permanently for farming purposes;
- (e) supervision of the agricultural land under the control of the trust, to ensure that the manner in which the resources are used does not conflict with the contractual conditions or with the principles of soil conservation, as well as to ensure that the other interests of the trust are looked after satisfactorily; such supervision would require an inspection service maintaining the closest possible contact with the Departments of Agriculture, Water Affairs and Forestry for professional guidance;
- (f) liaison and co-operation with the unit responsible for the socio-economic part of the rural reform programme, this being indispensable if both parts of that programme are to be carried through to a successful conclusion.

The Commission therefore recommends that consideration be given to the possibilities of developing the functions of the Agricultural Credit Board and/or the Land Tenure Board to enable one or both of them to perform all the functions mentioned above. Should this not prove possible, it is recommended that a separate trust of the kind described above be established under an Act. In such an event, responsibility for and supervision over land which is or will come to be held by the State as agricultural land and which is intended to be used for purposes which should fall under such a trust would be transferred to the trust for White agricultural land, as well as the matters affecting the financing of such land.

4.7.2.3 Inquiry into rural reform

The Commission is pleased to note that an Interdepartmental Committee on Rural Reform has been appointed to investigate, *inter alia*, ways of encouraging farmers with poor prospects of making a living on non-viable farms to give up farming and switch to some other occupation offering better prospects, relinquishing their farms to be used to enlarge other undersized farms.

This Interdepartmental Committee is expected to make a thorough study of rural conditions in several areas and of the various steps considered necessary to promote rural reform. The nature and scope of the functions which the units participating in rural reform will have to perform will probably be defined more sharply as this inquiry progresses.

The Commission recommends that consideration should be given as soon as possible to the necessary adjustments to be made in the Department of Agricultural Credit and Land Tenure so that the functions envisaged for the proposed trust for White agricultural land may be undertaken. The report and recommendations of the Interdepartmental Committee might indicate that relatively slight adjustments are required to deal with this matter effectively.

4.8 CO-ORDINATION OF AGRICULTURAL CREDIT POLICY

4.8.1 Need for liaison

In the course of its inquiry the Commission gained the impression that nearly all the credit institutions that are geared to the granting of credit to agriculture are sincere in their attempts to assist the sector financially to the best of their ability. There is ample evidence that many of these institutions are doing their level best to adapt their financing procedures in the face of changes in the financial scene on a broad national level, highly fluctuational trends in agricultural production and the tremendous differences between the various branches of agriculture and in local conditions. This has also been borne out during the Commission's interviews with representatives of the most important commercial banks in the Republic with a large share in agricultural financing.

Even the Land Bank and the Agricultural Credit Board's decisions on the granting of credit are influenced by reports and recommendations submitted to them by their respective valuers and committees, but sometimes not enough consideration is given to the basic requirements for the rational granting of credit when recommendations are made to those credit institutions.

It is difficult for the Land Bank and the Agricultural Credit Board to keep in touch with the borrower as they really should. In most cases moreover, virtually no follow-up work is done to find out whether the credit granted is being used judiciously and effectively and whether the borrower needs extension on technical matters or on the business and managerial aspects of farming. In Chapter XI of its Second Report the Commission pointed out how great a need there was in agriculture for services of this kind. The Commission gained the impression, however, that the commercial banks are well organised for maintaining very close contact with the farmer and his enterprise.

In this part of its inquiry it was repeatedly impressed upon the Commission that there was a need for closer contact between the Land Bank and the Agricultural Credit Board and for co-ordinated action on the part of Government, semi-Government and private financing institutions which offer credit facilities to agriculture. The considerations listed below convince the Commission that such co-ordination has become an urgent necessity and that provision in this regard could be a great help in increasing the effectiveness with which capital, backed up by credit facilities, is used:

- (a) The size of the amounts involved in agricultural credit;
- (b) the adequacy of funds available for agricultural credit;
- (c) the number and nature of the sources of credit available to agriculture;
- (d) the peculiarities of agricultural financing and the need for credit policy to be adjusted to them;
- (e) agricultural credit policy in relation to national policy as regards fiscal and monetary matters;
- (f) the need for rationalisation in the granting of credit to agriculture and the measures required to prevent overcapitalisation or undercapitalisation;
- (g) the criteria by which assets, particularly agricultural land, are assessed (market value or productive value?);
- (h) interest rates for agricultural credit loans and their relation, on the one hand, to the rates applicable on a broad national level and, on the other hand, to the levels of income which can be expected under the conditions prevailing in agriculture;
- (i) the length of the term over which credit is granted and redemption arrangements adapted to the purposes for which credit is to be used;
- (j) the injudicious and unjustified conversion of short-term debts into long-term credit in a direct or indirect way;
- (k) switching from one lender to another as regards short-term, medium-term and long-term credit loans;
- (l) the necessity, when credit is granted, of taking account of annual fluctuations in agricultural yields and the differences in the potential of different kinds of farming;
- (m) the effects of distress conditions and the adjustments they necessitate in credit arrangements;
- (n) the need for planning and programming when applications for credit are considered;
- (o) the need for follow-up measures after credit has been granted and for accounts to be kept and reports to be made in order for credit to be used more effectively in agriculture;
- (p) the fact that the representatives of all five commercial banks with which the Commission held discussions were of the opinion that a very useful purpose could be served by a body to advise the Minister on policy and procedures affecting agricultural credit, and expressed the desire that the commercial banks be permitted to participate in this.

4.8.2 Agricultural Credit Policy Advisory Council

The Commission therefore wishes to recommend that an Agricultural Credit Policy Advisory

Council be constituted by the Minister of Agriculture to advise him on the above-mentioned and other matters affecting agricultural credit policy and on steps to be taken to ensure that the policies laid down are followed by all institutions involved in the granting and application of agricultural credit in the best interests of agriculture and the country as a whole.

The Commission further recommends that the Minister appoint to the Council a member from each of the following institutions:

Department of Agricultural Economics and Marketing;

Department of Agricultural Credit and Land Tenure;

Department of Agricultural Technical Services;

Department of Finance;

Land Bank;

Reserve Bank;

S.A. Agricultural Union, as well as a person representing the commercial banks;
the Registrar of Co-operative Societies, and
the Chairman - specially appointed by the Minister.

The Commission further recommends that this Advisory Council should be provided with the necessary administrative auxiliary services by the Department of Agricultural Credit and Land Tenure and that its recommendations should be submitted direct to the Minister of Agriculture for consideration.

CHAPTER V

STATE AID TO THE AGRICULTURAL INDUSTRY

5.1 GENERAL APPROACH TO STATE AID

In the modern capitalistic system State aid to certain sectors of the economy is nothing out of the ordinary. In its inquiry the Commission occasionally came across the widely held view that agriculture is a State-aided industry, which perturbed the Commission. However, the Commission did find a system of State aid on a broad basis in operation in virtually every developed country. State aid is given not only to agriculture but also to other sectors when circumstances so require and when certain political and/or economic aims considered to be in the national interest have to be achieved. Quite apart from assistance to agriculture, economic incentives are used extensively in South Africa, for example make the Bantu homelands viable and to decentralise industry. In a more indirect way State aid is also given in the form of tariff protection to encourage industrial development and to ensure greater economic self-sufficiency for the country. The Commission regards State aid as a useful instrument provided it is used with circumspection and as effectively as possible.

In its Second Report the Commission stated that there could be no doubt at all that the ever-increasing and indiscriminate granting of State aid to farming enterprises, particularly in situations which might have been prevented with the necessary personal attention, precautionary measures and application, undermines the sense of responsibility, self-respect and self-reliance of the farmers concerned. This kind of assistance leads to dependence on the State and a gradual loss of personal liberty, paving the way to socialism. Personal liberty is so highly rated in the South African economy that it is regarded as one of the fundamental principles of agricultural policy.

Nevertheless, against the background of the knowledge already gained from its wide-ranging technical and economic studies, the Commission concluded from its investigation of the problem of State aid to agriculture that it supports the broad principles of such aid. Before going any further, however, the Commission must stress the dangers of granting such aid indiscriminately. In studying the matter, the Commission tried to establish whether the agricultural industry has certain inherent characteristics that justify State aid, and concluded that the agricultural industry does have various distinctive features which set it apart from other sectors. In a developed national economy, furthermore, the agricultural industry can hardly maintain its income position unless State aid is given directly or by means of adjustments to the marketing mechanism in order to encourage the necessary structural adjustments on a continuous basis.

As pointed out in paragraphs 3.2 to 3.2.10 of Chapter III of this report, the special circumstances in the agricultural industry which are of importance in this regard are present in various fields. Numerous physical and economic situations arise in agriculture with which individual producers are unable to cope unless they are assisted by the Government. Apart from the physical factors beyond his control, the producer has to contend with instability in the industry owing both to internal factors of supply and demand and to external factors, such as developments in the general trade cycle and in foreign variables. This makes it more difficult to plan a farming unit than any other production unit, because, apart from knowing his field, the producer must also reckon with a variety of factors over which he has little or no control. Furthermore, the farmer's production unit is relatively small, and it is impossible for him to obtain the services of specialists, such as cost accountants, and other expert services which have to be paid for, on the same basis as other production industries can obtain comparable services.

Apart from its more obvious distinctive features mentioned above, the agricultural industry has an inherently poor ability to compete in the economic interplay of supply and demand. This is due mainly to the low income elasticity of the demand for agricultural food products. By its very nature, the agricultural industry is also in a relatively poor position to pass on the rising costs of production to the consumer of its products, except where price-fixing is based on production costs. Owing to these inherent factors, the agricultural industry in a developing economy tends to lag behind the rate of economic growth in the national economy as a whole. The basic aim of creating an orderly marketing mechanism for the sale of agricultural products and of introducing programmes of State aid is to compensate for the above-mentioned inherent limitations. Without these stabilising measures and certain other measures there would be disastrous fluctuations in the agricultural industry, which would inevitably result in too many agricultural entrepreneurs being pushed out of the industry.

In considering the nature and scope of measures aimed at bringing about greater stability in the industry, the Commission came to the conclusion that such measures should meet certain requirements. What is of particular importance in this regard is that such measures should not have the effect of entrenching inefficiency since this would, among other things, delay or even prevent the exodus of agricultural producers who lack the basic managerial skills or those farming on undersized units. On the other hand, the measures concerned should provide sufficient stability to make the industry orderly so as to ensure, among other things, that exodus of entrepreneurs from the industry

and the process of adaptation to changed circumstances will take place in a rational way. In the opinion of the Commission the present structural defects in the industry owe their origin to a significant extent to the earlier view - which, is however, still held in certain quarters - that as many entrepreneurs as possible should be kept in agriculture. Successive decades of relatively favourable economic conditions, as well as the measures adopted, have contributed to the extraordinary success achieved in keeping entrepreneurs in agriculture. By curbing the effect of economic laws the sifting process, has been retarded with less favourable consequences for the agricultural industry as a whole.

5.2 STATE AID TO AGRICULTURE IN OTHER COUNTRIES

In its inquiry the Commission felt that it was desirable to consider briefly the general approach to State aid to agriculture in certain overseas countries. A detailed comparison would serve little purpose since the scope and the method of assistance are bound up with the particular conditions prevailing in the countries concerned, the stage of economic development of those countries, and the respective governments' attitude to economic liberalism or socialism.

There is hardly any developed country in the world where the government does not give agriculture some form of preferential treatment. Various countries initially attempted to reduce the large differences in per capita income between farmers and other groups in the economy by paying subsidies on factors of production and on farm products and by trying to support agricultural prices in all sorts of ways. The effects of these measures varied greatly, however, and the root of the problem was hardly touched.*

From a comprehensive study carried out by the O.E.C.D.+ it is evident that fewer and fewer countries are prepared to give agriculture unqualified assistance. Although rates of interest, soil conservation works, certain types of investment, etc., are still commonly subsidised, it is widely being realised that such assistance should not lead to a misapplication of factors of production. Increasing use is being made of selective assistance aimed particularly at rectifying and preventing structural problems.

Experience in Britain, for example, has shown that the use of public funds to bring about structural adjustment cannot solve all problems in agriculture.*

Although the Government was prepared to use large sums for this purpose, the results were disappointing. It was found that higher productivity and profitability were achieved only where the farmers' managerial practices were sound. Subsidies granted to promote structural improvements are therefore a waste of money and manpower if the farmer lacks the necessary managerial talent.

To improve management is difficult; but the above finding led, among other things, to the subsidisation of a farm business recording scheme in Britain. What struck the Commission during its visit to Rhodesia was the authorities' attitude to State aid for agriculture. To them, any form of subsidisation of agriculture is like pouring public funds down a bottomless pit unless it is accompanied by stringent qualificatory norms.

5.3 GENERAL PRINCIPLES UNDERLYING POLICY IN THE GRANTING OF STATE AID TO AGRICULTURE

The system of State aid to agriculture cannot be dealt with in isolation: such a system must function within and be viewed within the broader framework of agricultural economics, and it must be applied in the national interest.

Unless State aid to agriculture is aimed at eliminating basic weaknesses in the industry, then all that it does is to delay the elimination of undesirable conditions, which might ultimately entail greater problems. What should be guarded against are programmes which are initially introduced for short-term assistance but which gradually and unobtrusively become a permanent part of the overall agricultural economic pattern. In many cases this has meant that the results achieved with such State aid are never evaluated. It is the Commission's considered opinion that the general principle to be applied in any form of State aid to agriculture is that short-term programmes should be formulated for such aid and that a definite time limit should be set for them. The Government body administering a particular scheme must also ensure that the progress made in achieving the object initially set is evaluated from time to time.

The Commission also wishes to state as a matter of general policy that State aid to agriculture, whether direct or indirect, should be granted only if the particular objective cannot be achieved more effectively by means of some existing mechanism, for example, the marketing mechanism. The Commission also considers that the granting of assistance and other forms of preferential treatment should not be directed primarily towards raising the farmer's income, but should enable him to raise his income through increased efficiency. The Commission considers the last-mentioned form of assistance, i.e. assistance from which sufficient financial benefit is not derived immediately, to be the only form of State aid which can be justified as a more or less permanent measure.

* De Swardt, S.J.J. (1966): Sekere aspekte van staatshulp aan boere in vyf Europese lande

+ O.E.C.D. (1970): Capital and finance in agriculture. Country studies. Vol. II, Paris

Whenever State aid assumes a long-term character, the farmer automatically makes provision accordingly in his farming plan with the result that in the end he cannot manage without such aid and is therefore likely to persist in practices tending to cause the misapplication of resources. This sort of thing has already become so widespread in South African agriculture that it is possible to make the generalisation that programmes State aid for agriculture are frequently introduced but rarely brought to conclusion. Further, there is always a tendency to adapt schemes so as to increase the immediate financial benefits to the producer, the basic objects of the schemes being completely disregarded. The Commission considers that schemes for financial assistance to agriculture, with the exception of those mentioned above (i.e. where the producer does not gain any immediate financial benefit), should be instituted for a fixed period or on a non-recurring basis for the achievement of a specific objective.

On the basis of its general consideration of the subject, as well as of the factual information gained from the wide field covered in its inquiry, the Commission came to the conclusion that the need for State aid to agriculture stems primarily from the fact that there are structural weaknesses in the industry. The three main weaknesses are: farming systems which are not in harmony with environmental factors and which conflict with the principles of conservation farming; farming enterprises which are not run on sound business principles; and farming units which are too small to ensure an adequate income for the entrepreneur. A further problem is that of entrepreneurs who lack the ability or the means, or both, to make the required adjustments to rapidly changing conditions. Any programme of State aid which in the long run has the effect of perpetuating such weaknesses in agriculture must necessarily be regarded as harmful to the industry. Any such programme merely serves to put off corrective action indefinitely, and in the mean time the persons concerned have to go on struggling to make a living for the very reason that they have been assisted by the Government. Furthermore, such problem situations make it hard to lay down any sound agricultural policy.

The Commission is aware that the existing structural weaknesses in the agricultural industry are to a large extent due to historical factors and weaknesses in the general functioning of the market economy in South Africa. To a large extent it is the functioning of this mechanism determines the farmer's economic reasoning and therefore greatly influences his operational decisions. The Commission trusts, however, that its recommendations on these matters will help to remedy these basic weaknesses in the agricultural industry.

These structural weaknesses in agriculture could be largely eliminated by laying down certain definite qualificatory norms when any form of State aid is granted to agriculture. As regards poorly adapted farming systems, the Commission is aware of the present deficiencies in the basic factual information which could serve as a guide in laying down definite qualificatory norms. In its Second Report, the Commission recommended that provision should be made in the Department of Agricultural Technical Services for a cen-

unit which would make an intensive study of agricultural land and agricultural climatology on a national basis for the purpose of collecting and processing the data required for planning adapted agricultural systems and practices on a regional basis. The Commission wishes to reiterate that recommendation and to recommend further that, as the studies concerned yield information so that poorly adapted farming systems can be analysed on the basis of factual data, a general qualificatory norm must come into operation, whereby such poorly adapted farming systems can be excluded from any form of direct State aid.

As regards conservation farming and the laying down of qualificatory norms for the granting of State aid under drought conditions, the Commission has already recommended in its Interim Report as follows:

"Conservation farming should form the basis for the overcoming of drought conditions. To qualify for State aid (conservation farming) should be a requirement."

The Commission will give further attention to this matter in its discussion of drought relief below.

In the case of undersized farming units - which are regarded as one of the main structural problems in agriculture - there is no easy way of assessing their effect on the amount of State aid that has to be given to agriculture. The data in Table 4.8 show that in 1964/65 a mere 9 per cent of the farmers produced almost 50 per cent of the total value of agricultural production and that 22 per cent were responsible for approximately 72 per cent of total output. The contribution made by about 40 per cent of the total number of agricultural producers to the total value of agricultural production was not even 5 per cent.

In terms of the broader policy of State aid to agriculture, programmes are often introduced which are basically aimed at assisting in some way this 40 per cent of the agricultural producers whose contribution to the total value of agricultural production is only 5 per cent. Obviously such relief measures are not applied on a differential basis, with the result that many producers receive benefits whose effects over the long term are of doubtful value. What really happens is that those who are supposed to benefit from the relief measures do not benefit very much in comparison with the more prosperous producers who benefit greatly owing to the extent of their production activities.

In debating the matter from a more general point of view, the Commission was not unsympathetic towards those on undersized farming units; but, on the other hand, the Commission came to the conclusion that relief measures should not be specifically introduced by the Government to assist, or be aimed basically at assisting, pro-

ducers on undersized units. If such producers find themselves in financial difficulties and turn to the Government for assistance, their position as agricultural producers must be placed in the balance. To get this matter into perspective, it might be worth while to note certain practices followed in this regard in certain Western European countries.*

Farming units in those countries are broadly classified into three groups. In the first group are those units which are accepted as being of "commercial" size, the owners or tenants of which are able to farm successfully without special State aid. The second group consists of units which, although not quite of commercial size, could nevertheless be regarded as "economic-sized" after certain structural and other improvements have been made, and which could be raised to the level of the first group if extra land has been added. Thirdly, there are the very small units which are so undersized that farming on its own will not guarantee a reasonable standard of living for a family of two persons.

The policy followed in the granting of State aid is to persuade this third group of owners and tenants to withdraw completely from agriculture. They may, however, retain the right to live in the farm-house. The land that becomes available in this way is used to enlarge units in the second group.

The owners in the third group do not qualify at all for subsidies or loans for structural or other improvements, but in most countries they are helped in other ways provided they make their agricultural land available for the enlargement of units. Such assistance may be in the form of a grant to enable the farmer to train for some other occupation. In France such persons can qualify for subsidies and loans to start their own artisan enterprises.

The owners and/or tenants of units in the second or middle group receive special attention. Apart from subsidies and attractive loans for structural and other improvements, they also qualify for loans for the purchase of land to enlarge their existing units. The State then indemnifies them for all or half of the cost of enlarging the unit.

Apart from distress relief, for which all producers in those European countries qualify depending on the particular form of distress, it is becoming increasingly firm policy to limit Government financial assistance to individuals for structural adjustments to farmers in the middle group and to grant such assistance on a non-recurring basis. The aim is to place the enterprise on a sound footing, and once that has been done the farmer has to fend for himself.

* De Swardt, S.J.J. (1966): Op. cit.

In its Second Report the Commission dealt at length with the problem of undersized farming units and made recommendations in that regard. To supplement those recommendations, the Commission recommends further that, if an agricultural producer on an undersized farming unit finds himself in financial difficulties and turns to the Government for assistance, he should not be helped to place his enterprise on a sound footing. The Government should rather buy up such land for subsequent consolidation with other units.

The Commission is aware that on principle the Department of Agricultural Credit and Land Tenure does not help producers on undersized units; nevertheless the Commission wishes to stress the desirability of encouraging such agricultural producers to withdraw from the industry and seek a living elsewhere. Measures to speed up the process and to ensure that it causes as little inconvenience as possible appear, however, to be equally essential. The Commission has noted the appointment of the Committee of Inquiry into Rural Reform which will study, among other things, the resettlement of such producers.

The Commission wishes to state as a general principle that, in the granting of financial assistance by the Department of Agricultural Credit and Land Tenure, the keeping of farming records by producers receiving financial assistance other than aid under special circumstances should be regarded as of cardinal importance. The Department concerned must also ensure that the results of such records are used as a basis for the extension and guidance provided for such producers to enable them to step up their efficiency. Although this matter was dealt with in the Commission's previous reports, the Commission again stresses this principle here as essential to the orderly granting and proper control of public funds.

An outline will be given below of the various existing programmes of State aid to the agricultural industry, the Commission's recommendations on the various programmes being given thereafter.

5.4 DROUGHT RELIEF

In its Interim Report the Commission described and made recommendations on this form of State aid and for farmers.

For the sake of completeness and to bring the matter into perspective, the various forms of aid given under drought distress conditions are summarised briefly here. The amounts granted are shown in Table 5.1.

5.4.1 Stock feed rebates

A rebate of 75 per cent is at present paid on the transportation of all kinds of stock feed to grazing distress areas and also on the transporta-

TABLE 5.1 - The amounts granted to agriculture for drought relief

Year	Transport rebates on		Ad hoc distress relief	Subsidies on feed purchases	Gifts to Organised Agriculture	Total
	Drought stock	Drought feed				
	R	R	R	R	R	R
1960/61	196 295	546 747	29 710			772 752
1961/62	852 180	158 505				1 010 685
1962/63	161 180	304 769				465 949
1963/64	195 385	79 916				275 301
1964/65	82 784	419 590		656 347		1 158 721
1965/66	128 689	805 959		3 147 987	12 000	4 094 635
1966/67	667 860	1 918 511	6 000	4 971 945	20 000	7 584 316
1967/68	521 256	643 681		1 227 142	42 000	2 434 079
1968/69	121 475	646 253		1 352 259		2 119 987
1969/70	84 302	601 401	348	1 152 371		1 838 422

Source: Department of Agricultural Economics and Marketing

tion of livestock from grazing distress areas and back. This rebate applies to transportation by rail or by the Railways' road motor service. In certain areas in the North-Western Cape where the South African Railways may not provide services owing to concessions to private transport contractors, or where services have not yet been introduced, a rebate of 75 per cent is paid, if use is made of private transport, on the actual cost of transporting stock feed to grazing distress areas and on transporting sheep from grazing distress areas and back.

The rebate on the transportation of stock to and from grazing is, however, to be withdrawn with effect from 1 January 1972.

5.4.2 Stock feed subsidies

In order to keep nucleus herds for breeding proposes alive in drought disaster areas, a maximum subsidy of 50 per cent has been paid since 1964 on the purchase cost of stock feed at a rate not exceeding R2,50 per head of cattle, 50c per small stock unit and R1 per ostrich. The maximum number of large stock units on which the subsidy is payable per farmer is 400 breeding beef cattle, or 1 500 ewes or 1 500 Angora she-goats or 400 ostriches. In the case of beef cattle and small stock, 70 dairy cows may be included on condition that the numbers of other stock are reduced accordingly. At present all types of feed qualify for the subsidy, including manufactured feeds, licks and raw materials for licks, but excluding lucerne meal, fish meal and white maize and their products. There are ceiling prices for certain types of feed.

The Commission has duly noted the press statement released by the Minister of Agriculture on 10 August 1971 on the granting of drought relief, in which it was announced that the fodder subsidy scheme would be abolished on 31 October 1971, but that the existing rebate of 75 per cent on the transport charges for stock feed to grazing distress areas would still remain in force thereafter. To qualify for transport rebates, drought-stricken areas would in future be placed on the grazing distress list only if grazing conditions on conservation farms made this essential. The

special emergency relief measures applying in the districts of Sutherland, Laingsburg, Prince Albert, Beaufort West, Willowmore, Steytleville and Uniondale were also withdrawn.

In its Interim Report the Commission pointed out that drought relief schemes make no contribution whatsoever to soil conservation. On the contrary, drought relief is usually accompanied by the delayed withdrawal of stock and the over-taxing of veld. Where farmers disregard the principles of conservation farming, the granting of relief during droughts would contribute to the misuse of natural resources.

The Commission considers that the stock reduction scheme should be regarded as a substitute for the fodder subsidy scheme. The former scheme now gives stock-farmers ample opportunity to adapt their farming practices to the natural conditions peculiar to their farming units once and for all. The Commission therefore supports the current arrangements for granting drought relief as announced by the Government on 10 August 1971, but wishes to recommend further that a fodder subsidy scheme should not be introduced again unless there is absolute certainty that a disaster drought is being experienced in a particular area.

5.4.3 Ad hoc distress relief

During the past decade there were a few occasions when special relief measures had to be introduced owing to unforeseen circumstances. A brief outline of distress relief during droughts is given below.

In 1959/60 and 1960/61 the Defence Force helped to convey water in Gordonia for stock-watering, the cost of the operation being subsidised in the amount of R134 912. In 1960/61 the amount was R29 710. In 1969/70 a similar scheme was introduced in the Cape South-Western Districts and the Little Karoo, farmers using their own vehicles at a subsidy of 4 cents per mile, subject to a maximum of R3 per load. An amount of only R348 was spent in the 1969/70 financial year, but owing to arrears considerably more will be paid out in the 1970/71 financial year.

In 1966/67 a subsidy of about R6 000 was paid on the leasing of grazing to stock-farmers in the Molopo and Northern Transvaal who trekked with their stock to the pastures concerned.

During 1970/71 the Defence Force helped to transport fodder from production points to railway stations as well as from production points to consumption points. The cost of transporting fodder in this way averaged R28,47 per ton, total expenditure amounting to R186 802.

As a special concession the Treasury has approved that non-creditworthy farmers in the drought-stricken districts of Sutherland, Laingsburg, Prince Albert, Beaufort West, Steytleville, Uniondale and Kirkwood be granted assistance to enable them to buy household requirements. This assistance is given in the form of a grant and is therefore not repayable. A sum of R100 000 was made available for this purpose in the 1970/71 fiscal year.

5.4.4. Grants to Organised Agriculture

During the sixties, when there was widespread drought in the Republic and difficulties were experienced in providing fodder, Organised Agriculture created fodder banks to undertake the purchase and sale of fodder. In 1965/66 and 1966/67 the South African Agricultural Union was paid R12 000 and R20 000, respectively, to cover the administrative costs of fodder banks. In 1967/68 the South African Agricultural Union was paid an amount of R42 000 to cover its losses in handling maize stalks and grass hay.

5.5 FLOOD RELIEF

The amounts granted for flood damage are set out in Table 5.2.

TABLE 5.2 - The amounts paid out to agriculture by various Departments for flood relief

Year	Agricultural Economics and Marketing ¹⁾	Agricultural Technical Services ²⁾	Water Affairs ³⁾	Total
	R	R	R	R
1960/61	-	-	-	-
1961/62	-	-	6 900	6 900
1962/63	-	6 839	234 159	240 998
1963/64	-	10 603	295 878	306 481
1964/65	-	7 349	130 940	138 289
1965/66	-	5 692	116 941	122 633
1966/67	-	3 387	40 182	43 569
1967/68	468 000	-	86 893	554 893
1968/69	54 773	-	11 164	65 937
1969/70	4 896	402	6 778	12 076

Source: 1) Department of Agricultural Economics and Marketing

2) Department of Agricultural Technical Services

3) Department of Water Affairs

5.5.1 Through the agency of the Department of Agricultural Economics and Marketing

Lands and crops along the Lower Orange River were damaged during the 1966 flood. The costs incurred in reclamation and re-establishment works, as well as in purchasing the necessary factors of production were subsidised by 50 per cent on an ad hoc basis. A total of R527 669 was paid out in the form of this subsidy during the period from 1967/68 to 1969/70. The Commission endorses the payment of subsidies and recommends that this form of emergency relief should always be considered favourably whenever and wherever similar cases occur and wherever damage is caused by disasters that cannot be averted.

5.5.2 Through the agency of the Department of Agricultural Technical Services

The flood relief administered by this Department provides for financial assistance to farmers in certain flood-stricken districts, subject to the Minister's approval.

A subsidy at the current subsidy rate for soil conservation works is payable on the repair of all essential flood-damaged soil conservation works and stock-watering works, as well as on the repair of internal camp fences. A subsidy at the above-mentioned rate is also paid on repairs to damaged parts of flood-damaged boundary fences.

All farmers in the flood-stricken areas qualify for a subsidy on repairs to essential internal and boundary fences damaged by floods as well as on essential flood-damaged water works. However, the subsidy on the repair of flood-damage to essential soil conservation works is payable only for works constructed with State aid. Farmers whose farms have not yet been planned and who have therefore not received subsidies on soil conservation works must first have their farms planned to qualify for the usual financial assistance under the Soil Conservation Act.

The scheme covers the repair of works only, but includes such extra works as are necessary for the works to meet Departmental specifications. Under no circumstances, however, may the capacity of works, for example water works, be enlarged or expanded. Only works essential to the proper running of the farm or the conservation of the soil qualify for subsidies.

The Commission recommends that this flood relief scheme, in its present form, should remain available for similar cases which might occur in the future.

5.5.3 Through the agency of the Department of Water Affairs

Subsidies granted for flood damage by the Department of Water Affairs may be paid to any person who has irrigation works along a public stream where flood damage is so extensive that the Government feels obliged to render assistance on a regional basis.

The subsidy is 33 $\frac{1}{3}$ per cent, and the flood relief grant 66 $\frac{2}{3}$ per cent, which means that

the position of the person concerned is usually restored to what it was before the flood.

The Commission recommends that these subsidies should remain in existence so that assistance may be given whenever the need arises.

5.6 CONSERVATION AND UTILISATION OF RESOURCES

The conservation and utilisation of the country's natural resources are covered mainly by the Soil Conservation Act, 1969 (Act 76 of 1969), and the Water Act, 1956 (Act 54 of 1956), as amended. Schemes under the former Act are administered by the Department of Agricultural Technical Services and those under the latter by the Department of Water Affairs. The Department of Forestry assists on a limited scale in the purchase of cuttings and saplings for plantations.

The amounts granted in these forms of aid are shown in Table 5.3.

5.6.1 Soil conservation works

The objects of the Soil Conservation Act are "to make provision for the combating and prevention of soil erosion, and for the conservation, protection and improvement of the soil, the vegetation and the sources and resources of the water supplies of the Republic".

To achieve these objects the Act provides, *inter alia*, for the proclamation of soil conservation districts and for the preparation and carrying out of physical farm plans providing for conservation practices in farming on individual farms and for measures by which deterioration

in natural resources can be prevented. Farmers are encouraged to carry out these plans by means of subsidies and loans on works aimed at such conservation.

The subsidy amounts to 55 per cent of the valuation of soil conservation works, including erosion control or soil reclamation works. The subsidy for the fencing of areas withdrawn from grazing or cultivation is calculated at a fixed rate of 65 cents per 10 yards. The same arrangement applies to essential fences for corridors and watercourses.

Where soil conservation works are key works forming an integral part of the planning of catchment areas and will not only benefit the landowners concerned but also contribute to the stability of the entire catchment area, particularly as regards reducing the siltation of irrigation dams, an increased subsidy is payable. A sliding scale applies to such works, varying from just over 55 per cent for works to the value of R1 100 to 85 per cent for works to the value of R10 000, or more for bigger works.

Where existing internal camp fences have to be moved a subsidy of 20 per cent of the valuation of a comparable new fence is granted. For stock watering points and works for the control or prevention of brack the subsidy is 55 per cent of the valuation.

If driftsand reclamation forms an integral part of the farming plan and the farmer therefore has to take special steps to control driftsands, the following subsidies are payable:

- (a) 75 per cent of the cost of the work, calculated on the fencing tariffs, for fences to fence in driftsand.

TABLE 5.3 - Aid granted by various Government departments for the conservation and utilisation of resources

Year	Agricultural Technical Services ¹⁾			Water Affairs ²⁾			Forestry ³⁾	Total
	Soil conservation works	Grass ley crop scheme	Veld reclamation scheme	Irrigation boards	Boring	Ancillary works	Cuttings and saplings	
	R	R	R	R	R	R	R	R
1960/61	894 412	49 711	-	279 286	1 950 477	59 054	(X)	3 242 986*
1961/62	965 296	44 346	-	312 535	2 048 938	75 915	(X)	3 447 030
1962/63	865 925	62 256	-	480 519	1 997 759	64 904	(X)	3 471 363
1963/64	939 996	23 517	-	686 616	1 749 417	67 793	(X)	3 467 339
1964/65	1 439 921	14 975	-	740 701	2 233 830	80 483	(X)	4 509 910
1965/66	1 679 621	9 104	-	1 803 065	3 024 812	108 816	(X)	6 625 418
1966/67	1 774 067	5 960	-	492 397	3 579 149	188 176	4 493	6 044 242
1967/68	1 818 946	10 912	651 646	612 660	3 983 294	320 993	3 634	7 402 085
1968/69	2 244 274	8 366	836 230	96 692	3 415 503	504 324	4 553	7 109 942
1969/70	2 852 828	6 688	626 687	314 755	4 433 877	649 824	4 536	8 889 195

Source: 1) Department of Agricultural Technical Services

2) Department of Water Affairs

3) Department of Forestry

(X) Not available

*) Includes R10 046 in *ad hoc* relief by the Department of Agricultural Economics and Marketing for the control of commando worms

- (b) R20 per morgen for the purchase and over-sowing of certain seed.
- (c) R10 per morgen for the planting of Marram grass, where necessary.
- (d) R55 per morgen to cover the cost of cutting, transporting and using branches or any other suitable material to cover driftsand.

Apart from the above-mentioned methods of assistance, the Government itself undertakes soil conservation works, known as State works, for the reclamation of certain areas. Table 5.4 shows the extent of such works completed in the sixties:

TABLE 5.4 - The value of State works completed, 1960/61 - 1968/69

Year	Total value
	R
1960/61	210 728
1961/62	88 202
1962/63	-
1963/64	370 772
1964/65	161 350
1965/66	418 949
1966/67	162 926
1967/68	182 510
1968/69	256 700

Source: Department of Agricultural Technical Services

In the case of State works the farmer only pays for part of the direct benefit which he derives from the works. If, for example, the area reclaimed on a certain farm is 10 morgen and the value of the outer pasturage is R30 per morgen, the owner's contribution to the reclamation work is $\frac{1}{2}$ (10 x R30), i.e. R150.

As appears from virtually all the submissions to the Commission, soil conservation works are considered to be so important and of such a special nature, that the Commission is convinced that this is one of the few forms of State aid which can become a more or less permanent institution. The information furnished to the Commission on the progress made in soil conservation is, however, alarming.

On the whole, the Soil Conservation Act has had little, if any, effect on soil losses over the twenty-five years since 1946. Admittedly, financial assistance under the Act has in many cases helped to keep farmers going, but obviously this is not what the assistance was intended for. No evidence can be found that the silt charge of our rivers is decreasing, while the veld is steadily deteriorating and natural grazing, is for the most part a sadly neglected asset.

It is evident that, although 72 per cent of the farms in the North-Western Transvaal have been planned, effective veld management can be applied on only a few of these farms. The reasons for this are poor planning, inadequate camps and deficient water supplies. Farmers are not carrying out farming plans satisfactorily either - in most cases only those works that make it easier to run the farm are constructed.

A survey conducted in the Eastern Transvaal yielded the same kind of negative findings, and it would appear that the position is the same throughout the Transvaal. Studies in the Orange River area also show that no differences worth mentioning can be reported between planned and unplanned farms.

The Commission considers that this sorry state of affairs must be ascribed chiefly to the fact that the main emphasis has fallen on the bio-physical planning of farms, such planning being incomplete in most cases. Moreover, a great many farming plans have been carried out only partially because most farmers are interested in those works which enable them to exploit the soil, which yield an immediate income, which fit in with their own development programmes, and which make it easier to run their farms. Purely conservational works are usually left undone. Still less do the farmers apply the prescribed conservation measures which should form an integral part of physical planning. It is clear that, in practice, physical planning has had the effect of exploiting rather than conserving the soil. The farmer will even go so far as to presume that his plans will have the Department's blessing because after all it is the Government's money that is used for the exploitation works. The scheme has stimulated the demand for subsidies and made farmers subsidy-minded, without the conservation idea being promoted sufficiently.

Although the Commission has consistently emphasised in its reports the need for farmers to make conservation farming their top priority, it realises that there are problems obstructing the way to success in achieving an ideal such as this. The principle the Commission wishes to lay down is that the objects of the Soil Conservation Act can only be achieved if every officer to whom planning is entrusted makes it his business to take due account of all the relevant factors in carrying out his task. Wherever subsidies are granted, they must be conditional, and priorities must be set for subsidised enterprises, due regard being had to their importance to sound farming practices. Planning entails a careful appraisal of the position of a farming enterprise, and this should be followed by the physical planning of the farm so that all the resources can be used in the correct way. It is therefore a highly specialised task and should not, as at present, be dealt with almost exclusively at the technical level. Unless planning is done on a regional basis and unless it is based on soil utilisation studies and climatological analyses, little progress can be expected.

5.6.2 Grass ley crop scheme

The purpose of the ley crop aid scheme, announced by the Minister of Agriculture on 4 July 1957, is to check the deterioration in arable land by means of biological conservation measures.

Apart from loans granted for the purchase of breeding stock, assistance in the establishment and effective fertilisation of ley crops is also given under a subsidy scheme in terms of the Soil Conservation Act.

Subject to certain conditions, ley crops totalling 75 morgen per farm or per farming unit can, in

the course of three successive years, be established, on which a total subsidy of R600 is payable. Of this amount, R100 is for the establishment of a ley crop and R500 for the purchase of supplementary nitrogenous fertiliser.

Table 5.3 shows a drop in the amounts paid out under this scheme, the figure in 1969/70 being only R6 688.

As interest in this scheme has declined so much and it has therefore lost so much of its effectiveness, the Commission recommends that it be terminated.

5.6.3 Veld reclamation scheme

Under the veld reclamation scheme pasturage is required to be withdrawn from grazing for not less than two growing seasons, including the intervening winter, and financial assistance is granted under the provisions of the Soil Conservation Act where such withdrawal from grazing is essential for the recovery of the veld.

The scheme was originally intended for certain soil conservation districts in the cattle ranching areas of the North-Western Transvaal, but parts of the Northern Cape are also eligible. The scheme is intended solely for those areas where denudation of the veld is so bad that perennial grasses are unable to re-establish themselves within a reasonable period. A third of a farm can be withdrawn, with the possibility that further parts may subsequently be withdrawn, if necessary.

The scheme, introduced for a period of six years from 1 September 1966, sets the following conditions for participation:

- (a) The farm must be planned.
- (b) The owner must apply judicious grazing management on those parts of the farm that are not withdrawn.
- (c) The veld may not be subjected to excessive grazing by small stock.
- (d) After the period has elapsed, the owner must give scrupulous attention to maintaining his pasturage.
- (e) The owner must undertake to keep the game population on his land within reasonable limits.

Compensation for participation in the scheme was initially R8 per LSU, but the amount has been raised to R12, subject to a maximum of R2 500 per participant per annum and subject, further, to the condition that stock numbers on the rest of the farm must be limited according to its long-term carrying capacity.

The Commission has obtained information to the effect that the scheme is a failure owing to the following circumstances:

- (a) The regulations governing the scheme are not based on sound principles of veld management.
- (b) Most participants do not have enough camps to apply proper grazing control.
- (c) The veld which is not withdrawn is usually overgrazed.
- (d) Proper control over the administration of the scheme is virtually impossible.

According to the Director of the Transvaal Region, the regional pasture scientist found that farmers not participating in the scheme made better progress with veld recovery through judicious use of their pasturage, than those who completely withdrew their veld in accordance with the rules of the veld reclamation scheme.

Cases were cited of serious veld destruction under the scheme. Non-withdrawn veld was often deliberately overgrazed, so that it could qualify for the next withdrawal.

The Commission recommends that the veld reclamation scheme be abandoned. Better possibilities for veld recovery are offered by the stock reduction scheme.

5.6.4 Stock reduction scheme

The purpose of the stock reduction scheme is to bring about greater stability in farming through the stabilisation of the soil, particularly in the more arid sheep regions that are subject to protracted droughts. It is expected that a considerable reduction in the number of stock, together with the complete withdrawal of badly denuded areas where erosion has set in, and judicious grazing management on the remaining parts, will give the veld a chance to recover. The scheme does not apply to areas which consist mainly of grassveld where grazing is able to recover fairly quickly, given average rainfall and management.

Furthermore the scheme offers the farmer various short-term benefits such as, among other things, an assured income without the risk of stock losses or expenditure on stock feed should drought conditions set in, the opportunity to be more strictly selective in his flocks, and the fact that he can convert part of his assets (stock) into cash, which enables him to reduce his liabilities and interest burden. Above all, his veld should improve to such an extent that, with a smaller and better flock and with better nutrition and management of his stock, he will increase production per unit and ultimately be better able to cope with drought conditions. The underlying consideration in this form of State aid is not to compensate the farmer for potential production losses nor to rehabilitate him financially, but rather to improve the condition of the natural grazing through a donation of funds.

Within the area demarcated for the scheme certain farms are excluded from participation in the scheme. Such properties are:

- (a) Farms so badly infested with invader bushes such as black thorn that the desired vegetation would not recover under the scheme;
- (b) farms used mainly or exclusively for game farming;
- (c) farms which are not fenced; and
- (d) farms which are not used for stock-farming.

Participation in the scheme is voluntary. It should be borne in mind, however, that the Soil Conservation Act contains provisions under which stock numbers and the withdrawal of veld can be prescribed without compensation, and not all applications for participation need necessarily be approved.

Under the scheme a generally applicable stocking rate is laid down for each soil conservation district (for participants whose applications were approved before 1 January 1971) and for each ecological region (for participants whose applications were approved after 1 January 1971). Participants have to remove all stock in excess of the number calculated from the properties registered under the scheme, and they are not entitled to any financial assistance. Thereafter at least one-third of the number calculated have to be removed, for which an allowance is granted on a sliding scale, and for a period of five years participants have to limit their stock numbers to two-thirds of the number calculated for the pasturage on the farms concerned. A participant whose application was approved before 1 January 1971, who keeps less than the number of stock calculated and who reduces his stock numbers to two-thirds of the number calculated receives the same allowance as though he has reduced his stock by a full third of the number calculated.

Apart from the reduction of stock on the grazing of the properties registered, badly eroded parts of the grazing or parts so badly denuded that the vegetation can no longer respond to normal resting (e.g. bare patches, ruined mountain slopes, screes and watercourses) must be withdrawn completely from grazing for a continuous period of not less than five years. Although such parts have no or very little grazing value at the time of withdrawal, the number of small stock units is nevertheless calculated as for the rest of the farm and the participant receives financial assistance for their withdrawal. Financial assistance for the withdrawal of eroded parts is available only to participants who reduce stock or remove all their stock from the farm.

While participating in the stock reduction scheme, the farmer has to fulfil all the conditions applicable to his registered properties, including the management and regular resting of pastures and the construction of any works necessary for proper management and resting. Such facilities must be provided before two years of participation in the scheme have elapsed. Where all the stock have been removed from the farming unit, it has to be planned and the works necessary for pasture rotation and resting the veld must be constructed before the final payment is made for stock reduction or before stock are again brought onto the farming unit.

Eroded parts which are withdrawn completely must be fenced off and withdrawn from grazing for a continuous period of not less than five years. In addition, attention must be given to the construction of protective works, the loosening of soil and the oversowing of seed. If the vegetal cover has not recovered satisfactorily after five years, further withdrawal without compensation may be prescribed. Stony areas, pans and other parts where no vegetation can be established are not taken into account for the purposes of financial assistance.

Payments to farmers under this scheme were started in the 1970/71 financial year.

The stock reduction scheme is still too new for its effects to be evaluated. As far as the veld is concerned, the scheme should achieve its

objects since it makes veld recovery possible, provided it is accompanied by correct practices of veld utilisation. As in the case of the veld reclamation scheme, however, official control is also a problem with this scheme.

The Commission subscribes to the broad principles underlying the stock reduction scheme. The Commission is nevertheless convinced that the conditions for participation in the scheme should be made even stricter. The Commission therefore recommends that, apart from the conditions to which participation is already subject, the following requirements should be set:

- (a) Farming must be adapted to the natural conditions of the environment.
- (b) Even in cases where only some of the stock are withdrawn, it should be a requirement that the farm be planned, the works necessary for pasture rotation and the resting of the veld be constructed and soil conservation measures be kept in operation before the final payment is made for stock reduction or before the farming unit is again stocked in accordance with the prescribed stocking rate.

For areas where the withdrawal of stock is considered necessary owing to the deterioration of the veld but where the stock reduction scheme does not apply the withdrawal of the veld, without compensation, should be prescribed under the provisions of the Soil Conservation Act.

5.6.5 Subsidies to irrigation boards

The Department of Water Affairs grants loans to irrigation boards for the construction of water works and a subsidy of 33 $\frac{1}{3}$ per cent on the cost of the works. In effect, the subsidy is therefore a discount on the loan.

Before a loan is granted the works of an irrigation board must be investigated by the Department and found to be economic in relation to the irrigable land, the number of irrigators and the expected yield. The loan is not subject to a maximum, the sole proviso being that the project should be an economic proposition.

In spite of the 33 $\frac{1}{3}$ per cent subsidy, irrigation boards are sometimes unable to meet their loan obligations. In such cases the loan might, with Parliamentary approval, be written off, which really means that further assistance is granted in respect of the amount owed. The amount paid out in subsidies to irrigation boards as shown in Table 5.3 does not include these write-offs. Table 5.5 shows the total annual write-offs since 1960/61.

The Commission recommends that assistance to irrigation boards should be continued.

5.6.6 Subsidies on boring

A farmer qualifies for a subsidy/rebate on boring done by private drilling contractors and State drills provided his land is 25 morgen or larger, he is a bona fide farmer and is the registered owner of the land, the water is intended for stock-watering and domestic use, and his land is not situated within a municipal area. The

TABLE 5.5 - Write-offs of principal and interest on loans to irrigation boards, 1960/61 to 1969/70

Year	Principal R	Interest R	Total write-off R
1960/61	4 069	208	4 277
1961/62	-	-	-
1962/63	3 822	771	4 593
1963/64	180 015	90 006	270 021
1964/65	140 711	47 283	187 994
1965/66	43 315	20 920	64 235
1966/67	1 336 512	1 332 334	2 668 846
1967/68	-	56 948	56 948
1968/69	305 176	350 770	655 946
1969/70	-	-	-

Source: Department of Water Affairs

amount is based on a sliding scale from 5 per cent to 95 per cent of the cost of the borehole, depending on its depth and yield - the deeper the borehole and the lower the yield, the larger the subsidy.

Farmers are encouraged to have boreholes dispersed about their farms in order to promote soil conservation. The maximum amount for a subsidy is R4 000 per farm.

The Commission endorses the subsidisation of boring, but recommends that the following conditions be added to those already in force:

- The requirement that land should be at least 25 morgen in extent to qualify for the subsidies must be amended so that in future criterion will be whether the farm is an economic unit.
- To promote soil conservation, it should be made a requirement that watering points be dispersed properly over the farm.

5.6.7 Subsidies on ancillary water works

Ancillary water works on boreholes are understood to include pumping equipment, reservoirs, etc. To qualify for the subsidy, the land must be at least 25 morgen in extent and the scheme must be intended for stock-watering and domestic use.

The equipment allowed is limited to -

- two-thirds of the safe yield of the borehole;
- a capacity in line with the carrying capacity of the land, i.e. only as much water as is required for the stocking rate prescribed may be abstracted, on condition that the safe borehole yield is not exceeded.

The subsidy is calculated at $33\frac{1}{3}$ per cent of the cost of the works, subject to a maximum of -

- R600 up to 1961;
- R1 000 from 1961 to 24.6.1969;
- R3 000 from 25.6.1969.

Irrigation works other than those of irrigation boards include irrigation dams, irrigation furrows, storage dams, etc. Water supplies in such cases are not dependent on a borehole or well.

The subsidy is calculated at $33\frac{1}{3}$ per cent of the cost of the works, except where two or more persons undertake the works together, in which case each person may receive $33\frac{1}{3}$ per cent. The maximum amount is the same as that applicable to ancillary works on boreholes, but in this case the maximum applies to the scheme and is not necessarily calculated per farm.

Economic considerations are decisive in the granting of the subsidy.

As in the case of boring, the Commission recommends that the prescribed 25-morgen minimum size for land to qualify for the subsidy should be abolished and that the criterion be adopted that the land should constitute an economic unit. For the rest, the scheme should remain as it is at present.

The Commission recommends that subsidies on "other irrigation works" should remain as they are at present.

5.6.8 Rebates on the purchase of cuttings and saplings

The Department of Forestry supplies cuttings and saplings to bona fide farmers at a reduced rate to enable them to plant trees for the following purposes:

- Woodlots as a source of poles, firewood, etc., for use on the farm.
- Shelter belts and wind-breaks.
- Approved soil conservation schemes on the farm.

Under the scheme plants may be supplied solely for the above-mentioned purposes and may not be resold. The scheme does not apply to companies or persons engaged in commercial afforestation.

The Commission considers that the scheme serves a good purpose and recommends that it should remain in operation in its present form.

5.6.9 Control of pests and weeds

5.6.9.1 Pest control

During 1959/60 and 1960/61 a 25 per cent subsidy was granted on the cost of spray to control commando worm, and Government expenditure on this item amounted to R10 046.

Apart from ad hoc assistance of this kind, the Government has, since the first decade of this century, been responsible for the control of locusts, on which considerable sums have to be spent by the Government whenever the pest occurs epidemically; for example, about R1 500 000 was spent on controlling outbreaks during the summer of 1970/71. For many years an average of about R200 000 per annum has been spent directly on locust control.

In 1956 the Government also started a campaign for the control of finches, the cost of which amounted to R59 590 in 1970/71.

The Commission agrees that the Government is fully justified in undertaking, on behalf of agriculture, the control of diseases and pests which are not restricted to a few farms, especially where individual farmers are unable to do so owing to the equipment, mobility and expense which such control demands. The Commission considers, however, that Government intervention of this kind should not be taken for granted, nor should the Government be expected to expand its programme by intervening likewise to control the diseases and pests normally to be expected in crop or stock farming.

The Commission therefore recommends that this aid should remain available, but only where serious outbreaks of pests and diseases occur very sporadically and in cases where the control of such pests and diseases is beyond the means of individual farmers.

5.6.9.2 Control of proclaimed weeds

A relief scheme for the control of *Opuntia* species (species of prickly pear) has been in operation since July 1957. In the case of the jointed cactus or jointed prickly pear (*O. aurantiaca*), spray is supplied free of charge, which means that the Government contributes about 75 per cent of the total costs of controlling the cactus. If the farmer is unable to pay his share of the expenses and there is danger of the infestation spreading, control is undertaken by the Government. On very big units where the area involved is so large and the infestation so heavy that control by the farmer is financially and physically impossible, he is expected to pay back part of the labour costs incurred by the Government in controlling the weed. Spray is also sold to farmers at R5 per 200 litres for the control of other *Opuntia* species, 75 per cent of the cost of the spray being subsidised by the Government. Departmental expenditure on the above-mentioned species amounted to R506 000 for the 1970/71 financial year.

Since 1969 spray has been issued free to farmers for the control of silverleaf bitter apple (*Solanum elaeagnifolium*), Departmental expenditure in this regard totalling R133 000 in the 1970/71 financial year.

State aid is also granted for the control of *Harrisia martinii*, camelthorn bush (*Alhagi camelorum*), St. John's wort (*Hypericum perforatum*) and clover broom-rape (*Orobancha minor*).

5.7 COST OF MEANS OF PRODUCTION

Assistance to reduce the cost of means of production is given to agriculture in various ways. An indication of the nature and extent of this kind of aid is given in Table 5.6.

5.7.1 Fertiliser subsidy and railrage rebates

Before 1 January 1965 a 75 per cent transport rebate was paid on all fertilisers conveyed by rail or by Railways road motor service and a subsidy of R2 per ton on chemical fertilisers. The railrage rebate on the latter was discontinued on 1 January 1965. The rebate and the subsidy

have been consolidated to form a single subsidy based on plant nutrient value, subsidies of R24, R61 and R6 being at present paid per ton of pure nitrogen, citric acid soluble phosphate and potassium, respectively.

No subsidy is paid on low-grade fertilisers, such as agricultural lime, manure and compost, but a railrage rebate of 75 per cent (subject to a maximum of R2 per ton) applies to agricultural lime, and a rebate of 50 per cent to manure and compost (subject to a maximum of R1 per ton). The amounts involved in these subsidies and rebates are shown in Table 5.6.

In studying the merits of this form of State aid to agriculture, the Commission took the view that these relief schemes were initially introduced to keep down the production costs of agricultural producers. In information furnished to the Commission it was also stated that the original object of the schemes concerned was to encourage the use of fertilisers by farmers.

In a study of the problems of a policy aimed at encouraging the use of a factor of production, Nieuwoudt* came to the following conclusion:

"... social prosperity can be raised if a factor, the value of which is not realised by farmers, is subsidised ... On the other hand, prosperity can be reduced by the subsidy if the farmer already realises the value of the production factor and uses it at more or less the optimum levels".

If a farmer does not realise the value of a factor such as fertiliser or hybrid seed, etc., it can be made attractive to him by a subsidy as an incentive. To ensure that there is no loss of prosperity, the subsidy should gradually be reduced as the farmer realises the value of the input. In calculating the optimal use of resources in agriculture, it has been found that farming profits can be raised through the use of more fertiliser.⁺ With the rapid increase in the use of fertiliser the gap between optimal and actual use is, however, becoming smaller and the value of the subsidy is decreasing. On a purely plant-nutritional basis, the use of fertilisers quadrupled over the period 1955 to 1970.

The subsidy on fertilisers might have the disadvantage of encouraging farmers to plough marginal lands and raise crops on them. It is doubtful whether, in the interests of soil conservation, certain lands in the Northern Transvaal, Southern Free State and North-Western

* Nieuwoudt, W.L., Faktorsubsidies en sekere beleidsimplikasies, Unpublished study, p.5

+ Nieuwoudt, W.L. An economic analysis of the demand for resources and the supply of output in South African Agriculture, (Unpublished Ph.D. thesis, University of Natal, 1970) p.117

TABLE 5.6 - State aid in respect of the cost of means of production

Year	Fertilisers ¹⁾		Interest subsidies paid by the Department of Agricultural Economics and Marketing ²⁾		Customs and excise concessions ³⁾		Total
	Subsidy	Rebate	Land Bank	Agricultural Credit and Land Tenure	Rebate on paraffin and diesel oil ⁴⁾	Rebate on other agricultural products	
	R	R	R	R	R	R	R
1960/61	2 371 200	3 598 409	-	-	14 254 010	x	20 223 619
1961/62	2 695 112	3 630 598	-	-	15 748 724	x	22 074 434
1962/63	2 966 895	3 881 493	-	-	16 700 559	x	23 548 947
1963/64	3 210 651	4 995 644	-	-	17 500 548	x	25 706 843
1964/65	4 230 556	3 849 378	-	-	17 895 577	x	26 034 800
1965/66	7 949 691	945 880	3 000	-	17 963 274	100 000	26 961 845
1966/67	7 908 268	948 228	24 000	14 000	19 125 416	68 000	28 087 912
1967/68	14 418 660	1 106 094	17 000	57 000	20 477 303	58 000	36 134 057
1968/69	13 741 595	1 114 222	37 468	756 824	20 658 376	61 000	36 369 485
1969/70	12 772 912	1 664 909	51 466	1 032 600	21 761 715	94 000	37 377 602

Source: 1) Department of Agricultural Economics and Marketing

2) Department of Agricultural Economics and Marketing

3) Department of Customs and Excise

4) See also Table 5.8

5) Including an amount of R59 289 in interest subsidies paid by the Department of Agricultural Economics and Marketing as ad hoc relief

Cape should be used for crops. The subsidy might also lead to crops being grown outside their natural cultivation areas.

In considering this matter, the Commission came to the conclusion that the purpose of the subsidy, at any rate for the present, is no longer to encourage the use of fertilisers but rather to reduce production costs.

The Commission considers that the use of fertilisers is such a basic part of the existing farming pattern that the withdrawal of the subsidy and transport rebates would inevitably result in considerable increases in production costs and therefore ultimately consumer price increases as well.

In reviewing the matter account was also taken of the fact that the level of fertilisation can still be raised appreciably. Furthermore, larger applications of agricultural lime on certain soils are an urgent necessity.*

The Commission accordingly recommends that the subsidy (including the transport rebates) on fertiliser and the transport rebates on the transportation of agricultural lime, kraal manure and compost should be retained in their present form.

* Steyn, M.S. (1969): Grondsuurheid en die gebruik van landboukalk in die Republiek van Suid-Afrika. Department of Agricultural Technical Services. Technical communication No. 88.

5.7.2 Interest subsidies

Table 5.6 shows the total amount so far paid out to the Land Bank and the Department of Agricultural Credit and Land Tenure in the form of interest subsidies for agriculture, as well as the amount paid out in the form of ad hoc relief.

5.7.2.1 Interest subsidies to the Land Bank

The amounts paid to the Land Bank are in respect of cases where the Government lends money to the Bank at a rate of interest which does not enable it to maintain its ruling rates. To prevent the Bank from being obliged to raise its rates of interest, the Department of Agricultural Economics and Marketing pays the Bank an interest rate subsidy. This arrangement has been in force since 1965.

The Commission endorses the interest subsidies to the Land Bank and recommends that the system should continue in its present form.

This recommendation should be seen against the background of the Commission's recommendations aimed at channelling funds from the agricultural industry to the Land Bank, as set out in Chapter IV of this report. If, as it is hoped, the Land Bank reaches the position where it can meet its own capital requirements, the use of public funds for this form of State aid to agriculture can be reduced gradually.

5.7.2.2 Interest subsidies to the Department of Agricultural Credit and Land Tenure

The Agricultural Credit Act lays down that the Department of Agricultural Credit and Land Tenure shall charge a fixed rate of interest of 5 per cent on loans to farmers. The difference between the Government's ruling rate of interest and the fixed rate of 5 per cent is made up by

the Department of Agricultural Economics and Marketing.

The Commission recommends that the interest subsidy should remain unchanged.

5.7.2.3 Interest subsidies for ad hoc distress relief

During the foot-and-mouth disease epidemic in the North-Western Transvaal in 1964/65 loans for operating capital were granted to farmers when they were unable to market their animals. The interest on the loans was subsidised, an amount of R59 289 being paid out during the year.

The Commission fully endorses this form of distress relief and recommends that it should be more widely applied in future, as circumstances dictate. A system of loans at reduced rates of interest is preferable to direct aid.

5.7.2.4 Subsidy on interest on farm mortgages

On 21 August 1970 the Minister of Finance announced in his budget speech that a subsidy would be payable on the interest on farm mortgages. This subsidy, which came into effect on 1 September 1970, amounts to a maximum of $1\frac{1}{2}$ per cent on mortgage interest rates over $7\frac{1}{2}$ per cent, on the first R100 000 or less of a mortgage. A requirement is that the mortgagors should be individuals farming on a full-time basis for their own account and deriving their main income from that source, or a farming company or partnership whose sole activity is farming and all of whose shareholders or partners practise full-time farming on the farm, such farming being the main source of income.

Only mortgages granted by the following bodies qualify for the interest subsidy:

- (a) Financial institutions, such as banking institutions, insurance companies and pension funds, registered with the Registrar of Financial Institutions;
- (b) trust companies licensed as such but not registered as general banks; and
- (c) parties administering participation bond schemes under the Participation Bonds Act, 1964 (Act 48 of 1964).

Mortgages granted by any individual or body other than the above-mentioned do not qualify for the interest subsidy. This particular scheme was recommended by the Commission of Enquiry into Fiscal and Monetary Policy, the general object being to assist farmers who had to pay high rates of interest on mortgages registered when the land concerned was originally purchased.

When the scheme was put into practice mortgages not necessarily registered only upon the purchase of the land were eligible. This implies that farm mortgages serving purely as security for operating capital were also eligible. The scheme requires, however, that funds obtained by the registration of mortgages should be used primarily for farming purposes. In administering the scheme it is virtually impossible to ensure

that funds are in fact being used to achieve the object of the scheme and in accordance with the regulations of the scheme. Mortgages are frequently registered on farm property to provide security for overdrawn accounts and in some cases, where the original amounts have long been spent, to cover goods entirely unrelated to the farmer's farming operations. In such cases the administration of the scheme rests solely on information accepted in good faith, and the Commission has reason to believe that this might be open to malpractices. In many cases the farmer does not even know how the funds originally obtained upon the registration of the mortgage or from overdrawn accounts covered by a mortgage were used. Some of the consequences of the scheme as it is run at present are that farmers pledge their landed property merely for the sake of the subsidised interest on the mortgage and that they use the funds so obtained in ways which are not always compatible with the long-term interests of the agricultural industry.

In spite of the considerable shortcomings of the scheme and the administrative problems experienced in its practical application, it was in view of the appreciable interest burden of agricultural producers that the Commission decided to recommend that the scheme should be continued. However, scrupulous care will have to be taken to ensure that only debts incurred for farming purposes qualify for the subsidy.

The Commission has given favourable consideration to representations to the effect that mortgages with private individuals and other money-lenders should also qualify for the subsidy. Although problems might arise in controlling some of these mortgages, there are nevertheless a large number of them that can be controlled. The Commission considers that it is wrong in principle to exclude these mortgages from the scheme and recommends that the subsidy on mortgage interest should also be made applicable to all bona fide farming mortgages.

5.7.3 Customs and excise concessions

The Department of Customs and Excise assists agriculture indirectly by granting partial or complete exemption from customs and excise duties on certain goods used for agricultural purposes.

5.7.3.1 Goods imported free of customs duty

Table 5.7 sets out the total value of the goods which benefit agriculture directly or indirectly and which can be imported free of customs duty by any person. The monetary benefit to the agricultural industry of this exemption from duty cannot be determined since it is impossible to work out what the customs duty would have been if the goods had not been of an agricultural nature. Nor is it possible to determine whether the middlemen are passing the full benefit of the exemption from duty on to the farmer.

TABLE 5.7 - The total value of agricultural goods imported free of customs duty by any person, 1965 - 1969

Year	Total value R'000
1965	81 032
1966	72 947
1967	91 960
1968	86 793
1969	96 602

Source: Department of Customs and Excise

Tractors and tractor parts constitute by far the greatest part of the total value of agricultural goods imported, and in each of the five years concerned came to about 70 per cent of the total. According to information furnished by the Division of Agricultural Marketing Research, 90 per cent of all tractors are used in agriculture.

Tractors, agricultural equipment and implements constitute the largest part of the total value in Table 5.7.

5.7.3.2 Dutiable goods imported under rebate of the duty

Table 5.6 shows the duty rebated on goods which are dutiable but which, since they meet certain requirements or are used for certain purposes, may be imported under full rebate of the duty. The total duty rebated, as shown in the table, is specifically applicable to agricultural imports. These imports are used by farmers mainly as intermediate inputs. The duty rebated may be regarded as a discount on the customs duty, but in this case, too, it does not mean that the full rebate is necessarily passed on to the farmer if the product is imported through a middleman.

As regards diesel oil and paraffin, the farmer also receives certain benefits in that the customs and excise duties are lower if these requisites are used for agricultural purposes. For the locally manufactured product the excise duty on both diesel oil and paraffin is 12,25 cents per gallon. If used for agricultural purposes, however, an amount of only 0,833 cents per gallon is levied. Customs duty on imported diesel oil and paraffin is 13,083 cents per gallon, but only 1,666 cents per gallon is levied on imports intended for agriculture. For both the local and the imported product the farmer therefore receives a rebate of 11,417 cents per gallon.

Table 5.8 shows the total quantities of diesel oil and paraffin consumed by agriculture since 1960/61, as well as the rebate of the customs and excise duties, calculated at 11,417 cents per gallon.

In relation to aid under other schemes, customs and excise concessions are important as a form of State aid to agriculture. When the schemes were introduced the intention was originally to reduce the cost structure of agriculture. In studying

TABLE 5.8 - The quantity of diesel oil and paraffin consumed by agriculture and the rebates of the customs and excise duties

	Paraffin	Diesel oil	Total	Rebate
	1 000 gallons			R '000
	1	2	3	4
1960/61	61 988	62 861	124 849	14 254
1961/62	62 048	75 893	137 941	15 749
1962/63	58 331	87 947	146 278	16 701
1963/64	50 996	102 289	153 285	17 501
1964/65	44 223	112 522	156 745	17 896
1965/66	38 283	119 055	157 338	17 963
1966/67	36 137	131 380	167 517	19 125
1967/68	31 931	147 427	179 358	20 477
1968/69	28 145	152 799	180 944	20 658
1969/70	24 781	165 827	190 608	21 762

Source: Division of Agricultural Marketing Research
Column 4 = Column 3 x 11,417 cents

this form of State aid the Commission noted that, in comparison with most other forms of such aid, customs and excise concessions do not involve any direct transfer of funds to agriculture, but amount rather to a loss of funds which would otherwise have flowed to the Exchequer.

In considering the merits of this relief scheme, the Commission bore in mind the rising production costs for agricultural products, paying particular attention to the importance of fuel in the farmer's cost structure. The Commission therefore recommends that the present rebates of the customs and excise duties on fuel in favour of agriculture should be retained.

5.8 ASSISTANCE TO AGRICULTURAL INDUSTRIES

Assistance to the various agricultural industries takes two main forms, namely price stabilisation subsidies and ad hoc aid.

5.8.1 Price stabilisation subsidies

As shown in Table 5.9, millions of rands are spent annually on the payment of subsidies on certain staple foodstuffs, namely butter, bread, maize and, to a lesser extent, grain sorghum.

For some years after the Second World War certain basic food products were in short supply from time to time. Because of this and the increases in production, processing and marketing costs, rises in consumer prices were unavoidable. In view of these circumstances the Government gradually began absorbing increases in the price structures of various staple food products to a certain extent, thereby keeping the consumer prices lower than they would otherwise have been.

Price stabilisation subsidies have the following objects:

- To fight inflation;
- to assist an industry to enable it to hold its own in a certain economic structure; and

TABLE 5.9 - Price stabilisation subsidies, 1960/61 - 1969/70

Year	Butter	Bread	Maize*	Grain sorghum/	Total
	R	R	R	R	R'000
1960/61	2 968 000	12 805 000	8 800 000	-	24 573
1961/62	3 558 947	10 569 581	12 013 979	-	26 143
1962/63	4 423 256	13 133 094	14 298 457	-	31 855
1963/64	4 608 481	12 467 707	14 355 977	-	31 432
1964/65	4 533 976	13 611 861	14 425 149	-	32 571
1965/66	4 598 616	17 146 831	15 810 098	222 899	37 778
1966/67	5 239 891	20 064 925	25 346 008	637 997	51 289
1967/68	4 678 690	25 766 654	23 982 154	645 858	55 073
1968/69	4 653 020	25 084 889	25 773 173	581 404	56 092
1969/70	4 820 262	22 370 603	28 000 664	42 495	55 234

Source: Department of Agricultural Economics and Marketing

* Including a rebate of 37½% on railage of all maize for domestic consumption

/ The subsidy applies if grain sorghum is mixed into stock feeds instead of maize

(c) to assist the consumers to enable them to obtain the products concerned at prices lower than they would have been under the free operation of economic factors.*

Under conditions of surplus production or when prices on foreign markets collapse, a State subsidy should be regarded chiefly as a protective measure for the primary producer, whereas when shortages are experienced the consumer benefits.

Price stabilisation subsidies constitute by far the greatest percentage of total subsidies. The National Marketing Council has the following views on subsidies of this kind:*

"... a Subsidy may be harmful in so far as it tends to disturb the optimum utilisation of the productive resources. When prices are subsidised, consumption tends to be stimulated artificially and marginal production, which would have been submarginal without the subsidy, is encouraged. The industry concerned could thus eventually develop into a state of imbalance with the rest of the economy and attract productive resources which could be applied to better advantage in other directions".

"As a means of supporting the personal incomes of producers or as an aid to consumers with low incomes, a general subsidy on all sales of a product is largely misplaced. Producers benefit in direct proportion to the size of their production and the small producer derives a relatively small advantage from the subsidy. Similarly, consumers in the lower income groups who can afford to buy only limited quantities of the product, would derive

relatively little benefit from the subsidy. It is, therefore, a costly method of assisting consumers. ... The question of safeguarding the level of personal farm income is a socio-economic problem and the same applies to assisting consumers with low incomes. Action in regard to these matters should, therefore, be taken by way of special socio-economic measures which will render assistance where it is needed, and not by way of the general subsidisation of a few selected products."

The Commission also wishes to emphasise that price stabilisation subsidies are accompanied by a high social cost. Groenewald* made analyses based on the principles underlying the welfare economy, and came to the following conclusions:

"... interference in the price system causes resource reallocations and changes in the production pattern which are prejudicial to want satisfaction. In other words, such measures reduce the welfare of the community."

Wallace+ draws a comparison between the social costs and the social benefits of price support programmes in America. He starts with the premises that the total area under the demand curve for a product to the left of a given quantity represents total utility to the community for that quantity, and that the supply curve reflects opportunity costs of variable resources used to produce a given quantity. He shows that under such circumstances a programme whereby a high price results in greater production than is consumed at that price, contributes more to social costs

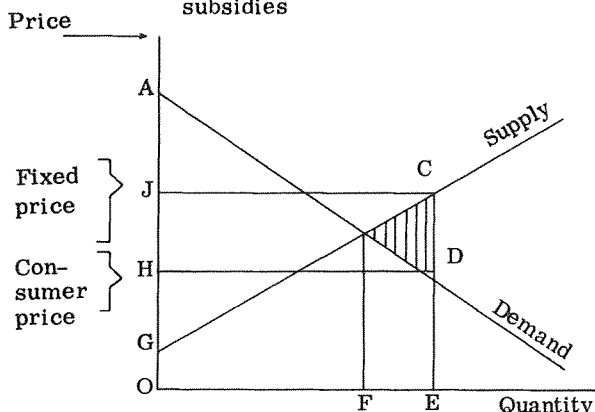
* Republic of South Africa, Report of the National Marketing Council on the Control Boards under the Marketing Act for the Period 1950/51 to 1963/64. Government Printer, Pretoria. R.P. 40/1965, p.32

* Groenewald, J.A., The Effects on National Economic Welfare of Economic Interference in Favour of Agriculture. *The South African Journal of Economics*, Volume 32, No. 4, December 1964, pp. 292-293

+ Wallace, T.D. Measures of Social Costs of Agricultural Programs, *Journal of Farm Economics*, Vol. 44, 1962, pp. 580-594

than to social benefits. Figure 5.1 shows the effect of consumer subsidies according to Wallace's reasoning.

FIGURE 5.1 - Social costs attached to consumer subsidies



In Figure 5.1 OABF represents total utility for competitive equilibrium. The area OADE is total utility after implementation of the programme, i.e. utility rises by FBDE. Under conditions of competition, the value of variable resources is OGBF. After the programme is implemented, other sources are used in agriculture at a "cost" to society of FBCE. If the social benefit is deducted from the social costs, the area BCD remains, representing the net social costs to the community.

It is clear that social costs vary according to the supply and demand elasticity of a product. In the example given above, costs decline as the demand becomes more elastic and as supply becomes less elastic.

The Commission has noted the above-mentioned problems attached to price stabilisation subsidies. In spite of this, it is convinced that the subsidies do play an important part in keeping down the price structure of the economy and enabling the many low-income consumers to obtain basic food products more cheaply. The Commission considers that the costs of such a policy cannot be charged to the account of agriculture. As it is, agriculture does not benefit materially, owing to the inelastic demand for staple food products.

The Commission considers that the amount spent annually on price stabilisation subsidies must be accepted as inevitable. These subsidies not only serve a useful purpose but have become such an accepted part of the economic system that their withdrawal appears impractical.

The Commission therefore recommends that price stabilisation subsidies should be retained in their present form. In the future determination of prices in this regard, the matter should, however, be approached cautiously, thorough consideration being given to both the advantages and disadvantages involved.

5.8.2 Ad hoc aid to certain industries

Table 5.10 reflects the aid granted to various agricultural industries for various reasons over the past ten years.

During that period the Maize Board imported maize only twice, the amounts paid to that industry being compensation for the import losses.

The Government bears the losses on butter and cheese imports but also receives the profits, if any. In addition, amounts of R500 000 and R360 000 were paid to the Dairy Board in 1965/66 and 1966/67, respectively, as special assistance for the dairy industry.

In 1964 a non-recurring payment of R350 000 to the Egg Board was approved, mainly to promote the sales of eggs. Table 5.10 shows how the payment was made.

Payments to the citrus industry since 1968 were made mainly because of marketing problems abroad and uncontrolled cost increases, and to cover advertising costs incurred by the Citrus Exchange. Owing to droughts and a shortage of irrigation water, citrus farmers in the Sundays River Valley (Kirkwood) were unable to produce crops during 1970 and 1971, and a fair percentage of the citrus orchards died. In 1970/71 and 1971/72 citrus farmers were given the following assistance:

- A 50 per cent subsidy, subject to a maximum of R4,00 per week per worker per 10 morgen of scheduled irrigation land, $1\frac{1}{2}$ worker from 10 to 20 morgen and 2 workers for over 20 morgen;
- a 50 per cent subsidy on the production cost of maintaining existing orchards and planting new trees;
- interest-free loans for family maintenance; and
- family allowances for non-creditworthy farmers.

Owing to droughts and low wool prices the wool industry has been assisted since 1968 in order to reduce the wool levy. The further appreciable amount of R7 million was granted to the wool industry during the 1970/71 season.

Because of production problems and low export prices, the pineapple industry was assisted by the Government in 1969/70. This assistance was intended to benefit farmers producing pineapples for canning.

Owing to difficulties experienced in marketing an exceptionally large cotton crop in 1969/70, an amount of R107 507 was paid to that industry.

As a result of low export realisations, the deciduous fruit industry received an amount of R2 million in 1968/69.

The Commission has already stated that it prefers a system of ad hoc assistance, whenever there is an emergency in a particular industry, to a system of permanent subsidisation.

TABLE 5.10 - Assistance to various agricultural industries through the agency of the Department of Agricultural Economics and Marketing, 1960/61 - 1969/70

Year	Maize	Dairying	Eggs	Citrus	Wool	Pine-apples	Cotton	Deciduous fruit	Total
	R	R	R	R	R	R	R	R	R
1960/61	-	-	-	-	-	-	-	-	-
1961/62	-	-	-	-	-	-	-	-	-
1962/63	-	5 000	-	-	-	-	-	-	5 000
1963/64	-	42 000	-	-	-	-	-	-	42 000
1964/65	-	44 000	100 000	-	-	-	-	-	144 000
1965/66	-	726 000	131 000	-	-	-	-	-	857 000
1966/67	-	763 000	119 000	-	-	-	-	-	882 000
1967/68	6 249 000	1 384	-	-	-	-	-	-	6 250 384
1968/69	1 700	13 995	-	650 000	1 000 000	-	-	2 000 000	3 665 695
1969/70	1 600 000	-	-	1 394 979	1 500 000	237 494	107 570	-	4 840 043

Source: Department of Agricultural Economics and Marketing

The Commission firmly believes in the merits of this kind of State aid to the agricultural industry. The Commission therefore recommends that the Government should continue providing this form of assistance to tide a particular branch of the industry over any abnormal situation which might arise. The Commission does not wish to recommend a time limit for such cases since that would depend on the situation and the industry concerned, but it does view this as a kind of temporary short-term assistance.

5.8.3 Improvement of herds

At present there are only two State-subsidised schemes aimed at the improvement of herds, namely the State-nominated bull scheme and the beef cattle performance testing scheme.

The amounts paid out since the start of these schemes are shown in Table 5.11.

TABLE 5.11 - The amounts paid out in State aid for the improvement of herds

Year	State-nominated bull scheme	Beef cattle performance testing scheme	Total
	R	R	R
1964/65	21 811	-	21 811
1965/66	26 940	-	26 940
1966/67	28 660	-	28 660
1967/68	33 825	-	33 825
1968/69	34 808	10 000	44 808
1969/70	36 622	15 000	51 622

Source: Animal and Dairy Science Research Institute. Department of Agricultural Technical Services

5.8.3.1 Milk recording scheme and State-nominated bull scheme

Since 1954 there has been a "co-operative milk recording scheme" to promote effective and economic milk production. Owing to the high costs which have to be borne by the farmer himself, participation in the scheme is still unsatisfactory.

Until recently the scheme involved only 3.2 per cent of all commercial cows in the Republic. In the Netherlands, Denmark, Britain and New Zealand the comparable percentages are 67 per cent, 60 per cent, 35 per cent and 27 per cent, respectively.

One of the aims of the State-nominated bull scheme is to promote participation in the milk recording scheme. The scheme is also aimed at promoting the use of bulls of above-average genetic merit through the analysis of progeny production records. Under the scheme, which was instituted in 1963, farmers who make use of the milk recording service and who directly and/or indirectly through artificial insemination use pure-bred bulls which meet certain conformation and production requirements and have therefore been declared "State-nominated bulls", can be subsidised by 10 cents per cow per test, provided they have at least 10 cows in the test. The contribution of 10 cents per cow per test is not paid to the applicant himself but to the milk recording co-operative to which he belongs, the amount being deducted from his account for milk recording services.

The Commission supports the State-nominated bull scheme and the milk recording scheme and recommends that they should be continued in their present form.

5.8.3.2 Beef cattle performance testing scheme

This scheme was introduced to help improve beef cattle herds in the Republic and to furnish breeders with information of importance in the selection and improvement of beef herds.

The scheme comprises four phases, the first two of which are herd testing programmes. All beef farmers and those farming with dual purpose breeds (stud and others) who have at least 30 cows in their herds may participate in the scheme, but the farmer must comply with various requirements under the scheme. Participants must also be prepared to accept the technical services of any officer designated by the Department of Agricultural Technical Services.

The services involved in carrying out this scheme are rendered to farmers free of charge.

The Government also pays farmers a subsidy to enable them to buy new scales for weighing animals. The subsidy is paid out at a rate of one-third of the purchase price of the scale, subject to a maximum of R200, provided the farmer undertaken to participate in the scheme for at least three years after purchasing the scale and accepts responsibility for its maintenance and accuracy.

The Commission recommends that the beef cattle performance testing scheme should be developed and the subsidy retained.

5.9 AID BY THE PROVINCIAL ADMINISTRATIONS

The Provincial Administrations of the Transvaal, the Cape and Natal provide grants-in-aid to certain agricultural societies. For the rest, however, farmers do not receive much aid from provincial sources. In the Transvaal, for example, a contribution of about R6 000 per annum is made to the Federal Problem Animals Control Association. In Natal farmers pay less than industrialists for the registration and licensing of their vehicles.

The nature and extent of aid rendered by the Provinces are such, however, that for practical purposes such aid can be left out of account.

5.10 ADAPTED SUBSIDIES

In its submission to the Commission the Maize Board pointed out that it was desirable to use part of the subsidy on yellow maize in such a way that meat producers would be keener to use the product as a livestock feed, this eventually resulting in increased meat production.

As things are at present, the subsidy on yellow maize is used for entirely different purposes. The question has arisen whether this subsidy should not be adapted so that its purpose can be better achieved, for example, by subsidising meat in the prime and super classes supplied by farmers, the production of which is possible virtually only if the animals are fattened up and conservation farming is practised. It is expected that in course of time it will become desirable to adapt subsidies to changing circumstances in order to ensure that the greatest benefits are derived in the broad national interest from such a subsidy system. The principle of differentiated subsidisation to promote a particular industry, provided this is considered to be in the national interest, forms part of the system of State aid for agriculture. The Commission considers that the business of assessing the supply and demand position of agricultural products and laying down the eventual price policy to be followed to obtain the desired results should fall under the proposed National Advisory Council for the Planning of Agricultural Production, as recommended by the Commission in its Second Report. The Commission trusts that the matter outlined above will be reviewed by the proposed Advisory Council, if it is established, or, failing this, that other arrangements be made for the adaptation of such subsidies.

5.11 IMPROVEMENT OF BUSINESS MANAGEMENT: FARM ACCOUNTING SUBSIDIES

In discussing the position in other countries, the Commission stated that in the United Kingdom subsidisation of agriculture had proved fruitful only where better managerial methods were applied at the same time. The Commission is convinced that poor management is also one of the biggest problems in South African agriculture and that it is related to most of the other problems such as, for example, undersized farming units, veld deterioration and poorly adapted farming systems.

Improving the managerial ability of farmers is a complicated problem, but the Commission has noted the important part which can be played here by a proper system of farming records.*

The Commission is alarmed to find that South African farmers do not know how to use this important instrument of management properly, or completely disregard it, and the Commission considers that this matter is so important that the Government should use powerful incentives to make the farmer realise the merits of farm accounting.

The Commission feels that the subsidy should, in principle, be paid to the farmer himself, but also considers it most important to link such a subsidy and the keeping of records to the idea of economic extension, i.e. the interpretation of the farmer's records and the task of giving him advice based on those records.

The Commission is aware that there are numerous organisations which provide a farm record service on a commercial basis. Certain co-operatives have also entered this field, giving the farmer economic advice on the basis of his records. For this reason, the Commission considers that the subsidy should also be paid to co-operatives and recognised organisations which provide the necessary economic advisory services. The particular producers belonging to or intending to join such institutions can then request the Government through the institutions to pay their subsidies direct to them.

The Commission is not, however, in favour of outside organisations keeping the records entirely. The farmer himself must be responsible for the basic book-keeping, so that he can keep himself informed of conditions in his farming operations and thereby increase his productivity. Outside organisations wishing to qualify for a Government subsidy in this regard will have to observe this principle.

*(a) Kolbé, F.F.H. (1965): Die aanvaarding van verbeterde akkerboupraktyke in die Settlers-grondbewaringsdistrik soos beïnvloed deur sekere sosio-ekonomiese faktore. Technical communication 34

(b) Burger, P.J. (1967): Agricultural Progressiveness: A South African concept (unpublished D. Agric. (Inst. Agrar.) thesis, University of Pretoria

Where an agricultural producer keeps all his records himself, he must compile them satisfactorily and also comply with the requirement of making his farming records available so that he may be given economic advice based on them.

The Commission accordingly recommends that a subsidy be introduced, to be payable to farmers for a farm accounting system which meets the conditions set by the Department of Agricultural Economics and Marketing, and that steps should be taken to ensure that the necessary economic extension will be given in conjunction with this system, in order to improve the business and managerial ability of the farmers concerned as much as possible.

5.12 CONCLUDING REMARKS

Table 5.12 gives a summary of the extent of the various forms of State aid to agriculture. From 1965/66 to 1969/70 the average amount involved annually was about R47 million. If price stabilisation subsidies are included in the calculations, the average amounts to about R98 million. If price stabilisation subsidies are left out of account, this amount, expressed as a percentage of net farming income, averages 9,1 per cent per annum, whereas the figure is 19,0 per cent if price stabilisation is included.

Further analysis of the respective assistance schemes, due account being taken of the amounts

involved in each, reveals that field crop producers derive proportionately by far the greatest benefit under the system of State aid to agriculture. In 1969/70 the gross value of field crop production constituted 42,6 per cent of the total value of agricultural production. In this regard, it should be borne in mind that maize constituted 43,2 per cent of the total gross value of field crop production in 1969/70. In view of the fact that there are often maize surpluses, whereas red meat has to be imported, it is clear that in its present form State aid to agriculture tends to give preference to certain fields of production in which surpluses are already being experienced. Since it is easier to introduce technological improvements into the production of field crops, this brand of the agricultural industry already enjoys an advantage over the stock breeding industry in this regard. The Commission wishes to urge that excessive stress should not be laid on short-term stabilisation problems while essential long-term structural adjustments are neglected.

As is evident from the information, at the Commission's disposal, the extent of State aid to agriculture is increasing steadily and there is reason to believe that it will increase further in the future. In assessing the effectiveness of such subsidies it is not always possible to base one's findings on hard facts alone. The effectiveness and the results achieved by a particular scheme should, however, always be taken into account to determine whether or not such a scheme warrants continuation.

TABLE 5.12 - Total State financial aid to the agricultural industry, expressed as a percentage of net farming income, 1965/66 to 1969/70

Nature of aid			R1 000				Percentage of total
	1965/66	1966/67	1967/68	1968/69	1969/70	Average	
Drought	4 094,6	7 584,3	2 434,1	2 120,0	1 838,4	3 614,3	7,64
Flood damage	122,6	43,6	554,9	65,9	12,1	159,8	,34
Utilisation of resources..	6 625,4	6 044,2	7 402,1	7 109,9	8 889,2	7 214,2	15,25
Cost of factors of production	26 961,8	28 087,9	35 134,1	36 369,6	37 377,6	32 986,2	69,72
Assistance to industries	857,0	882,0	6 250,4	3 665,7	4 840,0	3 299,0	6,97
Improvement of herds and flocks	65,9	28,7	33,8	44,8	51,6	37,2	,08
Total	38 688,3	42 670,7	52 809,4	49 375,8	53 008,9	47 310,6	100,00
Price stabilisation	37 778,4	51 288,8	55 073,3	56 092,5	55 234,1	51 093,4	-
Grand total	76 466,7	93 959,5	107 882,7	105 468,3	108 243,0	98 404,1	-
Net farming income.....	366 724,0	435 528,0	657 420,0	538 800,0	591 282,0	517 950,8	-
Percentage (price stabilisation excluded)	10,5	9,8	8,0	9,2	9,0	9,1	-
Percentage (price stabilisation included)	20,9	21,6	16,4	19,6	18,3	19,0	-

Source: Department of Agricultural Economics and Marketing

CONTROLLED MARKETING OF AGRICULTURAL PRODUCTS

6.1 INTRODUCTION

Economically and biologically sound farming systems are determined in the long run by the profitability with which the available factors of production are used. The way in which the factors of production are allocated and used is influenced by the economic benefits which can be attained and these, in turn, depend to a large extent on the profitable sale of the products produced. The marketing of agricultural products, and particularly prices, therefore have a considerable influence on the pattern of production and hence also the farming systems adopted in the various production areas.

In the preceding chapters there are several references to the marketing of agricultural products and the developments which have taken place in agricultural marketing from the earliest years of the settlement at the Cape. A review of the various steps taken during the past few decades to place agricultural marketing on a sound footing was given in the Commission's Second Report.

In a paper read at the Ninth Annual Conference of the Agricultural Economics Society of South Africa held in Pretoria in October 1970, Dr A.P. Scholtz* traced the development of the concept of marketing, indicating how it came to take on the wide meaning it has today.

From this paper it is evident that any discussion of marketing and its improvement relates to all the stages through which the agricultural product moves from the point of production until it is either consumed locally or exported. During this process various services have to be rendered, their cost varying from product to product depending on factors such as the degree of processing and the cost of transport and storage.

The complexity of the marketing process is often underestimated. The FAO's Annual Review for 1969+ puts the matter as follows:

"Primitive and high-cost methods of agricultural marketing are incompatible with sustained economic growth and particularly with development of the agricultural economy. An effective marketing sector does not merely link sellers and buyers and react to the current supply and demand situation. It has a dynamic role in stimulating both production and consumption. On the one hand, it activates new demands by improving and transforming farm products and by seeking out and stimulating new customers. On the other hand, it guides farmers to new production opportunities and encourages greater production in response to demand.

*Scholtz, A.P. (1971): Marketing planning and adjustment in agriculture in the seventies. *Agregkon*, Vol. 10, No. 1, 47-56.

+FAO Annual Review: The State of Food and Agriculture, 1969 (Preface to reprint in the FAO World Food Problems Series, 1970).

"In practice, however, the difficulties and complexities of marketing processes and their significance to economic progress have often been underestimated, at heavy cost to economic development. Attention in national planning and investment effort has too often focused excessively on production, under the assumption that, once crops are produced and roads and railways built, a marketing structure will spring up almost automatically."

It is generally accepted that by its very nature a free, competitive economy places the agricultural producer at a disadvantage when it comes to the marketing of his products: on the open market the prices of agricultural products can fluctuate rapidly and widely. This is the fundamental weakness in the system of free competition as it affects the agricultural industry. Unlike industrial production, which can be regulated in strict accordance with demand, the supply of farm products can fluctuate out of all proportion to the requirements of the market. This is due to various factors, for example:-

- Sharp fluctuations in production caused by climatic and other unpredictable natural conditions.
- Agricultural products are seasonal and perishable, which means that in most cases marketing by the producer has to be effected within a relatively short period.
- Adjustments in supply take place slowly owing to the high percentage of fixed production costs and the relatively long production cycle. Moreover, since capital requirements in agriculture are generally high in relation to annual output, farmers are often obliged to continue producing for a considerable time, even at unprofitable prices. This is done by delaying the introduction of alternative factors of production or keeping capital assets at the desired level.
- The individual farmer's bargaining position is weak. As his share in the total supply of a relatively homogeneous product is usually insignificant, he is in any case unable to influence prices by varying his own supplies to the market according to circumstances.

On the other hand, the demand for agricultural products tends to be inelastic. Consequently, fluctuations in supply also cause considerable price fluctuations on the open market. Owing to the effect of transport and distribution costs as a major and permanent factor in marketing, retail selling prices vary proportionately less than producer prices, which even further weakens consumption response to changes in producer prices.

Because of the fixity of both production and consumption, price fluctuations in agriculture, particularly over the shorter term, are completely out of proportion to what might reasonably be considered

necessary to bring about the indicated adjustments. It follows that such extreme price fluctuations make for less stable production.

A long-term phenomenon in agriculture is that average per capita income tends to be lower than in the other sectors of the national economy. The reason for this is the tendency towards chronic overproduction of agricultural commodities. Owing to sustained technological improvements on the one hand, growth in the physical output per labour unit, is rapid while, on the other hand, the percentage of the national income normally spent on food declines as real per capita income rises. What is more, technological developments in the production of competitive artificial materials contribute to a decline in the demand for certain agricultural raw materials.

All these factors have the effect of keeping agricultural prices - and income - under constant pressure. As a country develops economically, so those members of the total population needed to produce food for the country gradually reduced in number. A steady flow of people from agriculture to other occupations is necessary to preserve equilibrium in incomes. However, there are often delays since a large part of the rural population has not been trained for the switch to other occupations, the farm offers people a home as well as employment, and farming as a way of life is so firmly rooted in tradition. Virtually nowhere in the world do such population movements take place quickly enough to bring about equilibrium.

6.2 STATUTORY MEASURES FOR CONTROLLED MARKETING

If there is no reasonable measure of price and income stability, the farmer's economic existence - already dependent on so many variable natural factors - would be even more precarious. This uncertainty about production impairs stable systems of conservation farming and reduces productivity. In all capitalist countries Government measures are therefore applied to support and stabilise agricultural prices in some way or other.

All these difficulties in agriculture were an important reason behind the initial establishment of co-operatives in the Republic, one of the expectations being that it would be possible to stabilise prices for the producer through joint action. There is no doubt that co-operatives have succeeded in this to a certain extent; but experience has also shown that they have not always been able to exercise the desired influence on prices - partly because the percentage of the crops marketed by the co-operatives was too small and partly because by the nature of their powers and functions co-operatives were unable to achieve price stabilisation. In view of the inability of co-operatives to overcome price problems it was eventually realised that further special legislation was necessary. The commodities Acts of the early thirties did not, however, provide a satisfactory solution, mainly because they lacked flexibility.

In the marketing of agricultural products in South Africa the Marketing Act is of outstanding importance. This Act was originally placed on the Statute Book in 1937 and, after various amendments, was consolidated in Act 59 of 1968. Under the 1968 Act, marketing schemes (administered by control boards) may be established to regulate the marketing of agricultural products. The Act also provides, among other things, for the grading of agricultural products, the exercise of control over the importation and exportation of agricultural products and for the establishment of a national marketing council. The National Marketing Council, established under the Act, advises the Minister of Agriculture on matters arising from the Marketing Act and the control schemes established under it.

Apart from the Marketing Act, in terms of which the marketing of a wide range of agricultural products is regulated, there are also other Acts regulating specifically the production and/or marketing of wine, wool and sugar. Control of the production and marketing of sugar is in the hands of the Department of Industries. The Agricultural Produce Export Act, 1971 (Act 51 of 1971), provides for the maintenance of satisfactory standards in exports of agricultural products.

The Ko-operatieve Wijnbouwers Vereniging van Zuid-Afrika, Beperkt (K.W.V.), has certain statutory powers giving it the status of a control board in the wine industry. What is said below about controlled marketing as embodied in the marketing schemes under the Marketing Act therefore applies to a greater or lesser extent to the wool and wine industries, as well. It should be noted, however, that the K.W.V. is controlled, as a co-operative, by a Board of Directors consisting solely of producers, in contrast with the control boards under the Marketing Act, and the Wool Board and Wool Commission, where control is exercised by representatives of the various interests in the industry concerned.

The Commission accepts that the statutory measures providing for intervention in the free operation of supply and demand as regards agricultural products sprang from a sincere desire on the part of the Government to promote and maintain, on the one hand, stability and efficiency in agriculture and, on the other hand, to ensure, with due regard to the national interest, a reasonable return for producers, as well as on the capital invested in agriculture. Where such an approach is adopted it is necessary to keep the existing marketing arrangements under constant review.

On various occasions, therefore, the Minister of Agriculture has indicated the principles accepted by the Government as fundamental to controlled marketing. The Government's attitude, as described by the Minister in his policy motion before the Senate in May 1962, may be summed up as follows:

In the first place: Price stability must be promoted in the interests of both the producer and the consumer. In pursuing this aim, it is also necessary to ensure a reasonably stable income for producers as far as practicably possible.

Secondly: From the long-term point of view, every branch of agriculture must "stand on its own feet" and "we must always produce with a view to a beneficial market". Consequently, the prices of any one agricultural product should be related to the supply and demand position as a whole and should be adjusted where necessary in the light of changed circumstances. The Government has never gone so far as to assure producers of guaranteed prices regardless of conditions, nor has it ever assured them of a fixed level of income. In the opinion of the Minister, such a policy would be inadvisable, particularly for a young developing country like South Africa which is still largely dependent upon its agriculture and where industries and foreign markets still have to be developed.

Thirdly: The Government accepts the general principle that "our farmers are still independent entrepreneurs, that is to say, each one decides for himself what he is going to produce on his farm ... if he is going to continue farming a particular farm or if he is going to sell or purchase land. When he buys land he decides what he will pay for it. This economic liberty is of the greatest fundamental importance to our community of South Africa as we have known it up to the present."*

In the opinion of the Commission, the broad principles outlined above reflect a sound general economic approach to the introduction and application of control over the production and marketing of agricultural products.

In their interview with the Commission representatives of the Marketing Council summarised the objects of controlled marketing through the agency of the agricultural control boards as follows:

- (a) The agricultural control boards strive for settled prices, i.e. price stability.
- (b) In controlled marketing an attempt is also made to keep the price spread between producer and consumer as small as possible.

In trying to achieve these objects, the control boards make a valuable contribution towards building up an efficient agricultural industry and towards rationalising enterprises.

6.3 PRICE SITUATIONS IN AGRICULTURAL MARKETING

As the Departments of Agriculture stated in their submission to the Commission, prices are one of the principal factors in marketing. "Being responsible for marketing their respective products, most of the control boards also have the power under the Marketing Act to influence prices to a greater or lesser extent. The exercise of this power and the degree of influence exerted on prices can have a direct effect on production. The price aspects involved here are the formation, level and stabilisation of prices and the ratios between the prices of various products." (Translation)

6.3.1 Production cost, supply and price formation

The Departments of Agriculture make the point that "although in a free economy supply and demand

are decisive factors in the formation of prices at any time, under controlled marketing these factors are often to a greater or lesser extent prevented from coming fully into play where the prices of agricultural products are concerned". (Translation)

During the war and the post-war years, when general shortages were experienced and the Government followed a strictly anti-inflationary price policy, the most important consideration in determining the prices of products such as maize, wheat and industrial milk was the cost of production and how production responded to the prices fixed on this basis from time to time. Consequently the idea of stabilised prices on a cost-plus basis became quite firmly established among certain producers. A set formula of this kind cannot, however, be applied for any length of time without seriously disturbing the balance between production and consumption. Under conditions of perfect competition, prices do tend on the long term to equal average costs, but it should be remembered that costs and prices influence each other. If, for example, demand (and therefore prices) declines, the marginal producers will drop out in due course with a resultant decrease in average costs. A price policy based solely on production costs would ultimately fail when the supply continues exceeding the demand at those particular price levels. The same holds good for the converse. The changing world in which we live constantly requires adjustments but these are not necessarily related to cost over the short term.

Apart from these economic considerations, the determination of costs in agriculture also has its special problems. Because there is usually a variety of operations on farms and because of the general lack of complete records, it is in most cases impossible to obtain reliable cost data. Moreover, production costs vary considerably from farm to farm, from area to area and from season to season. It would be an impossible task to obtain cost data from all producers. Consequently, average costs have to be calculated from samples, which may not, depending on the circumstances, accurately reflect average costs in the industry concerned. Another problem is how to treat items such as farm values and operator's earnings, which have to be taken into account in determining total costs and can easily trigger off a cost-price spiral.

Although the absolute cost of production cannot serve as a satisfactory basis for determining producer prices, cost studies designed to give an indication of changes in costs can be useful. In determining prices, all the circumstances which can have an effect on supply and demand should be taken into account. Since a rise in the producer's costs amounts to the same as a price reduction, this must necessarily influence his production decisions and is therefore also one of the factors to be reckoned with. In practice, such cost changes can also be calculated with greater accuracy than the absolute level of costs. Production cost studies are important, moreover, in determining trends in the

*Official report of debates in the Senate, 25 May 1962- Column 4329-4330.

general relative level of the net income of the producer. One of the objects of control is, after all, to try to maintain, as far as the long-term supply and demand position will permit the farmer's net income at a level in keeping with the rest of the national economy. It is therefore important for the bodies concerned to have at their disposal the necessary economic studies in this regard.

In the evidence submitted to the Commission by the Departments of Agriculture and by the central organisations of the agricultural, commercial and industrial sectors, there was a large degree of unanimity on and support for the general principles involved in the determination of agricultural prices as set out above. In certain cases there was some difference of opinion about how much stress should be laid on the various price-determining factors. Various problems and considerations affecting the practical application of price and other control measures were also brought to the Commission's attention.

In the Commission's view, the object of applying control measures to agricultural products is mainly to stabilise and, where necessary, to raise the income and standard of living of the producer, at the same time bearing in mind the general long-term interests of the country as a whole. If this object is to be achieved, production must be adjusted to sales opportunities on an economic, rational and fairly stable basis for both the producer and the consumer. In this, agricultural prices play a key role. As already mentioned, it is not advisable to give the market mechanism free rein in the formation of agricultural prices. On the other hand, it is equally clear that the arbitrary fixing of prices, without due account being taken of all the economic factors involved in supply and demand, can do considerable harm to both the agricultural sector and the national economy as a whole.

6.3.2 Income and price stabilisation

In its evidence to the Commission, the South African Agricultural Union recommended that "emphasis in the price determination process should in future shift from stable prices to prices which will lead to income stability and income parity in the various commodity branches of agriculture".*

6.3.2.1 Price fluctuations and uneven distribution of income

The Union points out that fluctuations in farm incomes can be classified as follows:

- (a) Fluctuations in the income of the individual farmer;
- (b) fluctuations in income in a particular area;
- (c) fluctuations in income in a particular branch of farming as a result of -
 - (i) disasters and abnormal fluctuations in production; and
 - (ii) normal fluctuations in production.

*S.A. Agricultural Union (1967): Memorandum to the Commission of Enquiry into Agriculture. p. 116.

As regards the first two, the Union accepts that it would be impossible in practice to eliminate fluctuations in the income of individual farmers or in specific areas through price adjustments. The Union accordingly proposes a system of comprehensive crop and livestock insurance as the obvious way to eliminate income fluctuations of this nature. The Union recommends that the fluctuations referred to in (c) (i), namely fluctuations in income in a particular branch of farming as a whole which are abnormal or due to disasters, should also be combated by insurance or, if the losses suffered cannot be insured, by means of ad hoc State aid as in the past.

6.3.2.2 Stabilisation of income

The South African Agricultural Union considers that, as a means of stabilising income, prices could be far more effective in the case of normal fluctuations in income in a branch of farming. Its attitude is briefly that, subject to the long-term supply and demand situation, the per capita income of the farmer should be stabilised at a level in keeping with the rest of the national economy. To achieve this it is recommended that -

- (a) prices should be adjusted for normal fluctuations in production so as to eliminate the effect of such fluctuations on incomes; and
- (b) further adjustments should be made according to the gross rate of growth in the per capita national income for the country as a whole, in order to maintain parity between the rate of growth of incomes in the agricultural sector and that in the rest of the economy.

To illustrate its views in this regard, the Union went on to cite practical examples of how prices in certain industries could be adjusted in accordance with its proposed income-parity principle.

In Chapter II of this report the Commission went fully into the various circumstances giving rise to fluctuations in production and to instability in and the uneven distribution of incomes in agriculture. As stated in that chapter (paragraph 2.7 et seq.), an analysis of the situation reveals that these problems are twofold and cannot be solved by just adopting a simple approach to price determination or methods of financing. The Commission therefore cannot agree with the method by which calculations were made in the Union's examples, especially since the calculations were based on the stabilisation of income under all circumstances - a notion which is contradictory to what the Union itself proposed in preceding paragraphs. In any event the Commission considers that producer prices cannot be determined according to a set formula.

In the opinion of the Commission, the income position of producers in the branches of farming concerned should, within limits, be taken into account in price fixing. Apart from the income po-

sition, price fixing should also take account of changes in production costs, the elasticity of supply and demand (as well as the long-term shifts that can be expected in the supply and demand curves), production and consumption trends, prices of substitutes, the import possibilities and overall agricultural policy.

Income in the respective branches of farming therefore cannot be stabilised in isolation from the rest of the national economy nor without certain important biophysical production requirements being met.

The Commission accepts as a general principle, furthermore, that the rate of growth in the real income of the agricultural industry should as far as possible keep in line with that of the rest of the economy. Farming units rarely specialise completely in a single branch of production, however. Consequently, it is difficult to apply this principle to a particular branch of production.

Although applying the above-mentioned principle would raise problems in certain circumstances, particularly in cases where numerous different factors have to be taken into account in price determinations, this principle should nevertheless constantly be upheld in determining prices. Naturally this means that thorough, scientific studies of all the various factors involved have to be carried out.

To share in the growing prosperity of the country, agriculture must, as is evident from Chapter II, meet certain basic structural requirements and the farmer should also make his proper contribution towards increasing that prosperity. By this is meant that the long-term increase in the farmer's productivity per unit of production factor must keep pace with that of the rest of the community.

This principle, if applied strictly, should help to ensure balance between the various branches of production in agriculture since it would direct the use of land and other factors of production in agriculture towards branches with the highest productivity.

6.3.2.3 Price stability

In the evidence submitted to the Commission, as well as in the Commission's own analysis of the situation as outlined in preceding paragraphs, the emphasis falls very strongly on the fact that prices can give direction to production and marketing. The idea of stable prices is usually welcomed by all sections of the community. But absolutely stable prices in agriculture, if they could ever be achieved, would entail great economic sacrifices in other respects. Enforces price stability between crop years is of doubtful value in a country such as South Africa where weather conditions can cause considerable variations in output. In such circumstances stability in prices would make for instability in income.

Since stabilising the standard of living of the producer is one of the main objects of control, the Commission did not find much fault in prin-

ciple with the general approach of the South African Agricultural Union, namely, that prices should be adjusted for normal fluctuations in production so as to eliminate the effect of such fluctuations on the income of producers. However, the concept of "normal fluctuations" is relative and, because many of the farmer's costs are fixed, even these costs would tend to cause substantial fluctuations in prices from year to year unless, of course, normal fluctuations are regarded as relatively small price variations. Important disadvantages are attached to big changes in prices from year to year. Apart from the problems these fluctuations create for the farmer in planning his farming operations properly, they can largely nullify the role which prices should play as a guide to rational production. In these two respects alone, price stability can cause serious instability for the farmer. Taken on the whole, both serious shortages and bumper crops entail their own particular sacrifices and problems owing to the wide price fluctuations and uncertainties that accompany them. This is a further reason why it is considered so important to achieve biophysical stability in farming by measures such as regional planning, adapted farming systems, etc.

In addition, conditions in South Africa tend to vary so much from farmer to farmer that maintaining an income level for an entire branch of farming is no guarantee that the individual producer's income will be stable. As appears from Chapter II, such a measure can very easily land some producers with unstable incomes, quite apart from fluctuating prices.

Although the Commission considers that annual fluctuations in production should be reckoned with in price determination, the desirability of price stability should also be borne in mind. There can be no objection to moderate price adjustments aimed at adjusting supplies to the effective demand. The Commission does not wish to express an opinion on where the emphasis should fall: that would depend on circumstances.

6.3.3 Price ratios and agricultural production

Earlier in its inquiry the Commission gave particular attention to production planning and the adaptation of farming systems to environmental conditions as a prerequisite in promoting conservation in the use of natural resources and biophysical stability in agricultural production. In paragraph 9.7.2 of Chapter IX of its Second Report, the Commission expressed certain views on equilibrium in agricultural production and on the effect of price ratios on such equilibrium - views which are considered to be so important in any consideration of price situations that their repetition here is justified:

What has been said in Chapter IX of the Second Report about past experience in and the prospects for the production of the various commodities also throws a very strong light from a different angle on what has been experienced in individual branches of agricultural production. On the one hand, the circumstances surrounding each of the commodities vary greatly, in some cases to such an extent that

certain trends tend to oppose each other and, for some reason or other, even to be mutually exclusive. This is not always in the best interests of the natural resources, the farmer or the country. On the other hand, it appears from the discussions in this chapter that agriculture, with the possible exception of a few highly specialised production undertakings, is not composed of separate individual undertakings. On the contrary, agriculture at its best shows a pattern of utilisation in which various commodities and practices in the production process are integrated, complementing and reinforcing each other.

Reference was made in this chapter to different branches of agricultural production in which, biophysically, equilibrium with other branches would be ideal, but where for several reasons - mostly economic - such a state of equilibrium, does not exist. Although these aspects have not yet been studied closely, it would seem that the ratio between prices that can be obtained for the various products is one of the decisive factors determining trends in the production of individual commodities and their relationship to each other....

These ill-considered production trends have for some time been an obstacle to many an agriculturist who has to contend with the adverse effects of certain price ratios between commodities - so much so that there are a great many cases where failure to propagate correct farming systems must not be ascribed to technological shortcomings or misconceptions about agricultural production policy, but to the adverse effects of existing price ratios.

In their submission to the Commission the Departments of Agriculture expressed the following views on this very important aspect of price policy:

"The net realisation depends partly on the price obtained for the product, and where prices for products are determined under controlled marketing and certain of these products compete with each other for the same factors of production, the fixing of prices can influence the farming system in a certain region.

"If it is accepted that in any region the most desirable farming system is one that is best adapted to the natural conditions and so constituted as to ensure that the greatest economic benefit will be derived in the long run, then it is obvious that in considering the prices of competing products due attention must be given to promoting the most desirable farming system.

"To promote and maintain sound price ratios between products with a view to the advancement of farming systems adapted to the natural conditions in the various regions is one of the most difficult tasks in controlled marketing. The reasons for this are briefly that-

- (a) in general there are no distinct farming systems for the various regions, so that it is difficult to determine deviations from the model;
- (b) it usually takes a long time for the effect of a particular ratio between the prices of competing products to find complete expression in production; in the mean time, relatively permanent damage may be done, for example, through the eradication of beneficial natural forest, the ploughing up of good natural grazing, the provision - at a high cost - durable facilities for specific types of production, etc.;
- (c) On the whole, the control boards tend to adopt a sectional or even subjective attitude to the marketing of the product controlled; where a particular product, for example maize, is a raw material or factor of production for other products such as milk, meat and eggs, this attitude can give rise to a disproportion between the prices of maize and livestock products and ultimately affect the farming system in a region;
- (d) the 'disparate' prices paid for various competing products under control do not necessarily represent the ratio between prices which producers take into account in their production decisions.....

"What really counts in production decisions is the price:cost ratio of one product as against that of another; but the only element in this ratio over which control is exercised under the Marketing Act is price". (Translation)

6.3.4 Demand on local and foreign markets

Besides the fact that the local market is usually the biggest outlet for the South African farmer, it is also usually his best market. In contrast with the export market where prices often tend to fluctuate sharply and to remain low for long periods, greater stability and, within limits, profitable prices can be maintained on the local market. The development of the local market is therefore of cardinal importance to the farmer. The best way to do this is to see that the product is freely available at the time and place and in the form in which it is required, and that consumer prices should be kept as reasonable as possible and at stable levels.

It is generally accepted that the demand for most agricultural products is inelastic, particularly over the short term, i.e. an rise or fall in supply can cause a rise or fall in prices which is proportionately bigger than the change in the supply. This does not mean, however, that changes in price cannot have a significant effect on sales. Circumstances differ appreciably from product to product. Even in the case of a single product, the reaction of sales to changes in price will depend on the relative price levels of the product concerned, the opportunities for substituting competing products and the period of time over which changes are measured. What is more, the demand curve, as such, is not static but may move to the left or

right depending on changes in consumer preferences, population growth and the trade cycle.

The interaction of all these economic forces makes it very difficult to determine in advance what the influence of a given price change would be on consumption. It is nevertheless essential that all these factors should be reckoned with as carefully as possible. Drastic price adjustments should also be avoided unless, judging by the available information, they are considered essential.

Subject to the general principle that the local market is in most cases the more important to the producer, the export market and therefore also world prices should be taken into account in determining producer price policy. Considering the size of its economy, the Republic has a sizeable foreign trade and consequently cannot afford to allow its price policy and cost structure to get out of step with that of its trading partners in the world market. This is obviously very important to those branches of agriculture which derive the major part of their income from exports, for example wool and citrus; but it is also something that cannot be ignored in cases where exports are less important or even non-existent. It is, of course, wise for a country to strive for a measure of self-sufficiency in the production of food, particularly basic foodstuffs considered necessary to maintain public health, but such a policy would be economically justifiable only if food prices need not be raised excessively above import values.

Generally speaking, policy should be to promote the production of those products in respect of which the Republic has a comparative advantage. The Commission here wishes to associate itself with the following point of view expressed by the South African Agricultural Union in its evidence to the Commission on what the primary aims of agricultural policy should be: Developing the production of a certain commodity into an export industry or maintaining it as such is justified only in cases where South Africa is, in the long run, able to compete on the export market at world market prices. If this can be done only through permanent State subsidisation regardless of the form, such subsidisation takes, it would mean that the factors of production would be misapplied, the result being that optimal application of these factors would not be possible - to the detriment of the national economy as a whole.

Consistently adjusting local producer prices to keep them in step with price fluctuations on the world market would necessitate frequent, drastic price changes. In addition, it is not always certain whether world prices, which might be high or low at any particular time, are an indication of future trends. Therefore only long-term trends should be taken into account, appropriate stabilisation funds being built up to make this possible. Of course, the extent to which the producer can be cushioned against the ups and downs of the world market will depend on circumstances. Local producer prices for products primarily dependent on the world market will, unavoidably, have to be closely related

to overseas outputs, since in such cases it would not be feasible to build up sufficiently large funds to ensure a stable income for producers.

6.3.5 Role of prices in regulating supply

The farmer usually tends to produce the product or products which bring him the highest income. To ensure the most efficient use of the various factors of production in agriculture, prices, in the absence of direct production control measures, must necessarily play a key role as the farmer's guide to a sound adjustment of supply to demand. In the nature of things, the production of agricultural commodities reacts very slowly to price changes and prices cannot be reduced without causing the producer serious hardship. Therefore it usually takes a long time to tell with any certainty in which direction and to what extent the production of a particular commodity is expanding or shrinking and what the desirable price adjustment should be, if any. Even then, mistakes can be made owing to the uncertainty of weather conditions and future demand, especially on the export market.

Because of these difficulties there is, understandably, resistance on the part of many farmers and even control boards to downward price adjustments - particularly since prices often offer a relatively easy way of supporting incomes over the short term. In their evidence, the Departments of Agriculture point out that this attitude is adopted "particularly where growing surpluses over local requirements have to find an outlet in declining export markets" (Translation). The Departments went on:

"In the case of commodities which can be produced profitably to the extent where the local demand is fully supplied, overproduction occurs from time to time which has to be carried over or for which an outlet has to be found through exports. Spasmodic surpluses of this kind are obviously unavoidable and it is only fair that the consumer should bear the cost of such a carry-over or of unprofitable exports. There are, however, limits to the extent to which the consumer can be expected to bear such costs. Regular exports of such a product cannot be continued at the expense of the consumer. In the case of maize, grain sorghum, eggs and at times dairy products and dry beans, for example, overproduction is sometimes so large as to exceed by far the extent to which the consumer wishes to be assured of supplies and it is unjustified and economically unsound to expect the consumer to contribute towards offsetting the export losses on such a surplus. To load consumer prices in such cases not only encourages production but also discourages consumption; it therefore tends to aggravate the position and ultimately leads to the uneconomic use of factors of production. Where the demand is elastic, such a line of action might even result in the industry obtaining a lower total gross realisation than if the price had been so determined as to strike a balance between production and consumption." (Translation)

The South African Agricultural Union subscribes to the view that the determination of prices should be subject to the long-term supply and demand position. The Union also stated that, in principle, it could find no fault with the standpoint adopted by the Distribution Costs Commission, namely that-

"... over long periods prices must ultimately be determined by supply and demand and, therefore, no more can or should be attempted than an intelligent estimation of these long-term trends, the adaptation of prices to these trends and the stimulation of agriculture in the desired directions, due cognizance being taken of the natural environment of agriculture in the Union and of international trends."*

When it comes to the practical determination of prices, however, the South African Agricultural Union objects strongly to the use of what it describes as "ad hoc methods" - i.e. where price determination is based on the symptoms of a situation which manifest themselves "only when the desirable position of equilibrium has already been passed (either upwards or downwards)". The Union emphasises the need for "intelligent" advance estimates of long-term trends, stating that a serious attempt should also be made to calculate both elasticity and shifts in the supply and demand curves. In its opinion, the so-called ad hoc methods of price determination are used all too frequently in South Africa.

6.3.6 Production and marketing quotas

In view of the problems involved in price as a means of regulating supply, the idea has on various occasions been put forward in certain producer circles that direct control of production might be a possible alternative for protecting the prices of their products. This can be done by means of acreage restrictions or marketing quotas or other similar methods. Reference is frequently made to the restrictions applying to wine, sugar and fresh milk (in certain areas). The Commission does not wish to go into the reasons for these restrictions here, except to point out that the Marketing Act does not provide specifically for acreage restrictions and that restrictions on plantings of the first two products are authorised by special Acts of Parliament. Special legislation has also recently checked the previously unrestricted expansion of egg production.

In principle, the use of such direct measures to regulate production is not supported by the Departments of Agriculture nor the South African Agricultural Union, and similar views were held by the Maize Board Mission which made a thorough study of production control measures in the United States of America in 1962.

*Report of the Distribution Costs Commission. U.G. 28/1949, paragraph 83, III, a.

The Commission is aware, however, that circumstances might well arise in certain branches of production necessitating and justifying a degree of production control and the application of a quota system.

Although this sort of arrangement undoubtedly offers a greater measure of price and income stability for producers already established in a branch of production, it also has serious disadvantages the most important of which are briefly the following:

- (a) The freedom of choice of the individual producer is restricted.
- (b) It is difficult in practice to find a fair and equitable basis on which quotas can be adjusted according to merit, not only at the outset but also from time to time thereafter.
- (c) By and large, existing production systems - on good as well as on less suitable land and as applied by efficient as well as by less efficient farmers - become entrenched and adjustments which might be necessitated by changing circumstances are hampered. This tends to impair efficiency in agriculture and increase costs.
- (d) The investment structure of the industry rises to the extent to which the benefits to the producers concerned are capitalised in the course of time. This inevitably tends to hamper small or young progressive farmers who have not yet developed their farming enterprises fully.
- (e) The effective application of such arrangements demands extensive and strict control measures in many cases, thus increasing costs.
- (f) Production control through quotas is open to practices incompatible with the spirit and object of controlled marketing. In this regard the Commission's attention was directed to cases where there is trading in quotas for certain commodities such as milk, wattle bark and sugar and where the quota system is manipulated locally by selling agencies in a way which leaves one with the impression that it is becoming increasingly difficult for other farmers in the vicinity to enter the market.

As regards the principle of production restrictions, the Commission therefore has cause for serious doubt whether the advantages of direct production control measures justify such restrictions. Especially in a young developing country like the Republic, the adoption of such measures should be considered only in exceptional circumstances and, if they are found to be justified, they must be applied with the greatest circumspection. This is why the freedom of the individual farmer to decide how much of a product he wishes to produce also weighs heavily with the Commission.

It is realised that the more the State is expected to support the farmer's income in an artificial way, the more the State will come to arrogate powers over the activities of the farmer.

Admittedly price as a guide to production has its shortcomings, but then the possible alternatives are by no means foolproof either and the solutions they offer might not necessarily in the long run be in the interests of agriculture nor in the wider national interest. It is doubtful, moreover, whether the farming community would always be prepared to accept these alternatives so readily.

6.3.7 Determination of producer prices for agricultural products

To supplement the conclusions reached in paragraph 2.7.1.2.2 of Chapter II of this report, the Commission wishes to point out that price is patently an unsuitable way of remedying the income position of farmers on farms which are undersized or which have other serious structural defects. If a price that has been determined on the basis of long-term economic considerations does not produce sufficient income to meet the needs of small-scale producers, other measures must be devised to cope with the matter. Merely increasing the prices of a product in such circumstances must inevitably in the long run lead to overproduction and an eventual price collapse.

It is not as difficult to achieve income parity in industries where the domestic output merely has to meet the domestic demand as in industries where a large part of the output has to be exported at widely fluctuating world market prices. Therefore, although the principle of price parity can be borne in mind in determining prices, the ceiling for a parity income would in the long run have to be determined by the sales potential of the product.

Although the Commission therefore accepts that prices must necessarily be a key factor in indicating the right directions, in so far as this is possible, it must at the same time emphasise that it is essential for the price-determining bodies to have at their disposal the results of economic studies of both supply and demand to enable them to determine prices on a rational basis.

The Commission considers that, if the principle of price parity is adopted, prices should be fixed so as to ensure that all the various agricultural enterprises would derive the maximum income from the various markets over the long term. This would obviously make tremendous demands on the bodies which have to advise on prices. They would have to keep themselves informed of all factors affecting the supply and demand of the various products on local as well as on foreign markets, and their sales strategy would have to be purposeful. Some control boards are already equipped for this to a certain extent.

Adjustments in price policy to achieve these aims might result in greater price fluctuations than at present, particularly if more emphasis were to be placed on the income position of the various

branches of production. In such an event steps would probably also have to be considered to bring about relatively stable consumer prices since it is a recognised principle that market development is hampered if there is a great deal of fluctuation in consumer prices. The intention is not that consumer prices should be kept constant, but only that large fluctuations and price changes at short intervals should be eliminated as far as possible. Although relatively stable consumer prices can, in spite of fluctuations in producer prices, best be achieved by a system of price fixing, relatively constant consumer prices are not considered to be so important that extension of consumer-price fixing, with all its attendant problems, should be attempted. The Commission is aware that some control boards are trying to accommodate fluctuations in producer prices to a certain extent by means of adjustments in their special levy rates. The proceeds from these levies are not, however, necessarily earmarked for price adjustments.

As regards price situations under a system of controlled marketing of agricultural products, the Commission has therefore come to the conclusion that the determination of prices depends on numerous factors whose effects differ from enterprise to enterprise and from time to time. This applies particularly to industries with sharply varying yields and large exports.

The views of the Departments of Agriculture, as expressed in their submission to the Commission, are regarded as particularly important:

"The factors affecting equilibrium in agriculture include a large number and variety of aspects which may be physical or economic. Sometimes the effect of these factors is quick; sometimes it is slow. Purposefully to maintain the correct ratio between the prices of a large number of agricultural products is therefore virtually impossible. At best, an attempt can be made to work in the right direction, this necessitating a constant study of agriculture in all its branches, including production trends, production potential, the effects of technological developments, shifts in production and the reasons for them, consumer trends, price movements - both locally and overseas, etc." (Translation)

6.3.8 Recommendations on a National Advisory Council on Agricultural Marketing and Price Policy

The circumstances and views described above reveal that, apart from the contribution made at present by the Marketing Council as regards controlled marketing, there is a need for a body to advise the Minister of Agriculture on the broad approach to agricultural marketing and price policy for agricultural products. The Commission considers it important, furthermore, that these recommendations should be based on factual data on matters affecting marketing and price situations.

In regard to such an advisory body the Commission therefore recommends as follows:

6.3.8.1 A National Advisory Council on Agricultural Marketing and Price Policy should be established to advise the Minister of Agriculture on price policy and the marketing of agricultural products.

6.3.8.2 Members on the Advisory Council should be appointed by the Minister of Agriculture from, or should be representative of, the following bodies:

The Department of Agricultural Economics and Marketing,
The Department of Agricultural Technical Services,
The Department of Commerce,
The Department of Industries,
The South African Agricultural Union,
Recognised consumer organisations, and
Organised trade and industry.

The chairman should be appointed by the Minister.

6.3.8.3 The Advisory Council must also be given the services of a special economic research unit falling under the Department of Agricultural Economics and Marketing and specialising in matters underlying agricultural marketing and price policies.

6.3.8.4 This Advisory Council must maintain close contact with the proposed National Advisory Council on Agricultural Production (see paragraph 9.7.5 of the Commission's Second Report).

6.4 CONTROLLED MARKETING UNDER THE MARKETING ACT

6.4.1 Objects of and powers under the control schemes

The principal objects of the Marketing Act, as contained in the Report of the Marketing Act Commission (1947)* and as subsequently outlined by the Marketing Council in one of its latest reports⁺, are, in the first place, to secure a greater measure of stability in the prices of farm products and, secondly, to reduce the price spread between the producer and consumer. These objects are not viewed as ends in themselves, but rather as the means to improve the productivity of the farming industry and to increase the efficiency of the allied marketing and processing industries for the good of the producers and consumers in general.

The ways in which the objects of the Marketing Act are pursued are reflected by the wide range

of powers for which the Act provides. The principal powers which may be granted to control boards include the following:

- (a) To prohibit producers from selling the regulated products except to or through the board concerned. This enables a board to control the marketing of the whole output or as much of it as may be considered necessary.
- (b) To enter the open market as a buyer and seller of the product. The price offered by a board under such circumstances automatically becomes a floor price or guaranteed price for the producer.
- (c) To prohibit any person from manufacturing or processing a regulated product, or from trading in it, unless he is registered with the board concerned. Provision is also made for the refusal of such registration or for the granting of registration subject to conditions and requirements prescribed by the board - powers which can be used to rationalise manufacturing and distribution.
- (d) To determine maximum, minimum or fixed prices at which the regulated product concerned may be purchased from producers and sold by the trade.
- (e) To advise the Minister on packing and grading regulations and on the importation and exportation of the regulated product concerned.
- (f) To impose levies on the product. Normally, an ordinary levy is imposed to cover the board's administrative expenses, and a special levy for specific purposes, such as the building up of funds for price stabilisation, advertising, research, etc.

The decisions of the boards on important matters such as price determination are subject to the approval of the Minister of Agriculture. Since neither a board nor the Minister has the statutory powers to enforce unilateral decisions on such matters, the two parties must be in agreement before the decisions can be implemented. The National Marketing Council is a statutory body appointed in terms of the Marketing Act to advise the Minister and the boards on all control measures. The decisions of the boards are accordingly submitted to the Minister by the Marketing Council together with the Marketing Council's own report and recommendations.

Apart from his powers relating to the establishment of schemes under the Marketing Act to regulate the marketing of an agricultural product, the Minister of Agriculture may also, in terms of amendments made to the Marketing Act in 1969 and 1970, adopt certain statutory measures to promote the marketing of an agricultural product for which there is no scheme. The Minister may, for example, prescribe prices for such a product, make the marketing of the product through the

*U.G. 48 - 1949

⁺Report of the National Marketing Council on the Control Boards under the Marketing Act for the period 1950/51 to 1963/64, R.P. 40/1965, paragraph 12.

agency of certain persons obligatory, and impose levies on the product which have to be used in the interests of the industry concerned. The Minister may appoint a committee to advise him at his request. These provisions in the Marketing Act make it possible to avoid much of the expense of running a full-scale control scheme, but so far no use has been made of them. This matter is referred to again in paragraph 7.6.

6.4.2 Constitution of agricultural control boards

Section 28(2) of the Marketing Act provides that more than half the total number of members of a control board must be persons appointed to represent the producers of the product to which the scheme relates. The product to which the scheme relates may be a "primary" or a "secondary" product. Depending on the nature of the products covered by a scheme, it would therefore appear that the boards, need not necessarily be so constituted that the representatives of the producers of primary products are in the majority. The fact is, however, that it has always been accepted policy to maintain an absolute majority of primary producers on all boards.

In dealing with the constitution of the boards, the Marketing Act Commission reported as follows in 1949:

"Your Commissioners find themselves divided on the principle of a producers' majority on the boards in one important respect. They agree that the principle is tenable in the case of boards which confine themselves to dealing with the prices and marketing of primary products. They also agree that farmers have a most vital interest in the ultimate disposal of their produce. But they differ on the question whether this interest of the primary producer is paramount and warrants a producers' majority even when the functions of the boards extend far beyond the price fixation and the marketing of primary products as such."*

In the evidence to that Commission various parties expressed the view that there was a traditional antagonism of non-producer interests to the system of controlled marketing and that the schemes under the Act would have been doomed to failure if primary producers had not been given majority representation, not only because of the lack of co-operation on the part of other interests, but also because of the antagonism and distrust which would have arisen among the members of the farming community itself. It also appears that the weight given to this evidence was an important reason why the principle of a producer majority was upheld.

In its evidence to the present Commission, the South African Agricultural Union claimed that since the Marketing Act specifically provides that control boards should be producer boards, and since there

has been undesirable disruption between production and marketing under the control system, producers should have larger majorities on the various control boards.

As regards the first point, it appears that where the Union refers to producers, it has primary producers in mind. It has been mentioned above, however, that the Marketing Act does not lay down that primary producers should have a majority vote on all the boards. It should also be mentioned that primary producers already have a strong majority on all the boards dealing solely with the marketing of primary products, all the more so if the representatives of co-operatives on such boards are also taken into account.

The grounds for the Union's second argument are briefly that the Marketing Act has caused production to become divorced from marketing and that it has become essential "to improve communications and the flow of information between marketing and production." This line of reasoning is also difficult for the Commission to accept. The control boards have certainly made the farmer's marketing decisions easier, but they cannot really be said to have caused disruption between the production and marketing functions. In fact, to the extent that co-operative marketing has been developed under the Act, the farmer is probably more closely involved in the marketing function today than he used to be. And, according to the Commission of Inquiry into Co-operative Affairs*, the Marketing Act has played an important part in this.

In addition, various farmers' organisations have to a greater or lesser extent been drawn into the marketing arrangements of the control boards and in this way information is disseminated among farmers.

The Commission does not wish to deny that a better flow of information is desirable. However, the Commission cannot simply accept that the appointment of a few additional producer members to the control boards would be the most effective way of achieving this. Other considerations are also involved, such as fair representation of the various interest groups and the desirability of keeping the size of the boards within reasonable limits.

In their submission to the Commission the Federated Chamber of Industries and the Association of Chambers of Commerce expressed themselves very strongly on the constitution of boards:

"Our Chambers cannot accept the principle that producers should have majority representation on all boards. Even if it were to be accepted that the application of this rule was justified as a matter of practical expediency in the initial years of controlled marketing - a premise to which we cannot subscribe - circumstances and attitudes have changed since then. Indeed, it can be asserted without any fear of contradiction that the representatives of commerce and industry have not only co-operated

*U.G. 48/1949

*R.P. 78/1967

fully to make schemes work but also, because of their specialised knowledge of marketing and businesslike outlook, played a vital rôle in the success achieved in the marketing operations of control boards.

"In respect of most issues dealt with by control boards, the interests of the different sectors of the economy are so closely interwoven that any harm done to one section would react to the ultimate detriment of the other sectors and the industry as a whole. This does not, however, preclude the possibility that preferential treatment may be accorded to one sector purely at the cost of another, without any resultant advantage to the industry as a whole. Indeed, the national interest may well be harmed by wasteful duplication of adequate facilities by less economic units. This, in our opinion, presents one of the basic dangers of controlled marketing, and overweighted representation of some interests on control boards can certainly not be conducive to impartial and equitable treatment of all concerned.

"Producer members on the boards are in most cases nominated by organised agriculture which is a forthright advocate and supporter of the co-operatives. The producer representatives of many of the control boards are in effect also the representatives of the co-operatives which inevitably creates a bias in favour of the co-operatives. Whilst our Chambers fully appreciate the value of the co-operative movement, they are seriously concerned that the statutory powers of certain boards may be arbitrarily employed to further purely sectional interests.

"It is not desired to submit representations in this memorandum in regard to the actual composition of each of the different control boards but reference may be made to the Canning Apricot and Peach Board* as an illustration of unequal representation. As already mentioned the main purpose of this scheme is to promote orderly marketing through the fixation of minimum prices and the promulgation of grading regulations for the primary products. As the processed products are sold mainly on the overseas market, the net realisations obtained by canners, and consequently the prices they can afford to pay producers, are determined primarily by prices ruling on those markets. Canners are accordingly as vitally affected by the prices fixed by the Board as the producers themselves and it is difficult to find any justification whatsoever for a clear producer majority on this Board.

"The time has clearly arrived to review the principle of 'producers' majority and our Chambers strongly urge that steps be taken to bring about a more balanced representation where necessary on the Control Boards. Private enterprise has played and will continue to play a vital rôle in the development of our agricultural industry. The uncertainty and insecurity engendered by partial representation on control boards might seriously impair the future growth and welfare of the industry. Moreover, a revision of this principle may well lead to a reduction in the size of control boards and more efficient operation."

*Now called the "Canning Fruit Board."

The findings and recommendations of the Commission of Inquiry into Co-operative Affairs* are also important in this regard. In its report that Commission also declared itself against the unjustified preferential treatment which, according to its findings, is given to co-operatives by certain control boards. Apart from the unfairness, of this, that Commission felt that initiative and productivity would suffer in the long run; therefore this kind of treatment cannot be defended in the general interests of the community either. The Co-operative Commission also pointed out that it was also not enough to harp on the fact that control boards should be impartial. The control boards have an absolute majority of producers who are usually leading persons in the co-operative movement. The crux of the problem is that "the task of impartially deciding between the firm in the garb of a co-operative and that in the form of a company has been entrusted to bodies which, first, are composed in such a manner that they must, for completely understandable reasons, tend to be partial."† Although the Co-operative Commission considered that a change in the composition of the control boards would offer a possible solution, it did not wish to express an opinion on the matter since it was outside its terms of reference. The Commission therefore contented itself with the remark that an attempt should be made to get the control boards to adopt a policy of equal treatment of co-operatives and other similar undertakings and that a commission of inquiry should be appointed to investigate this and other allied matters.

The Commission will return to this matter below.

6.4.3 Nature of control schemes

The following is a broad grouping of existing control schemes and their principal functions:

- (a) The single-channel, fixed-price schemes: Maize, winter cereals and industrial milk (including cream, butter and cheese) fall in this group and comprehensive control measures apply to the marketing of the product from the producer to the end consumer. These products represent about 28 per cent of the total value of agricultural products and may only be sold to or through the boards concerned. Fixed prices are paid to the farmer and the prices for processors and the trade are also usually fixed. Any losses on exports of surpluses are covered by stabilisation funds. In addition, these boards are concerned with various matters affecting the marketing of the products under their control, such as grading, registration of processors, and sales promotion.

*Loc. cit.

† Loc. cit.

(b) The single-channel pool schemes which apply to wine,* sugar-cane,* oil seeds, citrus fruit, deciduous fruit which is exported, bananas, fresh milk in controlled centres, dried fruit, tobacco,+ lucerne seed, chicory, rooibos tea and buckwheat. Together these products represents approximately 21 per cent of the total value of agricultural products. Under the pool schemes producers are not paid fixed prices but receive an advance payment on delivery and a final payment after the board has sold the whole crop. Although some of these schemes might include further powers, the extent of control exercised over the further marketing channels is usually much less than in the case of the single-channel fixed-price schemes.

(c) The surplus removal or floor price schemes for meat, wool[§], eggs, dry beans, grain sorghum, potatoes[§], cotton//, and soy-beans. These products represent about 36 per cent of the total value of agricultural production. Although these products may usually be sold freely by producers on the open market, the boards concerned announce prices at which they are prepared to buy the various products direct from the producers. These prices therefore set a minimum for all sales. In practice, it is usually only the surpluses exceeding the domestic demand which are supplied to the board at the announced prices. The surpluses taken up by the boards are usually exported and any losses suffered by the boards on their purchasing activities are covered by levy funds.

(d) Supervisory schemes and other regulatory measures. The Canning Fruit Scheme, which falls in this category, makes provision for a measure of price protection, proper grading and payment according to quality. Its main object is to promote orderly marketing and, in contrast with the other schemes mentioned above, the Board does not participate in the physical marketing of the product. Likewise, the boards for mohair and Karakul pelts are not directly concerned with the physical marketing of the products under their control and the functions

*Wine and sugar-cane are actually controlled by means of special legislation, but for practical purposes the arrangements for wine and sugar cane may be classified under pool schemes.

+Single-channel pool schemes run by the various tobacco co-operatives.

§Special legislation applies to wool.

§The Potato Board does not announce floor prices but enters the auction market as a buyer during periods of heavy supplies - this having more or less the same effect.

//Arrangements are made annually in consultation with the producers, the processing industry and the Government departments concerned to sell as much cotton as possible locally at agreed prices.

of the two boards are directed mainly towards developing the market through publicity and by other sales promotion methods. Agricultural products under this heading represent about 2 per cent of the total value of agricultural production.

6.4.4 Extent to which marketing is controlled

In practice, the extent and nature of control differ appreciably from product to product. The kinds of arrangements at present applying to the marketing of individual agricultural products, as well as the value of the specific products, are set out in Table 6.1. From the table it appears that products representing approximately 87 per cent of the total average value of agricultural output were subject to control to a greater or lesser extent in the years 1967/68 - 1969/70. The remaining 13 per cent which is not controlled consists mainly of vegetables and certain kinds of fruit, table chickens, fresh milk in certain areas and various less important products.

The above table gives an indication of the extent of Government intervention in the price-forming process for agricultural products. It does not, however, give an idea of exactly how effective the control bodies concerned can be in determining the price level itself. To obtain a clearer picture it is necessary to subdivide the various products further according to the way in which they are marketed, as shown in Table 6.2.

In the first place, a distinction must be made between products marketed locally and those exported. Approximately 75 per cent of agricultural production (on a value basis) is marketed locally and the rest exported. Of the products which are for the most part marketed locally, the first group (i.e. those for which, to all intents and purposes, fixed selling prices are determined) represents about 35 per cent of the total value of agricultural production.

The value of products to which floor prices apply constitutes about 25 per cent of the total. Apart from a measure of certainty offered to producers by this type of floor price, this method is less effective than controlling price levels.

Control schemes without direct price determination represent a further 1.7 per cent of the total. In these cases the price is still influenced but possibly less effectively. For the rest, there are no control measures for about 13 per cent of agricultural production and, for all practical purposes, no control over the prices of the about 25 per cent of production exported. A minimum price does apply to wool, but it can hardly, and at best only temporarily, influence the export price.

What the situation outlined above therefore amounts to is that the prices of products constituting about 62 per cent of the total value of agricultural production and sold locally can to a greater or lesser extent be determined or influenced by the Government.

TABLE 6.1 - Farm value of agricultural products according to kind of control

	Average farm value 1967/68- 1969/70 R'000	Distribution according to kind of control				No control R'000
		Single-channel schemes		Surplus removal and supervisory schemes		
		Fixed prices	Pool prices	With price control	Without pri- ce control	
		R'000	R'000	R'000	R'000	
<u>Field products</u>						
Maize	211 452	211 452				
Wheat	83 619	83 619				
Other cereals	20 033	8 234		11 799		
Sugar-cane	78 182		78 182			
Tobacco	24 230		24 230			
Oil seeds	32 553		32 553			
Potatoes	25 737			25 737		
Other field products	67 721		1 728	36 501	7 252	22 240
<u>Total fieldproducts</u>	543 527	303 305	136 693	74 037	7 252	22 240
<u>Horticultural products</u>						
Citrus fruit	36 703		34 290			2 413
Deciduous fruit	53 266		31 878	8 125		13 263
Other fruit	20 299		5 734			14 565
Vegetables	44 567					44 567
Wines	30 239		30 239			
Other horticultural products	7 292					7 292
<u>Total horticultural products</u>	192 366		102 141	8 125		82 100
<u>Pastoral products</u>						
Wool	88 163			88 163		
Other	15 376				13 860	1 516
<u>Total pastoral products ..</u>	103 539			88 163	13 860	1 516
<u>Animal products</u>						
Slaughter stock	236 365			236 365		
Fresh milk	80 648		31 388	24 530		24 530
Dairy products	53 363	53 363				
Eggs	33 926			33 926		
Poultry and other	35 424					35 424
<u>Total animal products</u>	439 726	53 363	31 588	294 821		59 954
<u>Grand Total</u>	1 279 158	356 668	270 422	465 146	21 112	165 810
Percentage of total (%)	100	27.9	21.1	36.4	1.7	12.9

Source: Division of Agricultural Marketing Research of the Department of Agricultural Economics and Marketing.

As regards exports, the full effect of fluctuations in these prices is not necessarily passed on direct to the producer. In certain cases the local market absorbs part of the fluctuations in export yields but other methods are also used to cushion the impact of such fluctuations on the producer.

6.4.5 Views on price schemes under controlled marketing

Because circumstances vary so considerably from one agricultural product to another, the functions and powers of the individual control boards depend, in the first place, on the nature and marketing conditions of the regulated product itself. Thus, for example, it becomes difficult to pay fixed prices to producers when the yield from a product depends mainly on an uncertain export market. The same also holds good for highly perishable products. This does not mean, however, that any particular scheme is indicated for all products. The nature of certain schemes has, in fact, been changed substantially. In the case of

grain sorghum, for example, the pool scheme initially introduced did not give the desired results. After a year the scheme was changed to a floor price scheme. Over the years the meat scheme has undergone even more important transformations.

The extensive control measures under some of the single-channel fixed-price schemes were introduced in the war and post-war years when drastic action was necessary to cope with the emergencies of those times. The activities of some of the boards have been revised from time to time in the light of experience and changing conditions.

Although floor price schemes do not provide the same measure of price certainty as fixed-price single-channel schemes, they have definite advantages in other respects. They are simpler and cheaper to administer; price formation is more elastic; they give both the producer and the trade greater freedom in marketing and offer more opportunities - which might otherwise be lost - of finding outlets through private initiative.

TABLE 6.2 - Farm value of agricultural products classified according to way of marketing

Product	Average farm value 1967/68- 1969/70	Local consumption				Exported
		Controlled marketing			No control	
		Fixed sel- ling price	With support of minimum price	Without sup- port of mi- nimum pri- ce		
	R'000	R'000	R'000	R'000	R'000	R'000
<u>Field products</u>						
Maize	211 452	125 209				86 243
Wheat	83 619	83 619				
Other cereals	20 033	8 234	5 771			6 028
Sugar-cane	78 182	50 944				27 238
Tobacco	24 230	14 794				9 436
Oil seeds	32 553	19 307				13 246
Potatoes	25 737		24 934			803
Other field products	67 721	9 291	10 497	16 266	25 962	5 705
Total field products	543 527	311 398	41 202	16 266	25 962	148 699
<u>Horticultural products</u>						
Citrus fruit	36 703			5 043	2 403	29 257
Deciduous fruit	53 266		8 125		11 487	33 654
Other fruit	20 299	4 846			12 614	2 839
Vegetables	44 567				43 419	1 148
Wines	30 239	27 215				3 024
Other horticultural products	7 292				5 472	1 820
Total horticultural products	192 366	32 061	8 125	5 043	75 395	71 742
<u>Pastoral products</u>						
Wool	88 163		8 810			79 353
Other	15 376			912		14 464
Total pastoral products	103 539		8 810	912		93 817
<u>Animal products</u>						
Slaughter stock	236 365		236 139			226
Fresh milk	80 648	56 118			24 530	
Dairy products	53 363	52 036				1 327
Eggs	33 926		30 895			3 031
Poultry and other	35 424				35 424	
Total animal products	439 726	108 154	267 034		59 954	4 584
Grand Total	1 279 158	451 613	325 171	22 221	161 311	318 842
Percentage of total (%) ...	100	35.3	25.4	1.7	12.6	25.0

Source: Division of Agricultural Marketing Research of the Department of Agricultural Economics and Marketing

Although such changes have been made, there is nevertheless still a tendency for certain control boards to adhere too strictly to existing systems of control, the result being that restrictions and inflexibilities - which in time can no longer be justified and which only serve to hamper effective production and marketing - are kept in force.

In its evidence to the Commission, the South African Agricultural Union gives preference to control systems which indirectly influence the marketing mechanism. The Union's views on Government intervention in agriculture are given below:

To be able to adopt a standpoint on the desirability of Government intervention in the Agricultural sector it is necessary first to determine which forms such intervention may take. In principle there can be only two forms of intervention in the functioning of the national economy. The first is direct intervention which the market mechanism (which automatically creates equilibrium in the economy) is entirely suspended in a particular field. The

second is a matter of overall influencing of the market mechanism. An example of the former is price fixation, while a system of minimum support prices or a policy of buying and selling by the Government (as an ordinary consumer or supplier) in order to make the price rise or fall by increasing the supply or the demand, is an example of the latter.

The advantage of direct Government intervention is that it produces immediate results, whereas overall intervention is often extremely slow in achieving the desired effects. This is why people are often rather too quick to seize upon the first method. The disadvantages of direct intervention do, however, far outweigh this single advantage. The disadvantages are due to the fact that two general principles are flouted. In the first place, one can get more out of people by giving them incentives to do things than by coercion. In the second place, suspension of the market mechanism at a certain point may to greater or lesser extent cause collapse at other points in the rest of the mechanism because this mechanism functions as a large, com-

plex whole composed of interdependent elements and can never be compartmentalised to the extent where one part would have no bearing on the rest. If either of these two principles is disregarded, the inevitable result would be that direct intervention would have to be extended. If, for example, one forces a person to maintain a production quota and he then finds a way to circumvent the rules and regulations, one is obliged to make further rules and regulations to stop him. Let us take another example: As soon as the price of a product is fixed artificially (say, on the basis of cost plus operator's return), there will inevitably be overproduction (providing, of course, the physical conditions are favourable). The next step would therefore be to suspend production decisions by introducing a quota system. Clearly, this kind of chain reaction eventually leads to fundamental changes in the economic system. In this way, without its being our express desire, we would eventually be landed with a socialistic or even a communistic system: we remember that the most obvious difference between our present system and socialism or communism is the degree of Government intervention in the economy.

It is, therefore, the considered opinion of the South African Agricultural Union that direct Government intervention is a measure that should only be taken in exceptional cases and one to be applied with the utmost caution.

Broadly speaking, the Federated Chamber of Industries, the Association of Chambers of Commerce and the Departments of Agriculture adopt the same attitude in their submissions to the Commission. All the parties state this view only as a general approach to policy. It is conceded that, in spite of their inflexibilities and shortcomings, comprehensive control schemes might still under special conditions give the best results.

6.4.6 Processing and handling of agricultural products by control boards

Under the Marketing Act, control boards may be empowered themselves to undertake the processing and physical handling of the products under their control. Up to the present, policy has been to leave such functions in the hands of business undertakings, whether co-operative or otherwise. There have been exceptions to the rule, but, as in the case of the chicory, banana and rooibos tea industries, these functions have been limited mainly to the performance of services which could not be carried out efficiently or readily by private enterprise. Complaints have, however, been submitted to the Commission of certain boards going too far in this direction and encroaching unnecessarily on the preserves of private enterprise.

The Commission attaches great value to the advantages of private initiative over State-controlled undertakings, particularly because in private initiative there is greater incentive to efficiency. Private undertakings tend to be more cost-conscious and are also more receptive to new ideas and better able to adapt to them. In this regard, a control board acting as the sole consumer or pro-

cessor can easily become inflexible over the years, particularly since, in the absence of other competitors, there is no satisfactory yardstick for measuring the costs and results of a control board. Owing to the manner in which they are constituted, control boards cannot be expected to exercise proper managerial control over such activities. The Commission therefore considers that the policy of entrusting the physical handling or processing of products to private enterprise is sound and that this policy should be deviated from only where justified by exceptional circumstances.

6.4.7 Co-operatives and controlled marketing

The establishment of the control boards brought an important change in the nature and functions of the marketing co-operatives. Co-operatives handling regulated products were relieved not only of the function of maintaining prices but also, to an important extent, of the obligation to find a market for the products handled by them. Although the co-operatives functions consequently became more restricted the co-operative movement began to expand substantially after control had been introduced. Various factors, one of which was the functioning of the control board system were responsible for this*. Having been relieved of the risks of fluctuating prices and uncertain sales, the co-operatives were able to give more attention to the technical aspects of the marketing process, as well as to other functions. Although many co-operatives no longer have a price maintenance function, they still have other important marketing functions, such as storage, grading, transportation, financing, etc., and they also have to carry certain risks. In addition, they serve the control boards as an important link in the chain of distribution.

In its analysis of the role of co-operatives, the Co-operative Commission+ points out that co-operatives have a special task to perform where price formation operates unsatisfactorily, for example where numerous producers of homogeneous commodities are faced on a free market with one or only a few buyers. The deficiencies of the free market can, however, also be remedied by State intervention. If this happens - as for example under the Marketing Act - the co-operative, as opposed to the capitalistic enterprise, often loses its importance in this regard. A consequence of the control board system is "that the individual agricultural co-operative, as a marketing or processing co-operative, has in general practically become the same thing, functionally, as the 'profit-seeking enterprise'. Both may be the agent of the same buyer and cannot then influence the price paid by the buyer. Both may be subject to identical regulations in regard to the collection, grading and dispatch of commodities. Both, if they are agents, operate

*Report of the Commission of Inquiry into Co-operative Affairs. R.P. 78/1967 paragraphs 41 to 54

+Report of the Commission of Inquiry into Co-operative Affairs. R.P. 78/1967 paragraphs 397 to 400

for the same commission or within the same gross profit margin. Which of the two is to be preferred from the point of view of the community interest no longer depends on the influence they exert on prices, but only on the efficiency with which, and the costs at which, they perform the functions of collection, storage, grading, dispatch and also processing."*

In its evidence the South African Agricultural Union clearly states that it considers the co-operative movement to be of such value and importance to the agricultural sector that it would not be possible to have an economically sound farming system without a sound co-operative system. The Union consequently recommended:

"All principles laid down and all Government measures that affect agriculture must be tested to see whether they further co-operation in agriculture or hamper it. If they handicap co-operation they should be summarily rejected as being in conflict with the long-term interests of the farming community."

The Commission does not wish to digress to a field already covered fully by the Co-operative Commission. It cannot, however, omit to acknowledge the exceptional significance and value to agriculture of the co-operative movement. In fact, the administration of a system of controlled marketing is considerably facilitated by the existence of co-operatives to which certain of the control bodies' activities can be entrusted. Likewise, the introduction of the control board system has been of great benefit to the co-operative movement. Both must be of service primarily to agriculture but must also act in the best interests of the nation as a whole.

The co-operative movement has a long tradition in South African agriculture, but so has the capitalistic type of enterprise. The latter has also made an extremely important contribution to the development and advancement of the agricultural industry. In the Commission's view, the agricultural co-operatives will continue to play an important role under the control board system. Service and efficiency must, however, always be of decisive importance in the marketing of the farmer's products. There is no set way in which these objects should be achieved, but experience has shown that the profit motive in some form or other is always important. If, therefore, the Government does accept the development and promotion of co-operatives in every field as national policy, it will not be able to evade its obligation to ensure that the standard of management of co-operatives is raised so that the producer's interests may be served in the best possible way.

6.5 FINDINGS AND RECOMMENDATIONS ON CONTROLLED MARKETING

6.5.1 Principle of statutory control

The Commission's observations have led it to the conclusion that the Republic's legislation indi-

cates the right lines on which provision can be made for the introduction of measures to improve the marketing of agricultural products and keep it at an economically healthy level. Great reliance is placed on the control boards' insight and sense of responsibility as regards the maintenance of a decent standard of living for the agricultural community, the stabilisation of markets for producers and the maintenance of reasonable consumer prices. Under existing legislation, however, the final decisions rest with the Government which in fulfilling its functions under the Marketing Act is advised by the National Marketing Council. Although the Wool Commission Act provides that members of the National Marketing Council may attend meetings of the Wool Commission and take part in the discussions and that the Marketing Council may undertake certain inquiries into the affairs of the Wool Commission, the legislation concerned does not specifically require a recommendation on the part of the Marketing Council before the Minister approves a decision of the Wool Commission. The Marketing Council is not involved in the marketing decisions affecting wine either. In the opinion of the Commission these are deficiencies in the co-ordination between control bodies which should be remedied.

In the course of its investigations the Commission had various problems in the administration of the system of controlled marketing in the Republic brought to its attention. In many cases these problems are inherent in the dynamism and complexity of agricultural production and marketing and for such problems there are no easy solutions - in fact, possible alternatives might cause even greater problems. There are other cases, however, where improvements can be effected and appropriate recommendations made. It appeared from the evidence that there are also important shortcomings, arising mainly from the administrative organisation under the Marketing Act. This should by no means be construed as implying that controlled marketing as a whole has failed. In the opinion of the Commission, the facts of the matter indicate the contrary.

There has been tremendous success in eliminating unnecessary and excessive short-term fluctuations, especially in the case of the less perishable products. But also in the longer term, where general economic conditions must inevitably have a decisive effect on prices, success has definitely been achieved in keeping prices and incomes at a much more stable level than would otherwise have been possible. During the war and the post-war years when general shortages were experienced, it was of course relatively easy to maintain producer prices. It was only after 1950 that the Marketing Act was really put to the test. Owing to mechanisation, technological developments, the increased use of fertiliser and better production methods, agricultural production showed phenomenal growth after 1950, with the result that the Republic had to contend with surpluses of many of its agricultural products. Since these surpluses coincided for the most part with alarmingly low prices on the world market, the control schemes often had to function under difficult conditions and tremendous demands were made on them. Neverthe-

*Report of the Commission of Inquiry into Co-operative Affairs. R.P. 78/1967, paragraphs 397 to 402

less, they were successful not only in averting serious slumps in prices but also in maintaining general producer prices at a relatively stable level.

This can be borne out by various examples. Two successive years of record outputs in 1959/60 and 1960/61 increased the turnover in dairy products by 22 per cent. In spite of the serious marketing problems experienced - particularly with butter when the Republic's traditional overseas outlet was suddenly, so to say, closed by quota restrictions - producer prices were reduced by only twelve per cent over the same period. That this achievement was possible, was due entirely to the stabilisation fund built up over the years by the Dairy Board and the intensive sales drive launched. In the case of maize, where the increase in production in the early sixties assumed even greater proportions, turnover increased by over 50 per cent from 1960 to 1962, whereas prices dropped by less than 10 per cent over the same period. Various other products may be mentioned - for example, eggs, pork, chicory, tobacco, grain sorghum - where the serious surplus problems experienced from time to time might well have proved disastrous had it not been for the scheme, but where the crises were overcome with relatively moderate price adjustments.

Greater efficiency can also be claimed to have been achieved in the collection, storage, processing and distribution of products. By co-ordinating the collection and distribution of products under their control, various boards have succeeded in promoting sales and reducing costs. The price stability achieved, together with the steps taken to encourage rationalisation, have enabled processors and distributors to function more efficiently and provide the necessary facilities for the steadily rising output. Here, for example, reference may be made to the measures adopted by the Maize Board and the Wheat Board to promote the establishment of adequate facilities for bulk storage. Proper grading of agricultural products - with suitable price differences according to grade - is indispensable in the administration of most of the control schemes and has undoubtedly led to an improvement in quality and the general promotion of sales. All these factors have helped to ensure that foodstuffs reach the consumer at stable and relatively low prices.

The Commission agrees in this regard with the views of the National Marketing Council as quoted below:

"In all instances control measures should be limited to the minimum required to achieve the basic aims. Notwithstanding the advantages control can secure, it also has weaknesses. State interference inevitably involves rigidities which tend to retard initiative and economic progress. Certain products are simply not amenable to controlled marketing or to extensive control measures and it is essential that the interests concerned should recognise the limitations that exist, as the shortcomings of

any particular scheme tend to become the basis of criticism of the system as a whole. ...Control cannot be extended for the sake of control and the emphasis must always be on stability and more efficient marketing."*

The Commission has noted that the application of control measures under the Marketing Act has already been investigated by a commission, a report having been completed in 1949, namely the Report of the Marketing Act Commission (1947), U.G. 48-1949. Several special inquiries into the marketing of various controlled commodities were subsequently ordered and reports on these inquiries have become available in recent years, namely -

1. Livestock and Meat Industries Control Board: Report of the Beef Marketing Enquiry Committee, May 1955.
2. Report of the National Marketing Council on the Control Boards under the Marketing Act for the period 1950/51 to 1963/64. 1965.
3. Mealie Industry Control Board: Improved One-channel Marketing System for Maize. July 1967.
4. Verslag van die Komitee van Onderzoek na die Werking van die Bemerkingskema vir Slagvee en Vleis. September 1968.
5. Report of the Committee of Inquiry into Certain Matters Relating to the Marketing of Fresh and Industrial Milk and Control over the Hygiene and Quality thereof. 1969.
6. Report of the Committee of Enquiry into Certain Aspects of the Marketing of Livestock and Abattoir Matters. February 1970.
7. Report of the Commission of Inquiry into the Sugar Industry of the Republic of South Africa R.P. 96/1970.
8. Committee of Inquiry into Wool Marketing. Report and Recommendations on Wool Marketing in South Africa. April 1971.
9. Report of the Committee of Investigation into the Egg Industry in South Africa, May 1971.

Although the Commission has noted the contents of these and other reports, it does not consider itself fully competent to put forward authoritative opinions or make recommendations on any of the schemes dealt with in those reports nor on the controlled marketing of the other commodities. The Commission wishes, however, to touch on a few aspects of controlled marketing which were brought to its attention and which it considers to be of special importance owing to their particular effect on various facets of agricultural marketing and agricultural production.

*Report of the National Marketing Council: R.P. 40/1965, paragraph 43

6.5.2 Rationalisation of control schemes

In paragraphs 58 to 60 of its report* which was published in 1949, the Marketing Act Commission directed attention to the tendency towards "an over-extension of marketing control" and pointed out that the difficulties which would arise from this could be overcome to some extent by "a greater use of joint boards". The Commission urged that "in the application of the Marketing Act, it would be wise to concentrate on the major farm products ... In the case of the minor products, on the other hand, the regulatory system would have to take account of so many local variations as to become almost unwieldy. ... Furthermore, the extension of the marketing board system to a host of minor products would entail a most difficult supervisory task; and, as has been emphasised elsewhere, proper supervision over the boards is a sine qua non for their very existence."

In their submission to the Agricultural Commission, the Departments of Agriculture also referred to the desirability of co-ordinating certain functions of control boards. "What is envisaged here is particularly co-ordinated action as regards research, publicity, sales organisation - especially abroad - etc. Better co-ordination in this respect would eliminate much overlapping and in this way result in savings." (Translation)

In view of the special circumstances surrounding wool producers owing to the drop in wool prices, together with declining wool production, the need to reduce unit costs in wool marketing by rationalising marketing and allied services is felt so strongly that a special committee has been appointed with the approval of the Minister to conduct an urgent inquiry into wool marketing. The recommendations made by this Committee⁺ on modifications of marketing arrangements considered necessary for the more effective and more economic marketing of wool are indicative of the importance of greater rationalisation both in control schemes and between control boards in order to cut marketing costs to the benefit of producers but without impairing the effectiveness of marketing.

The Committee of Inquiry into Certain Matters Relating to the Marketing of Fresh and Industrial Milk^φ also became convinced that both fresh and industrial milk should be purchased on the basis of quality and that such purchasing could be entrusted to a single statutory body "which can act as controlling and supervisory authority".

From the data furnished in Table 6.3 it is striking how many control boards there already are for agricultural products which are closely

related to each other in production conditions, nature and/or marketing requirements. These data also show the high level of current expenditure by the various control boards, which were established to undertake the marketing of these commodities separately. The monetary demands made by such a system of multiple control boards are even more striking if the amounts invested in administrative buildings for these respective boards are also taken into account.

Apart from the high costs entailed by the tendency for control boards to proliferate, the fact that there are several control boards has meant that the approach to price determination has become so sectional that, in the opinion of the Departments of Agriculture, equilibrium in agriculture is being disturbed.

6.5.3 Marketing adjustment in agriculture

It has become customary, particularly since the Second World War, for governments to exercise a greater measure of direct control over the marketing of agricultural product and the determination of prices for such products. These two aspects are, of course, closely related. In many countries food prices and the handling of the principal agricultural products are also of great political importance.

6.5.3.1 Views on need for a different approach to marketing

Under a system of free or comparatively free competition, it is virtually impossible for the Government to keep itself fully informed of all the factors affecting the price-forming processes in commerce. An expert knowledge of these factors is, however, essential if injudicious decisions on prices are to be avoided. In the practical application of any price policy the influence of supply and demand cannot be ignored. Although the Government's decisions may at times be inspired by considerations other than purely economic ones, it is nevertheless imperative for the Government to have expert advice in the first place because, for one thing, any price policy, however well-intentioned, would miscarry if market conditions were constantly disregarded. Moreover, it is not always easy to tell exactly which advantages are to be gained by adopting a particular marketing policy. Therefore, it is often found to be much easier to concentrate on a single aspect, such as price stability, than to adopt a rational approach to the economic marketing set-up in its entirety.

In its discussion of price policy in paragraph 6.3.3 the Commission referred to the need for a sound price ratio between agricultural products. Since the various control boards act independently, the task of effecting proper co-ordination devolves upon the Minister of Agriculture, advised the National Marketing Council.

One of the main grievances which the South African Agricultural Union has about administration of marketing control is that the National Marketing

*Report of the Marketing Act Commission (1947). U.G. 48 - 1949

⁺Committee of Inquiry into Wool Marketing (p971). Report and Recommendations on Wool Marketing in South Africa.

^φReport of the Committee of Inquiry into Certain Matters Relating to the Marketing of Fresh and Industrial Milk and Control over the Hygiene and Quality thereof. 1969.

TABLE 6.3.- Current expenditure incurred by the various marketing bodies in marketing the agricultural products for which they were established. The figures relate to the financial year ended during 1970*

Commodity	Admini- strative expenses (R)	Staff numbers (R)	Advertising and other promotional expenditure (R)	Research expenditure, donations, etc. (R)	Special services (R)
Animal products					
Vleis	1 679 333	361	179 647	21 671	11 337
Animal products (non-perishable)					
Wool (Wool Board and Wool Commission)	520 069	235	151 128	150 000	-
Mohair	82 667	9	59 835	80 181	22 047
Karakul	34 221	5	704 888	3 500	-
Animal products (perishable)					
Fresh milk	455 169	99	224 733	900	-
Industrial milk	139 325	26	414 130	28 125	-
Eggs	300 858	78	83 895	-	-
Maize and other summer crops					
Maize and other cereals	1 237 186	310	153 896	23 628	-
Oil seeds and soy-beans	254 534	39	20 467	19 500	-
Dry beans	51 281	14	35 793	-	-
Potatoes	156 262	27	9 108	9 030	-
Wheat, other small grains and lucerne					
Wheat and small grains	646 283	119	2 700	49 408	1 955
Lucerne seed	14 660	3	-	35	1 006
Special crops for processing					
Rooibos tea	9 583	4	18 630	2 781	-
Chicory/	150 348	17	730	1 188	-
Tobacco	76 823	17	3 835	28 050	-
Deciduous fruit					
Deciduous fruit as such	1 295 526	137	554 201	80 676	-
Canning fruit	32 280	5	25 613	-	-
Dried fruit	88 348	13	8 973	1 128	-
Subtropical fruit					
Citrus	1 857 513	280	Included un- der admi- nistrative expenses	100 893	-
Bananas/	341 068	42	60 519	29 757	-

* Composite data furnished by the control boards at the request of the Commission.

/ Data include pool expenditure (marketing costs), but not direct drying costs.

/ Excluding data on the ripening of bananas.

Council should pay far more attention to one of its main functions, namely to ensure that there is equilibrium between the various branches of agricultural production, particularly as regards the relative price levels.

As asserted by the Departments of Agriculture in their submission to the Commission, the promotion and maintenance of a sound price ratio between products is one of the most difficult tasks under controlled marketing. On the one hand, this is due to the dynamism and complexity which, as mentioned above, are so characteristic of agricultural production and marketing. But, apart from these problems, which are of a more physical and economic nature, the Departments consider that there is another important reason why it is so difficult to achieve sound price ratios: "the tendency on the part of control boards in general to adopt a sectional and even subjective approach to the marketing of the regulated product. The producer representatives are in the majority on all the control boards

and it is understandable that a control board would, especially when it comes to price considerations, seek the greatest possible benefit for its producers." (Translation)

In its report* the Marketing Act Commission (1947) pointed out certain inherent weaknesses in a system of controlled marketing. For example, paragraph 55 of its report reads as follows:

"In the Commission's opinion, the potential weaknesses of a system of regulated marketing arise from two main sources.

The first is that the boards may be unduly influenced by sectional considerations owing partly to their representative nature, but mainly to the fact that each board naturally strives for the advancement of its own industry. It is on this account that safe-guards have been placed in the hands of higher authorities under the Act. ... It is, of course,

*U.G. 48-1949: Loc. cit.

vital that the various safeguards should be made effective by providing adequate facilities for continuously ascertaining the facts on which the decisions ought to be based. Assiduous research and constant observation are furthermore necessary for the discovery and rectification of mistakes which may be made.

Secondly, it must be remembered that while the case for the Marketing Act flows from the defects in the working of the competitive system, remedial action by the boards can have comparable defects. The exercise of control inevitably involves rigidities, and while a degree of certainty and security is conducive to progress, it is damaging to initiative if pushed too far. ..."

In a recent paper* Dr Scholtz listed various adjustments considered necessary in the approach to the marketing of agricultural products and their handling in view of the changes that can be expected in the seventies - adjustments to protect the interests of agriculture and to assure the agricultural sector of a fair share in the increased economic prosperity of the country. He went on:

"All the indications are there that the consumer's market will be influenced, developed and even exploited by means of the most modern techniques of integrated marketing. If agriculture therefore wishes to retain its relative position (let alone improve it), it will have to apply the 'new' marketing concept itself and practise the latest techniques.

"Increased productivity in the production of agricultural commodities is not in itself a guarantee of increased prosperity to the producer. It is efficient marketing which is the key to full participation in the economic growth process and which should therefore be given particular attention.

"... One of the basic problems in agricultural marketing is that there is often a wide gap between the primary producer and the end-user, which is bridged by a long chain. In South Africa we also have the statutory marketing organisations as an additional link, and it is becoming more difficult to carry decisions on planning the adjustment through to their logical conclusion. ...

"In all the links of the marketing chain a marketing state of mind should exist ... The preoccupation with dominating bargaining power for producers that still prevails in certain circles is really no longer a topical problem in the present set-up of controlled marketing. What is necessary is that the producer majorities on the boards should bear in mind that their own survival is closely interwoven with that of the consumer. By being consumer-orientated, producers by no means

jeopardise their bargaining power and they definitely safeguard their future.

"If the boards really wish to fulfil their task, they will have to apply themselves purposefully to the task of motivating the different sectors in their respective industries to such a new marketing approach. In the execution of their different marketing functions, agents, processors and distributors will have to concentrate to an increasing extent on satisfying the needs of the consumer, and by means of information, guidance and price policy the primary producer will have to be persuaded to adjust his production plans to this objective as far as possible.

"In addition, the boards should endeavour to secure the co-operation of other authorities to ensure a purposeful and co-ordinated approach to agricultural marketing at all levels. ...

"To achieve this end, all the parties in question will have to adopt a uniform fundamental approach, a marketing state of mind, and in the current institutional set-up the statutory marketing organisations will have to take the main initiative. In the widest sense of the word agricultural control boards will have to become agricultural marketing boards."

Dr Van Biljon* describes the position as follows:

"The situation in our farming industry therefore is that no assurance exists either that enough will be produced to meet local demand or to take advantage of changing world supply and demand conditions, and this situation will continue as long as the industry remains entirely unplanned and devoid of productive targets, with the producers of the different commodities being guided solely by price, the decisions on which are furthermore made separately by the different commodity marketing boards and approved of by a Minister who of necessity is not immune to political pressure ...

"Production targets should be established for each major farm product by the component industry organisations on the basis of projected domestic and foreign demand. Price and marketing policy can then be adapted to achieve those targets while research programmes and public investment in facilities must likewise be attuned thereto.

"Should the objectives as stated and the proposed means to achieve them prove acceptable, it is yet to be doubted whether the existing agricultural marketing boards are correctly constituted to pursue the appropriate strategy."

The Departments of Agriculture consider that in the controlled marketing system, particularly as regards price determination, co-ordination between control boards is of the utmost importance if equilibrium in agriculture as a whole is to be promoted. In their submission to the Commission the Departments continued:

*Scholtz, A.P. (1970): Marketing planning and adjustment in agriculture in the seventies. Paper, 9th Annual Conference of the Agricultural Economics Society of South Africa.

*Van Biljon, F.J. (1971): A review of South Africa's farming industry. Address, Sugar Technologists' Conference, 7 June 1971.

"Any attempt at greater co-ordination between control boards may, for example, include, in the first place, the promotion of a common approach, particularly to price determination, and, secondly, the placing of the control boards system under an authority whose task it would be to see that the desired co-ordination does take place.

"The idea behind this common approach is mainly to aim at determining prices in such a way as to keep them in sympathy with the trade cycle especially as regards direction, but subject to maintaining as far as possible the desired measure of stability as regards rate of change as well. Such an approach would possibly prevent the price for a particular product from falling out of step with that of other products, particularly competitive products, and would also reduce the need for sizeable funds to cover export losses in times of overproduction.

"As regards the co-ordinating authority, there appears to be a place in the control system for a body with the authority, for example, to receive properly substantiated price proposals from the respective control boards and to consider them simultaneously with a view to co-ordination in the light of general economic conditions, broad agricultural policy (especially on the use of the factors of production), the country's needs, marketing opportunities, etc. The recommendations of this authority to the Minister should carry so much weight that they would be accepted as final and would be approved by the Minister almost without exception. For this reason particular attention must be given to the constitution of the body. Perhaps the Rhodesian Agricultural Marketing Authority which was established some time ago might serve as a model for reform in this direction.

"Besides co-ordinating decisions of the control boards, the co-ordinating authority might also fruitfully co-ordinate certain functions of the control boards. The main idea is to have co-ordinated action on research, publicity, sales organisation - especially abroad - etc. Better co-ordination in these respects would eliminate much overlapping and therefore effect savings.

"Something like this was probably envisaged with the establishment of the National Marketing Council under the Marketing Act. However, owing to the fact that matters such as price are considered independently by the various marketing boards, that control boards take decisions for submission to the Minister and that the Marketing Council merely advises the Minister on these decisions, the Marketing Council is not, under the present circumstances, in a position to make overriding and decisive recommendations as would be the case with a co-ordinating body of the kind described above." (Translation)

Members of the National Marketing Council with whom the Commission held discussions confirmed that, as its functions at present, this Council cannot contribute to marketing policy, price formation and the co-ordination of marketing activities (for which there is such a particular need

at present) and felt that the time had come for the complete overhauling of the whole set-up, including the duties and functions of the bodies concerned.

On a visit to Salisbury, the Commission had the opportunity to see how the Rhodesian system works. As is the case in the Republic at present, the control schemes in Rhodesia used to be administered by boards consisting of representatives of the various sectors of the industries concerned. The old system was superseded by one in which a single statutory body, the Agricultural Marketing Authority (A.M.A.), has become the controlling authority. According to the 1970 Annual Report of the A.M.A., that body had already assumed responsibility for the Cold Storage Commission and the control boards established for dairy products, cereals and cotton. The Agricultural Marketing Authority was established on 1 October 1967, taking over all the functions of the former Agricultural Marketing Council from that date. The functions of the Authority, however, cover a much wider field than those of the Council. In actual fact, the old representative boards have been superseded by the A.M.A. To enable the A.M.A. better to fulfil its functions, it was authorised to appoint committees to which it may delegate any of its own powers or functions. Persons who are not members of the A.M.A. may also serve on such committees, but the chairman of a committee must always be a member of the A.M.A. Although the committees appointed for each of the control schemes deal with all matters affecting their respective boards, full executive powers are vested in them solely as regards the current operations and administration of each of the control schemes. As regards general policy or decisions that are subject to the approval of the Minister, e.g. price determination, the committees act solely in an advisory capacity to the A.M.A. Both the committees and the A.M.A. consult such interests and parties as they consider necessary for the proper performance of their functions.

A basic advantage of the Rhodesian system, as put to the Commission by various parties in Rhodesia, is that authority is delegated in the direction of specialisation. The various facets of controlled marketing - both the making and the implementation of policy - are entrusted to persons best qualified and equipped to deal with them. In addition, the system has the advantage of creating the machinery for rational co-ordination. What is more, the system lends itself to the establishment of a single administration for minor schemes, as well as to the elimination of big, unwieldy boards, with a resultant saving in costs.

6.5.3.2 Recommendation on inquiry into adjustment of controlled agricultural marketing

The Commission is deeply impressed by the extent to which the system of controlled marketing has promoted the orderly marketing of agricultural products and by the contribution which this system has made to progress in agriculture. In the course of its investigations, however, the Commission's attention was directed to the desirability of making certain adjustments to controlled marketing, but the

Commission considered that its constitution was not fully such as to enable it to make a more profound analysis of the operation of controlled marketing and to make full recommendations on this matter.

The Commission therefore recommends that a special commission be appointed to inquire into and make recommendations on the controlled marketing of agricultural products and the effectiveness of existing arrangements in this connection.

6.5.4 Marketing of slaughter stock and meat

Although, as stated above, the Commission considered that its constitution was not fully such as to enable it to analyse in detail any of the marketing schemes under the system of controlled marketing and to make specific recommendations on them, its findings on animal production and the information it obtained on the problems in marketing slaughter stock and meat convinced the Commission that this matter is so important to the livestock industry and to farming in South Africa in a wider context and, more specifically, the urgent necessity for reducing stock particularly during droughts, that far-reaching changes should be seriously considered in this regard.

6.5.4.1 Destocking in drought-stricken areas

In Chapters V, VI and VII of its Interim Report, in the discussion on measures adopted during drought distress conditions and that on reconstruction measures after droughts, the Commission expressed serious concern about the extent to which veld grazing is overtaxed, particularly at times when the veld should be allowed to recover after droughts and the vegetation is extremely vulnerable to overgrazing. In paragraph 5.1.9 of that report it was mentioned, inter alia, that various meat marketing organisations put it to the Commission that timely arrangements to dispose gradually of stock in good condition would prevent the market being oversupplied in times of distress and that this would make better regulation of the supply of stock to the various markets possible.

In paragraph 6.3.7.3 of that report the Commission concluded its views on destocking through marketing as follows:

"The Commission is firmly convinced that the timely and profitable disposal of excess stock from areas increasingly affected by drought is of extreme importance as a precaution to keep the remaining stock alive and prevent overtaxing of the deteriorating veld. The Commission therefore wishes to recommend that everything possible should be done by the Livestock and Meat Industries Control Board to arrange increased slaughterings for drought-stricken areas, so that farmers can dispose of marketable stock. Well-equipped and strategically situated abattoir facilities and storage units are needed for destocking by slaughtering during such periods of distress. The Commission intends giving more attention to this matter later."

The Commission was informed that serious problems were experienced in disposing of stock when the "stock reduction scheme" was put into operation in areas where drought conditions had seriously affected the veld cover, as a result of the recommendation of the Commission made in paragraph 7.3.6 of its Interim Report.

The Commission is aware, however, that a revised permit system has since then been introduced to regulate the supply of slaughter stock and make it easier for the producer.

6.5.4.2 Meat production and consumption

In paragraphs 9.6.2 to 9.6.2.2 of the Commission's Second Report, attention was directed to the lack of vitality in the stock farming industry of the Republic, particularly as regards cattle and sheep. Data were furnished in that report, indicating that total per capita consumption rose from 96,1 lb for the period 1931-35 to 111,1 lb for 1946-50 but subsequently declined to 86,0 lb in 1967/68, which compares very unfavourably with countries at a level of development on a par with the Republic.

With particular reference to the red meat position in South Africa the Commission in its Second Report also commented on the following situations:

- (a) The South African large and small stock industry (excluding neighbouring territories) is lagging behind the domestic demand for meat to an ever-increasing extent. This trend is still continuing, despite an increase in the prices of beef of more than 55* per cent over the past seven years.
- (b) As regards marketing facilities and the distribution of red meat in particular, conditions since 1969 have been such as to have an adverse effect on marketing prospects and therefore on the trends in the production of this meat as well. Every effort must be made to provide optimal marketing possibilities in order to stimulate the local production of red meat as much as possible.

In its Second Report the Commission discussed regional planning in detail and the adaptation of farming systems to the type of soil and local environmental conditions. In many areas this would mean a shift in emphasis from cash crop production to animal production, and in small stock farming from the predominant production of wool to wool and meat production. It was also considered desirable that farming activities in those parts of the country with a higher and more stable rainfall should be considerably expanded and intensified, this applying to the various types of animal production as well. It was stated, further, that there was not yet much intensive feeding and finishing of

*In the Commission's Second Report [page 136, item (b)] this figure was inadvertently given as 200.

slaughter stock. In fact, several parties asserted that the prospects of selling slaughter stock and the market prices under prevailing marketing conditions were so uncertain that the risk was too great to specialise in and incur expenditure on the fattening of stock for the meat market.

According to the Commission's Second Report, the situation is therefore already so serious and is likely to have so many disadvantages for both the population and the stock industry that the matter should be given very high priority in the planning of production.

6.5.4.3 Schemes for the controlled marketing of slaughter stock and meat

In its report* the Committee of Inquiry into the Operation of the Slaughter Stock and Meat Marketing Scheme reviewed briefly the various schemes introduced from 1932 to regulate the marketing of slaughter stock and meat. The schemes mentioned are the following:

- (a) 1932: The establishment of the first Meat Board under Act 29 of 1932 to control the slaughter stock market in Johannesburg.
- (b) 1934: The establishment of a more representative board with an extension of functions and areas to include the Witwatersrand and Pretoria.
- (c) 1936: Extension of control to Cape Town.
- (d) 1942: Extension of control to Durban and fixing of maximum wholesale and retail prices for beef and mutton.
- (e) 1943: Extension of control to Bloemfontein, East London, Port Elizabeth, Kimberley and Pietermaritzburg.
- (f) 1944: Introduction of the single-channel meat marketing scheme.
- (g) 1945 and 1946: Extension of the restrictions to other rural areas.
- (h) 1950: Transfer of responsibility for the administration of the entire meat marketing scheme from the Food Control Organisation to the Meat Board.
- (i) 1951: Introduction of the auction on the hook scheme with a guaranteed price for sheep.
- (j) 1956: Introduction of the auction on the hook scheme with a guaranteed price for cattle.
- (k) 1958: Introduction of the auction on the hook scheme with a guaranteed price for pigs.

In 1967 the Abattoir Commission was established in accordance with the recommendations of the

Commission of Inquiry into Abattoir and Allied Facilities (1964).*

In the words of the Committee of Inquiry into the Operation of the Slaughter Stock and Meat Marketing Scheme+, "... it is generally accepted that the basic object of the meat scheme is to bring about stability and efficiency in the slaughter stock and meat industry so as to promote the production, marketing, processing and consumption of slaughter stock and the products thereof." (Translation)

The number of inquiries ordered since the introduction of controlled marketing of slaughter stock and meat in 1932 and the adjustments subsequently made in such marketing bear testimony to the earnest attempts on the part of the authorities, the members of the Meat Board and the officers of the Departments concerned to achieve these objects by the various means possible under a system of controlled marketing. But experience has made the parties concerned realise that, owing to various shortcomings and unforeseeable turns of events, these expectations have not and cannot be realised.

In certain respects the auction on the hook scheme has had a decidedly favourable influence on the marketing of slaughter stock and meat, and the establishment of the Abattoir Commission has filled a very real need. Nevertheless recent events have shown that there are still certain shortcomings - particularly as regards adequate abattoir facilities, marketing prospects, regularity of supply and price situations - which are seriously hampering meat production and therefore also the Live-stock enterprises concerned.

6.5.4.4 Possible alternatives for the marketing of slaughter stock and meat

Since the Commission considers this matter so important to the promotion of agriculture and particularly stock farming in the Republic, it was very interested to learn how the Rhodesian system of marketing and handling of cattle works and to note how successful it has been.

During its visit (in August 1968) to the Head Office of the Cold Storage Commission (C.S.C.) in Bulawayo, the Commission was most impressed by the cleanliness and efficiency with which the slaughtering and processing units of the C.S.C. processed all parts of slaughtered cattle and pigs into saleable products within a relatively short time. The Commission learned from discussions with the staff of the C.S.C. that the speculative element has been curbed to a very large extent by the establishment of the C.S.C. (which has been in operation since 1955) and that producers know

*Report R.P. 48/1964, Government Printer, Pretoria.

+Report (1968): Loc. cit.

*Report (1968): Loc. cit.

at least a year in advance what prices they can expect for the different grades of meat at specific times. The C.S.C. is an autonomous statutory institution which is authorised and has financial means to purchase, slaughter, process and sell stock locally in the wholesale trade and which has the sole right to handle and regulate exports of meat.

The C.S.C. has been so successful with its meat regulating scheme that up to the present it has been able to finance its activities from its own funds. Only once, during an exceptional drought, has it been obliged to accept a contribution from the Government and in the past ten years it has built up a stable surplus of approximately R5 million.

Besides these activities, the C.S.C. has also started a grazer cattle scheme which has been created to give financial backing to the shifting of stock during disaster droughts and to finance farmers who are establishing or expanding cattle ranches.

This organisation is highly rated in Rhodesia by farmers as well as by official bodies. It is so strongly supported that at the time of the Commission's visit it was handling approximately 70 per cent of all the large stock marketed in Rhodesia and so greatly influenced livestock and meat marketing that the prices announced annually by the C.S.C. for the following twelve months were accepted quite voluntarily as the standard prices for stock and meat by virtually all sellers, dealers, butchers and farmers.

At the request of this Commission, Mr N. Spoel, General Manager of the Cold Storage Commission (formerly a member of the Livestock and Meat Industries Control Board in the Republic), submitted a memorandum on the meat control schemes as at present in operation in Rhodesia and South Africa. In his memorandum he sounded a note of caution on taking over systems as operated in other countries:

"One cannot simply copy what has been done elsewhere, however successful it may have been. One must take into account South African conditions and, whereas the outside experience may prove a guide and be helpful, any scheme that ignores South African conditions merely tends to stand doomed to failure."

This opinion was endorsed by the Livestock and Meat Industries Control Board in its comments on Mr Spoel's memorandum which had been referred to it.

6.5.4.5 Conclusions

The Commission has reason to agree with various bodies and persons that, although very serious attention has been given to the matter, many adjustments have been effected and much progress has been made with the aid of controlled marketing, there are still several shortcomings which are hampering the marketing of slaughter stock and meat in South Africa, particularly as regards certainty about marketing prospects and physical facilities for the timely and orderly slaughtering of stock as well as for the processing of meat and the various by-products at abattoirs.

The Commission gained the impression that there is considerable room for improvement and expansion as regards the establishment of central slaughtering and processing units to serve the larger centres. The question also arises whether serious consideration should not be given to the establishment of strategically situated and well-equipped units with supplementary cold storage facilities to serve the country's major centres of population.

The Commission was most gratified to learn of the steps, recently announced by the Minister of Agriculture, to eliminate certain bottlenecks in the marketing of livestock and meat.

The Commission, however, considers this matter to be so important and has also gained the impression that so many bodies have an interest in the marketing of livestock and meat that, if the above-mentioned steps are not successful, a determined effort will have to be made immediately to find a set-up which would be a better answer to the complexity of the situation, if necessary by establishing a utility company to handle slaughtering, the processing of by-products, and the storage of meat.

CHAPTER VII

7. MARKETING OF NON-REGULATED AGRICULTURAL PRODUCTS

7.1 INTRODUCTION

According to the 1969/70 Annual Report of the Department of Agricultural Economics and Marketing, the value of agricultural products for which there are statutory stabilisation measures came to 86 per cent of the gross value of agricultural production in 1969/70. The most important products making up the remaining 14 per cent are vegetables, subtropical fruit (excluding bananas) and cotton. For cotton there is, however, at present an arrangement whereby producer prices are determined annually on a voluntary basis after negotiations between the interested parties. Vegetables and fruit therefore form the principal group of products for which, with certain exceptions, there are no particular price stabilisation measures.

As appeared from paragraphs 6.4.3 and 6.4.4 of Chapter VI, the marketing of certain kinds of fresh produce, such as citrus, bananas, potatoes, as well as the grapes, peaches, apricots, apples and pears produced in certain regions, falls under control boards. The degree of control varies, however, from full physical control, as in the case of citrus during the main production season, to only general supervision over an industry, without direct physical control. With the possible exception of bananas, there is often not much difference between the procedure followed locally in the physical marketing of the regulated fresh produce mentioned above and that for the non-regulated kinds of fresh produce. Generally, so far as the domestic marketing of the above-mentioned regulated products is concerned, the same marketing problems are encountered as with non-regulated fresh produce. Potatoes, citrus fruit, deciduous fruit and vegetables are the most important "market" products and without them the municipal markets would hardly be able to keep going as financially independent concerns. Defects or shortcomings in the system of selling through the municipal markets would therefore affect these products very closely, irrespective of whether they are regulated products. Indeed, the control boards concerned can do much to promote the orderly marketing of their products because they have the statutory powers to regulate marketing and ensure that certain standards are maintained. In this regard the Potato Board, for example, plays an important role because it is able to remove surplus stocks from certain markets whenever necessary so that these stocks can be marketed elsewhere, thus relieving the pressure on the local markets concerned.

This chapter is therefore devoted primarily to the marketing of non-regulated agricultural products (mainly vegetables and certain fruits), but owing to the marketing conditions found in actual practice, what is said about the non-regulated kinds of vegetables and fruit also applies in certain respects to the marketing of regulated products such as citrus, deciduous fruit and potatoes.

7.2 MARKETING OF FRESH VEGETABLES AND FRUIT IN PERSPECTIVE

The cultivation of vegetables and fruit is an important industry in South Africa. The annual output (including potatoes, but excluding wine grapes) is at present about 3 million metric tons. The farm value of these products in 1969/70 was estimated at about R179 million, or approximately 13.4 per cent of the total gross value of agricultural production.

For 1968/69 and 1969/70 the turnover in fresh produce on the nine principal fresh produce markets, including certain regulated products such as potatoes and citrus, was as shown in Table 7.1.

TABLE 7.1 - Total turnover in fresh produce on the nine principal fresh produce markets, 1968/69 and 1969/70

Markets	1969/70*	1968/69
	R1 000	
Johannesburg	22 329	23 709
Cape Town	15 416	14 222
Durban	9 060	9 173
Pretoria	8 766	8 230
Port Elizabeth	3 526	3 178
Pietermaritzburg	2 586	2 702
Bloemfontein	2 014	1 899
East London	1 837	1 772
Kimberley	971	1 065
Total	66 505	65 950

Source: 1969/70 Annual Report of the Secretary for Agricultural Economics and Marketing.

* The figures for 1969/70 are provisional.

Vegetables: Approximately 453 000 metric tons of certain vegetables (excluding potatoes) were sold on the nine principal urban markets in 1969/70. The quantities and values are given in Table 7.2.

Data on the total production of non-regulated vegetables and fruit are not readily available. According to the above-mentioned report, however, the volume of sales on the nine principal markets is a reasonable indication of production trends, but the marketing patterns for vegetables and for fruit vary considerably.

Of the total output of vegetables (including potatoes) during the five years ended 1969/70*, an annual average of 53 per cent, by mass, was sold

* Division of Agricultural Marketing Research of the Department of Agricultural Economics and Marketing.

by municipal markets; 8 per cent was processed; 2 per cent exported; and 37 per cent was marketed locally through other channels or kept by the producers for their own use.

TABLE 7.2 - Quantities and value of certain vegetables sold on the nine principal fresh produce markets, 1968/69 and 1969/70

Produce	Quantity	Value	Unit value
	Metric tons	R1 000	R per metric ton
<u>Tomatoes</u>			
1969/70	123 036	10 530	86
1968/69	105 852	10 070	95
<u>Cabbages</u>			
1969/70	73 130	1 800	25
1968/69	74 534	1 866	25
<u>Dried onions</u>			
1969/70	60 919	3 601	59
1968/69	54 598	2 716	50
<u>Pumpkins</u>			
1969/70	31 247	1 067	34
1968/69	29 231	1 060	36
<u>Gem squashes</u>			
1969/70	24 480	1 360	56
1968/69	21 295	1 135	53
<u>Green beans</u>			
1969/70	13 746	1 489	108
1968/69	13 927	1 297	93
<u>Green peas</u>			
1969/70	4 054	350	86
1968/69	4 906	416	85
<u>All vegetables (excluding potatoes)</u>			
1969/70	452 933	26 092	58
1968/69	415 254	23 965	58

Source: 1969/70 Annual Report of the Secretary for Agricultural Economics and Marketing. The figures for 1969/70 are provisional.

Fruit: In the Report of the Secretary for Agricultural Economics and Marketing data were also furnished on certain kinds of fruit sold on the nine principal urban markets. The details are contained in Table 7.3.

The fruit industry, on the other hand, is largely dependent on the export market, while large-scale processing is also more common than with vegetables. During the corresponding period, for example, an annual average, by mass, of 38 per cent of production was exported; 31 per cent was processed; 19 per cent was marketed by municipal markets, while 12 per cent was marketed through other channels or kept by producers for their own use.

The statistics given above show that the marketing pattern for vegetables differs widely from that for fruit. These products are disposed of mainly through fresh marketing by municipal markets, local processing and exports. It should also be borne in mind that at present about 100 different kinds of vegetables and fruit are marketed regularly, each of these products having to a certain extent a marketing pattern, and consequently also

marketing problems, of its own. On the outskirts of the larger cities considerable quantities of fresh produce are also grown and sold by producers direct to the trade or through hawkers and stalls along the roads and in the cities. However, no further details about the volume of such sales are available.

TABLE 7.3 - Quantities and values of certain types of fruit sold on the nine principal fresh produce markets, 1968/69 and 1969/70

Fruit	Quantity	Value	Unit value
	Metric tons	R1 000	R per metric ton
<u>Apples</u>			
1969/70	45 865	5 039	110
1968/69	51 222	5 114	100
<u>Peaches</u>			
1969/70	13 990	1 584	113
1968/69	18 727	1 579	84
<u>Grapes</u>			
1969/70	10 339	1 445	140
1968/69	12 724	1 482	116
<u>All deciduous fruit</u>			
1969/70	84 999	9 670	114
1968/69	98 045	9 733	99
<u>Pawpaws</u>			
1969/70	17 276	1 178	68
1968/69	12 721	961	76
<u>Pineapples</u>			
1969/70	12 938	1 163	90
1968/69	12 012	986	82
<u>Avocados</u>			
1969/70	4 837	926	192
1968/69	6 130	1 011	165
<u>All subtropical fruit</u>			
1969/70	69 669	6 518	94
1968/69	52 034	5 377	103
<u>Total for all fruit</u>			
1969/70	277 150	22 670	82
1968/69	278 839	20 994	75

Source: 1969/70 Annual Report of the Secretary for Agricultural Economics and Marketing. The figures for 1969/70 are provisional.

A very important point is that many of these products, particularly vegetables, are dependent solely on the domestic market for an outlet. In addition, certain products, such as lettuce, carrots and beetroot, are often produced in areas surrounding the consumption centres and are only marketed locally. Most of these products are only consumed fresh. The fresh produce market is therefore the only outlet available. Since the fresh markets offer limited sales possibilities, varying production is usually the main cause of instability in the industry, owing to the resultant price fluctuations.

7.3 CERTAIN ASPECTS OF THE MARKETING OF PERISHABLE PRODUCTS

The marketing of fresh produce is a complicated operation owing largely to the geographical distri-

bution, perishability and variety of the products handled. In addition, the human factor plays a most important role in the marketing process and it is sometimes difficult to reconcile the clashing interests of the producer, the trade and the consumer. Moreover, set traditions and customs are often slow to change.

Various investigations have been conducted during the past two decades in an attempt to find solutions to the numerous problems experienced in the marketing of vegetables and fruit. The Commission has noted the following reports published in this connection:

1. Report of the Municipal Markets Enquiry Committee, U.G. 22/1953 (Chairman: Mr B.J. de Klerk)
2. Report of the Committee of Inquiry into Market Agents, 1956/57 (Chairman: Mr S.J.J. de Swardt)
3. Report of the South African Overseas Fruit and Vegetable Marketing Mission, 1956 (Leader: Mr S.J.J. de Swardt)
4. Report of the Ad Hoc Committee of Inquiry into Sales Procedure on Municipal Markets, 1958/59 (Chairman: Mr P.W. Venter)
5. Verslag van die Kommissie van Onderzoek insake Markgelde, 1960 (Chairman: Mr B.J. van Niekerk)
6. Report on an Inquiry into the Costs of Commission Agents, 1963 (Chairman: Mr J.B. Bester)
7. Report of the Committee of Inquiry into the Bantu Market for Agricultural Products, 1967 (Chairman: Mr A. J. du Plessis)
8. Report of the Municipal Markets Committee, 1967 (Chairman: Mr W.J.B. Slater)
9. Verslag van die Interdepartementale Komitee van Onderzoek na die Voorsiening van Bederfbare Produkte aan Staats- en Provinsiale Inrigtings, 1969 (Chairman: Mr J.B. Bester)

As a result of the recommendations of the Municipal Markets Enquiry Committee, a National Markets Advisory Board was established in 1955 to advise all interested bodies on matters affecting the marketing of perishable agricultural produce on municipal markets. The Advisory Board actively interested itself in laying down a national "marketing code" and was closely connected with the drafting of the Perishable Agricultural Produce Sales Act, 1961 (Act 2 of 1961), which made possible the better regulation of certain transactions in the sale of perishable agricultural produce.

7.3.1 Production: South Africa has potentially a much larger output of fresh produce than can be absorbed by the present domestic demand at reasonable prices for the producer. The crucial problem in the fresh produce industry is therefore not how to boost production, but rather to establish how much the industry can expect to sell and the

best way of producing and marketing the quantity concerned. Measures to stabilise the industry should therefore be aimed primarily at keeping supply and demand in equilibrium as far as possible. From the supply point of view, producers can try to achieve this through co-operative action. However, to be able to control supplies in the short term and, somehow, production in the long term is an ideal which is difficult to achieve owing to varying climatic conditions and scattered production - the more so because the producers of fresh produce seem to be reluctant to act on a co-operative basis, probably feeling that they would thereby be deprived of their right to decide for themselves when and where to market their products. Nevertheless, producers in certain concentrated and specialised production areas have already achieved a measure of success with the co-operative packing, storage and marketing of their products. The success achieved by apple producers in the South-Western Cape is a good example of this.

7.3.2 Collection: In view of the large number of relatively small consignments of perishable products coming from scattered production areas, it is essential to collect consignments of produce for fresh distribution or for processing at certain points if marketing is to be efficient.

Where processing industries are established in the production area, the producer delivers the product direct to the factory. Collection also takes place to a certain extent in the production areas where certain marketing functions such as grading, packing and storage are undertaken on a co-operative basis, as is the case with a certain part of the citrus, deciduous fruit, onion and potato crops. As the marketing of the product proceeds, further collection takes place, for example, at stations in the case of certain kinds of deciduous fruit and at municipal markets and harbours. The municipal markets are, however, the most important collection points for most non-regulated produce sold on the fresh market.

7.3.3 Grading and packing according to standard: In South Africa certain kinds of vegetables and fruit are subject to compulsory grading and packing according to standard when they are offered for sale on the principal urban markets. Certain products are also marketed under the National Marketing Scheme, which is a voluntary scheme. In both cases the producer has to grade and pack the product in accordance with the requirements laid down. To ensure that the producer complies with the requirements, the Department of Agricultural Economics and Marketing provides an inspection service in the controlled areas concerned. About eighteen of the almost one hundred different kinds of fresh produce marketed annually are at present subject to inspection. By mass, however, these products represent approximately 65 per cent of all fresh produce marketed fresh in the controlled areas. A reasonably high degree of standardisation has therefore already been achieved, although there are still certain shortcomings, for example, the fairly wide variations within a specific "grade".

This lack of uniformity in produce within grades is due largely to varying climatic conditions and differences in soil, as well as to the fact that in the cultivation of certain crops so many different cultivars are planted.

7.3.4 Perishability: Most of the problems in the marketing of fresh vegetables and fruit can be traced back to the fact that these commodities are highly perishable. This necessitates careful handling, special protection during marketing, and rapid transit to the end consumer. Disregard of any of these requirements increases the marketing risk and cost. It also creates problems for the farmer, because once the product is ready for market it must be sold as soon as possible, irrespective of the ruling price level. In South Africa a variety of fresh produce is available throughout the year from current production. Seasonal surpluses occur more frequently than shortages. Transport distances are often not very great so that it is not always economically justified to use refrigeration on a general basis to try to lengthen the shelf life of fresh produce. However, refrigeration is being used successfully so that certain kinds of fruit subject to seasonal production can be marketed out of season.

7.3.5 Bargaining power of the producer: So far as the marketing of fresh vegetables and fruit is concerned, producers act individually for the most part. Since the individual supplies a relatively small part of the total output, he is not, however, in a position to exert much influence on the market price. As a rule, products for processing are delivered at contract prices which are agreed upon in advance with the manufacturer. On the fresh produce markets the market agent performs the bargaining function. Although in this case producers do not negotiate direct with buyers, they can nevertheless strengthen the hand of the market agent in price negotiations and thus obtain a price advantage, for example, by making certain production and supply arrangements on a co-operative basis and by grading and packing their products objectively.

7.3.6 Retail distribution: By and large, the retail distribution of fresh vegetables and fruit is at present in the hands of numerous relatively small undertakings, most of which are owned by members of certain population groups. Although these persons often have a relatively low standard of living and make use largely of family labour, the price mark-up in the retail trade is nevertheless high. Apart from losses owing to the perishability of the products, the costs of these undertakings (including shop rental, salaries and wages and transport) are high in proportion to their sales which, in most cases, are limited to their immediate vicinity. It would therefore appear that the high price mark-up is due to high unit costs rather than to excessive profits in the retail trade.

The sale of fresh produce by supermarkets has increased in recent years. These concerns draw their customers from a wider area than the one-man businesses. They use modern sales techniques and follow a sales policy of "bigger turnover, lower profit per unit". Although this development

might in the long run help to narrow the gap between producer prices and consumer prices, there are still important obstacles to be overcome.

In the first place, the South African consumer's fresh-produce buying habits are not the same as his buying habits in regard to groceries and other household requirements, which are usually offered in supermarkets. The consumer's buying habits may, however, change in course of time.

Secondly, under the present marketing system supermarkets are finding it difficult to obtain sufficient quantities of products of uniform quality and appearance from day to day. For this reason chain stores have recently been trying to purchase their requirements under contract direct from producers. But they have not always been successful, particularly since production is scattered, and the business of obtaining their requirements demands an administrative organisation out of proportion to their present turnover. Furthermore, they have also had problems in selling that part of the produce which they themselves cannot use. Municipal markets may, however, be expected to give more attention in the future to the requirements of these organisations, and producers may also be expected to try gradually to offer more uniform products on the markets. If producers do not make a special effort to meet the needs of these organisations, a further link in the marketing chain may possibly develop which will specialise in meeting the needs of supermarkets, including the quality and appearance of products and the packs which they require.

Thirdly, supermarkets find it hard to get staff with a knowledge of and experience in purchasing, handling and selling fresh produce. Consequently losses through spoilage are heavy and the appearance of the products often leaves much to be desired.

7.3.7 Per capita consumption: The per capita consumption of fresh vegetables and fruit (including potatoes) in South Africa, as compared with other Western countries, stands at a relatively low level. In 1969, for example, the per capita consumption of vegetables and fruit in South Africa was about 113 kg, as against about 250 kg in the U.S.A.

One of the reasons why South Africa's per capita consumption of these commodities is so low is the relatively low per capita income of a large part of the population whose daily diet still consists basically of cereal foods. Another reason is that most of the Bantu in this country are not yet familiar with most kinds of vegetables and fruit, having little knowledge of how to prepare them. As a result of the urbanisation process, in the Bantu homelands as well, and as the income of the Bantu rises and they develop a taste for these products and learn how to prepare them, they may be expected to eat more vegetables and fruit in the future.

It is remarkable that, proportionately, the processing of vegetables and fruit has increased much more rapidly over the past seventeen years than

the consumption of fresh produce. From 1951/52 to 1968/69 the domestic *per capita* consumption of processed fruit increased from 5,4 to 16,3 kg (reckoned on a fresh-fruit basis) while in the case of vegetables consumption rose from 4,0 to 6,1 kg, i.e. relative increases of 202 and 53 per cent, respectively. Over the same period the consumption of fresh fruit and vegetables rose by 20 and 31 per cent, respectively. In the case of certain kinds of canned fruit, however, most of South Africa's output is exported.

The proportionately faster rise in the demand for processed vegetables and fruit may be expected to continue in future. There is reason to believe, however, that this might not happen at the same rate in South Africa as in other Western countries. In the first place, South Africa, as already mentioned, is in the favourable position of having adequate quantities of most kinds of vegetables and fruit available from current production at competitive prices virtually throughout the year. This means that in most cases, particularly as regards vegetables, there is a relatively large price difference between fresh and processed products. Consumption by Whites is already at a comparatively high level; so, with a further rise in their *per capita* income, they will not consume larger quantities but will rather give preference to products of better quality. In the case of the Bantu, however, a much greater demand may be expected. Because of prices, they may also be expected to prefer fresh produce. In this regard, reference may also be made to the recommendations of the Departmental Committee* which investigated, *inter alia*, possibilities of promoting sales of fresh produce among the Bantu. The recommendations of the Committee were aimed mainly at ensuring a regular supply of fresh produce to the inhabitants of urban as well as homeland Bantu residential areas. On the strength of the Committee's recommendations, the Municipalities of Johannesburg and Port Elizabeth have already established submarkets in their urban Bantu residential areas and the turnovers of these submarkets are increasing. The Municipality of Pretoria is also establishing submarkets in its urban Bantu residential areas.

It should not be forgotten, however, that better processing techniques are being developed all the time and that competitive undertakings are striving for a higher level of efficiency which, in the long run, will reduce the price difference between the fresh and the processed product and may in certain cases even swing the difference in the favour of the processed product. Moreover, the convenience factor is an important consideration with consumers when it comes to choosing between the fresh and the processed products. The demand of the processing industries for fresh vegetables and fruit is therefore expected to increase in the future, as will this market's importance in relation to that of the municipal produce markets.

7.4 DOMESTIC OUTLETS FOR PERISHABLE PRODUCTS

As is evident from the foregoing, the processing industries and the municipal markets are the main domestic outlets for fresh produce.

* Report of the Committee of Inquiry into the Bantu Market for Agricultural Products, 1967.

7.4.1 Processing industries: Processing industries handle only certain products and in most cases specific cultivars are produced for processing purposes. As regards supplies, therefore, the processing industries are not always in direct competition with the fresh produce markets. There are sometimes surpluses of products intended for processing, and the excess is then diverted to the fresh market. Sometimes it also happens that market prices are appreciably better than the factory prices, in which case factories are unable to get the necessary supplies. The processing industries cannot, however, be regarded as an alternative outlet for table production, since the cultivars concerned and the quality of the products are usually unsuitable for processing.

7.4.2 Municipal marketing system: The municipal markets are still the most important domestic outlet, particularly for fresh vegetables. These markets are owned and, with a few exceptions, run by the municipalities concerned.

At present there are about 100 municipal markets in the Republic, handling products to the value of about R80 million a year. On the basis of turnover, most of these markets are relatively small. The annual turnover of 79 of these markets is less than R100 000, each of the 18 smallest ones having a turnover of less than R1 000 a year. Nevertheless, even these smaller markets fulfil a useful function in the local communities. Each year the 23 larger markets handle about 98 per cent of the total turnover of all municipal markets, while the 4 largest handle about 80 per cent of the total turnover.

Owing to their very limited absorbency, as well as to the fact that they are entirely dependent on local production, the numerous smaller markets handle a limited range of products and therefore do not play an important part in the national distribution of fresh produce. The bigger vegetable and fruit producers in the main production regions do not supply the smaller markets because of the risks entailed: they prefer to support the big markets where, owing to the greater absorbency of these markets, day-to-day fluctuations in supply do not affect prices to the same extent as on the smaller markets. This often means that dealers in the vicinity of the smaller markets bypass them and obtain their requirements at the nearest big market, which in certain cases may even be hundreds of kilometres away. The question arises whether, in order to cut costs and bring about more effective distribution of fresh produce on a national basis, the establishment of additional big markets at certain strategic points should not be encouraged.

7.4.2.1 Distribution of products: The orderly distribution of fresh produce on a national basis raises various problems. At present distribution is left mainly to the individual producer and he has to decide how he wishes to apportion his supplies among the various markets. In practice, therefore, certain markets are often oversupplied with a certain product, while shortages are experienced on other markets. Bad distribution of this kind gives rise to speculation between markets and increases costs for the industry. Furthermore,

if producers distributed their products proportionately, they could be earning the profits at present made on the redistribution of supplies.

To assist producers in distributing products among markets, the Department of Agricultural Economics and Marketing daily furnishes particulars to the press and the radio on prices and supplies at the principal municipal markets. In addition, the Department reviews the demand and supply position of the principal products on some of the larger markets every week.

Full statistics of sales on the nine principal markets are collected on a continuous basis and further processed by the Department. Some of the processed information is published monthly in the Department's news-sheet "Crops and Markets". At the end of each year a full annual report on fresh produce markets is published, giving the monthly quantities, value and average prices of each product sold on each of the nine principal markets during the year. The Department realises that most of the information made available at present is of limited value to producers since they act individually for the most part. Only when producers of fresh produce achieve a greater measure of joint action in production planning and the distribution of their products will the information released by the Department really be of value to them.

7.4.2.2 Market facilities: Market facilities in South Africa have become so antiquated that in recent years official bodies and Organised Agriculture have made strong representations to municipalities to modernise their market facilities. In many cases the facilities were so inadequate and antiquated that more and more products began to bypass the markets. The old markets were often situated near the centre of the city where land for expansion was unobtainable or expensive. By the day, traffic to and from the markets was creating greater problems for the producer and the buyer. In addition, overcrowding at the markets made efficient control and management virtually impossible.

To be able to modernise their facilities, the municipalities were obliged to find larger premises elsewhere and to erect new market buildings. Suitable sites with the necessary rail and road connections were not only difficult to find but also very expensive. In addition, building costs were high. Although the Municipalities of Cape Town and Pretoria, and later also Kimberley, decided to go ahead and build new markets, other municipalities hesitated to erect new markets owing to the extent to which their markets were already being bypassed, the expensive land that would have to be bought and the high building costs that would have to be incurred. Some municipalities even wanted certain guarantees from the Government to the effect that the investment in new markets would not place a burden on their ratepayers in the long run. However, because, under the Republic's constitution, municipal markets are a provincial matter over which the Central Government has no direct control, a deadlock ensued. This situation was an important reason for the appointment of the Muni-

icipal Markets Committee to investigate all aspects affecting the erection and control of municipal markets.

Certain legislation was proposed in the report of the above-mentioned Committee, the result being that Parliament in 1970 passed the Commission for Fresh Produce Markets Act (Act 82 of 1970). This Act determines the relations between the Central Government, the provincial administrations and local authorities in regard to the erection, control and management of national markets. The other municipal markets are run by the local authorities concerned under the general control of the provincial authority.

The main objects of the Act are to provide for properly equipped markets and their maintenance and to ensure that they are run on a sound economic basis. For the achievement of these objects, the Act empowers the Minister of Agriculture to decide on economic marketing matters of national importance. The physical control and management of the national markets rests, as in the past, with the local authorities concerned.

The Municipal Markets Committee's recommendations on financial assistance to municipalities for the construction of new markets were not accepted, but in 1970/71 the Government made grants to the Municipalities of Cape Town, Pretoria and Kimberley to compensate for certain financial losses suffered by them in the first few years after their new markets had been put in commission. These grants totalled R414 000. Although no fixed basis for financial assistance has been laid down, the Government has intimated by these grants that it is willing to assist municipalities financially when they incur heavy expenses in modernising their market facilities.

7.4.2.3 Control and management: The municipalities provide the site and buildings for market operations. They provide the necessary sanitary, cleaning and other essential services and license the market agents and their employees where private market agents are allowed on the market.

The municipality exercises authority through the market master who manages the affairs of the market and advises the town or city council on market matters. He has to see that all acts and regulations, provincial ordinances and by-laws applicable to the market are complied with, and he is responsible for the good order and cleanliness of the market. He has to ensure that market hours are observed, that all products delivered to the market are accounted for, that transactions are conducted properly, that all moneys accruing to the municipality are collected and that the seller receives the right amount payable to him. To make this possible, detailed market accounts have to be kept and all incoming and outgoing market traffic has to be effectively controlled.

7.4.2.4 Sales procedures: Until a few years ago virtually all produce received on municipal markets was sold by public auction, municipal officers being responsible for the auctioning. These auctioneers

also usually completed the bills of sale and received the money in the case of cash transactions.

Although auctions have certain advantages, the most important undoubtedly being public price formation, they also have certain disadvantages which became increasingly apparent in later years as the turnover on the larger markets increased.

Auctions are time-consuming, and all kinds of adjustments had to be made to expedite matters as the turnover on markets grew. These adjustments created various problems and seriously hampered price formation by means of the auctions. At an auction the seller had virtually no say in price formation except that he could put a reserve price on products. Big buyers often formed "rings" and in this way negotiated prices in their favour, to the detriment of the producer.

The time factor at auctions was such that only those consignments under the hammer were offered for sale at a particular time. Owing to the perishability of the products handled, municipalities were obliged, as the turnover on their markets grew, to use increasing numbers of auctioneers at the same time. This resulted in a division of buying power, which had an adverse effect on prices. In spite of these measures, buyers had to spend hours on the market to obtain their requirements. Consequently, more and more smaller buyers stayed away from the market, preferring to buy from wholesalers. This further weakened competition at the auctions.

Ringling is asserted to have been fairly widespread among bulk buyers - all the more so where auctions were held simultaneously in different sections of the market, which obviously made it impossible for a single buyer to attend the various auctions. It is alleged that, to strengthen their own position, the bulk buyers often deliberately pushed up prices for the smaller buyers at the auctions - to such an extent that it paid the smaller buyers to purchase their requirements from the bulk buyers.

To overcome these defects in the auction system, the Cape Town market took the lead in allowing out-of-hand sales as well as auctioning. Careful study of the system on that market revealed that the out-of-hand sales system had definite advantages for the larger markets. On the strength of this the Department of Agricultural Economics and Marketing, through the National Markets Advisory Board, encouraged the extension of the out-of-hand sales system to the other markets. Although the market authorities initially hesitated and there was opposition from market agents and certain producers, the system was extended to other markets and has now been adopted by most of the larger ones, having become the main method of selling on certain markets.

The basic difference between the two systems of selling is that, with the out-of-hand system all products are on sale at the start of transactions, in other words, a buyer can buy any consignment or part of it at any time during business hours.

Prices are formed by personal negotiation between the market agent and the buyer. Ringling is therefore more difficult and the market agent has more say in price formation.

Because transactions are clinched by direct negotiation between the market agent and the buyer, it is essential that the market authorities should exercise strict control over such transactions. This is an important aspect, to which, it is trusted, the recently appointed Commission for Fresh Produce Markets will give due attention. (See paragraph 7.5.)

7.4.2.5 Market agents: The market agent is the link between the producer and the buyer. He has to receive the consignments sent to him by producers and display, sell and deliver them to buyers, and settle accounts with the producer.

On the smaller municipal markets the market master acts as the sole agent. On the larger markets this function is performed by private firms registered as commission agents with the Department of Agricultural Economics and Marketing and licensed by the municipality concerned. On a few of the larger markets, the market master also has an agency which to all intents and purposes competes with the private agents.

Since sales on markets take place chiefly in the absence of producers (i.e. the owners of the products), the need arose for some control to be exercised over the manner in which sales were conducted and payments made to producers. Various inquiries were conducted into this matter both locally and abroad. This resulted in the passing of the Perishable Agricultural Produce Sales Act, 1961 (Act 2 of 1961). The object of the Act is to control commission agents, brokers and certain dealers in vegetables and fruit so as to ensure that they maintain a high standard of business and that the producer is protected. The Act provides, among other things, for the registration of such persons with the Department of Agricultural Economics and Marketing, and lays down that certain records be kept of the products handled, bought or sold by them. The Act prohibits any fraudulent practices in connection with the weighing and counting of products as well as misrepresentations as to the kind, grade, quality or quantity of the products. Furthermore, the Act prescribes certain requirements which have to be complied with in regard, *inter alia*, to the settling of accounts with the producer and the circumstances under which the commission agent must report to his principal on the products remaining on the market unsold. Furthermore, the agent must furnish the Department with security which is proportional to his business turnover and which can be used in the event of non-payment.

Apart from their normal functions, market agents extend credit to buyers, provide packing material, labels, stamps, etc. for producers, and often also make short-term loans to producers. In addition, it is general practice for most agents to telephone producers daily or to inform them telegraphically of the prices attained and to advise them on proposed further consignments.

For these services market agents receive a commission calculated on the gross selling price of the products. The commission varies between 5 and 7,5 per cent and is prescribed by regulation under Act 2 of 1961.

7.4.2.6 Market fees: Apart from the agent's commission, the producer also pays the local authority concerned a market fee which may be regarded as a payment for the use of the market facilities. Market fees on the larger markets vary between 4 and 5 per cent of the gross value of sales. In the case of other facilities, such as ripening, cold storage and portorage facilities, separate tariffs are levied and these are paid by those making use of such facilities.

In the past market fees were determined by the municipality and were subject to the approval of the Administrator of the province. In terms of the Commission for Fresh Produce Markets Act, 1970 (Act 82 of 1970), the market fees for the national markets established under that Act are subject to the approval of the Minister of Agriculture, while in the case of other markets the Administrator has the power to fix tariffs in consultation with the Minister.

7.4.2.7 Direct sales: Direct sales by producers to the trade and to consumers of fresh produce are established practice in South Africa. However, in comparison with the quantity of products flowing through the municipal marketing system, the quantities of products sold direct are very limited. Certain products are nevertheless sold direct on a larger scale than others.

The extent to which direct sales of fresh produce will increase in future depends on various factors. The most important determinant is undoubtedly the ability of the municipal marketing system to adapt to the changing needs of the trade and to compete with the other outlets as regards service and cost.

Direct transactions on a limited scale as found in the Republic today should not, however, be confused with a full-scale system of direct sales as found in the U.S.A. where prices are to a large extent formed at the farm level, many farmers dealing direct with buyers, market agents and brokers. This is possible only because of the following factors: the volume of production, as well as the fact that production is concentrated and specialised; a grading and inspection system adapted to this specific type of trading; sophisticated crop estimates and market information services; and the fact that there are so many big buyers who can afford to have special officials to conclude production contracts with producers or to buy supplies direct. In the U.S.A. the municipal markets today fulfil a secondary function in their distribution of fresh produce, specialising in services to the retail trade. Since the persons acting on the markets buy their supplies in competition with other buyers in the production areas, producers cannot, as in South Africa, send their products to a market without any advance arrangements. Buyers are also highly selective in regard

to the quality and particularly the uniformity of products, so that producers often find it difficult to secure an outlet for those of their products which do not meet the requirements.

7.5 COMMISSION FOR FRESH PRODUCE MARKETS ACT

As already mentioned, this Act determines the relations between the Central Government, the provincial administrations and the local authorities so far as the erection, control and management of national markets are concerned.

The Act provides, *inter alia*, for the proclamation of certain controlled areas, for the declaration of certain markets as national markets and for the appointment of a Commission for Fresh Produce Markets. The Act prohibits the erection of any fresh produce market in a controlled area without the approval, in writing, of the Minister of Agriculture having been obtained in advance.

An expert Commission of this kind was appointed in May 1971. It may consist of three or four members. The object of the Commission is to advise the Minister on all matters in connection with the siting, erection, extension, alteration, use, management and conduct of fresh produce markets and the performance of services at such markets. The Commission also has to assist the Minister generally in co-ordinating and rationalising activities connected with fresh produce markets. Upon the appointment of this Commission the National Markets Advisory Board was no longer needed, so it was dissolved.

Other important provisions of the Act include the following:

- (a) The Minister may direct the owner of a national fresh produce market to improve the equipment, buildings or structures, as well as the facilities for the performance of services. To enable the owner to do so, the Minister may, after consulting the Commission, lend or grant to the owner of a national fresh produce market moneys appropriated by Parliament for the purpose on such conditions as he may determine in consultation with the Minister of Finance.
- (b) The Commission may draw up a code of instructions relating to, among other things, the planning, lay-out and construction of national markets; the buildings, structures and equipment used; the facilities which have to be provided; the management and conduct of such markets; as well as the performance of services at such markets.
- (c) In respect of any national fresh produce market, the Minister may appoint a market advisory committee to advise the Minister, the Commission and the owner of the market concerned on certain matters affecting that market.

As mentioned above, the Commission was appointed only recently, its task being to pursue the objects of the Act by holding consultations with, persuading and co-operating with all interested

parties. The Act lays the foundation for a national policy - something which was sorely needed in the industry.

7.6 MARKETING ARRANGEMENTS UNDER THE MARKETING ACT

A further step which has been taken by the Government and which can also bring about greater stability in the fresh produce industry is the adoption of certain amendments to the Marketing Act which, as stated in paragraph 6.4.1, have now made it possible for the following measures to be adopted for products for which there is no control scheme in force:

- (a) A levy to be paid into a special account may be imposed. The Minister may from time to time direct that the moneys in this account be used for the following purposes, among others:
 - (i) The purchase of a quantity of a product on which a levy is paid;
 - (ii) the payment of costs in connection with such a purchase and the removal, diversion, storage, conveyance, distribution or sale thereof;
 - (iii) the promotion of the production or marketing of such a product; and
 - (iv) the "fostering or stimulation" of the demand for such a product.
- (b) Prices may be fixed for non-regulated products.
- (c) The marketing of a non-regulated product may be regulated through certain persons.

These amendments to the Marketing Act have now made it possible to adopt stabilisation measures for certain products without instituting full-scale and expensive marketing schemes under the Act.

These legislative measures to promote the orderly marketing of products for which there is no scheme were adopted in 1969 and 1970, but their implementation is still being awaited.

7.7 A LOOK AT THE FUTURE

The normal growth of the population, rising per capita income, increasing urbanisation of Whites and Non-Whites, a shift in consumption from high-calorie cereal foods to high quality low-calorie foods such as vegetables and fruit, as well as increasing per capita consumption of vegetables and fruit, particularly among the Bantu, should in the future have a favourable effect on the total domestic consumption of vegetables and fruit. In addition, the changed way of life and higher standard of living of the population will result in ever higher demands being made by the consumer when it comes to personal convenience and the quality of products. The demand for semi-processed and processed vegetables and fruit is expected to increase relatively faster than that for the unprocessed fresh products. Constant improvements in processing techniques are having a favourable effect on the cost structure of the processing industries.

On account of these factors and in view of our limited land and water resources, a better balance

may be expected later between supply and demand. A larger total domestic market will obviously result in more stable prices, and therefore more stable, more concentrated and specialised production areas should develop. This will then create a more favourable climate for co-operative action which will enable producers to improve their bargaining position in the market. This is particularly important in view of the expected developments in overseas marketing. Britain's entry into the European Economic Community will have serious repercussions in South Africa's fruit industry, and timely adjustments are therefore becoming a matter of urgency.

The marketing of fresh produce is, as appears from the foregoing, more subject to variable factors than is the marketing of many other agricultural products. Adjustment to changing conditions is therefore a most important element in the process of developing the marketing system for fresh produce. It is important that adjustments in the marketing structure should keep pace with the general level of development in the social, economic and technical fields. Experience has shown that financial losses can be heavy if procedures are adopted which at a particular time are too far in advance of the general level of domestic development. Similarly, problems are likely to arise if adjustments to changing circumstances are not made timeously.

Since the Commission for Fresh Produce Markets Act and the measures under the Marketing Act referred to above have not yet been applied, their effect on the industry cannot be determined at this stage. The Acts do, however, hold out the possibility of laying the foundation for a national policy for the marketing of perishable products. In addition, they create the opportunity for consultation and co-operation between the various groups of interests, which should lead to a better understanding of the problems in the industry.

7.8. RECOMMENDATIONS ON STEPS TO RE-ADJUST MARKETING

In the light of the foregoing the Commission therefore considers it advisable to give attention particularly to such measures as may increase the efficiency of the marketing process in all its phases. This will promote stability for the producers and check the bypassing of produce markets.

The Commission consequently recommends that, in order to achieve the above-mentioned objects, serious attention should be given to the following steps, among others:

1. Co-operative action on the part of producers in the principal production regions should be encouraged to promote the planning of production and the efficient distribution and marketing of products.
2. An attempt must be made to orient production to the markets. To achieve this, producers must be well informed and be encouraged to produce and offer what the market requires, particularly as regards the quality and uniformity of products.

3. A national code for fresh produce markets must be drawn up, due account being taken of the size of markets.
4. Efficient marketing facilities must be provided, and these facilities and the sales system must be adapted timeously to changing circumstances, services being rendered according to the exigencies of the moment.
5. Purposeful marketing research must be conducted and market information disseminated to serve as a basis for policy-making and the guidance of the producer, the trade and the consumer.
6. Measures must be adopted to cut costs, for example, by the more efficient use of market buildings and other facilities and by the co-ordination and mechanisation of the accounting done by the market authority, market agents and the Department of Agricultural Economics and Marketing.
7. Market staff must be trained, particularly the staff at managerial levels.
8. Effective control must be exercised over products arriving at and leaving markets.
9. Measures must be adopted to promote sales of fresh produce in the Bantu residential areas as well.
10. Provision must be made for consultation and co-operation between all the parties involved in the fresh produce industry so that they may be better informed of each other's requirements and problems.

CROP INSURANCE IN AGRICULTURE

In the introductory paragraphs of an article on comprehensive crop insurance Burger (1965)* lays great stress on the increasing risks to which modern commercial farming is exposed, and continues:

"This risk also increases as farming generally becomes more specialised. Besides, mechanisation and other modern development result in increasing capital investment per farm, as well as in steadily increasing non-cash costs and certain cash expenses - while the profit margin shrinks. All these factors point in the direction that farmers will not individually be able to carry the enormous risk attached to agricultural production much longer."

8.1 OBJECTS OF A CROP INSURANCE SCHEME

From the start there must be clarity about the precise objects of a crop insurance scheme, or else it can easily be used as a kind of sub-economic Government scheme to assist needy farmers who are faced with crop failures for reasons beyond the scope of the scheme as initially introduced. From the outset, therefore, a scheme of this kind should be run strictly on business principles.

Crop insurance must be run strictly on business lines and the main object must be to enable modern farm operators to spend, with reasonable confidence, large sums of cash on the production of a crop which will take six months or longer to cultivate and harvest and will yield an income only once a year, i.e. a crop of which the production is accompanied by calculable and insurable risks. No matter what precautions he takes any entrepreneur can have a crop failure, or the harvest may come to only half of what he expected. Such set-backs might be due to causes beyond the entrepreneur's control and his loss in income might be heavy. Often his losses are so great that he finds it impossible to prepare for the next crop or has to borrow money at high rates of interest if he does not qualify for a production loan from the Agricultural Credit Board.

The insurance scheme must therefore ensure that the enterprising farmer who lacks large capital reserves will have a minimum income in the event of his crop being affected by certain insurable events beyond his control - similar to the cover provided by an insurance scheme for certain business men and professional persons in the cities. Crop insurance of this kind must therefore be aimed mainly at keeping the farmer's operating capital intact in the event of a poor crop.

* BURGER, C.E. (1965): All-risk Crop Insurance. Agrekon, Vol.4, No.1, 8 - 18.

Furthermore, the crop insurance system must be so designed as to promote sound farming practices.

Up to the present, however, relatively little has been done in the field of agricultural insurance in South Africa.

Over the years private companies have undertaken fire and workmen's compensation insurance for farmers, and for a number of years various agricultural co-operatives have also successfully provided fire, workmen's compensation and hail insurance. The Boere Koöperatiewe Versekeringsmaatskappy Beperk, with its head office in Paarl, was established in 1916 mainly to undertake insurance against fire damage to grain fields and stacks in the Western Cape. The Farmers' Hail Insurance Co-operative Company Limited, with its head office in Ficksburg, was established in 1934 to offer insurance against hail damage to crops including grain, fruit, vegetables and tobacco. Since 1966 this co-operative has offered a scheme for comprehensive crop insurance on a trial basis.

Sentrakas (Koöperatief) Beperk, with its head office in Johannesburg, was established in 1950 through the agency of the Co-operative Council of the S.A. Agricultural Union as a central co-operative unit to undertake hail, fire and workmen's compensation insurance. Sentraoes (Koöperatief) Beperk, with its head office in Ficksburg, was found in 1970 through the agency of the S.A. Agricultural Union and the Registrar of Co-operative Societies, in co-operation with Sentrakas and the Farmers' Hail Insurance Company by 24 agricultural co-operatives to undertake hail insurance and comprehensive crop insurance.

The establishment of Sentraoes resulted in a separation of functions between Sentrakas and Sentraoes. Sentrakas no longer undertakes hail insurance but only fire and workmen's compensation insurance, whereas Sentraoes offers only hail and crop insurance. The Farmers' Hail Insurance Co-operative Company Limited has for the time being continued operations as a primary agricultural co-operative to extend the sphere of activities undertaken by Sentraoes.

8.2 STUDY GROUP ON CROP INSURANCE TRIAL SCHEME

For a considerable time the South African Agricultural Union actively worked towards the establishment of a Government-backed comprehensive insurance scheme for agriculture, and in 1966 the Minister of Agricultural Economics and Marketing appointed a study group to go into the desirability and, specifically, the feasibility of a trial scheme, its terms of reference being:

"To determine the nature and extent of production risk in agriculture in the Republic as it affects the crop farmer; and, upon completion of the preliminary inquiry, to make proposals on how a crop insurance trial scheme can be put into operation." (Translation)

In its report submitted in 1967, the Group pointed out that facilities already existed for agriculture to insure against fire damage and, less generally, against hail damage. The farmer's crop was, however, exposed to many other dangers, such as drought, floods, exceptional or unseasonable cold or hot spells, wind, insects, diseases and pests, all to a greater or lesser extent beyond the control of the farmer. According to the Group, comprehensive (all-risk) crop insurance would therefore be a step following logically upon the specialised insurance already offered in agriculture.

It was pointed out, furthermore, that in modern commercial farming with its specialisation, mechanisation and extremely high proportion of purchased requirements, the stage would be reached where the individual farmer, particularly the crop farmer, would be unable to carry the unlimited risks of agricultural production. Under the present conditions, a single crop failure could be a serious financial setback to a farmer, or it could even ruin him.

According to the Study Group, expansion of insurance facilities by the private sector in the direction of comprehensive crop insurance was hampered by the fact that such insurance is of a special nature and that it is subject to a relatively high degree of risk. The Study Group also pointed out that in the U.S.A., for example, Congress initially preferred this kind of insurance to be left to the private insurance companies. The hope that things would develop along these lines revived whenever attempts were made by private insurance interests to offer comprehensive insurance of this kind. Such attempts were usually very short-lived, however. In 1938 the Federal crop insurance plan was accepted by Congress when it passed the Agricultural Adjustment Act of 1938, under which the Federal Crop Insurance Corporation was established with an authorised capital of \$100 million underwritten by the Government. It was also accepted as a matter of policy that the Government would bear the administrative costs of such insurance.

Since the private sector in the Republic had been unable to make any significant progress on its own with this type of insurance, the Study Group considered that the Government should, for the sake of the producer, give serious attention to the matter. The Study Group made the following recommendations in this connection:

- (a) The Government should introduce a comprehensive crop insurance trial scheme on a limited scale. The aim should be, initially, to include only a limited number of maize producers in the scheme. The scheme could subsequently be expanded to cover not only the entire maize industry, but also the wheat industry.
- (b) In the initial stages the Government, assisted by a supervisory committee, should enlist the services of such existing co-operative insurers as would be prepared to undertake the scheme on a temporary basis (with Government backing).
- (c) If the services of the co-operative insurers are secured, the Government should initially grant financial assistance to defray adminis-

trative costs, also providing a guarantee (in the form of a balancing fund) in order to stabilise the insurance scheme until "premium reserves" would be sufficient to cover all claims - in abnormal years as well.

- (d) The trial scheme should be based on voluntary participation.
- (e) Insurance should initially be offered in certain regions only and at an initial premium rate of 10 per cent.
- (f) Participation in the scheme should be subject to the condition that the insured would undertake to apply "sound farming practices".

The Study Group pointed out that Government backing for crop insurance could be justified since it would reduce the Government's financial burden of having to assist deserving farmers in the event of crop failures.

In the light of these recommendations the Government explored the possibilities of having a trial scheme for comprehensive crop insurance for maize in the three recognised maize regions instituted by existing co-operative agricultural insurance institutions with some Government backing. Official approval for the introduction of a trial scheme, as recommended, was not granted for the following reasons: all the uncertainties surrounding a comprehensive crop insurance scheme; the fact that it would not be possible to restrict such a scheme to a single crop; and the fact that it would not be possible to prevent such a scheme from becoming a country-wide scheme, which might entail too great a financial burden for the Government.

8.3 CROP INSURANCE BY CO-OPERATIVE UNDERTAKINGS

As already mentioned, three co-operative companies offer farmers insurance: the Boere Koöperatiewe Versekeringsmaatskappy Beperk - fire and hail; the Farmers' Hail Insurance Co-operative Company Limited - hail; and Sentrakas Koöperatiewe Beperk - hail, fire and workmen's compensation. A few other co-operatives serving certain specialised fields of production also offer their members a hail protection scheme, including the Magaliesbergse Koöperatiewe Tabakplantersvereniging.

After the Study Group had completed its report, the Farmers' Hail Insurance Co-operative Company Limited sent a mission to the U.S.A. to gain first-hand knowledge of the American scheme. Subsequently, in 1970, the Farmers' Hail Insurance Company introduced a comprehensive crop insurance trial scheme for maize and wheat crops in 30 districts in the Highveld. More recently, the Boere Koöperatiewe Versekeringsmaatskappy also undertook crop insurance for a few farmers on a much smaller scale.

8.3.1 The Boere Koöperatiewe Versekeringsmaatskappy Bpk.

Representatives of this co-operative indicated in their oral evidence before the Commission that they introduced a comprehensive wheat insurance scheme a few years ago to serve the area from the Western Cape to the Orange River and Port

Elizabeth. Under the scheme an attempt is made to cover wheat farmers' production costs on a basis of 60 per cent of the long-term average wheat yield of the farm concerned.

The Commission was informed that many problems were experienced with the comprehensive insurance scheme in the four years after its inception. The co-operative received no financial support from the Land Bank for this insurance undertaking. Progress with the scheme was very unsatisfactory because so many farmers were reluctant to make use of such insurance facilities. It might prove necessary to replace the system of uniform premiums with a system of differentiated premiums in order to make it more acceptable to farmers in areas less subject to big fluctuations in production.

The representatives of this co-operatives assured the Commission that there was indeed a need for crop insurance, but asserted that the risks in wheat cultivation would have to be determined and the scheme adjusted accordingly. However, they were unable to furnish the Commission with any data on wheat cultivation or on the finances of the insurance undertaking. Nevertheless they did make it clear, that the co-operative was sorely in need of Government assistance to tide it over the lean years.

8.3.2 Sentraoes (Koöperatief) Beperk

Representatives of Sentraoes assured the Commission that -

"there is an urgent need for a comprehensive crop insurance facility to give the industrious and judicious farmer with the necessary initiative and enterprise the assurance that, so long as he does his duty, natural disasters beyond his control will not land him in a worse financial position." (Translation)

To obviate overlapping, Sentrakas and the Farmers' Hail Insurance Company reorganised their activities in 1970 in co-operation with the S.A. Agricultural Union and the Registrar of Co-operative Societies. A central co-operative for crop insurance, Sentraoes (Koöperatief) Beperk, was established by 24 primary agricultural co-operatives to undertake comprehensive crop insurance in addition to hail insurance, whereupon Sentrakas (Koöperatief) Beperk discontinued its hail insurance, subsequently undertaking only fire and workmen's compensation insurance. Sentraoes, as a central co-operative, with its present membership of 57 agricultural co-operatives and with the support of the Farmers' Hail Insurance Co-operative Company Limited, has undertaken hail insurance since 1970 and is going ahead with the comprehensive crop insurance trial scheme. This central insurance institution is recognised as such by the S.A. Agricultural Union and channels crop insurance for its members through the 57 agricultural co-operatives all over the Republic which have joined Sentraoes. Even the appraisal of damaged crops is carried out by appraisers recommended by member co-operatives in their respective areas. These arrangements place Sentraoes in a very favourable position for building up comprehensive crop insurance.

Representatives of this co-operative also pointed out that statistical data on which a realistic premium rate could be determined actuarially; but they assured the Commission that the co-operative was trying earnest to offer the insurance on a self-supporting basis. They referred to the poor claims - premium ratio of comprehensive crop insurance undertaken by the Farmers' Hail Insurance Company during the past four years. This was ascribed, firstly, to the initial loopholes in the scheme which gradually had to be closed and to the very poor wheat and maize seasons of the past four years, when there were cases of serious drought damage. Sentraoes (Koöperatief) Beperk stressed, moreover, that the crop insurance scheme had been introduced as experiment and that from the experience gained so far it appeared that differential premium rates would have to be introduced (as had, in fact, already been done in the case of hail insurance premiums). The co-operative felt that a basic premium rate of 12 per cent, with adjusted differential premiums in certain areas and possibly later on farms within areas, should enable it to build up a reserve fund gradually which could be drawn upon for the payment of claims in years when losses were heavy.

Sentraoes is eager to expand its pilot scheme and to try to achieve a better spread of risk by covering other crops besides wheat and maize. For this, the co-operative needs Government backing in the form of a "revolving fund" on an interest-free basis and repayable from surpluses in subsequent seasons. It is also requested that the Government should subsidise the administrative expenses incurred in connection with comprehensive crop insurance.

The Commission was not in a position to make a closer study of the circumstances giving rise to the poor claims - premium ratios, but is of the opinion that, apart from the factors referred to, better results might be expected if there were greater selectivity as regards the areas and farming enterprises accepted for insurance and if there were more differentiation in respect of areas and farms. There is some doubt as to whether it would be advisable for this insurance undertaking to spread its wings so wide and evidently it is that way inclined - in running a pilot scheme for which reliable data for actuarial calculations are so sadly lacking.

8.4 VIEWS ON GOVERNMENT-BACKED INSURANCE IN AGRICULTURE

In the light of the experience gained with the above-mentioned trial schemes for crop insurance on a co-operative basis, the South African Agricultural Union urged the Government to explore further the possibilities of introducing a comprehensive crop insurance scheme recognised by and with the financial backing of the Government.

8.4.1 Proposals on crop and livestock insurance

In its first submission to the Commission in 1967 the Union gave the following reasons why comprehensive crop and livestock insurance should be introduced:

"As comprehensive crop and livestock insurance would be prohibitively expensive if it had to provide cover against disasters and had to guarantee profits as well, the Union did not regard this insurance as something distinct from emergency aid in the event of natural disasters and an income-stabilising price policy in the event of normal fluctuations in the Farmer's income.

The Union therefore suggested:

- (1) that the Government should treat the introduction of a scheme of Government-backed comprehensive crop insurance as a matter of urgency;
- (2) that such an insurance scheme should be made feasible by keeping premium costs as low as possible, this being possible -
 - (a) if the Government bore the administrative costs of the scheme;
 - (b) if crop insurance did not replace ad hoc aid in the case of disasters; and
 - (c) if an income-stabilising price policy were to be adopted;
- (3) that insurance be extended to cover production in the case of livestock.

In several respects these proposals of the Union therefore went much further than those put forward by the Study Group, which for various reasons were unacceptable to the Government.

8.4.2 Amended proposals on insurance

As the Commission's inquiry progressed and new information was obtained on the comprehensive crop insurance pilot schemes introduced by the two co-operative undertakings, the S.A. Agricultural Union in certain important respects amended its initial proposals in a later memorandum* as well as in oral evidence to the Commission.

8.4.2.1 Livestock insurance

In its original submission the Union pointed out the importance of comprehensive crop insurance as a means of achieving greater stability in income and in other respects for crop farmers. In the latest memorandum no further particulars are furnished or proposals made on livestock insurance. During an interview with representatives of Organised Agriculture it was put to the Commission that in the event of droughts the stock reduction scheme provided an income for farmers while their pastures were recovering and that this in itself could be regarded as a form of insurance for the stock farmer; and what with the possibility of this stock reduction scheme being expanded, the introduction of a livestock insurance scheme similar to crop insurance was so much the less necessary. In view of the circumstances with re-

gard to judicious rotational grazing systems, the resting of the veld, soil conservation measures and the cultivation and storage of feed crops, as described in the Commission's Interim Report, and since no further particulars were furnished or proposals made on livestock insurance, the Commission makes no recommendation on this matter.

8.4.2.2 Comprehensive crop insurance

In its evidence before the Commission the S.A. Agricultural Union pointed out the following matters which might favourably influence the consideration of comprehensive crop insurance:

- (1) When farmers suffer serious set-backs, the Government usually steps in and helps them - mainly with loans, but other forms of assistance are also granted. Obviously, with crop insurance there would be less of a need for this kind of relief measure. This could mean that during bad years the Government would not have to make large amounts available from loan funds to farmers in difficulties. An added advantage would be that such an insurance plan would be based largely on the principle of self-help.
- (2) A comprehensive crop insurance scheme could encourage sound farming practices. Although much progress has been made in this field, there is still considerable room for improvement. Crop insurance should be a strong stimulus for farmers to adopt such practices. One of the basic principles of crop insurance is that the farmer's practices must be sound. Only those risks that are beyond the farmer's control are insured against.
- (3) Insurance enables the farmer to improve his credit standing, since he can offer insurance cover as security for a loan at any financial institution, this at the same time reducing the lender's risk and therefore making a favourable loan rate possible. This alone could do much to make it easier for the Government to handle agriculture's credit problems and find a solution to a difficult question, as well as to strengthen the entire agricultural credit system. In fact, the stability of income which insurance would give the farmer would benefit not only the individual farmer but also the community as a whole.

The experience gained with the co-operative insurance trial schemes over the past four years convinced the S.A. Agricultural Union that comprehensive crop insurance on a co-operative basis must eventually be extended to all recognised cropping regions. In this regard the Union put forward the following views and proposals:

Unlike the U.S. Government, the South African Government, need not launch the entire scheme, but it can make a very important contribution towards expanding the existing scheme. The Union feels that, in view of the benefits mentioned above, it would in fact be in the interests of the Government to make such a contribution. For the scheme to be a success the Government would be expected:

* S.A. Agricultural Union (1971): Comprehensive crop insurance. Doc. 89/71.

- (a) to bear the annual administrative costs, including those for appraisals; and
- (b) to be prepared to grant a loan to the insurance organisation in years when the total claims exceed the income from premiums and the accumulated reserves. This loan could then be repaid from the premium income in subsequent years.

The Union reiterated that the premium income would in the long run cover the claims (risks). Admittedly, during the first few years, especially, claims might exceed the premium income plus reserves - owing to abnormal conditions throughout the country - but this temporary deficit would be made good with future surpluses. Such a loan would therefore be granted merely to tide the insurance institution over the difficult period.

In general, the Union emphasised that the scheme would gradually be expanded in consultation with the Government, so that the Government would at all times be able to calculate in advance each year what its contribution is likely to be.

8.5 FLUCTUATIONS AND RISKS IN AGRICULTURAL PRODUCTION

8.5.1 Kinds of fluctuations

In explaining why comprehensive crop insurance is important to the crop farmer, the S.A. Agricultural Union referred to three kinds of fluctuations which might be experienced, i.e.:

8.5.1.1 Catastrophic fluctuations caused by acts of God such as floods, earthquakes or other natural disasters. It is not possible to offer protection against this kind of risk by means of crop insurance. The best form of relief is ad hoc State aid, as granted in the past. The Union feels, however, that such aid does not reduce the need for comprehensive crop insurance.

8.5.1.2 Normal fluctuations in production and income can have a radical effect on the income position of the farmer, especially on the profitability of his enterprise. The Union considers that to provide against such fluctuations, the Government's price policy should be to smooth out these fluctuations in income so as to enable the production branch of the agricultural sector as a whole to take and retain its rightful place in the national economy. The aim should also be to achieve income parity in the agricultural sector and its production branches. The Commission has already reported in detail on this matter, particularly in Chapters II and VI of this report.

8.5.1.3 Abnormal production fluctuations are defined as fluctuations which are considered to be insurable and which fall between catastrophic and normal fluctuations. Insurance in such cases is aimed at covering fluctuations in production which are so great that the farmer would not be able to cover his production costs without insurance.

8.5.2 Risks and biophysical stability in production systems

What made a deep impression on the Commission in the course of its investigations was the extent to which the changeability and unpredictability of climatic conditions create uncertainty in agricultural enterprises and tend to increase the risks in agricultural production. In time the Commission also became convinced that farmers themselves can do a great deal to reduce farming risks through proper farm planning, adapting their farming systems to environmental conditions and taking steps, before it is too late, to prevent or offset the adverse effects of unfavourable events. In various parts of its Interim Report the Commission stressed the importance of this as regards droughts, and in paragraphs 5.4 to 5.4.4.8.6 of that report directed attention particularly to the extent to which cash crops such as maize, wheat and groundnuts are cultivated in areas where stock farming is the main source of income and in areas that are very prone to drought. The Commission went on, "In addition, climatic conditions in several of these districts are often so unfavourable for cash crops that Government assistance in the form of production loans had to be made available repeatedly, as a result of drought conditions, to enable farmers to continue sowing cash crops."

The Commission emphasised, particularly in Chapter V of its Second Report, that economic stability in agriculture could be achieved only if agricultural production systems conducive to biophysical stability were applied. In paragraphs 5.5 and 5.6 of that report the Commission stated that a careful analysis of the situation with regard to practices of utilisation pointed to the fact that lack of discrimination in such practices was probably the most important single factor responsible for the deterioration in agricultural resources and the precarious financial position of many farmers. The Commission went on to say that a prerequisite for a system of optimal utilisation would therefore be for the various branches of farming to be conducted within the limits set by the potential of the natural environmental factors.

In paragraph 2.6.1 of this its Third Report, the Commission referred to the "very marked fluctuations from year to year to which South African agriculture is subject" which, as is evident from the graphs in Figure 2.7, "indicate serious instability in physical output, inputs and real income, an instability which is reflected in almost exactly the same way in the monetary values of production, costs and income."

Groenewald (1971)* came to the conclusion that the related problem of rural poverty was becoming more serious, especially in the extensive grazing regions and certain other regions where crop cultivation is extremely risky, than in the more stable grain, horticultural and irrigation regions.

* GROENEWALD, J.A. (1971): The State of South African Agriculture, Agrekon, Vol. 10, No.1, 12-26.

In regard to the weaknesses in agricultural production systems and practices to which reference was made in the Interim and Second Reports, the Commission stated in paragraph 2.7.1.1 of this its Third Report that it was convinced

"that the extent to which the recommendations made and fully substantiated in the previous two reports are implemented successfully will be the extent to which their beneficial effects will be felt by the agricultural community, their influence making itself felt on the biophysical as well as on the economic instability and unevenness of income distribution in agriculture."

It is therefore considered to be of fundamental importance that, in considering the risks to which agriculture is exposed, their influence on stability in agriculture and the hopes that are pinned on systems of insurance against possible losses, a clear distinction should be drawn between those risks to which agriculture is exposed on account of basic weaknesses in production systems and practices which can and must be rectified, and those risks that are inherent in setbacks that cannot be averted.

Any insurance scheme providing cover for risks that are inherent in weaknesses that can be traced back to ill-adapted farming systems would undoubtedly be very prejudicial to attempts at achieving economic stability through biophysical stability based on adapted production systems and conservation farming. Admittedly, such a scheme might protect certain farmers against excessive fluctuations in production; but it would also tend to perpetuate production systems which are poorly adapted to local environmental conditions and which have other structural defects. Recently, Du Plessis* laid strong emphasis on the importance of a proper understanding of what is meant by "circumstances beyond our control" in farming. Obviously, any insurance system so wide in scope and covering agriculture against risks with the consequences described above cannot be supported.

Much can, however, be said in favour of an insurance scheme specifically designed for optimally adapted farming systems and practices. Such a scheme could be a very valuable means of eliminating the adverse effects of normal fluctuations in production and giving deserving farmers effective cover against the risks to which their production enterprises are exposed.

8.5.3 Basis for crop insurance

The latest submission of the S.A. Agricultural Union† to the Commission reveals that the comprehensive crop insurance now being advocated by the Union is also based on the idea that such insurance should be designed for optimally adapted farming systems. The Union proposes that comprehensive crop insurance should be based on principles including the following:

1. Only the loss in production costs caused by the uncontrollable natural elements should be covered by insurance.
2. The insured must at all times apply recognised, sound farming practices.
3. The insurance coverage should be based on the potential yield calculated for every field individually, with a combined guaranteed yield.
4. The comprehensive crop insurance should ensure a certain minimum income (production costs) for the producer who fulfils his obligations, irrespective of any unfavourable weather conditions.
5. A maximum and a minimum potential per hectare must be laid down. Cover must not be given unless a field has a certain minimum potential. A maximum potential must be laid down in accordance with the purpose of the insurance, which is to cover production costs. The Union considers that the following factors combined should determine the potential: cultivation methods, soil classification, soil depth factors, soil texture, availability of moisture to plants, the moisture regime, rainfall since previous crop on field, the moisture retentiveness of the soil, the agric horizon or soil compaction, seed variety, date of planting, stage of growth, development of root system, period for which field was rested, previous crop on field, planting date of previous crop on field, fields contoured, headlands, the presence of weeds, the presence of aphids, to-grub treatment in maize, fertiliser application per hectare, type of planter used, number of bags per hectare, spacing in the row, plant population, general appearance of crop, and rainfall pattern.
6. The risk attached to the cultivation of certain crops will necessarily vary according to region. This means that differential premiums for the various regions will have to be introduced in the light of the experience gained with claims. This provision would prevent marginal areas being used for the production of certain crops, since premiums in such areas would be considerably higher than in the cropping regions with a high potential. As explained under 5 areas with a potential below a certain minimum would in any case not be accepted for insurance.

The object of the premium rate is to ensure that in the long run it will be possible to pay claims or compensation from the income from premiums. If administrative costs and profit are not taken into account, the premium rate should therefore equal the risk factor.

8.5.4 Production data and policy with regard to insurance

The insurers concerned were unable to give the Commission any factual information on crop production trends in the various areas where applications for insurance have been accepted up to the present.

In this regard the Commission wishes to refer briefly to the situation in maize production, however, illustrating its observations with the few

* DU PLESSIS, S.J. (1971): Omstandighede buite ons beheer. Opening address. Nutrition Day, Ellisras, 19 May 1971.

+ S.A. AGRICULTURAL UNION (1971): Loc. cit.

data which the Commission itself was able to collect with the limited resources and in the limited time at its disposal. This is done mainly to show that, contrary to the impression created, factual information of importance to insurance is not so hard to come by, the Commission's view being that if a special effort were made such information could be supplemented to a great extent and processed a great deal more so that it can serve as guidelines in working out a sound policy and procedure for insurance.

In Table 8.4 of its Second Report the Commission furnished data on the coefficient of variation of maize yields from 1923 to 1954 in five subregions of the Summer Rainfall Region.* On the strength of these data and other information at its disposal the Commission also showed in paragraphs 8.2.1.5 and 9.6.1.1.1 of that report that the major fluctuations occur particularly in the southern and western parts of the region where the rainfall is relatively low and variable, especially during periods when the maize plant is in its critical growth stages.

These data, processed to throw light on some important aspects, are given in Table 8.1 From the data in that table the following emerges:

- (a) Over a period of 20 years (1946/47-1967/68) the average yield of maize per unit of area differed considerably, as was to be expected, in the various districts, i.e. from 4,2 at Bloemhof to 16,8 bags per morgen at Delmas, the latter figure being four times the former. What is of particular significance is that over the 20 years concerned the average differences in maize yields in the 25 districts were of practically the same order.
 - (b) The growing increments in the annual crop yields (these increments being indicative of the progress shown in maize production) also differed considerably from each other in these districts. It is noteworthy, however, that although these increments tended to vary in proportion to the crop levels, there were striking exceptions, for example, in the case of Wolmaransstad, Klerksdorp and Ventersdorp, among others.
 - (c) The coefficients of variation (CV) around the line of regression also, as in the case of the crop levels, varied markedly from 14,4 per cent for Middelburg to 51,2 per cent for Bloemhof.
- Since these coefficients are indicative of the fluctuations in maize yields in the various maize districts, they are also a very good indication of the degree of risk under which maize is cultivated in those districts and the account should be taken of them in the formulation of an insurance policy for those districts.
- (d) It should also be noted here, however, that although these coefficients might seem to vary in proportion to the yield levels, this does not always happen, as is evident, for example, from the data on:

Middelburg:

level of yield 9,9 bags/morgen, CV 14,4 per cent

Bothaville:

level of yield 10,0 " " " 30,0 " "

The significance of this emerges if a premium rate is based solely on the average yield level, say, 10 per cent on about 10 bags per morgen (therefore the same for the two districts). However, the coefficients of variation around the line of regression of 14,4 and 30,8 per cent, respectively, point to a variation trend in crops which is comparatively four times greater in Bothaville than in Middelburg, the degree of risk corresponding more or less to these figures. And it is this very risk factor which is of fundamental importance in crop insurance.

- (e) Although the data in Table 8.1 relate to only a limited number of districts where maize is cultivated on a large scale in the Summer Rainfall Cropping Region and it seems difficult to distinguish sharply between the coefficients of variation around the line of regression, the districts concerned can nevertheless be classified on the basis of these data into four groups:

- (i) Low coefficients: below 20 per cent

Delmas	Klerksdorp
Middelburg	Ventersdorp
- (ii) Fairly low coefficients: 20-30 per cent

Bethal	Senekal
Witbank	Wesselsbron
Frankfort	Bultfontein
Heidelberg	Delareyville
Standerton	Lichtenburg
Lindley	
- (iii) Fairly high coefficients: 30-40 per cent

Heilbron	Hoopstad
Clocolan	Schweizer-Reneke
Bothaville	Wolmaransstad
Kroonstad	
- (iv) High coefficients: over 40 per cent

Winburg	Bloemhof
Christiana	

It will be noted that the districts grouped together on this basis do not in all cases correspond to agro-economic areas and that the places mentioned do not lie consistently within or outside a demarcated area as initially recommended by the Study Group.

- (f) This preliminary collection and presentation of crop data in processed form underlines the importance of such data in crop insurance and demonstrates that regional and farm differentiation in premiums is therefore indispensable in the planning of crop insurance and that, although crop levels must also be taken into account, the coefficient of variation of crops is decisive importance.

Deviations in risks have to be guarded against in any insurance scheme. They may arise between districts, as appears clearly in the table. They may also occur between farms within a district

* Source of data: HOFMEYR, J.H. and WOELKE, M.E. (1958): Die stand van mielieproduksie en navorsing in die Unie van Suid-Afrika. September 1958

TABLE 8.1 - Area under maize and average yield and variations therein during the period 1946/7 to 1967/8 in 25 districts of the Summer Rainfall Cropping Region

District	1966/67* Yield (bags/ morgen)	1967/68+		Period from 1946/47 to 1967/68			
		Area harvested (000 morgen)	Yield (bags/ morgen)	Yield (bags/ morgen/ year)	Increasing increment (bags/ morgen/ year)	Coefficient of variation (CV) of yield per morgen after adjust- ment for re- gression	Risk factor as percen- tage of ave- rage yield
Bethal	20,3	114	17,3	12,4	0,26	20,2	9,0
Delmas	21,3	59	23,3	16,8	0,57	15,7	9,0
Middelburg	10,9	57	14,2	9,9	0,13	14,4	6,6
Witbank	27,4	42	24,5	13,1	0,48	26,2	12,4
Frankfort	15,6	179	10,1	7,9	0,25	23,2	11,2
Heilbron	20,4	118	7,3	7,5	0,27	36,4	12,8
Heidelberg	24,7	99	18,7	11,6	0,58	20,3	14,5
Standerton	17,6	186	9,7	9,0	0,23	23,4	11,0
Clocolan	25,7	27	12,7	10,9	0,48	34,3	16,5
Lindley	15,6	79	4,8	7,4	0,15	28,4	10,2
Senekal	11,1	103	3,2	7,5	0,05	25,6	10,4
Winburg	21,5	53	7,5	7,1	0,25	48,0	16,9
Bothaville	23,0	223	8,7	10,0	0,51	30,8	16,7
Bultfontein	12,6	153	3,8	9,3	0,05	28,3	10,4
Kroonstad	19,6	184	6,6	8,3	0,29	34,5	13,5
Wesselsbron	19,0	114	5,6	10,3	0,33	28,7	11,7
Bloemhof	8,8	42	1,4	4,2	0,10	51,2	22,2
Christiana	6,3	27	2,7	4,6	0,12	46,7	20,1
Hoopstad	11,3	152	4,0	8,4	0,21	38,9	17,0
Schweizer Reneke	18,6	185	8,2	7,7	0,39	34,8	17,2
Wolmaransstad	24,6	198	8,7	8,7	0,41	38,4	14,7
Delareyville	19,4	213	10,7	11,6	0,35	28,4	14,1
Klerksdorp	19,0	80	13,3	10,0	0,58	19,4	16,9
Lichtenburg	16,9	275	16,7	12,5	0,59	22,8	16,0
Ventersdorp	13,9	95	14,9	10,0	0,44	16,4	13,6

* Season during which record maize crop of 107,6 million bags was harvested in the Republic

+ Maize crop of the Republic: 58,6 million bags

Source: Data collected and furnished by the Division of Agricultural Economic Research of the Department of Agricultural Economics and Marketing

and between fields on a farm. The production unit must first be approved for insurance on the basis of the risk situation of a particular area and subsequently consistent control must be exercised over fertilising and cultivation of the crop. If this is not done, there will be too many loopholes and it will be impossible to keep the fund going for any length of time.

(g) To gain greater support, particularly among farmers producing maize in areas where yields are comparatively high and subject to relatively little fluctuation and therefore to low risk, it is considered desirable to make provision for a no-claim bonus system.

(h) The Commission has not collected and processed data on the wheat cultivation in this regard but is aware that data on most districts are available for analysis and interpretation in the same way as has been done above for maize.

8.5.5 Risks, and conditions of insurance

For understandable reasons, it is essential that the risks and conditions attached to crop insurance for agriculture should be clearly defined and identified before such insurance cover can be granted.

Many such risks are, for example, listed in the conditions which Sentraoes (Koöperatief) Beperk lays down in its policies. The Commission does not consider it necessary to go into details at this stage, but recommends that, if official approval is given for the establishment of a co-operative insurance undertaking as recommended (see paragraph 8.7.4), careful attention should be given to the definition of the risks and circumstances which will be considered favourably for the purpose of such an insurance scheme, in order to ensure that their inclusion will be compatible with the objects of crop insurance as set

out in this chapter and that it will be possible to provide adequate cover for them in accordance with the aim of also making this insurance scheme financially self-supporting.

The object of this kind of crop insurance should therefore be to cover only those risks over which the farmer has no control (but excluding certain risks such as earth tremors, excessive rain, wild animals and so forth), that is to say, the kind of cover that would not discourage him from at all times being as efficient and provident as possible in his farming. The Commission therefore considers that to refer to this kind of crop insurance as "comprehensive crop insurance" creates the impression that the insurance planned and offered provides cover for all crop risks. Comprehensive insurance of that kind cannot be supported, nor should such an impression be created. The Commission therefore prefers this kind of insurance to be referred to only as "crop insurance", thereby intimating that the intention is to insure crops only against certain risks.

The Commission has reason to believe that insurance of this kind can serve a good purpose and can be successful. After more than thirty years of being widely tried and tested, the crop insurance schemes in the United States of America have been accepted by the Government of that country as permanent institutions. In 1969 the Federal Crop Insurance Corporation, under the control of the Secretary of Agriculture, was running insurance schemes for no fewer than 24 different crops ranging from wheat, maize, groundnuts and cotton to apples, citrus, sugar-cane, tobacco and peas. Cover was provided for crops valued at over 900 million dollars. Canada, Mexico and Japan also have extensive insurance schemes for a number of crops. Various other countries such as Israel and Brazil are seriously considering such schemes or have launched trial schemes of this kind.

In a recent communication on crop insurance in the U.S.A. the Republic's Agricultural Counsellor (Economic) in the United States made the following remarks:

"The U.S. Congress in its legislation has provided that the Corporation (Federal Crop Insurance) shall charge premiums which will pay for crop losses and set up a reserve over a period of years. Originally Congress appropriated all costs for administrative and operating costs, and for the costs of loss adjustment. In recent years some of these latter costs have been deducted from premium income but the Corporation is not allowed to include any such costs (operating and administrative) in its premium rates ...

"The loss ratios of Federal Crop Insurance show that, even in a very favourable loss year such as 1966, when only 69 cents out of every \$1.00 paid in premiums was used to pay crop losses, it took more than the premium payment to pay for both crop losses and administrative and operating expenses.

"At present in the U.S. there are a few insurance companies that are attempting to write

all-risk crop insurance. They are limiting their offer to only a few crops in only a few areas. Also, the insurance is available to only a selected few farmers.

"It is not necessary to start a crop insurance system on a large scale. At present in the U.S., when they start insurance on a new crop, it is started on a very small scale. This gives them the opportunity to learn a great deal without risking large sums of capital."

It may be added that conditions in crop insurance written by the F.C.I.C. in the United States have recently been such that officials in the U.S. Department of Agriculture have expressed serious concern at the extent to which the Insurance Corporation calls for ever-increasing amounts from the Treasury to make good their unfavourable financial balances.

8.5.6 Factors of importance in crop insurance in South Africa

The following factors affecting crop insurance in South Africa merit consideration:

- (a) The number of farmers who will go in for crop insurance in South Africa will at best be several times smaller than the number on which crop insurance in the U.S.A. is based.
- (b) The farmers in South Africa are thinly scattered over large parts of the country.
- (c) The climatic and other conditions under which a given number of farmers have to run their farms will, it is expected, deviate from the average to a much greater extent in the Republic than in the very large crop production areas of, for example, the U.S.A.

In view of these factors, the financial affairs of a South African crop insurance undertaking may be expected to be fraught with problems and would therefore have to be handled with great care if a realistic policy regarding insurance, on a sound business footing, is to succeed.

The Commission was therefore perturbed to note the eagerness (particularly in the case of Sentraoes) to expand insurance cover for both maize and wheat as rapidly as possible - even to nationwide proportions, as is evident from the South African Agricultural Union's submission referred to in paragraph 8.3.2.2.

In view of the predictably greater problems which may be expected in many respects in crop insurance in South Africa, the Commission therefore considers it imperative that the following policy should be adopted:

- (a) Plans for expansion must be treated with the greater caution: every instance of expansion must be regarded as a trial phase and must not be embarked upon until the experience gained in the preceding phase has strengthened confidence that the direction in which crop insurance is moving offers a good chance of success with the minimum of State aid.

- (b) Right from the start there must be a high degree of selectivity as regards production areas for each of the crops, individual farms, farm planning and production practices, and the merits of each farmer particularly as regards his technical knowledge, managerial ability and business sense. The Commission considers that strict selectivity in the initial stages of an insurance scheme (with the possibility of more leniency as the undertaking becomes more firmly established) is vastly preferable to a policy of initial leniency which might later necessitate the curtailment of insurance facilities.
- (c) It is considered essential that, should the Government agree to give financial support to such an insurance undertaking, the nature of such assistance should be made very clear and its limits should be laid down very specifically. This is to prevent the Government from being pressed for ever larger sums for this purpose once such a scheme gets under way, as has happened in the U.S.A. in recent years.

8.6 FINANCIAL BACKING BY THE GOVERNMENT

8.6.1 The Government's contribution

In view of all these circumstances and the tremendous demands which will be made on crop insurance in South Africa the Commission considers that, if the Government is to make a direct financial contribution to a co-operative crop insurance undertaking, the following conditions should attach to such financial assistance:

The Government's financial support must take the form of an amount decided upon by the Government and earmarked as a contribution towards administrative and appraisal costs, provided that such a contribution is not taken to mean that the Government assumes liability for the whole or part of these costs.

In the first place, it cannot be accepted that the Government should assume liability for all the expenses of and appraisal if these functions are not handled in their entirety as a Government undertaking and if the Government is not in full control of them.

Secondly, the Commission cannot support the idea of a crop insurance scheme as a Government undertaking (as initially recommended by the Study Group); it prefers a crop insurance institution on a co-operative basis as recently recommended by the South African Agricultural Union.

Furthermore, because of the conditions in South Africa which might affect the success of a crop insurance scheme, it is necessary for the Government to have the assurance that definite limits will be set to the contribution expected of it, if recommendations in this regard are to be

given favourable consideration. It therefore seems reasonable to link such financial assistance to the business turnover of the insurance undertaking on a percentage basis, which would mean that the Government's contribution might have to be stepped up as turnover rises, but then any such increase in the Government's contribution would have to be subject to the condition that a rise in turnover has resulted from procedures and expansion which the Government approved beforehand.

If administrative and appraisal costs tended to rise appreciably above the limit set for the contribution which the Government would be willing to make towards the crop insurance scheme, the insurance undertaking would be obliged to rationalise administration and appraisal, to become more selective with applications for insurance, or to bring the payment of claims into line with its financial position. Provision would, of course, have to be made for such a contingency in the co-operative's regulations and terms of insurance.

8.6.2 Interim loan facilities

The Commission supports the South African Agricultural Union's proposal that income from premiums should in the long term cover claims. It would be reasonable to expect, however, that there would be years in which the total claims would exceed the premium income and accumulated reserves, particularly the initial years when the reserves would, understandably, still be low.

The Commission considers it desirable that the co-operative concerned should, under such circumstances, be granted credit facilities at a reasonable rate of interest to tide it over periods when reserves are low - facilities similar to those which the Land Bank has in many cases already granted to agricultural co-operatives with beneficial results.

8.7 CONCLUSIONS AND RECOMMENDATIONS

8.7.1 The Commission is satisfied that a scheme for insuring cash crops against certain risks can serve a good purpose and that it is desirable to introduce such a scheme for the principal cash crops in the Republic. It considers, however, that an insurance scheme of this kind should first be introduced on a limited scale for a few cash crops as a trial scheme and that, as experience is gained and conditions become propitious for this, the trial scheme should gradually and systematically be expanded as regards both crops and areas. The scheme must be voluntary.

8.7.2 The Commission considers that the insurance scheme envisaged should not aim at (absolutely) comprehensive crop insurance and should also not be publicised as such. It should rather be planned purely as "crop insurance" and should be publicised as a scheme to provide cover only against certain risks.

8.7.3 The Commission is not in favour of the Government's undertaking such as insurance scheme itself nor of its being involved too deeply or too directly in such a scheme.

8.7.4 The Commission recommends that an insurance scheme on a voluntary and co-operative basis should be introduced and gradually expanded in the light of experience.

8.7.5 The Commission considers, however, that the above recommendation can only be implemented if the two co-operative institutions at present undertaking the broader insurance of maize and wheat were to amalgamate or reach some other settlement of a similar nature. It is therefore recommended that the parties involved should take the necessary steps to set up a central co-operative insurance body which will take on the task of providing crop insurance on a nationwide basis and which will negotiate with the authorities as the sole recognised organisation in this field.

8.7.6 As regards the policy to be followed with respect to premiums and the payment of claims, the Commission recommends as follows:

8.7.6.1 The aim should be specifically to promote sound, adapted farming systems operated on recognised principles of conservation and sound management.

8.7.6.2 As a matter of the highest priority, all possible statistics on the cultivation of the crops concerned and on the climatic and other environmental conditions of importance in determining fluctuations in production and the risks involved in these undertakings in each of the principal areas must be collected and processed by the proposed insurance institution so that sound guidelines according to which policy may be formulated for premiums and payments can be applied and revised from time to time. Owing to the special circumstances in South Africa referred to in paragraph 8.5.6, the Commission considers it extremely important that serious attention should first be given to the above-mentioned matters before any crop insurance scheme is launched with official recognition and support.

8.7.6.3 For the reasons indicated above, a system of differentiation in premiums is to be preferred to one of uniformity, if this kind of crop insurance is to be more acceptable to farmers producing in areas where crops fluctuate less.

8.7.6.4 Favourable consideration must be given to further concessions in respect of premiums under the no-claim bonus system.

8.7.7 As regards financial arrangements, the Commission recommends as follows:

8.7.7.1 The premium rates and the basis on which payments are made for crop losses must be such that the insurance undertaking will pay its own way and such that in favourable years a substantial reserve fund can be accumulated from which payments may be drawn in unfavourable years when the undertaking has to meet high claims.

8.7.7.2 The Government should grant approval for the Land Bank to provide credit facilities for the insurance co-operative at a reasonable rate of interest to tide the co-operative over periods when the total claims and other expenses exceed the income from premiums, provided that the loans concerned are paid back as soon as possible once conditions improve.

8.7.7.3 The Government should make a contribution (in the form of a subsidy) towards defraying administrative and appraisal expenses under the scheme when claims are considered, provided however, that -

- (a) such a concession is not taken to mean that the Government assumes responsibility or liability for all the administrative and appraisal expenses;
- (b) this contribution does not exceed a certain percentage of the business turnover of the insurance undertaking, i.e. the premium income or payment of claims (whichever is the lower), provided the total amount voted by the Government in a particular year is subject to a maximum;
- (c) the Government must, before a start is made with this contribution, be satisfied as to the policy to be followed in setting premiums and paying claims, which should be based on advance planning on the strength of data significant in the formulation of such a policy with regard to insurance;
- (d) a certain degree of selectivity is maintained from the outset in the screening of applications for insurance as regards farmers, areas, crops, farms and production practices;
- (e) the crop insurance scheme is expanded, as regards both crops and areas, only in consultation with the Minister of Agriculture;
- (f) the Government contribution is revised after a pre-determined period so that it may be withdrawn completely in due course.

8.7.7.4 The Commission recommends further that, should official approval be given to the establishment of a co-operative insurance undertaking, careful consideration be given by that co-operative and the Departments of Agriculture concerned to defining the risks and conditions which will receive favourable consideration for cover under such an insurance scheme, in order to ensure that the inclusion of such risks and conditions will be compatible with the purpose and object of crop insurance as outlined in this chapter and that it will be possible to provide adequate cover for them, bearing in mind the aim of making this insurance scheme financially self-supporting.

8.7.7.5 Should crop insurance receive financial assistance from the Government in this way, consideration must be given to the withdrawal of facilities for production loans in all districts where the co-operative insurance scheme is in full operation.

CO-OPERATION IN AGRICULTURE:
COMMUNAL USE OF EQUIPMENT AND
CO-PARTNERSHIPS*

1. INTRODUCTION

As farming developed from a rural way of life into a full-fledged agricultural industry, the need for organised co-operation grew. In farming, as in other industries, the formation of partnerships in one form or another was essential for optimal efficiency. This gave rise to the co-operative movement. As regards the business side of agriculture and the processing of agricultural products, the formation of partnerships, chiefly in the form of co-operatives, has developed into a fairly successful movement. It is estimated that the co-operatives' share in the total marketing of agricultural products is between 70 and 75 per cent. The process has, however, been accompanied by quite a number of teething troubles and initial setbacks which have had to be overcome.

The formation of partnerships in agricultural production and more specifically the advent of the co-operative movement in agricultural production make completely different additional demands on those involved, however, and up to the present attempts in this direction have, with few exceptions, not been very successful. One of the principal reasons for this failure is that on the whole farmers are such strong individualists. A farmer prefers to have his own land and to run his farm as his own master. This independence on the part of the farmer is, in fact, one of the most important factors which makes people take up farming and keeps them in the industry, sometimes at almost superhuman sacrifice to themselves.

However, if greater co-operation in mechanised agricultural production activities is beneficial and necessary, the matter merits further analysis. The underlying factors determining success or failure must be identified. For this purpose, the Commission will therefore examine the matter more closely against the background of mechanisation, labour, and the capital required, as already outlined by the Commission in Chapter X of its Second Report and in the first two chapters of this report.

9.2 THE NEED FOR THE CO-OPERATIVE OR JOINT USE OF AGRICULTURAL MACHINES

The object of partnership or co-operation in the use of agricultural machines is, as emphasised

in various publications*, the better utilisation of machines, labour and capital. As labour becomes scarcer and more expensive, as automation and mechanisation revolutionise the industry and as production costs become ever greater, ways have to be found to keep farming remunerative, in spite of shrinking profit margins. This inescapable problem has, in fact, been the downfall of many a farmer.

Already, however, certain implements are being shared with great success. Co-operation is fairly widespread in the use of heavy machinery, such as combines and construction equipment, which in any case are beyond the means of the average farmer. But this kind of machinery represents a relatively small part of the total mechanisation costs in agricultural production. All the indications are, however, that there is a pressing and growing need for co-operation on a much wider scale and that such co-operation would be of tremendous economic benefit to agriculture.

The economic benefit to be derived from the joint or co-operative use of implements lies chiefly in the greater use made of such machines per year or per unit of time. Big units with higher rates of operation and higher levels of efficiency are also justified by the fact that bigger crops can be handled and fewer workers are necessary. Farmers can therefore afford workers who are more reliable, this making it possible to raise efficiency even further.

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- * (a) Bouma, J. Martens, K. (1970): Organisatie en planning op loonbedrijven en werktuigen coöperaties. Instituut voor Landbouw-techniek en Rationalisatie, Wageningen, Holland, publication A 143, August 1970
 - (b) Baumans, A.L.G.M. & Smeenk, W.F.H. (1966): Close Co-operation and Mutual Aid among Farmers in the Netherlands. Netherlands Contribution, 1966, to F.A.O. Working Party on Agricultural Structure.
 - (c) Marais, D.P. (1971): Verslag oor koöperatieve meganisatie in die Oranje-Vrystaat, Division of Agricultural Engineering, Department of Agricultural Technical Services, Republic of South Africa
 - (d) Spierings, C.J.M. (1970): Het overkoepelend gebruik van arbeid en machines op akkerbouwbedrijven, Nr. 2.18 Landbouw-Ekonomisch Instituut, Afdeling Streeksonderzoek. The Hague, the Netherlands
 - (e) U.S. Department of Agriculture (1964): Uses of Agricultural Machinery in 1964. Stat. Bulletin 377

* The Division of Agricultural Engineering of the Department of Agricultural Technical Services assisted in the preparation of this chapter

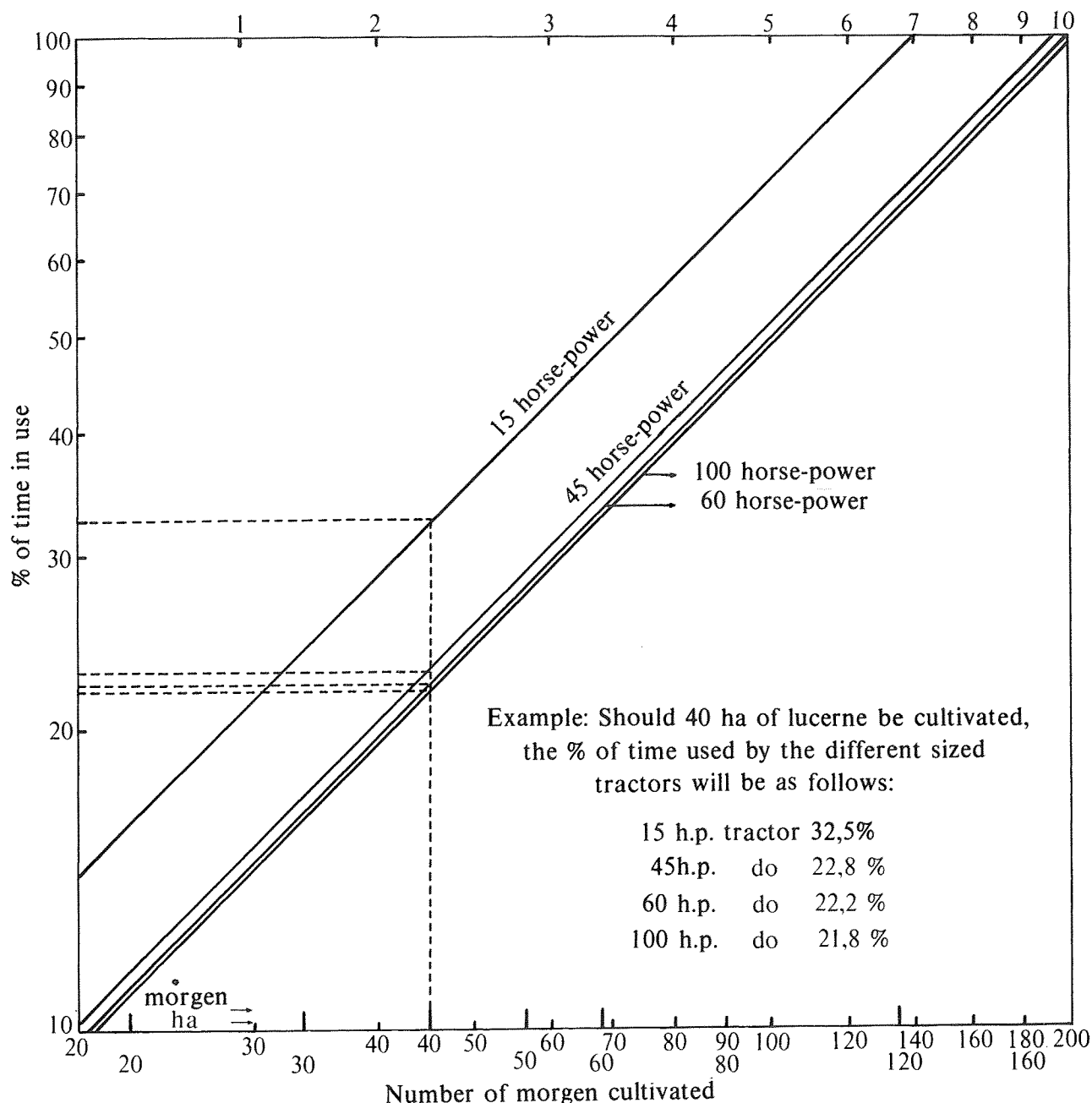


FIG. 9.1 Tractor utilization in lucerne cultivation

This need to share implements in agricultural production becomes ever greater as the size of the farming units of individual farmers decreases. For example, the communal use of certain implements can hardly be justified, on areas of 200 ha and larger, but such use becomes virtually imperative if the area under cultivation on a farm drops below 50 ha. It is utterly impossible to use tractors and certain other machines efficiently on plots smaller than 30 ha, and the communal use of such machines is virtually the only way of keeping machine costs per morgen as low as possible.

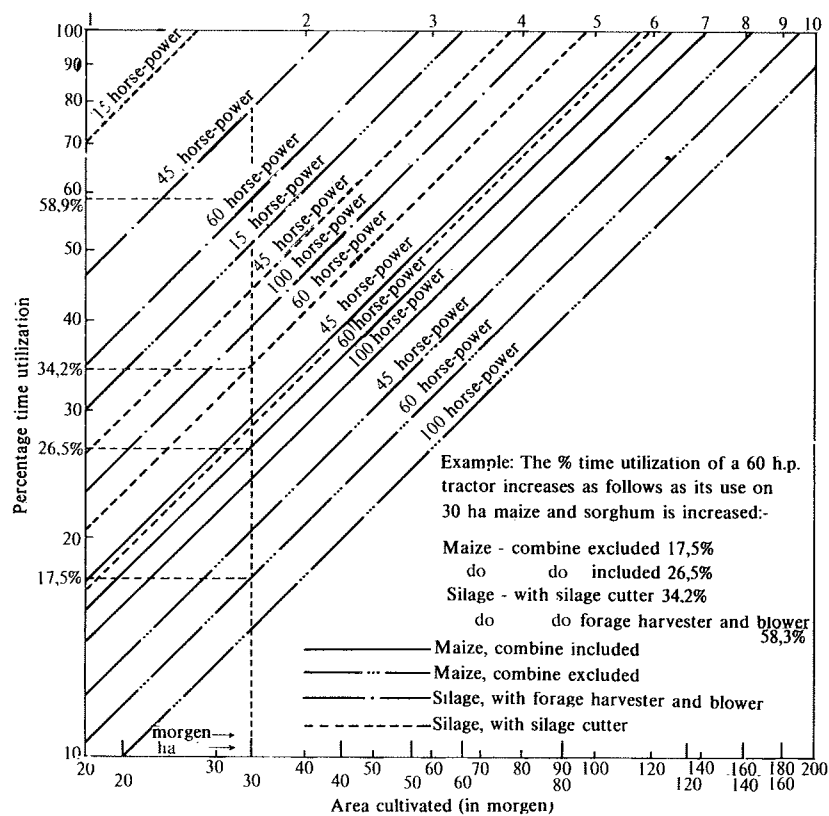
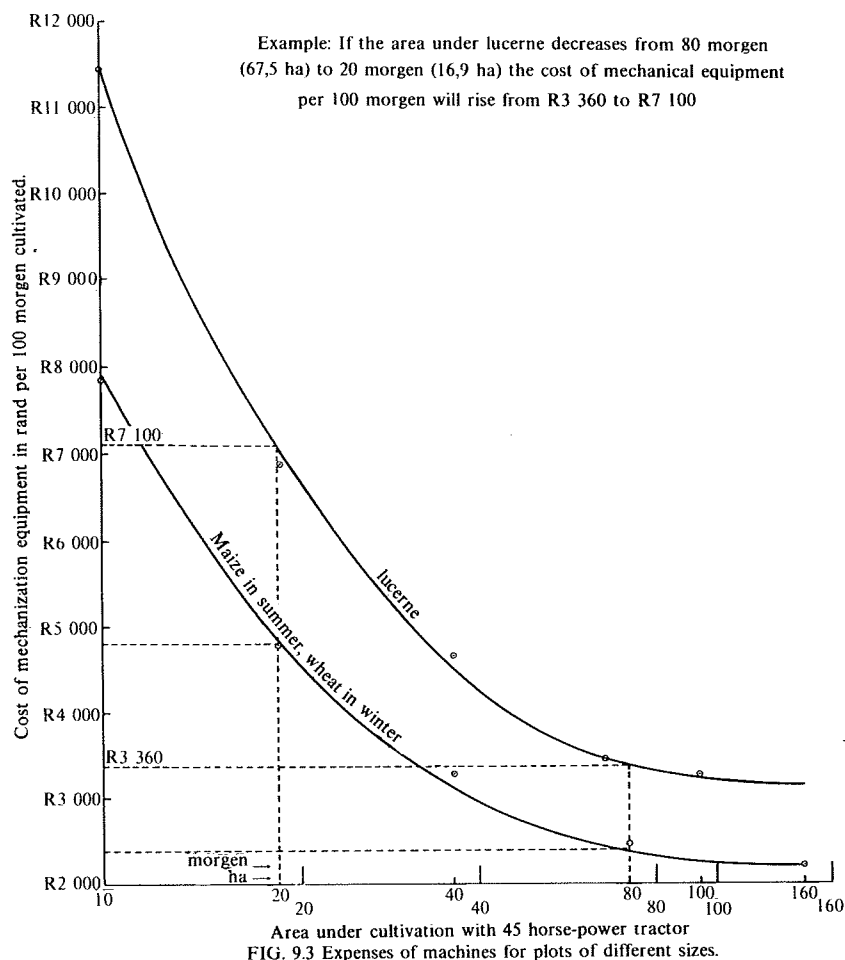
If it is borne in mind, furthermore, that the maximum net annual profit per farming unit is a function of the size of such a unit and that farmers on small plots therefore still have to struggle to wrest a decent living from the land, in spite of high yields per unit of area, the cost per unit of work performed becomes increasingly important as plot size decreases. Therefore the rise that takes place in these costs as plot size

decreases (for example, where each unit has a full range of implements and tractors), is possibly one of the most important restrictive factors upon which the viability of the unit depends. The problem can best be solved by operating on a communal basis.

Since mechanisation costs in agricultural production have already become the major cost item for most crops and are steadily gaining importance, any saving in this cost item can help greatly to reduce production costs as a whole.

The views put forward above are borne out by Figures 9.1, 9.2 and 9.3 which are representative examples taken from a report by Venter (1967)*.

* Venter, G. (1967): Verslag oor die moontlikhede van koöperatiewe gebruik van landboumasjiene op besproeiingspersele by die Oranjerivier-kompleks. Division of Agricultural Engineering, Department of Agricultural Technical Services



Figures 9.1 and 9.2 illustrate the use of tractors in lucerne cultivation and in maize and sorghum cultivation, respectively. The graphs show the area cultivated as against the percentage of time used by tractors of various sizes. In Figure 9.3 the graphs reflect machine expenses on plots of various sizes for lucerne and for maize together with wheat.

From Figures 9.1 to 9.3 and from calculations by Venter (formerly of the Division of Agricultural Engineering) in respect of conditions similar to those on intensive irrigation plots, it appears that costs more or less quadruple if a 45-horse-power tractor is used to cultivate 10 morgen as against an area of 100 morgen or more. Further important conclusions are the following:

- (i) If a tractor, with all its implements, and a baler are used to cultivate only 10 morgen of lucerne, the depreciation costs become so high that the total operating costs of 10 plots (with 10 tractors, 10 balers, etc.) can amount to over R11 000 per annum.
- (ii) Therefore, if one set of equipment were to be used for 10 plots of 10 morgen each, the costs would decrease more or less fourfold, resulting in a saving of over R8 000 a year for the 100 morgen.
- (iii) If, moreover, the plots were to be enlarged to 1 000 morgen, more tractors would have to be purchased because one tractor would be unable to cope with an area of that size. However, this would not necessarily mean that the same number of implements in each class would also have to be purchased. Whereas previously the single tractor had to use one implement after the other, three or even more tractors could still use the same implements. In such a case, the implements would therefore be used three to four times more, with the result that the fixed costs, which are usually very high, could be reduced considerably by the communal use of agricultural equipment so that the cost per 100 morgen would drop even further. This decrease could result in savings particularly on expensive items such as balers and combines.
- (iv) The same situations obtain in maize cultivation and wheat cultivation in winter, and a saving of almost R6 000 a year per 100 morgen would be possible if plots were enlarged from 10 morgen to 160 morgen. Further savings would also be possible in such a case if operations were conducted on a co-operative basis, which would make it possible to reduce the number of implements per tractor and per morgen tilled even further.
- (v) A combine was not taken into account in (iv) above. If each plot were to have its own combine as well, costs per 100 morgen could be expected to be at least double. The assumption was, however, that these crops would be combined on a contract basis and that the combine costs per unit of area would be more or less the same for both large and small plots.

(vi) Another factor which could not be taken into account and was assumed to be identical for all sizes of plots was field efficiency. More time and more fuel are wasted because of turning and various other difficulties when the plots are small and the fields are short; therefore field efficiency will drop sharply - and costs will rise accordingly - as plot size decrease. So it is to be recommended that, even where farmers operate on a communal basis, the plots should not be so badly cut up that cultivation is hampered (which also results in a waste of valuable arable land on account of the extra roads, fences, etc., which are needed).

(vii) On irrigation plots it would also be possible to share sprinkler equipment. This equipment could be shifted from plot to plot in accordance with the farmers' turns to use water, so that it would be used almost 100 per cent. Costs would be lower than if an irrigation system were to be purchased for each plot. Apart from this saving on capital outlay, further savings would be possible since the water could be used much more efficiently, thus eliminating or drastically reducing waterlogging and brack and preventing low production resulting from other causes.

Venter's* investigation was restricted to plots under irrigation, but it may readily be accepted that his findings would, to a greater or lesser extent, apply to other branches of farming.

There are countless other examples which underline the importance of the optimal use of mechanical units, but the following data from the Department of Agricultural Economics and Marketing will suffice.

Although it is evident that tractor numbers do decrease as the farms become smaller, this decrease is not in proportion to the decrease in the area under cultivation, so that the area cultivated by one tractor is appreciably smaller on the small farm than on the larger farms. Consequently the tractor costs per unit of area for the small farms are considerably higher than those for the big farms. One of the main reasons for this is that, in the case of the bigger farms, the fixed costs are divided by a larger number of working hours per annum. The same applies to a greater or lesser extent to all equipment. It may therefore be accepted that big savings are possible, particularly with the more expensive machinery if it can be used for more hours per annum, for example, under a system of communal use.

* Venter, G. (1967): Op. cit.

TABLE 9.1 - Number of tractors and tractor costs per morgen on farms in the Western Transvaal, North-Western Free State and Transvaal Highveld, according to the enterprise and cost survey, 1969/70

Item	Western Transvaal				North-Western Free State				Transvaal Highveld				All three regions			
	I	II	III	Av.	I	II	III	Av.	I	II	III	Av.	I	II	III	Av.
Number of cases	35	34	34	103	37	37	37	111	31	32	34	97	103	103	105	311
Morgen cultivated	918	443	234	535	1 195	572	297	688	791	384	206	452	979	471	247	564
Number of tractors	6,97	4,40	3,11	4,85	8,14	4,72	2,97	5,28	5,38	4,25	2,88	4,13	6,91	4,47	2,99	4,78
Morgen/tractors	132	101	75	110	147	121	100	130	147	90	72	109	142	105	83	118
Cost/morgen	7,33	8,56	8,26	7,80	5,55	6,17	6,48	5,85	6,80	7,65	8,27	7,27	6,53	7,42	7,64	6,94

SOURCE: Division of Agricultural Production Economics of the Department of Agricultural Economics and Marketing. Groups I, II and III represent dryland farming on big, medium and small farms, respectively

9.3 COMPARISON OF A FEW FORMS OF JOINT UNDERTAKINGS*

Below is given a tabular comparison of a partnership, a company and a co-operative with regard to the distribution of profits, taxability, financing, say the farmer has management and administration, and the liability of the participants. Apart from these three more or less formal joint undertakings, the simplest form of co-operation between two farmers is the informal kind where the farmers share labour or an item of equipment.

The choice between the three formal undertakings mentioned above will be dictated by circumstances, the factors listed above playing an important part. The number of participants and the size of the business are also important and

are probably decisive. The Companies Act provides, for example, that if 20 or more persons engage in business together (partnership) they must register as a company. A private company must have at least two shareholders, but may not have more than 50. A public company must have at least 7 shareholders.

An agricultural co-operative must also be established by at least 7 farmers and its membership may never be less than 7. In certain countries this figure has been set at 50. As things are at present, this minimum is considered necessary because the viability or continued existence of a co-operative depends on numbers and on how much business is done. A co-operative is established to consolidate the bargaining power of its members, as well as to reduce the cost of services, and here again the decisive factor is how much business is done.

COMPARISON OF CERTAIN ASPECTS OF:*

	PARTNERSHIP	COMPANY	CO-OPERATIVE
Distribution of profits	Under partnership agreement, usually based on amount of capital contributed and on seniority and labour	Strictly according to shares held	Interest on share capital and then on basis of members' participation
Taxation	Individual partner is assessed on his share in any profit and any salary which he may draw. The partnership as such is not assessed	Company: Pays a 40 per cent tax on its surplus Shareholder: The dividend is partly taxable when held by him, depending on the income group he belongs to	Agricultural co-operative: Exempted Member: Bonus and dividend taxable when held by him

* Hattingh, H.S. (1971): Memorandum oor koöperatiewe produksie. Department of Agricultural Economics and Marketing

	PARTNERSHIP	COMPANY	CO-OPERATIVE
Financing	(a) Partners provide major part of capital (b) Borrowing permitted (c) Land Bank financing probably available to the extent to which the individual farmer can be assisted (d) No reserves, but undistributed profits credited in partners' names	(a) Shareholders provide major part (b) Borrowing permitted (c) Land Bank facilities not available (d) Accumulates reserves	(a) Members provide comparatively small part in the form of share capital and membership funds (b) Borrow permitted (c) Land Bank financing available, depending on particular activity and security (d) Accumulates reserves
What say the farmer has	According to agreement	Voting according to shares	One member, one vote
Management and administration	Arrangements depend on number of partners and size of business	Size determines needs, but directors in control	Size determines needs, but directors in control. There are co-operatives run by the directors
Liability of participants	Jointly and severally liable	Limited to shareholding	Limited to shareholding, but in unlimited co-operatives the members are jointly and severally liable

*Furnished by the Department of Agricultural Economics and Marketing

9.4 REQUIREMENTS FOR SUCCESSFUL FARMING PARTNERSHIPS

An analysis of the successes and failure of farming partnerships and other forms of co-operation in the mechanisation of production processes revealed that, although success depends on widely differing factors, certain basic requirements are of cardinal importance in all cases. According to Hattingh* these requirements are the following:

- (i) The undertaking must be big enough. For the various forms of co-operation there are different but nevertheless very definite requirements in this regard, depending on the particular circumstances of each case.
- (ii) Partners must be compatible. Family ties and neighbourliness play an important part in determining the success of certain kinds of partnership. The partnership's chances of success are also influenced by the age differences between members, the sizes of the pieces of land concerned and the complexity or otherwise of the farming operations.
- (iii) Profits must be distributed equitably (where applicable).
- (iv) In the case of producer co-operatives, the members must be interested in the business as a whole, not only in certain aspects of it.

(v) In producer co-operatives, all members must work equally hard.

(vi) Good management is essential - in the case of producer co-operatives, all the members must be good managers.

9.5 BASES FOR CO-OPERATION IN AGRICULTURAL PRODUCTION AND THE COMMUNAL USE OF AGRICULTURAL EQUIPMENT

There are various bases on which agricultural equipment can be used communally, the more important of which are discussed briefly below.

9.5.1 Private contractors: Certain specialised tasks, such as major earth-moving works, the drilling of boreholes, and the harvesting and combining of certain crops, are already being done by contractors. A contractor may be a specialist in a certain field, or he may be a farmer who has purchased the equipment concerned in order to do his own work but who also uses it to perform a similar service for other farmers on a profit basis.

Enquiries revealed that there are about 400 combines belonging to contractors which are available for the harvesting of maize crops. The total capacity of these combines is about 5 000 hectares per day. In the wheat harvesting season most of the contractors concerned can also arrange to help with the harvesting of the wheat crop. Some of the machines belong to farmers who undertake combining as a sideline and the rest belong to full-time combine contractors.

* Hattingh, H.S. (1971): *Op. cit.*

9.5.2 Custom farming:* This is also a form of contractual work, but is not the same as the work done by the private contractors mentioned above. Under a custom farming system the contractors enter into an agreement with the landowner to undertake all or part of the mechanical work in connection with the production of one or more crops at a fixed tariff. The work includes the preparation of the soil, fertilising, planting, cultivating, pest control and combining.

One basis for custom farming is the establishment of corporations to handle all or part of the mechanical work on the farm. In other cases two or more neighbours might agree to divide certain of their production operations among themselves, each specialising in his particular department and doing the specific mechanical jobs for each other and for other farmers in the vicinity at a predetermined tariff. This is known as "exchange work".

Custom farming is rapidly gaining ground, particularly in the U.S.A. where, according to statistics, 28 per cent of all maize, small grains and related crops was produced on a custom or exchange-work basis in 1964.

9.5.3 Co-operatives:+ Various co-operatives are already performing more or less specialised services in connection with agricultural production, particularly where specialised or heavy, expensive equipment is required. What they are already doing could serve as a basis for further development to increase production efficiency, even in the more common primary production processes (ploughing and other soil preparation processes) which they might well be able to do more economically than individual farmers.

The basis on which a co-operative functions can, however, take different forms, namely:

- . Complete co-operative integration
- . Partial or specialised co-operation
- . Co-operative mechanical services

9.5.3.1 Complete co-operative integration: Here the object is to expand mutual assistance with the aid of agricultural production processes so that farmers can produce more cheaply on a communal basis than they would have been able to do individually. In this way an attempt is made to emulate the production situation of large farming concerns or even companies.

In Greece ϕ a co-operative scheme has been launched under which the members of a co-operative agreed that they would pool their movable and

immovable property completely in a co-operative system and that each would participate in the scheme as an ordinary labour unit, but would also, as a shareholder, share in the profits which would be made by the undertaking. Various parties have investigated this system and come to the conclusion that it could hardly be recommended for wider application, particularly in a democratic country.

9.5.3.2 Partial or specialised co-operation: Partial co-operation would appear to have a better chance of success in cases where certain parts of the production activities sometimes require partial integration. Some of the activities which have been organised along these lines with reasonable success are, for example, those undertaken by the "specialised" co-operatives in Italy, including the fattening of livestock for market and the use of communal milking units, warehouses or cold stores. In the United Kingdom there is also great interest in, among other things, co-operative feed mixing units.

9.5.3.3 Co-operative mechanical services: Because of the high costs of mechanisation in agriculture leading agricultural experts in various countries have been seriously considering the possibilities of co-operative mechanical services. Experts in various countries have different views on whether such services can be organised successfully on a co-operative basis. This would, in any case, have to be done with the greatest caution and with due consideration of all the factors which cause such a scheme to miscarry. A thorough study of the matter by the Division of Agricultural Engineering of the Department of Agricultural Technical Services showed that under South African conditions such a system has very little chance of competing with private contractors.

9.5.4 Machine pooling system (gemeinschaftliche Maschinenhaltung)*: This is a system of organised partnership under which certain mechanical services are arranged among farmers on a controlled basis. The system works well in countries like West Germany where there are large areas consisting of small farms which are hampered by relatively high production costs and are therefore overstaffed.

It was initially thought that the problem of undersized farms could be solved by simply creating larger farming units. Serious attempts were made, and still are being made, to consolidate small farms and create larger units on the assumption that the size of farms could be adapted to the size and productivity of the machine. It has been found generally, however, that the rate at which the technical effects of the machine on agriculture make themselves felt is faster than the rate at which agriculture can be structurally reformed.

Recognised experts therefore consider that under these conditions the situation in agriculture cannot be fully rectified solely by introducing a programme aimed at enlarging the size of agricultural units in relation to agricultural machines. The process of enlarging the smaller

* U.S. Department of Agriculture (1964): Harvesting of corn, small grains and related crops: Data on practices. Stat. Bull. 354

+ Jones, W.P. & Phillips, J.R.E. (1970): Co-operation in Farm Production. Agric. Progr. Vol. 107-22

ϕ Du Plessis, S.J. (1970): Studiereisverslag, Wesen Suid-Europa. Ministry of Agriculture

* Du Plessis (1970): Op. cit.

agricultural units must be supplemented by "short cut" solutions which would have a more rapid effect on agriculture than the technical aids.

While small farmers, under the present democratic system, are helped to give up their farms and find other occupations, those who prefer to keep their farms must be encouraged to take up a sideline, but then units must be created to perform certain tasks on the farm on predetermined conditions. The income of farmers can therefore be increased by one or by both of the above-mentioned systems, that is to say, enlarging the farms and/or introducing a system of partnership between full-time and part-time farmers.

"Part-time" farmers are those who have to take up another occupation and therefore cannot be on the farms all the time. Under such a partnership, arrangements can be made for the mechanical work on the farm to be done at predetermined tariffs by another farmer whose farm is also too small to sustain an acceptable standard of living.

Under the system of organised partnership a distinction is usually drawn between three kinds of farmers, namely -

- (a) Full-time farmers,
- (b) part-time farmers who also work elsewhere, and
- (c) farmers who have not yet decided to take up work elsewhere.

Under this system opportunities can be created for farmers in groups (b) and (c) to make use of the machines and implements of the full-time farmers. In this way all three groups can help each other and each farmer can supplement his inadequate income from the small farm through his additional earnings.

This system has proved effective particularly in the densely populated areas of Europe. According to the information available, the system works well where the population density is at least 100 persons per km², where industries are within easy reach and are big enough to offer the part-time farmers alternative employment, and where these working, part-time farmers can return to their farms at night. Week-end farmers are not so successful.

In 1969 the average size of farms in West Germany was only 9.58 hectares. At present only one-third of all the farms in West Germany are bigger than 10 hectares. The percentage of farms run on a part-time basis in that country is estimated to be as high as 44 per cent. Actually, this situation in agriculture is found in most European countries.

In 1970 the number of machine pools was 800 in West Germany, 80 in Austria, 59 in Switzerland and 69 in Japan, to mention only a few of the most important.

Each machine pool has 300 to 500 members and is run by a full-time manager. The pooling of implements and tariffs are determined in

advance. All requests are submitted to the manager who then makes the necessary arrangements to have the work done within the time requested.

It is doubted, however, that the machine pool system can be introduced into South Africa with equal success, since there are not many parts of the country where there are densely populated agricultural areas with large-scale opportunities for other employment close at hand.

9.5.5 GAEC system:* As early as 1951 a start was made in France with the preliminary organisation of farmers into small groups, and in 1962 statutory provision was made for such an organisation which is now known as the G.A.E.C. (les Groupements Agricoles d'Exploitation en Commun).

The aim of the system was to enable small farmers to combine their farming enterprises or parts of them on an organised basis and to run them as a communal unit. The system is strongly supported by the Government and the interests of the participants are very carefully protected by legislation and regulation. The Department of Agriculture has adopted a strongly protective attitude towards the systems which is expanding in France, although at a relatively slow rate.

Legislation provides for the grouping together of a limited number of farmers on a voluntary basis and for the communal operation of their farming units virtually as small companies. Up to the present 2 500 groups of this kind have been formed in France, with an average of three farmers per group farming on 105 hectares, i.e. 35 hectares per farmer. The groups are scattered unevenly throughout France majority being in the eastern part of the country, with Brittany next and then the Loire Valley. By law, a GAEC group may not have more than 10 members and the area involved may not exceed about 160 hectares; the maximum number of members is laid down, but the limits as to area may vary.

The Act concerned, which is administered by the Department of Agriculture, provides that two or more farmers may agree to group their farms together and run them as a small company for a period of not less than 5 years but not exceeding 30 years. After the 30-year period, the participants can decide to enter into a new contract for a further period.

The capital contribution of the participants to the communal pool can be in the form of livestock, farm implements, capital, or even knowledge, for example, a knowledge of flowers or animal husbandry. These contributions are appraised and taken as the basis for a share in the capital of the undertaking. The land is made available for communal use, but is not considered part of the capital. It remains the property of each participant, but the farming operations on the land are carried out as a communal undertaking.

* Du Plessis, S.J. (1970): Op. cit.

The Act also lays down how the different fields are to be made part of the communal undertaking, how a farmer can withdraw part of the assets he has put into the venture and how arrangements can be made for his share to be taken over.

The participants meet regularly to arrange for the various activities and the division of labour and to see that the provisions of the Act as regards book-keeping are being complied with.

Under this system of grouping it is the express intention to retain the family character of the various participating units. However, the system offers several definite advantages over the old system, including

- (a) better employment of capital;
- (b) better use of land;
- (c) better use of equipment;
- (d) greater managerial efficiency, due largely to better book-keeping, and
- (e) better labour conditions and better opportunities for the memberfarmers to take leave from time to time.

These views were emphatically confirmed by the members of three GAEC groups in the vicinity of Rennes and Ploërmel (Brittany), with whom discussions were held.

It is admitted, however, that one of the greatest problems in this system of grouping is the human factor, particularly as regards GAEC leaders and co-operation. Most of the major problems involve the management of such GAEC groups. However, the local representatives of the Department of Agriculture, keep a watchful eye on developments in each GAEC unit and do everything in their power to look after each member's interests and to iron out difficulties, and in most cases this is done very successfully. The Department also co-operates very closely with the SAFER organisation (Sociétés d'Aménagement Foncier et d'Etablissement Rural) and with local bodies having an interest in rural development.

The Government grants the GAEC units various special concessions, for example, a 10 per cent higher subsidy on operational buildings and other improvements on the farms (dairy, fruit and vegetable farms are excluded from this, owing to surplus conditions). These and other benefits offered by the GAEC organisation have helped the system to expand gradually, and even the bigger farmers now want to go in for this kind of co-operation. The official attitude is, however, that the system is intended mainly to help small farmers to be more successful on their uneconomic units by running the units on a communal basis. It is noteworthy that 75 per cent of the members of GAEC units are young people. In terms of the Act, persons over 65 years of age are not eligible for membership of GAEC units.

The GAEC system in France reflects certain features of the company or syndicate system organised by small groups of farmers in South Africa. The impression was gained, however, that, in terms of the special legislation, the farmers participating in the GAEC system in France enjoy much greater protection and more privileges than the small farming companies in South Africa. As it is generally accepted that it is desirable for smaller farmers in developed countries to pool their abilities and means in some way so as to keep their heads above water under conditions of increasing technological pressure, serious consideration should be given to treating such attempts at co-operation very sympathetically and to the adoption of a protective policy in this regard.

A possible way of achieving co-operation among smaller groups of farmers under South African conditions would be to form smaller co-operative farming units. It should then be possible to pool the assets of smaller farming units in such a way as to make it possible for the production processes on them to be undertaken on a communal but orderly basis, each farmer remaining in full control of his farming unit but being enabled to make use of the equipment which has been pooled by such a co-operative and which is made available from the pool to its members.

Du Plessis* found something along these lines in the project which has been started at Borgo a Mozzano in Italy. The project is not yet sufficiently developed, however, to give the smaller farmers in particular enough assistance in coping with the difficulties which they experience in regard to mechanisation and capital burdens. The GAEC system of co-operation was actually devised in France for this very purpose - to operate outside the framework of the co-operative movement but with similar objectives.

9.6 EXAMPLES OF CO-OPERATION IN AGRICULTURAL PRODUCTION IN SOUTH AFRICA

Apart from the establishment of the recognised agricultural co-operatives, numerous other attempts have been made by groups of farmers in various ways and under differing circumstances to raise the efficiency of their farming operations through some form of partnership. It is impossible to say how many of these attempts have been unsuccessful, but the general view is that most have already been abandoned. However, a few typical examples of successful undertakings of this kind are given below.

9.6.1 Some years ago two farmers (A and B) on adjacent farms in the Eastern Free State had their enterprises investigated with a view to greater efficiency in the mechanisation of their production processes.+

* Du Plessis (1970): Op. cit.

+ Greeff, M.D.G. (1971): Verslag oorkoöperatiewe meganisasie. Division of Agricultural Engineering, Department of Agricultural Technical Services

Farmer A annually planted 142 hectares to maize, 89 hectares to wheat, 18 hectares to potatoes and 9 hectares to silage, and had 9 hectares under Eragrostis curvula.

Farmer B annually planted 133 hectares to maize, 133 hectares to wheat, 18 hectares to potatoes and 9 hectares to silage, and had 9 hectares under Eragrostis curvula.

The time taken for each operation for all the crops was determined and, as shown in Figure 9.4, it was then easy to see which operations overlapped and which could be done in partnership, as well as the kind and number of implements which could be used in partnership. In addition to the implements belonging to each, the following were used communally:

A tractor, a haymaker, a rake, an ensilage harvester, a potato digger, a potato ridger, a rotary harrow, a plough for potato fields, a self-propelled 3,6-metre combine and a press-wheel wheat drill.

The undertaking has proved so successful that the farmers have since expanded their business considerably and have pooled all their equipment. They are at present cultivating a total of 1 712 hectares of wheat and 856 hectares of maize.

9.6.2 An illuminating memorandum has been drawn up by an accountant and a farmer* on how 16 farms belonging to 12 owners in the Free State can be grouped to form a company - a move which would greatly benefit all concerned both financially and as regards security.

An analysis of the whole situation was made, and this was systematically set out and tabulated to show the position on the farms at that time as regards productive potential, capital, managerial requirements, etc.

From an analysis of the financial benefits offered by the scheme it appears, among other things, that an immediate saving of 96 labourers on the 16 farms would be possible. Furthermore, apart from the 6 per cent interest, each member would earn a further 10 per cent on his capital. The idea was for all the farmers to serve on a board of directors and to take an active part in the business. In addition, the members would be free to withdraw after 5 years on very fair terms. It was not possible to launch the scheme in its entirety, but as a result of the discussions about it, two farmers formed a partnership along these lines and they have already derived great benefit from it.

9.6.3 Elsewhere in this report reference is made to a co-operative sugar farm consisting of 29

members who each hold 801 two-rand shares in the business. The latest information* is that they each received a bonus of R3 500 in the financial year concerned, in addition to the 8 per cent interest on their share capital from the co-operative's surplus.

What normally happens in a co-operative is that bonuses are distributed on the basis of the members' turnovers or their participation in the services of the business. In the case of a co-operative farm, however, it is provided by law that, after the interest on share capital has been paid and an amount, if any, has been placed on reserve, the balance of the surplus must be divided equally among the members.

9.6.4 It is found fairly commonly that relatives successfully pool their farming activities or group themselves into partnerships in some other way, particularly as regards equipment. On the irrigation scheme at Brits the Department collected information+ on two partnerships in which two brothers are farming together (in one case since 1943) and one partnership between a father and his son. Reports of success have also been received in regard to the co-operative ownership of implements between two neighbours, between a father-in-law and his son-in-law, and, thirdly, between two brothers and a neighbour.

9.6.5 The Commission received information from Mr C.J. van Schalkwyk of the Division of Agricultural Engineering on the assistance given to sugar growers by the Pongola Sugar Mills.

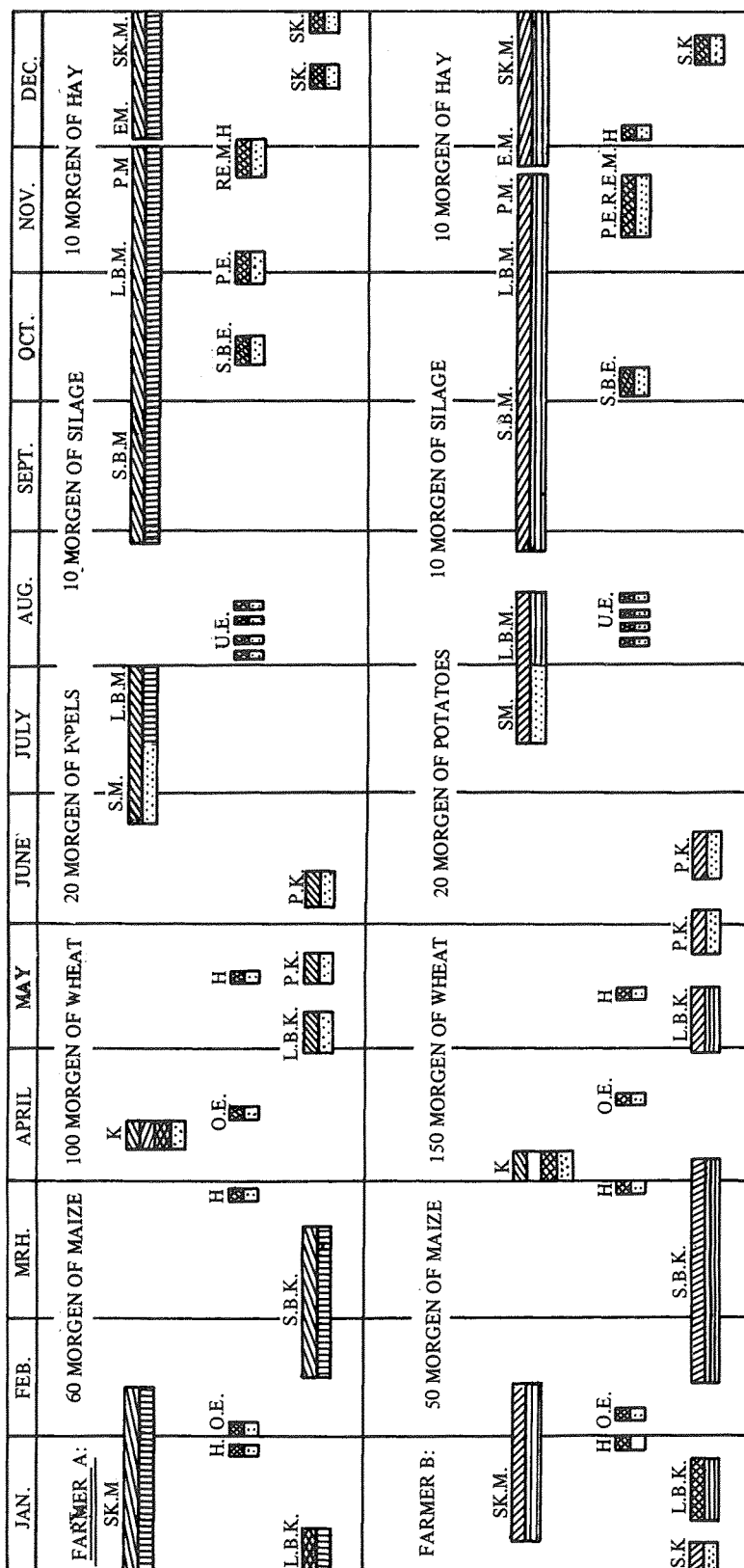
On the Pongola irrigation scheme large-scale brack and waterlogging created problems which necessitated the laying of drainage systems. A mechanical ditcher was therefore needed to dig the drainage ditches. The farmers, however, could not afford the equipment and no contractors could be found in the area to undertake the work at an acceptable rate of payment. The Sugar Mills therefore undertook to purchase the equipment and do the work for the farmers at a non-profit tariff.

9.6.6 The services rendered by private contractors are not "co-operation" in the true sense of the word, but this kind of service should nevertheless be mentioned here since it does constitute communal use of trucks, machines and implements. There are numerous examples of successful contractors who, operating in various fields, perform excellent services at reasonable rates and who have achieved a high degree of efficiency. They are filling a need by performing services which are beyond the scope of most farmers, particularly as regards equipment which calls for heavy

* Department of Agricultural Economics and Marketing (1971): Op. cit.

+ Von Staden, J.G. (1971): Verslag van ondersoek na die kooperatiewe gebruik van plaaswerktuie in die Transvaalstreek. Division of Agricultural Engineering. Department of Agricultural Technical Services

* Terblans, H. and Van der Linde, D.M. (1970): Aantekeninge in verband met voorgestelde boere-maatskappy. Bloemfontein



EXPLANATION

WHEAT: SBK = HEAVY CULTIVATION; LBK = LIGHT CULTIVATION; PK = PLANT
SK = HARVEST; SILAGE: K = MAKE

MAIZE: SBM = HEAVY CULTIVATION; LBM = LIGHT CULTIVATION; PM = PLANT;
REM = DISC HARROW; SM = HARROW;

POTATOES: SBE = HEAVY CULTIVATION; OE = EARTH UP; UE = LIFT
PE = PLANT; HOOI: H = MAKE

TRACTOR A IMPLEMENT A TRACTOR B IMPLEMENT B CO-OP. TRACTOR CO-OP. IMPLEMENT

FIG 9.4 SCHEMATIC REPRESENTATION OF THE INCLUSION OF A CO-OPERATIVE TRACTOR AND IMPLEMENT BY TWO ADJACENT FARMERS A AND B WITH THEIR OWN IMPLEMENTS

capital expenditure and which cannot justifiably be purchased by individual farmers, for example, equipment required for earth-moving, transport and the mechanical harvesting of crops.

9.7 SERVICES BEING PERFORMED BY AGRICULTURAL CO-OPERATIVES IN SOUTH AFRICA TO ASSIST AGRICULTURAL PRODUCTION

Co-operatives are chiefly concerned with trading, but, as already mentioned, various co-operatives also now perform services to assist production. A brief summary of the more important of these services offered in South Africa is given below:

9.7.1 Financing: Co-operatives play an important role in this regard and are an important source of production credit for the farmer. As stated in Chapters III and IV of this report, many of the credit facilities made available by the Government to agriculture through the agency of the Land Bank are channelled through the co-operatives.

9.7.2 Insurance: Guaranteed insurance: Sentra-kas and the Boere Koöperatiewe Versekerings-maatskappy provide fire and workmen's compensation insurance, while Sentraoes offers comprehensive crop insurance on a trial basis at present but with the prospect of future expansion in this field.

Pool insurance: Insurance for tobacco and sugar-cane. In the latter case fire prevention measures are also included.

9.7.3 Farming requisites: The provision of agricultural implements and machinery, the means of production and other farming requisites is an important function of co-operatives. The average gross margin is 7½ per cent.

9.7.4 Manufacture of implements: Vetsak and various other co-operatives manufacture agricultural implements.

9.7.5 Workshop services: Many agricultural co-operatives offer repair and maintenance services for machinery, implements and vehicles.

9.7.6 Soil conservation and earth-moving services: The Potgietersrustabakkoöperasie offers services for the making of dams, furrows and contour banks.

9.7.7 Citrus orchard services: Various citrus co-operatives undertake the spraying, picking and transport of fruit, and soil analyses for their members on a contract basis.

9.7.8 Threshing of grain: Ladysmith's crop farmers have started a grain threshing co-operative service.

9.7.9 Bulk storage of grain: Various co-operatives provide facilities for the bulk storage of grain, and this service is expanding at an increasing rate.

9.7.10 Bulk drying and curing: This is a service which is also performed by various co-operatives and which is steadily expanding. It makes great savings possible.

9.7.11 Shearing services: A special co-operative the Skeerdiens Koöperatief Beperk, has been established to perform such services.

9.7.12 Transport: Various co-operatives offer a transport service for the products handled by them, including milk, sugar-cane and livestock.

9.7.13 Sugar farming: The Umzumbe Co-operative plants and harvests sugar-cane for members occupying relatively small sugar farms. These tasks require expensive and heavy machinery which members cannot afford. From the start this Co-operative has had to cope with difficulties owing to drought and the resultant small volume of sugar-cane.

The Umfolozi Co-operative Sugar Mills maintain a dredger with which the Umfolozi River and canals are kept open on behalf of sugar farmers in order to prevent flooding of cane fields.

9.7.14 Electricity supply: The Reivilo cheese factory and the Umfolozi Sugar Mills supply surplus power to members, as well as to others.

9.7.15 Milk recording services: Various co-operatives undertake such services in co-operation with the Department of Agricultural Technical Services.

9.7.16 Artificial insemination: Four co-operatives maintain three A.I. stations and actively participate in bull testing in order to improve the livestock population.

9.7.17 Veterinary services: Certain co-operatives employ veterinary surgeons or guarantee them a certain income.

9.7.18 Cold storage services: The co-operatives at Ceres, Montagu and Douglas have cold stores which are placed at the disposal of their members (in the last-mentioned case for potatoes).

9.7.19 Supply of labour: Various co-operatives accommodate farm labour and hire labour to their members.

9.7.20 Seed production: The Sentrale Saadkwekers Koöperasie Beperk produces foundation seed (maize) and other co-operatives, for example O.T.K., Sentraal-Wes and Noord-Wes, multiply the seed on behalf of their members.

9.7.21 Cultivation of vines: Certain wine co-operatives maintain vine nurseries in order to be of service to their members.

9.7.22 Co-operation in book-keeping: There are various co-operatives which keep their members' books and draw up their returns.

9.7.23 Stock breeders' societies: There are four co-operatives of this kind in South West Africa. In view of the fact that the members are jointly and severally liable, the Land Bank has financed the purchase of livestock through them. Once the loan has been paid off, these co-operatives will cease to exist. In the thirties there were various similar co-operatives in the Republic.

9.7.24 Technical advice: The wool co-operatives, the S.A.K.K. and certain grain co-operatives give their members technical advice.

9.7.25 Information for farmers: The Co-operative Press and various other co-operatives give their farmer-members valuable advice through their monthly publications. Some even have trained extension staff.

9.8 FURTHER POSSIBLE FUNCTIONS WHICH CO-OPERATIVES CAN UNDERTAKE

Further possible functions which co-operatives can undertake have been briefly outlined by the Department of Agricultural Economics and Marketing*. Obviously, the possibilities are virtually unlimited. Services which are at present regarded as unpractical or uneconomic might in future not only become possible and feasible, but even an urgent necessity. Here the Commission wishes to point out only a few of the obvious possibilities.

9.8.1 Machine co-operatives: This kind of co-operative is difficult to run. Decisive factors are whether the equipment is maintained properly and used optimally. Idle time is very disadvantageous, particularly in the case of expensive machinery. The simplest way of using such equipment communally, i.e. in groups of two, three or four farmers, should therefore be considered when it comes to machine co-operatives - the prevailing conditions determining each case.

9.8.2 Co-operative cowsheds: What the Commission has in mind here is, in the first place, smallholdings and irrigation areas where each farmer usually keeps one or two cows. Keeping cows on a small scale is not very convenient for the farmer. He has to employ labour specially for this purpose and, if he calculates his costs carefully, he will probably find that his milk costs him more than the price at which he could buy it. In such circumstances it would pay farmers to erect a central cowshed which can be run properly.

A co-operative system of this kind has been successful in countries such as Italy[†], a system which could be used very profitably by the smaller dairy farmers. It results in the more efficient use of buildings, labour and other facilities. The system can be so devised that the members retain their individuality, each looking after his own cows and only the housing, feeding and milking

facilities being used co-operatively. Under such a system the dry stock and calves would not be looked after on a co-operative basis.

To give some idea of the possibilities of co-operation in this sphere, a few figures based on experience in England are quoted below.*

It is estimated that three trained workers (one milker, one general relief and one stockman in charge) could handle 264 lactating cows in a well-designed parlour, including the housing, feeding and milking of the animals. If the dairy herd were doubled (to 528 cows), the staff would have to be increased only by one additional milker.

9.8.3 Co-operative pig farming: Investment in buildings, other equipment and labour for pig farming is also very high. As in the case of dairying, co-operative pig farming would also probably make great savings possible.

9.8.4 Co-operation in fattening livestock: Since fattening has to be done scientifically, the Commission considers that rations could advantageously be bought or even mixed by a central unit and that even young slaughter stock could be fattened and prepared for market on a co-operative basis with very good results.

9.8.5 Co-operation in the supply of electricity and water: Groups of operators farming in remote areas who are nevertheless situated fairly close to each other, for example, in irrigation areas, might undertake the generation of electricity on a co-operative basis or obtain power from Escom which could then be reticulated among the members of a co-operative of this kind. A further possibility is the exploitation of a water source, the water being distributed among the members.

9.8.6 Bulk processing of products: Much processing is already done in bulk, but there are still ample opportunities for such services to be expanded. A striking example is the bulk curing of flue-cured tobacco which, according to a report in Agricultural News (16/7/71), is at present being investigated. For several years the Tobacco Research Institute at Kroondal has been testing the method of curing flue-cured tobacco in bulk, as is done in the U.S.A., Canada and Italy. This method differs from customary practice in that the leaves are not attached to sticks or clamps but are placed in special containers or frames. A fan in the curing shed forces heated air between the compressed leaves in the frames. This permits the efficient control of both temperature and humidity. Results have shown that this method brings about a saving of approximately 60 per cent on labour. In addition, considerably more tobacco can be cured in the same shed space.

* Department of Agricultural Economics and Marketing (1970): Op. cit.

[†] Du Plessis, S.J. (1970): Op. cit.

* Farmers Weekly (United Kingdom) 23 October 1970

In overseas countries oil and gas are the main fuels used for curing tobacco. Coal being plentiful and considerably cheaper than gas in this country, however, the heat generators used in the trials at Kroondal burn coal. The success achieved with this method has aroused great interest among farmers. Further attention is now being given to construction costs, the conversion of old sheds into bulk curing units and the finalisation of curing schedules.

9.9 CO-OPERATIVE CO-PARTNERSHIPS IN AGRICULTURAL PRODUCTION*

9.9.1 Co-operation and small farming units: On account of the rapidly rising capital demands which the increased use of mechanical and technical aids is making on the farming industry, together with growing debt ratios and high rates of interest, the size of their farms is hampering many farmers to an increasing extent and pushing up the costs which have to be incurred per unit of production all the time. This applies not only to South Africa, but also to many other countries, particularly in the Western world.

The solution to the problem is to be found largely in optimal utilisation, not only of the soil and other natural resources, but also of the available labour and agricultural machines. This calls for the adoption of the basic principles of successful business in the individual farming enterprise and in the industry as a whole. This will undoubtedly lead to the establishment of larger farming units and/or the communal use of tractors and equipment. Therefore, it is essential, that if agricultural mechanisation in South Africa is to be successful, smaller farming units should be grouped together systematically or some form of organised purposeful production co-partnership should be created among farmers with a view to the communal use of tractors and agricultural implements, in order to ensure optimal utilisation.

The creation of larger farming units, i.e. the enlargement of smaller units into units meeting the requirements for optimal efficiency in the use of machinery, labour and capital, raises so many problems in practice, however, and is expected to take so much time, that it is doubtful whether the problem can be solved within a reasonable period in this way alone.

If the situation is to be improved significantly by the large-scale formation of co-partnerships, the necessary "climate" will have to be created for this, while essential aids and guidelines will have to be established. The process demands considerable adjustments and drastic changes in personal approaches and in practices. Such ad-

justments and changes are normally difficult and time-consuming but in farming they are even more so because farmers are generally very individualistic and because farming is to a certain extent a closed industry owing to the high capital requirements of modern farming enterprises. The effect of innovations from outside the agricultural sector on a managerial level is consequently much slower than in most other sectors of the economy.

Since there is an alarmingly large number of farming units which are uneconomic and which are threatening to become virtually State-subsidised farming enterprises, the time has come for serious attention to be given to making these units economic wherever possible. Undersized farms can never provide a decent living for their occupants. The aim should therefore be to integrate them with other similar units or at least to link them together. This will make it possible to avert or at least relieve considerably the burden imposed by modern technology with its increasing mechanisation and unproductive labour. The mechanisation - labour ratio in South Africa is seriously hampering agriculture and is becoming worse as time passes. The resultant cost burden is back-breaking: the implements become bigger and bigger, fuel and maintenance more and more expensive and expenditure on labour relatively greater.

Particularly as regards the small farmer, this problem must be tackled with determination, use being made of various methods of co-ordination and assistance.

From the outline given in the foregoing paragraphs, it appears that attempts have been made to achieve greater co-operation in agriculture and the communal use of expensive machinery and equipment in very many ways, with varying degrees of success. In many cases attempts have been made to increase efficiency in the use of agricultural equipment through mechanical services such as those offered by private enterprise or even by general or specialised co-operative societies.

As regards the possibilities of greater co-operation among farmers in the wider context of agricultural production, reference was made in paragraphs 9.5 to 9.5.5 to various bases devised for such co-operation among farmers on their farms. In paragraph 9.5.4 doubt was expressed about whether the machine pool system in West Germany, Austria and other countries would be successful in South Africa. As regards the GAEC system in France, it was pointed out in paragraph 9.5.5 that the system reflects certain features of the company or syndicate system organised by small groups of farmers in South Africa. After the systems found in Europe had been considered, the question arose whether serious attention should not also be given in South Africa to similar possibilities for achieving orderly co-operation in certain production processes among the smaller groups of farmers.

9.9.2 Co-operation between small farmers within the framework of the co-operative movement:

* Compiled in consultation with the Co-operative Advisory Committee of the Department of Agricultural Economics and Marketing and in collaboration with the Registrar of Co-operative Societies

The circumstances of the smaller farming units are such that, in South Africa as well, the need for greater co-operation and therefore also increased efficiency in the use of agricultural machinery in the smaller farming enterprises can no longer be ignored. Local conditions would seem to indicate that a system within the framework of the co-operative movement in South Africa merits serious consideration, particularly since this would make the link-up with the rest of the co-operative movement very easy. Greater co-operation in this way would offer great benefits to small farmers in South Africa who wish to make use of such a system and organise their enterprises along such lines, particularly farmers in areas where enterprises are close together, for example, irrigation areas, intensive fruit growing regions or peri-urban areas.

The co-operative philosophy, with its basis of mutual assistance and its affinity with agriculture, makes the co-operative movement a very acceptable basis for solving the problem.

9.9.3 Requirements for co-operation within the framework of the co-operative movement. There are, however, certain matters to which careful attention will have to be given to ensure reasonable success in this regard:

- (1) There must be continuity in any scheme of this kind.
- (2) Steps must be taken to ensure that the younger generation are drawn into the scheme.
- (3) There must be incentives for participation.
- (4) The scheme must be based on mutual trust.
- (5) The scheme must be incorporated into the broader framework of the co-operative movement.

9.9.3.1 Continuity of the scheme. To ensure the necessary continuity, undertakings of the kind proposed will have to be bodies corporate. The kind of partnership in which two or more persons co-operate intimately offers the right pattern but is too casual an arrangement since it can be dissolved so easily, thereby causing worse problems and burdens for the respective partners. The registration of such an undertaking as a co-operative would ensure that farmers would have to participate in the scheme in earnest and this would make it possible for two or more such undertakings to be integrated or linked. Imposing a minimum of five years for the life of such a co-operative would also prevent the members from placing it in liquidation too easily. Provision would have to be made in our legislation for the objects of such a co-operative, but all the other requirements are already provided for in the existing legislation. It would also be possible to provide extension and to control such co-operatives departmentally.

9.9.3.2 The focus to be on the younger generation. In Europe, in particular, it has been found that the younger people who should ideally take up

farming prefer to find other employment, leaving the older generation on the farms. If the position could be reversed and the younger people could be drawn into the scheme, this would provide the necessary vitality and facilitate the integration or linking together of farming enterprises. It would be easier to persuade the younger generation to adopt a fixed pattern of farming or even to integrate their farms into a co-operative venture or even to find employment elsewhere. It would therefore be easier for a younger person to transfer his share and interests to one of the other partners, this resulting in units that are more independent and economic. To make this possible, an age limit should be set for membership of this kind of co-operative.

9.9.3.3 Incentive for participation. It would not be logical - nor would it be easy - to make participation in a co-operative obligatory, but it is nevertheless essential that the people with whom the problem originates should be drawn into the scheme. The advantages attached to such a scheme should therefore be such as to ensure that the persons concerned have no alternative but to join the scheme. The surest and best way of doing this is to make the financing of the undertaking easy and effective. Without this inducement the success of the attempt cannot be assumed with reasonable certainty. At the moment, however, the position is that this class of farmer is largely dependent on State aid to be able to carry on farming. If this State aid could be given to these persons through their production or co-partnership co-operatives, the biggest problem in financing this kind of co-operative would be solved. This would probably also be the best way of encouraging farmers to join such a co-operative. State aid on a more favourable basis than that at present provided for agricultural co-operatives by the Land Bank would be needed to launch the scheme. Under the present statutory provisions, groups of seven or more farmers can co-operate in such a scheme, but it has been found that so little use is made of this possibility that the basic problem remains unsolved - hence the proposal to make financial assistance the mainspring for participation in the scheme.

9.9.3.4 Mutual trust. Where such facilities are provided, however, it is equally essential that there should be adequate security. It stands to reason that security must be provided by the partners and, provided they trust each other, the unlimited liability provision is the easiest source of security. But this would demand so much of the partners concerned, that it would be essential for them to be able to choose each other and for such a chosen group to be allowed to establish their own undertaking irrespective of whether there are two or three or twenty members. They must then decide among themselves whether they wish to provide security in the form of shares with limited liability or by means of unlimited liability. Present legislation provides only for agricultural co-operatives with at least seven members, but the Commission feels that success with two or three members is better than failure with seven or more. It is therefore proposed that the minimum number of members for these co-operative co-partnerships should be reduced to two, the members in any case having to be bona fide

farmers. This would necessitate certain amendments to legislation in this regard.

9.9.3.5 Integration into the existing co-operative movement. The whole scheme would ultimately have to be integrated into the existing co-operative movement to ensure that these new co-operatives do not overlap the existing co-operatives and that they obtain their factors of production from the existing local general co-operatives, while supplying the output of the integrated units to the local co-operatives concerned. The proposed co-operatives would therefore have to be given limited objectives. As the farmers would be free to choose their partners, the co-operative's areas of operation will not necessarily be adjacent to each other, although this is desirable. The Commission feels, however, that the farmers' freedom to choose their partners is so essential to ensure success that it simply cannot be disregarded. Where there are no real objections to integrating a particular complex, this will be done, but if the farmers definitely decide to include only certain specific persons, their decision will have to be respected. Where total integration takes place, an attempt will surely be made to integrate a definite complex, even if this is done at a later stage through expansion or perhaps amalgamation. Where farmers concentrate on only certain production activities, the integration of a particular complex is not so necessary.

9.9.4 Statutory amendments needed for co-operative co-partnerships. Certain statutory amendments are necessary to make possible the formation of co-operative co-partnerships of this kind. The best way of achieving the desired objectives would be to make appropriate amendments to section 9(1)(s) of the Co-operative Societies Act, 1939 (Act 29 of 1939). The amendments must, inter alia, make it possible for the membership to be reduced to two persons in cases where the main object of the co-operative agricultural society or co-operative agricultural company is "to carry on farming or any farming operations for or on behalf of its members on a co-operative basis." Consideration will have to be given to certain other amendments arising from the one proposed above.

9.10 CONCLUSIONS AND RECOMMENDATIONS

9.10.1 In the course of developments in farming and as the capital required for mechanical and technical aids increased, a growing need arose for organised co-operation in agricultural production in order to achieve greater efficiency in the use of machinery, labour and capital.

9.10.2 Communal use of agricultural equipment. Efficiency can be raised to a very high level through the communal use of agricultural equipment or the integration of production operations in various ways, namely by means of -

the services of private contractors, custom farming, or co-partnership in its simplest form, or in the form of companies or co-operatives.

9.10.3 In the light of its findings as reported on in Chapter X of its Second Report and in the foregoing paragraphs of this chapter, the Commission has come to the conclusion that the labour-mechanisation question is so important to agriculture and that the communal use of farm implements has so many advantages in regard to mechanisation, labour and capital, particularly for farmers on smaller production units, that this matter merits the urgent attention of all interested parties, especially the farmers themselves.

The Commission therefore recommends as follows:

9.10.3.1 Organised Agriculture and the Departments of Agriculture must do everything possible to promote the communal use of farm implements, to condition farmers to this idea and to make the necessary adjustments to production processes which would facilitate such co-operation.

9.10.3.2 The Department of Agricultural Technical Services (Division of Agricultural Engineering) and the Department of Agricultural Economics and Marketing (Division of Agricultural Production Economics) must make an exhaustive study of the whole question of using agricultural machinery on a communal basis. The above-mentioned Divisions must be expanded appropriately so as to be able to undertake and pursue such studies to promote ever greater efficiency in as many respects as possible as the technological pressure on agriculture increases.

9.10.3.3 Particular attention must be given to extension in agricultural mechanisation and especially in the communal use of agricultural equipment.

9.10.3.4 Government and semi-Government credit institutions must give sympathetic consideration to possibilities of providing financial backing for such mechanisation systems, and to adapting procedures in this regard to the circumstances and needs of such systems.

9.10.3.5 Consideration must also be given to ways of encouraging private contractors to provide mechanical services for farmers where very expensive equipment is required, e.g. for harvesting crops, earth moving and so forth. Consideration should be given to the granting of suitable credit facilities to such contractors in cases where agriculture would benefit by this to a considerable degree. As it is essential that contractors should be assured of stability in their operations where contract work is performed by expensive machines, farming communities should endeavour, in their own interests, to arrange matters among themselves so that contractors are encouraged to continue such services on a firm basis.

9.10.3.6 As the communal use of agricultural equipment is considered to be particularly important and promising in the case of irrigation farming on small plots where the supply of water offers

considerable opportunities for the adaptation of production operations, special attention must be given in planning new irrigation areas to laying out plots and devising farming systems in such a way as to create the optimal opportunity for communal mechanical services. The Departments involved must adopt this aim as a matter of policy and must make special provision for the communal use of agricultural equipment even in the initial stages of irrigation schemes, focusing their studies on this aspect in any pilot development projects that may be laid out.

9.10.4 Co-partnerships in agriculture. The Commission is convinced that greater co-operation in agricultural production within the framework of the co-operative movement in South Africa can be very beneficial, especially to small farmers. However, success can be assured only if provision is made in the co-operative system for a small number of participants and for selective membership.

In this regard the Commission recommends as follows:

9.10.4.1 Provision must be made within the framework of the Co-operative Societies Act, 1939 (Act 29 of 1939), for co-partnerships between farmers on a co-operative basis, if necessary with appropriate provisos with regard to taxable income.

9.10.4.2 To this end the above-mentioned Act must be amended so that membership can be reduced to two persons in cases where the main object of the co-operative agricultural society or co-operative agricultural company is "to carry on farming or any farming operations for or on behalf of its members on a co-operative basis."

9.10.4.3 The co-operative co-partnership scheme must be integrated into the existing co-operative structure in order to ensure that the new co-operatives do not overlap the existing co-operatives and that the greatest benefit is derived from the services offered by local co-operatives.

CONCLUSIONS AND RECOMMENDATIONS

10.1 THE IMPORTANCE OF AGRICULTURE IN THE ECONOMIC PROGRESS OF SOUTH AFRICA. (See Chapter I)

10.1.1 Conclusions

10.1.1.1 It is true that, for various reasons, agriculture is relatively slow to adjust to change. While the technological revolution is producing changes in ever more rapid succession, changes which are having an ever greater impact on man's activities, agriculture is tending to lag behind in the process of economic development, even in countries that are highly developed in the field of technology.

10.1.1.2 What struck the Commission was the fact that the data furnished by various bodies in this regard in recent years were divergent and had had such a marked influence on the results and conclusions arrived at through analyses of economic as well as of socio-demographic situations.

10.1.1.3 In both its earlier reports, the Commission studied various problems such as un-economic farm sizes and environmental and other problems experienced by the farmer on the farm. From these findings it was abundantly clear how important good farm management is and how great the need is for regional and production planning and for guidance on sound systems of land use. Bio-physical stability in agriculture can be achieved and the problem of nature's changeability can be overcome if farming systems are adapted to climatic conditions and ecological conditions.

10.1.1.4 If, in the course of economic progress, due account is not taken of certain basic facts, it may happen that those sectors of the national economy where technological innovations most readily gain acceptance will attract most attention and capital, the result being that such sectors will advance more rapidly and more spectacularly. This may very well lead to increases in the growth rate, but it may, at the same time, result in a lack of balance between sectors of the national economy.

10.1.1.5 Agricultural production, including the production of foodstuffs, has increased considerably faster than the population. This applies particularly to horticultural and field production which have more than trebled and doubled, respectively, over the past two decades. So far as quantities are concerned, the agricultural sector has therefore been very successful in increasing production at a much faster rate than the rate of increase in population; but most of the products concerned are foodstuffs rich in starch and sugar. It is striking, however, that the percentage increase in animal products was not much greater than the growth in population. If the production of animal

proteins in particular is to be increased, production and regional planning require careful attention as already emphasised by the Commission in its Second Report.

10.1.1.6 In spite of great fluctuations caused by erratic weather conditions over much of the country and in spite of a relatively high rate of increase in the population, the agricultural sector has been fairly successful so far in meeting the country's most basic needs. If this is to be maintained, attention will have to be given in good time to measures for adapting production systems to environmental conditions and for making agriculture less vulnerable to periodic droughts.

10.1.1.7 The Commission has information to the effect that about 48 per cent of the total value of domestic agricultural production is absorbed by secondary industries.

10.1.1.8 As regards agricultural products in particular, more than 40 per cent of the total quantities of vegetables and fruit produced annually by the agricultural sector is processed by canneries.

10.1.1.9 It is often not realised to what extent the flow of agricultural products from, and of means of production and consumer goods to, the farms keeps the wheels of transport and industry turning to provide a livelihood for the thousands of workers in those sectors.

10.1.1.10 Data show that the agricultural sector, through its export activities, is playing a very important role in the economy as a whole. People often fail to appreciate this fully when they talk about agriculture's relative contribution to the gross domestic product. After the gold mining industry, agriculture is the largest earner of foreign exchange and is therefore playing an essential part in maintaining a favourable balance of trade, thereby making the purchase of capital goods and other goods abroad possible.

10.1.1.11 The Commission welcome the recent decision by the Government to appoint a commission to investigate thoroughly and report on all the matters and factors adversely affecting the export trade.

10.1.1.12 It was also revealed that several basic reforms are desirable in agriculture to ensure that it will not lag behind the economy.

From the foregoing it is clear that agriculture in South Africa is an important part of the national economy and is interlinked in a multitude of ways with the other sectors of the economy. There are,

however, indications that this fact is not always fully appreciated, so that agriculture is often pushed into the background when development is contemplated, attention being given mainly to industrial development.

10.2 THE SOUTH AFRICAN FARMER'S FINANCIAL POSITION AND THE CONDITIONS INFLUENCING IT. (See Chapter II)

10.2.1 Conclusions

10.2.1.1 The Commission accepts that the general aim should be to maintain the per capita income in agriculture at parity with that in the rest of the national economy. However, since farming units are very seldom completely specialised in one branch of production, it is difficult to lay down this aim, as such, for any particular branch of production. For this reason the Commission prefers to take as a general aim the maintenance in the agricultural sector of a rate of growth in terms of real prosperity equal to that in the national economy in general.

10.2.1.2 The farming community would only be entitled to share in the real prosperity of the community if it made a proper contribution towards increasing that prosperity.

10.2.1.3 Because agriculture is of such value to the national economy, it is of cardinal importance that the relative position of agriculture should be maintained and that its importance should always be assessed at its true value. It is unquestionably in the national interest that a balance should be maintained between the various sectors of the economy.

10.2.1.4 In studying the information on this matter, the Commission found that no data were readily available to indicate simply but conclusively the extent to which the farmer is sharing in the prosperity of the country. The Commission therefore found it necessary to subject data on various aspects of income from agriculture to further analysis so that an idea could be gained of the income position of the South African farmer.

10.2.1.5 The Commission considers it essential that, apart from the economic considerations that should apply to price formation, the price policy followed should be conducive to the successful operation of farming systems, optimally adapted to environmental conditions and geared to conservation principles.

10.2.1.6 The information furnished on growth trends in South Africa in regard to agricultural production, producer prices and prices of consumer goods and inputs since the Second World War leaves little doubt that the average growth trends in economic prosperity among farmers have been reasonably favourable, particularly during the past decade. There are indications, however, that developments in the economic sphere were much less favourable to the South African farmer in the late fifties.

The Commission suspects, furthermore, that the adverse effects of the serious difficulties experienced have not yet been wiped out completely.

10.2.1.7 It is accepted that these effects are heightened by the very marked fluctuations from year to year to which South African agriculture is subject. These fluctuations indicate serious instability in physical output, inputs and real income, an instability which is reflected in almost exactly the same way in the monetary values of production, costs and income.

10.2.1.8 There is good reason to suppose that average income in agriculture, in real terms, was at a relatively high level during the past two decades, that the average rate of growth in such income kept pace to a reasonable extent with the general rate of growth in the economy as a whole, and that personal per capita income calculated for farmers did not lag behind that of the rest of the population either. Various experts point out, however, that, notwithstanding this relatively favourable impression regarding the general share of agriculture in the country's prosperity, the instability and particularly the unevenness in the distribution of income in agriculture point to serious income problems for certain farmers - problems which are presumed to be closely associated in certain respects with the occurrence of rural poverty in South Africa.

10.2.1.9 Although the analyses given in Chapter II have again turned the spotlight on the instability of, and thereby on the riskiness of, South African agriculture, the Commission wishes again to stress the importance of its findings and recommendations as presented in its previous reports. The Commission is firmly convinced that attempts to remedy the instability in agriculture by financial measures alone have little chance of success if the basic causes of biophysical instability in agricultural production are not removed on the farm itself.

10.2.1.10 Consideration of the economic position of certain farmers on certain farms in certain branches of farming and in certain regions in South Africa again focused attention, although from a different angle, on the problem of farming units on which - for various reasons - income is too small and even less able to advance at a rate more or less in step with the economic progress of the country.

10.2.1.11 Although virtually all farmers have problems of a structural nature, it is problems relating to defects in agricultural structure and personal shortcomings that are of decisive importance in the case of the less successful farmers. The problems hampering the more successful farmers who have succeeded better in rectifying the structural defects in their enterprises are, however, mostly economic ones.

10.2.1.12 These problems stem from defects in the foundations underlying the agricultural industry. It is impossible to have a solid, permanent building on defective foundations; it is equally impossible for a sound and flourishing agricultural industry to develop and stand up to

all the vicissitudes over the years if it is based on a poor production structure.

10.2.1.13 The Commission is convinced that the extent to which the recommendations made and fully substantiated in the previous two reports are implemented successfully will be the extent to which their beneficial effects will be felt by the agricultural community, their influence making itself felt on the biophysical as well as on the economic instability and unevenness of income distribution in agriculture.

10.2.1.14 In Chapter IV of its Second Report the Commission has already given special attention to the problem of uneconomic farming units and has shown how essential it has become in South Africa that this matter should be the subject of special further investigation. Such an investigation is urgently needed so that socio-economic and other measures can be devised to overcome this problem which is having such a harmful effect on agriculture and therefore the platteland as well.

10.2.1.15 So long as the unit farmed is so small that investment in it and the factors of production applied to it cannot provide a farmer of average managerial ability with a decent net income, it remains indefensible to keep an enterprise in operation by artificial means when its continued existence is not justified. It is therefore doubtful whether it would be possible to solve the problem of such farming units by *ad hoc* measures, such as the extension of credit facilities, or more generous subsidisation, or similar financial relief measures.

10.2.1.16 The continued existence of such unremunerative units is only hampering progress in agriculture. What is more, so long as the position remains unchanged, the farmer will lose those assets that could still be realised if he sells out soon enough. Furthermore, the spending of funds from private or public sources on a farming unit which leaves so much to be desired as regards its structure is as futile as pouring money down a bottomless pit.

10.2.1.17 It is clear that the more fixing of prices for agricultural products cannot solve the problem of uneven incomes in agriculture so long as the basic structural weaknesses, *inter alia*, uneconomic farming units, continue to exist in agriculture.

10.2.1.18 Prices which are unrealistic, particularly viewed in the light of conditions prevailing in farming enterprises operated at an average level of efficiency, have the effect of keeping farmers on units which are too small or are badly run. This does not solve the problems of unevenness in incomes and low farm incomes; rather, it helps to perpetuate and even aggravate them. As a result, these units are keeping a great deal of manpower tied up which should actually have been released for other sectors.

10.2.1.19 A system of differentiation in producer prices favouring farming units with low incomes, i.e. uneconomic farming units, cannot be supported

either. It would cause dissatisfaction and discourage the farmers concerned from making essential adjustments and improvements, thereby only perpetuating uneconomic production on such farms. Once differentiation has been introduced, even as a temporary measure, it will not be easy to abolish and, in any case, it is doubtful whether it would serve any useful purpose. A system of supporting prices on a uniform basis would, in the opinion of the experts quoted, offer only limited benefits to the farmer with a low income; it is the farmer with a high income who would derive the greatest benefit from such a scheme.

10.2.1.20 It is accepted that provision for price certainty to a moderate degree may be necessary and desirable to support programmes of rural reform. In some cases price differentiation may be desirable for certain areas or branches of farming, but it is doubted whether this would be feasible in all cases.

10.2.1.21 The Commission is aware that efforts to stop the White depopulation of the platteland are actuated by a desire to prevent the platteland from being populated solely by Non-Whites, or the ratio of White to Non-White in the rural areas, and particularly on White farms, from swinging too far against the Whites. The Commission is equally anxious to see this aim achieved, but has the following views on the subject:

- (a) The White depopulation of the platteland must be seen not as a phenomenon affecting White farms only, but as part of a complex set of conditions involving many communities, particularly in certain rural areas.
- (b) The tendency of some White farmers to give up their farms is due to three factors: in the first place, the demands made on the entrepreneur by technological progress in agricultural production are becoming so high that those lacking the necessary know-how, capital, managerial ability and business sense are forced to give up farming; secondly, the farmer who finds it impossible to make a living on a farm which is much too small is eventually forced to give up farming - often, unfortunately, only after he has been reduced to poverty by mounting debts; and thirdly, the exceptionally high market value of agricultural land is a very strong inducement to farmers to sell their farms, even if many of them are farming on economic units.

At present, however, the rate of withdrawal is very slow and the process is fraught with many hardships for the families involved, hardships which could greatly be alleviated if more planning went into the process.

- (c) This withdrawal of those farmers who are trying without supplementary earnings to eke out a living on farming units which are much too small must be seen as one of the most

essential processes in the programme of structural reform in agriculture. This is one of the best ways of promoting more efficient agricultural production on economic units, of increasing personal agricultural income, of keeping progress in agriculture in step with that of the rest of the national economy and of ensuring the balanced progress of the country as a whole on the basis of optimum utilisation of all the available resources and means.

These farmers should not be forced to withdraw, but, if the process is to be successful, efforts should be made to ensure that it is not too slow.

- (d) Such a voluntary but selective and planned withdrawal of White farmers and their families from their farms could be very beneficial to them as well as to agriculture and the country as a whole. The need for skilled and semi-skilled White manpower in certain sectors of the economy is at present so great and employment opportunities are so favourable that there are now excellent chances for anyone who is reasonably employable to make a good living outside agriculture - in most cases a much better one than he could ever have hoped to wrest from an uneconomic farm.
- (e) As regards the concern about the possibility that the movement of White farmers away from agriculture will result in a widening of the numerical ratio of White to Non-White, particularly on the farms, the indications are that this trend will continue, no matter what financial relief measures may be devised to keep farmers and their families on the farms, particularly those on uneconomic farms. What is more, data furnished by the Commission in Chapter X of its Second Report indicate that the ratio of the Non-White labour force on White farms to Whites is already, in spite of mechanisation, very wide and is widening to an alarming extent.
- (f) Apart from the hopes held out by the Stock Reduction Scheme introduced on 1 October 1969 as a result of the recommendations made by the Commission in paragraphs 7.3.6 and 8.3.2.5 of its Interim Report, the Commission has information which indicates that, when the scheme is carried through to the stage of complete withdrawal of stock, owners of uneconomic units in particular will be eager to offer themselves for employment elsewhere and to withdraw from farming for shorter or longer periods.

10.2.1.22 Financial relief measures cannot be successful so long as there are serious structural defects in the agricultural pattern of farming units. Rural reform, particularly when it comes to farm sizes, farming systems, the standard of entrepreneurship and precautionary measures, must therefore be seen as a prerequisite for the application of any policy in regard to financing and marketing. Such policies must be founded on eco-

nomic principles which ought to be valid for farming enterprises run on an acceptable structural basis and managed at a level of at least average efficiency.

10.2.1.23 In regard to the granting of financial assistance in such cases the Commission can find no justification for a policy aimed at keeping all farmers on their farms no matter how small they are or how badly the farmers are faring. The Commission is aware that there are numerous cases where the managerial ability of the farmers is so poor that they would be able to make a living even on a fairly big farm, or where farmers are trying to operate units which are much too small.

10.2.1.24 The Commission considers that when certain farmers' prospects of making a living have fallen below the level at which there is still a reasonable chance of recovery, such cases actually no longer fall in the category of a normal agricultural enterprise to which measures can be applied according to accepted principles of agricultural economics. Such cases verge more closely on "rural poverty", for which financial relief measures should be devised and applied with a predominantly sociological approach.

10.2.1.25 The Commission considers that the percentage of uneconomic farming units in South Africa is high at present, that rural reform, so far as this matter is concerned, will take many years to carry into effect, and that many families will not yet, particularly at this stage, be willing to give up their small uneconomic farms for the sake of consolidation. Such cases will therefore have to be taken into account for some considerable time, and their interests should, for understandable reasons, be looked after in the mean while. Such relief measures as may be taken should, however, be planned as interim measures to assist such cases until a favourable opportunity arises for them to give up their farms.

10.2.1.26 It is known, however, that there are at present also many cases where farmers are trying to make a living on farms which, with the present approach or the present level of management or under the existing systems of farming, have to be classified as uneconomic, but which, with proper planning and good management, could be converted into economic units. In view of this possibility it would therefore be desirable for the Departments of Agriculture to identify such borderline cases in good time and to employ every means in regard to planning, training, extension, co-operation and financial relief measures for the purpose of converting uneconomic farming units into economic units as soon as possible. Such assistance and financial relief measures should, however, be provided on the express understanding that they are subject to certain conditions and that, within a specific time, the farmer must convert his enterprise into a self-sufficient concern, so that what was an uneconomic farming unit will be a truly economic enterprise.

10.2.1.27 The fact that the more successful farmers were, in spite of seriously restrictive

factors, able to raise the average long-term rates of growth to such a high level that the agricultural growth rate compares so favourable with that for the rest of the national economy was a notable achievement. The contributions of this section of our farming community alone justify the conclusion that our agriculture is, if properly planned, optimally adapted and well managed, basically sound in spite of the country's highly variable climatic conditions, and that there is not so much wrong with it, nor with present agricultural policy, as is sometimes alleged.

10.2.1.28 The impression has been gained in recent years, however, that the problems of that section of South African agriculture where the worst structural defects occur have been given such prominence and have so widely been claimed to be representative of the broader agricultural sector that the true nature and the importance of the problems with which the most valuable group in the agricultural sector actually have to contend has seldom received enough attention.

It is a known fact that many of these farmers are also faced with fundamental farming and economic problems of a greater or lesser nature. Depending on the circumstances in each individual case, these farmers may be presumed to be more in need of preventive assistance. These measures should enable them to rectify such defects as may still hamper their enterprises so that they can steadily increase productivity in their farming operations and, through timely adjustments, be better able to keep pace with the effects which technology has on agriculture.

In the interests of agriculture and of the country as a whole it is important that the problems of this section of the farming community should be diagnosed correctly. Effective measures (both biophysical and economic) must be devised and applied in good time for these deserving farmers, in particular, to prevent their progress from being hampered to such an extent by defects in systems of production, financing and marketing that their farming enterprises cannot stay the pace and so fail to meet the increasing demands of a rapidly growing economy. Unless this is done, there is a very real danger that many of them will founder and get bogged down in the weaknesses of their production systems, sinking down to that category where remedial measures, instead of preventive measures, are imperative.

10.2.2 Recommendations

10.2.2.1 In the opinion of the Commission such a situation (withdrawal from farms, together with the application of the Stock Reduction Scheme) would present a golden opportunity for the authorities discreetly to encourage owners, once they have left their farms, to give up farming for good so that such farms could be consolidated with other neighbouring or nearby uneconomic units and converted into truly economic farming units.

The Commission therefore recommends that the Departments concerned in this matter should make a deliberate effort to make it easier for owners

of uneconomic farms in particular, to give up farming. Special attention must also be given to methods of financing to assist farmers who remain on uneconomic farms and merit consideration for special assistance. Assistance of this kind should be such as to enable such farmers to enlarge their own uneconomic farms to form economic units by purchasing other uneconomic farms which become available when vacated in these circumstances.

10.2.2.2 The Commission is convinced that the question of uneconomic units and the related question of rural development are so important that these matters should receive the urgent attention of the authorities as soon as possible. The Commission is therefore pleased to note that, in pursuance of its recommendation in paragraph 4.15.3 of its Second Report, the Minister of Agriculture on 12 March 1971 announced the appointment of an Interdepartmental Committee to inquire into and report on rural reform in South Africa.

10.3 THE PROVISION OF AGRICULTURAL CREDIT ABROAD AND IN THE REPUBLIC OF SOUTH AFRICA

10.3.1 Conclusion

10.3.1.1 During the past few decades the agricultural industry underwent revolutionary changes. It changed from a primarily self-sufficient industry where the farmer was largely able to meet his own capital requirements to one which became progressively more specialised and assumed the character of a business enterprise. What characterises agriculture today are the large amounts of capital invested in the industry and a sharply increasing need for credit.

10.3.1.2 Adequate capital and special credit facilities, as well as judicious expenditure of capital and the necessary managerial ability and technical and economic know-how on the part of the entrepreneur, have become prerequisites for the success of any farming enterprise. If these requirements are not satisfied and the farmer is unable to adjust to the changed circumstances, there is little hope of success.

10.3.1.3 Often, however, many farmers and those who lend them large sums of money lose sight of two important facts, i.e. the fact that financial losses resulting from unfavourable climatic factors can be heavy at any stage in farming and, furthermore, the fact that economic trends in agriculture are never stable. The importance of these two facts is often underestimated, particularly during periods favourable to the farmer. Many farmers, optimistically assuming that good production and favourable price ratios will continue, are inclined to take on excessive financial responsibilities. This is the cause of many of the cases of financial embarrassment which have become so acute in agriculture over the past ten to fifteen years.

10.3.1.4 In most cases agriculture, unlike commerce and industry, is unable to pass on any

increase in its cost structure to the end consumer. What is more, an important consideration is to keep food prices as low as possible in order to curb the rise in the cost of living as far as possible.

10.3.1.5 Studies of the economics of agricultural production in different regions of the Republic indicate that investment in relation to output potential is significantly higher in livestock production than in crop production, and higher in dryland farming than in irrigation farming. What is of particular importance in agricultural financing is that the intensity of investment in stock farming under the riskier conditions in the arid extensive livestock regions is clearly higher than the level of investment in stock farming in the areas with a higher and more regular rainfall. Factors like these are by no means unimportant when it comes to financing the various types of farming in the respective regions.

10.3.1.6 The special conditions in agricultural production mentioned in Chapter III therefore merit serious consideration where agricultural financing is being contemplated, particularly when some of these special conditions coincide with other events of national importance which might influence the financial position of agriculture. In recent years, for example, many agricultural regions on several occasions had serious setbacks in the form of recurring droughts, high feed costs, heavy stock losses and crop failures. Unfortunately, these setbacks coincided with a high rate of growth in total domestic spending and inflationary trends of such magnitude that the Government was obliged to introduce restrictive monetary measures and to permit appreciable increases in interest rates. Clearly, such a combination of events poses such a serious threat to the financial position in agriculture that certain branches of agriculture and farming areas may be faced with financial ruin, if this is not averted timeously by effective corrective measures.

10.4 READJUSTMENT OF AGRICULTURAL CREDIT IN SOUTH AFRICA (See Chapter IV)

10.4.1 Conclusions

10.4.1.1 The Commission has pointed out that farming has become a business and that relatively large amounts of capital, for which credit facilities are needed, are invested in the industry. It must also be pointed out, however, that it is only fair to expect the farmer to make a contribution to the financing of his enterprise from his own savings. The larger this contribution, the greater the benefit to the farmer concerned. Any amount that has to be obtained from other sources must be raised in accordance with business principles, due allowance being made for problems peculiar to agriculture.

This cannot be over-emphasised, especially in times such as the present when high rates of interest are demanded. When rates of interest

on borrowed money were relatively low, as was the case after the Second World War when agriculture was entering a period of tremendous development and rising prices, big profits were made with borrowed money. During the sixties, however, conditions changed fundamentally, and it became very risky to undertake expansions with a high debt-to-asset ratio.

10.4.1.2 Agricultural problems cannot be solved merely by granting credit on easier terms. On the contrary, granting credit injudiciously or excessively can aggravate an applicant's financial problems and help him from the frying-pan into the fire.

10.4.1.3 Often, a lack of capital is not the main drawback in farming. There are many farmers who are fully conversant with the practical aspects of their enterprise and are able to maintain a reasonable output; even so it often happens that one or more factors are present which eventually give rise to financial problems. Personal shortcomings may play a part: for example, an imperfect understanding of economics, insufficient technical know-how, poor managerial ability, injudicious spending - all of them factors which are often at the root of economic problems. Besides these, there are the various structural defects in farming practices (see Chapters IV, V, VII and X of the Commission's Second Report and Chapter II of this report), for instance, undersized, non-viable farming units, production systems that are not properly adapted to the soil and climatic conditions peculiar to an area, inadequate provision against times of scarcity, unsatisfactory conservation practices, overcropping and the disadvantageous use of machinery and labour. These defects are the cause of so much instability in production that such farming enterprises are subject to a high degree of economic instability and risk.

10.4.1.4 The rational granting of credit calls for a careful study of the above-mentioned inherent weaknesses and shortcomings and, wherever advisable, an applicant whose farming operations show these defects should be discriminated against or some other form of action should be taken. Unless this is done, it would not be possible to strike at the root of the problem and the help given would serve merely as a temporary measure which would not solve the problem but often have the effect rather of hiding its true causes.

10.4.1.5 Financial assistance should not be granted unless there is a reasonable chance of the debts incurred being paid back within a reasonable time. The questions which the borrower as well as the lender should answer before application is made for a loan and before the loan is granted are whether the income which, due allowance being made for the expected production risks, can be expected over a particular period would be sufficient to enable the borrower to pay back the loan plus interest thereon, whether his income adequately remunerates him for the risk he has taken and whether he will have enough left to make a reasonable living.

10.4.1.6 The Commission wishes to sound a warning against attempts at stabilising or putting

things right in farming enterprises by granting further credit on easier terms.

10.4.1.7 Agriculture must be financed on an economic basis, in other words, the financial assistance granted should be such that it can be used to enable the applicant to place his farming enterprise on a sound footing and build it up into a selfsupporting unit.

10.4.1.8 The applicant's debt ratio should, depending on the type of farming and his managerial ability and knowledge, be within definite and reasonable limits if favourable consideration is to be given to his application for financial assistance. The debt ratio should, after credit has been granted, leave reasonable latitude for the formation of the applicant's own means and capital. This is absolutely essential for the development and continued existence of any farming enterprise.

10.4.1.9 Land values being a key factor in the assessment of a farmer's debt burden, the productive value of the land should be the main determinant when it comes to deciding on a realistic debt ratio.

10.4.1.10 The merits of the borrower are of decisive importance because the optimal utilisation of a farming unit's potential and the profitability of the undertaking depend very much on the farmer's experience, managerial ability, knowledge, judgement and spirit of enterprise. These qualities should therefore turn the scales in deciding on the merits of a case and the nature and extent of the credit that can be granted.

10.4.1.11 A farming plan and an analysis of the long-term prospects of the farm are considered essential for rational agricultural financing. Such an analysis should therefore accompany every application for credit.

Preparing and submitting a farming plan promotes good farm management and helps the applicant to conduct his affairs systematically and with a definite purpose in view. It also enables the lender to tell whether the applicant's propositions are realistic, whether there is a good chance that the financial assistance applied for will be used judiciously and effectively, whether the farmer will keep abreast of technical developments, whether the farming system envisaged is suited to the natural conditions and whether the assistance applied for will be conducive to the optimal and effective exploitation of the resources concerned.

10.4.1.12 The granting of financial assistance should be conditional and made subject to the keeping of proper farming records, the conservation and judicious use of the natural resources, the use of farming systems suited to the natural conditions concerned and the regular submission of reports on the progress made in the enterprise.

10.4.1.13 What is of special importance in regard to the granting of credit is that during the past few years neither the Land Bank nor the Agricultural Credit Board refused a single application for a loan on the grounds that funds were lacking. According to the evidence of these bodies, it was

only where the applicants could not satisfy all the requirements set for the granting of credit that applications were turned down.

10.4.1.14 It must be admitted that the agricultural sector is not really experiencing a dire shortage of credit. On the contrary, the position is rather than too much credit has been granted to agriculture by too many private lenders - often the wrong kind of credit at the wrong time (particularly when money is plentiful) and credit that is too dear in times of credit restrictions.

10.4.1.15 It would appear that overcapitalisation is one of the major causes of many of the financial problems in agriculture. Overcapitalisation arises, in the first instance, when the prices paid for agricultural land are out of proportion to the land's productive potential.

Land is one of the most important factors of production and its agricultural value should be based on its yield under average management over a certain period and under certain conditions. In this regard it should not be forgotten that about 54 per cent of the capital expended on a farming unit is tied up in land.

In Chapter VII of its Second Report the Commission stated that there was no relation between the market price of the land and its productive value, pointing out that this had an adverse effect on agriculture.

10.4.1.16 This does not create any real difficulties for the farmer with ample capital resources who wishes to purchase additional land at ruling market prices either as an investment or to expand his existing farming operations, provided that he has an amount of cash with which he can pay off part of the purchase price and that he also has the necessary operating capital to be able to exploit the potential of the land he is buying to the full. Such a transaction should not, however, have the effect of pushing up his debt ratio to an unfavourable level.

10.4.1.17 The position is quite different for persons who want to convert their existing uneconomic units into economic units and for beginners lacking the necessary minimum amount of capital in cash and/or movable and immovable assets. The purchase of land at its current market value would cause serious financial problems for such persons. To meet their commitments and make a living, such persons would be dependent on the income they are going to make on the piece of land they intend to buy. If the price of the land is much higher than its productive value, the net return on the capital invested in the land may be lower than the interest the farmer has to pay or in any case not enough for him to meet his commitments from the income the land yields. If, on top of this, such a person were also to suffer setbacks as a result of unfavourable natural conditions, for example droughts, his financial position might become so critical that it would not be easy for him to surmount his difficulties, which would then continue to weigh him down for the rest of his life. This would definitely not be conducive to the establishment of a permanent, solid and thriving farming community on the plateau.

10.4.1.18 It is striking how often the problems of persons who approach the Agricultural Credit Board for financial assistance can be traced back to the fact that they started farming with insufficient capital or none at all.

The disparity between the market price of land and its productive value not only makes the granting of credit riskier but also makes it difficult to finance young beginners or farmers with uneconomic farms to enable them to buy additional land for the consolidation of existing uneconomic units.

But the present disparity in land prices is also creating problems for other farmers. There are several cases where established farmers who used to make a good living have bought land adjacent to or in the vicinity of their farms at market prices in order to increase their acreage and who have thereby brought insurmountable financial trouble on themselves.

10.4.1.19 If things go on the way they are at present, it will become impossible to finance beginners or other persons whose capital is insufficient for the purchase of farm land. As an alternative, such persons will have to try to rent land. Land which is to let is, however, fairly hard to come by and rentals have in most cases risen to a high level. So, while things remain as they are, this would not be a solution either. The Government should therefore consider letting land at its disposal to deserving persons on a long-term basis on reasonable terms.

Furthermore, attention must be given to the dilemma that the pressure of high land prices on a particular farmer can largely be offset by increasing his efficiency but that in the community as a whole it is precisely increased efficiency, accompanied by higher profits per morgen, that contributes to the rise in land prices.

10.4.1.20 In this regard the Commission must again draw attention to overcapitalisation resulting from over-expenditure on mechanisation and labour.

The Commission is of the opinion that there is no sound financing policy that can be devised and put into operation effectively to place farming enterprises with such serious defects on a sound economic footing. This further underlines the importance of the Commission's findings and recommendations recorded in Chapter X of its Second Report on extension services for farmers in connection with the maintenance and use of machinery and the expansion of systems for greater communal use of machinery.

10.4.1.21 In view of the special needs of agricultural production the Commission came to the conclusion that a system of financing designed to meet these needs had the best chance of success if the periods involved were more closely adjusted to the production processes for which the credit facilities were intended. The Commission is of the opinion that what agriculture really needs is

better adjusted medium-term credit and that the granting of medium-term credit by the Land Bank and the Agricultural Credit Board merits special consideration.

10.4.1.22 Agricultural financing, particularly the granting of credit to the farmer, should help the farmer to become more independent and credit-worthy and should promote agricultural production on the basis of the conservational utilisation of the natural resources. How effective the granting of credit to agriculture will be will actually depend on the extent to which these goals are achieved through such financial assistance. And, as is evident from the information furnished particularly in Chapter IV, there is, apart from the question of whether agricultural credit is adequate, good cause for concern about the effectiveness of the credit that is being granted to farmers, especially by private sources.

10.4.1.23 The question of whether farmers are deserving, particularly when it comes to how much they know about the economics and technology of farming and how capable they are as managers, is of paramount importance in the granting of agricultural credit. A high standard of such knowledge and competence, together with practical experience, makes for efficiency in farming and is a prime consideration in rational financing.

However, the extent to which credit concessions are sometimes made to farmers of lesser ability or those on farming units with a rather low productive potential creates the impression that State-aided credit institutions, in particular, are too much inclined to assist less deserving farmers with credit, whereas many of the good farmers are handicapped through not being able to get enough capital for expansion that merits credit.

In assessing the personal qualities of an applicant for agricultural credit it is considered essential to note his integrity, his age, the history of his enterprises, his knowledge of both the technical and the business aspects of farming, his judgement and his managerial ability.

10.4.1.24 The data furnished in Chapter IV also serve to highlight the fact that under the same environmental conditions there are big differences between the net income of good farmers and that of the average and poorer farmers, irrespective of the area or the type of farming.

10.4.1.25 It is remarkable how many farmers overrate the potential of a farm or a farming unit. There are several reasons for this. Farmers commonly base the potential of a farm or enterprise on the results attained during relatively favourable above-average or even outstanding years. They fail to take due account of the vagaries of nature, with the result that their assessment rests on false values.

10.4.1.26 The lack of reliable norms is a problem not only for the farmer but also for the money-lender. Thus, for example, the Land Bank's norms often differ from those of the Agricultural Credit Board, while the norms used by these two bodies often differ considerably from those of other credit institutions. This makes things very awkward for both the lenders and the applicants - a difficulty which will have to be overcome. General norms that would be valid for conditions in all regions should be laid down. Moreover, the various lenders should be persuaded to try to achieve greater uniformity in their norms.

With a view to rationalising agricultural credit it has become essential, in considering applications for credit loans, to guard very strictly against the kind of over-optimism that arises when the value of land, stock and other assets, or production prospects, are assessed, without taking into account below-average seasonal fluctuations and the viability of the farming unit concerned.

10.4.1.27 In at least some parts of the marginal areas it would be unrealistic to continue granting production loans for the production of cash crops. Such areas should therefore be clearly identified and demarcated to separate them from the recognised field-cropping areas. In such areas, production loans should be granted only for the production of forage crops. No sound credit policy can be adopted in agriculture unless it is based on adapted farming systems.

10.4.1.28 The Commission is, however, also aware of the fact that, even if sufficient data on the possibilities of land use and the climatic conditions in the areas concerned were to become available and be published, many farmers in the areas where adjustments to farming systems and practices are considered desirable would not be able to modify or adapt their farming operations accordingly, owing to the financial demands entailed by such adjustments. This is particularly so where cash crop cultivation is so risky (owing to erratic weather conditions and, more particularly, a submarginal rainfall pattern) that the farming systems have to be switched from a predominantly crop production pattern to a predominantly stock-farming one. This would mean that the cultivated land on such farms would either have to be left to revert to pasturage or be used for fodder production.

10.4.1.29 Farmers on undersized units should rather be helped to find some other livelihood, except where they have the makings of excellent farmers and deserve to be considered favourably for resettlement on enlarged farming units. The problems involved in getting farmers to give up uneconomic farming units, enlarging such units and resettling persons who have given up farming are, however, complex and call for closer study. The Commission is pleased to note that an Inter-departmental Committee on Rural Reform has been appointed to investigate and make recommendations on this matter.

It should be borne in mind, however, that no matter what is recommended or done about rural reform and the conversion of uneconomic farming units, a large number of these will remain in existence for many years and in the mean time farmers trying to make a living on them will urgently need credit.

10.4.1.30 Persons operating uneconomic units with so great a debt burden that there is little hope of improving their financial position are usually not in a position to settle their debts. Such persons should not be given financial assistance, but they should be persuaded to give up farming and find some other livelihood.

10.4.1.31 Recently, information has reached the Commission which confirms its suspicion that the entry of various financial and industrial concerns into agriculture is already upsetting the balance in agricultural production to such an extent in certain cases that serious consideration and prompt action have become essential.

A feature of developments over the past few years has been that several big financial institutions, industrial concerns and other business concerns with large amounts of capital have become active in agricultural production. At present there are signs that these concerns are expanding their operations through direct participation or through affiliation to or amalgamation with other companies, their aim being to extend the chain of their operations as far as possible in the direction of both pre-production and post-production activities.

10.4.1.32 The Commission feels that, in dealing with applications for credit, credit institutions should encourage the adoption of sound and adapted farming systems in the various areas by also considering the degree of adaptedness of farming enterprises (and therefore also their riskiness) to the area concerned and how this affects the productive value of the land. For example, it is common knowledge that the value of land used for maize production is put much higher than that of grazing, in spite of the fact that the area concerned might, owing to climatic conditions, be regarded as submarginal for maize cultivation. The Commission realises that direct intervention by both Government and private credit institutions to force farming systems in certain directions would be unacceptable, but nevertheless considers that the process of adaptation could be advanced by emphasising this in the course of negotiations for credit and by exchanging views on the subject.

10.4.1.33 After studying the circumstances surrounding the granting of credit by the Agricultural Credit Board, the Commission came to the conclusion that it could not support the proposal that the credit system as applied by the Agricultural Credit Board in co-operation with the Department of Agricultural Credit and Land Tenure be radically changed and that it should therefore be converted into a surety fund.

10.4.1.34 The Commission was impressed by the extent to which the commercial banks concerned - which have a big share in agricultural financing - keep themselves informed of each individual farmer-client's progress and of the general farming conditions on the farm concerned.

In considering the memoranda submitted by the commercial banks and the evidence given before the Commission by their representatives, the Commission was impressed by the caution they displayed in agricultural financing.

10.4.1.35 A penetrating study of the available information on the granting of credit to the agricultural sector satisfied the Commission that the sector's position as regards credit was not so critical as to demand drastic or revolutionary changes in the existing systems of credit or in credit policy.

There was not normally so great a shortage of credit that agriculture was being hampered excessively, particularly not as regards long-term and short-term credit. There were definite indications that credit of this kind was at certain times too easy to come by.

The Commission came to the conclusion, however, that, although the position in regard to credit in the agricultural sector was not critical, there was nevertheless a very real need for an even greater role to be played in agricultural development by the specialised agricultural financing institutions, such as the Land Bank and the Agricultural Credit Board, and for them to reorganised for this purpose.

10.4.1.36 The Commission is convinced that the agricultural sector can indeed do with several adjustments as regards rates of interest and the procedure by which credit is granted. This applies particularly to medium-term credit, which should be specially designed to provide financial assistance on a rational basis whenever certain situations arise in farming enterprises with long production cycles. The Commission is convinced that the greatest need is for more credit which is better adapted to the peculiarities of agricultural financing and which will be more conducive to sound production practices and greater financial independence in agriculture.

10.4.1.37 In interviews with the Commission it was emphasised that, apart from the popularity of the Land Bank and the Agricultural Credit Board on account of their favourable terms for credit, these bodies could, through their conservativeness in granting agricultural credit, have so marked a beneficial influence on agricultural financing that ways of promoting a wider application of their policy merited serious consideration.

10.4.1.38 The Commission realises that no matter what is done to convert or enlarge non-viable farming units into viable units, the process of withdrawal, consolidation or enlargement will at best be so slow that many farmers and their families will for many years be forced to

try to make a living somehow on such non-viable farming units.

10.4.1.39 The Commission received information giving cause for concern, namely that there have been cases where feed loans amounted to more than twice the value of the animals concerned. Such open-handedness, it might be argued, reflects the sympathy felt in official circles for the farming community who have to battle through such periods of distress. In the Commission's view, however, there are various reasons why, even under such serious conditions of distress, the granting of credit not only imposes heavy financial burdens on the farmer concerned but in many cases the credit granted under the feed loan scheme in no way helps to conserve the soil. In fact, stock numbers have increased steadily in spite of serious droughts. Feed loans have indubitably helped to check stock reduction and have therefore contributed to the over-use of the veld. Loans granted and spent in this way are unlikely to be paid back. This has, in fact, come to be realised so widely that there are farmers who have no compunction about failing to pay back these loans, which has a detrimental effect not only on their sense of responsibility but also those who do try to pay back the loans.

Excessive financial assistance of this kind also militates against the timely reduction of stock on veld grazing and, once it has rained, exposes such veld to even worse overtaxing than before, stock populations tending to exceed the carrying capacity of the veld to an ever greater extent.

10.4.1.40 The group insurance scheme was welcomed in all quarters of the industry and is considered to be so beneficial that urgent representations have been made to the Commission for it to be expanded or for negotiations to be entered into for the introduction of a similar insurance scheme to cover mortgage loans granted by the Agricultural Credit Board. The Commission has satisfied itself that this insurance scheme is most acceptable to all parties concerned and is an important aid to stabilising long-term agricultural financing that is in the form of mortgage loans.

10.4.1.41 It is dismayed to learn how many farmers there are who keep no or only very unsatisfactory farming records and how many active and prospective farmers still fail to appreciate that knowledge and managerial ability are two of the cardinal factors determining success in farming. Persons applying for financial assistance to enable them to carry on or start farming operations frequently state as a reason for their application that they have not been trained for any other occupation and are therefore only able to farm. It is of vital importance to agriculture in this country that everything possible should be done to cure everyone concerned of this fallacious kind of reasoning.

10.4.1.42 Keeping farming records will not only enable the farmer to rationalise his efforts, but will also, if a farming plan accompanies the application for financial assistance, be of infinite value to the lender when it comes to assessing the

merits of the application and deciding whether the applicant is deserving. With records it will be possible to grant credit judiciously and rationally, and not haphazardly as is so often the case at present. Unquestionably, agricultural financing will be placed on a much sounder basis if applications for financial assistance are accompanied by a farming plan and records.

10.4.1.43 The Commission considers that the way in which guidance should be given to farmers in the preparation of applications for credit and after the granting of credit, should be decided on in discussions between the body granting the credit (in this case the Agricultural Credit Board), the three Departments of Agriculture concerned and the South African Agricultural Union, including its Co-operative Council.

10.4.1.44 The expansion of the leasehold system is seen not only as a valuable alternative means of financing, particularly for the less well-to-do farmer, but also as an important means by which a special institution such as a land trust could enlarge non-viable farming units through the purchase and subsequent letting or sale of small units to deserving beginners or persons who are already farming but who have non-viable units.

10.4.1.45 The Commission considers it important to direct attention to the following aspects of the granting of agricultural credit:

- (i) The demand for special financing of the agricultural industry through a specialised agricultural financing institution is increasing.
- (ii) It is generally accepted that, apart from the Agricultural Credit Board, the Land Bank is, owing to its organisation and the manner in which it fulfils its functions, the financing institution in the Republic best adapted to the peculiarities of agricultural financing.
- (iii) The rates of interest on Land Bank loans correspond more or less to the earning ability of agricultural production under prevailing conditions.
- (iv) The principles according to which the Land Bank grants credit are basically sound and promote sound production and business practices.
- (v) The available funds derived from private sources of finance particularly for farm mortgage loans are showing a marked downward trend and the rates of interest on these funds have now risen above the earning ability of even the most successful farmer.
- (vi) The income which long-term investments can yield in other sectors of the economy is much better and much more secure than can be expected from loans to the agricultural sector.

(vii) The possibilities of getting good returns on such investments are at present so remote in agriculture that this sector cannot even succeed in diverting the free capital of well-to-do farmers to the Land Bank or to the agricultural sector direct. According to survey figures furnished by the S.A. Agricultural Union, farmers alone had about R738 million invested outside the agricultural sector as at 28 February 1970.

(viii) So beneficial is the influence of the Land Bank that an expansion of credit facilities to be employed by the Land Bank is considered important owing to the beneficial effects which this would have on agriculture and on the country as a whole.

10.4.1.46 Various parties take the view, however, that, since the Land Bank is still at times dependent on special financial assistance from the State, it should to a certain extent be regarded as a State-aided financing institution. It is therefore not considered justifiable for the Land Bank to grant big farmers loans at relatively low rates of interest and on fairly favourable terms.

The Commission considers, however, that if the Land Bank could expand its funds so as to be able to operate without direct State aid, this objection should fall away and it should be acceptable for the Land Bank to grant the various types of credit more freely to farmers with fewer restrictions as regards the size of the farming unit.

It is a well-known fact that the more successful farmers fall into the group whose farming units have a larger turnover. Their contribution to agricultural production and its value to the country are clearly evident from the data given in Table 4.8. It is striking that the gross value of the sales of agricultural products of 38,9 per cent of the country's White farmers constitutes no less than 87,2 per cent of the total gross value of agricultural production.

10.4.1.47 The Commission was not persuaded that it had become necessary for the Land Bank to change its policy or its attitude as regards the taking over of mortgage loans or other forms of long-term credit from other financing institutions.

The Commission also considers that transferring mortgage or other loans from the Agricultural Credit Board to the Land Bank or vice versa would unsettle farmers in their approach to credit and would serve no useful purpose. The Commission therefore cannot support the proposal to make such a change-over possible.

10.4.1.48 The indications are that the agricultural sector has an urgent need for more ample medium-term credit facilities designed specially for certain production processes. It is expected that if credit of this kind were available, farmers would be less inclined to use expensive short-term credit for the financing of perennial production cycles or to encumber land and other

fixed property increasingly with mortgage and other longterm loans obtained in a roundabout way.

10.4.1.49 The Commission found in the course of its inquiry that the commercial banks should continue to provide short-term credit for the agricultural sector and that it was neither necessary nor in the interests of the country for these banks to be kept out of agricultural financing.

10.4.1.50 It is generally accepted that, in acting as a channel of credit between the Land Bank and the farmer in regard to the matters dealt with elsewhere in Chapter IV, the agricultural co-operatives play such an important part that there is not the slightest doubt that they should continue in the same way.

10.4.1.51 The Commission is convinced that high rates of interest have, for various reasons, had such an adverse effect on agriculture that serious consideration must be given to the question whether steps should be taken to bring the level of interest rates for agriculture more into line with the net yield which can be expected under average production conditions.

10.4.1.52 The Commission felt that, although it was prepared to consider matters affecting the financial position of farmers, it was not within its terms of reference to look into the tax system applicable to agriculture and that it had therefore not been empowered to do so.

10.4.1.53 The Commission considers that the power vested in the Minister of Agriculture under section 4 of the Subdivision of Agricultural Land Act, 1970, to refuse his consent to the subdivision of agricultural land, including subdivision in accordance with a testamentary disposition or intestate succession, should be enough to prevent farms being further divided among heirs into non-viable units.

10.4.1.54 To ensure that, as one generation hands over to the next, the value of the soil as the source of life for all generations is impaired as little as possible, such a transfer involving succession, unlike other ordinary bequests, merits special consideration. This asset should therefore be handed down from generation to generation in as good a condition and as unencumbered as possible.

10.4.1.55 The practice of basing the assets of an estate on the market value instead of the productive value of agricultural land and of calculating payments to co-heirs and even estate duty accordingly is so unrealistic and has such a harmful effect on the successor, as well as on the farm (owing to the financial problems that arise), that it should be discouraged and opposed by every possible means.

10.4.1.56 The Commission agrees that various circumstances surrounding the use and provision of agricultural land call for serious attention to

be given to the creation of a trust for White agricultural land, an autonomous body which would perform the functions assigned to it with funds from the State, gradually supplemented by the moneys flowing back as a result of its transactions.

10.4.1.57 In the course of its inquiry the Commission gained the impression that nearly all the credit institutions that are geared to the granting of credit to agriculture are sincere in their attempts to assist the sector financially to the best of their ability. There is ample evidence that many of these institutions are doing their level best to adapt their financing procedures in the face of changes in the financial scene on a broad national level, highly fluctuational trends in agricultural production and the tremendous differences between the various branches of agriculture and in local conditions.

10.4.2 Recommendations

10.4.2.1 The data in Chapter IV stress to what extent managerial ability, knowledge and other personal attributes determine the effectiveness with which capital is used. They show how important it is, in striving for more realism in the granting of agricultural credit, to take due account of the applicant's merits in considering his application. Although the Commission is aware that the State-aided credit institutions do try to assess applicants on these lines, there does seem to be much room for improvement in this regard.

The Commission therefore wishes to recommend that, in order to ensure healthy conditions in agriculture, all parties granting agricultural credit should sift applicants on personal merit also and that those who do not qualify for credit on such a basis should be encouraged to seek employment elsewhere.

10.4.2.2 As the Government should, directly and indirectly, give firm guidance on the policy to be followed in agricultural financing, the Commission strongly recommends that State or State-aided credit institutions should, in dealing with matters of agricultural credit, persist as steadfastly as at present in their policy of thorough screening of applicants. The policy followed should ensure that agriculture does not lose entrepreneurs and farming enterprises of good potential, or it should ensure that such entrepreneurs will enter the industry, but at the same time the inefficient entrepreneurs or enterprises must not be allowed to remain in the industry by the grace of credit injudiciously granted.

10.4.2.3 The Commission considers it so important to strive for better adaptedness in farming enterprises for the sake of greater biophysical stability in agriculture that the Government must

provide financial assistance in this regard in addition to the technical auxiliary services needed to pilot and advance the process of readjustment.

The Commission therefore recommends that, to this end, a voluntary readjustment scheme be devised for application on a regional basis.

10.4.2.4 Dealing more particularly with companies in paragraph 3.5.4 of its Second Report, the Commission recommended that when the activities of companies in the agricultural field tend seriously to disturb the established rural pattern of South African agriculture, the judicious use of natural resources and the balance in agricultural production, such cases be referred to the National Advisory Council for the Planning of Agricultural Production (the establishment of which was recommended by the Commission in paragraph 9.7.5) for consideration and recommendations to the Government.

10.4.2.5 What has happened in several cases is that once a company has raised the production of its own farming enterprise to a sufficiently high level it makes the position of farmers in the vicinity who supply the same raw materials increasingly difficult through its actions in regard to prices, quality requirements and intake of crops. Where this sort of thing has happened in the production of commodities like timber, vegetables and tomatoes, the effect has been extremely frustrating and obstructive to the farmers, who are systematically forced out of the industry. Meanwhile the company concerned begins to dominate the agricultural production scene in the area, having won a position for itself in the marketing channel and being backed up by the necessary capital.

This state of affairs often seriously upsets the balance in agricultural production, as has happened in most of the cases referred to. Recent events in the poultry industry, which showed how seriously the entry of large companies can disturb the balance in the marketing of eggs, made it necessary for the Minister of Agriculture to be given powers, under the Egg Production Control Act, 1970 (Act 61 of 1970), to check the overproduction of commercial eggs.

In view of the circumstances described above, the Commission considers it necessary that immediate attention be given to this matter and that steps be taken before it is too late to prevent further development in this direction. The Commission therefore wishes to repeat its recommendation made in paragraph 3.5.4 of its Second Report, as stated above.

The Commission further recommends that a study group be charged with investigating this matter and with making recommendations on the steps considered necessary to remedy the situation.

10.4.2.6 The Commission feels that, if credit is to be granted on a rational basis, it would be imperative to give due consideration to the ratio of debts to assets based on agricultural values

and therefore recommends that the Government should try to make this standard practice for all credit institutions.

10.4.2.7 There were no objections to the way in which the Land Bank and the Agricultural Credit Board granted credit. There was concern, however, about the fact that steps were hardly ever taken to ensure that the borrower ran his farming enterprise according to an accepted programme, applied sound farm business principles, kept proper books or that he regularly submitted reports on his operations. The Commission gained the impression that the granting of credit by these institutions was very seldom followed up by supervision, nor was much use made of managerial advisory services to ensure that such borrowers effectively applied the credit granted to them.

So strong is the evidence before the Commission that the policy and approach of these semi-Government and Government credit institutions are effective and acceptable, that the Commission recommends that the present approach an policy should be left unchanged, but then credit should be granted conditionally and followed up by proper managerial advisory services.

10.4.2.8 The Commission gained the impression that most of the applications (particularly those for long-term credit and mortgage loans) in respect of which there were allegations of delays, were weighty matters which depended on a great number of factors, including legal restrictions on the subdivision of land, and which often involved large sums of money. It is therefore understandable that such applications have to be studied carefully and that considerable time must necessarily be taken over them. It would be unwise to compel such applications to be dealt with too hastily.

The Commission therefore recommends that the semi-Government and Government credit institutions should consider ways of streamlining the procedures for dealing with applications for agricultural credit as far as possible, so that such applications can be finalised with all reasonable speed but without sacrificing thoroughness.

10.4.2.9 The Commission deems the recommendations on financial policy for non-viable farming units made in paragraphs 4.14.2.1 and 4.14.2.2 of its Second Report so important that it wishes to repeat here those relating more particularly to the granting of credit:

10.4.2.9.1 The Government bodies concerned should do everything in their power to convince all agricultural financing institutions of the necessity of adopting a credit policy which will not perpetuate the existence of units that are unquestionably non-viable.

10.4.2.9.2 Special attention must be given to methods of financing farmers on uneconomic farms who are deserving enough to qualify for special

assistance. Such assistance should enable these farmers to convert their own non-viable farms into viable units by improving their farming systems and purchasing agricultural land, particularly other non-viable farming units, which has become available as a result of the owner's having given up farming.

10.4.2.9.3 The Departments of Agriculture and all other parties involved in the granting of agricultural credit should give special consideration to the provision of extension services on the technical and economic managerial aspects for farmers operating units where there are favourable prospects of converting non-viable enterprises into viable units, even without enlarging farms through the purchase of land.

10.4.2.9.4 Where farming units are too small to be converted into economic units, where the farmer is elderly, or where the managerial ability of the occupant is such that the chances of success are slight, the farmer concerned and the members of his family who do not qualify for credit should be encouraged to give up farming and take steps to change their occupation or, if elderly, to retire.

10.4.2.10 The Commission was informed that the present policy of the Board of the Land Bank is to finance only persons farming on a full-time basis and that the Agricultural Credit Board follows a similar policy. The Commission is deeply impressed, however, by the merits of several cases where farmers on non-viable units wish to improve their prospects of making a living in this way. The Commission therefore recommends that the semi-Government and Government credit institution should give sympathetic consideration to any deserving application for agricultural credit which might be submitted by a farmer who is operating a non-viable unit but who also has a sideline which might necessitate his periodic absence from the farm; provided, however, that (a) his family continue to live on the farm in order to supervise farming operations, (b) he gives his personal attention to such operations every evening, (c) the part-time system is regarded as a temporary arrangement and the financing of the farm is regarded as an interim measure to assist a deserving individual financially so that he can, within a set period, raise or enlarge his farming enterprise to a viable level, and (d) the financial assistance granted for his part-time enterprises should by no means be treated or used in a manner tending to encourage indefinite and unjustified occupancy of a non-viable farming unit.*

10.4.2.12 It is considered desirable, moreover, that the Land Bank's policy in financing purchases of land for the enlargement of farming units should also make provision for the succession of the parent by his child. It should be possible for a father, with the financial assistance of the Land Bank, to enlarge his farming unit by purchasing enough land to be able, before retiring from farming,

to pass on at least one viable farming unit to a child who will succeed him in farming, the parent then being able, at least once and not more than twice, to keep a fair-sized farming unit on which he can continue farming until he retires. The Commission endorses the proposal of the South African Agricultural Union that where purchases of land are financed by the Land Bank enough latitude should be allowed so as to encourage farmers on highly viable farming units to make arrangements for succession beforehand, but recommends that for persons actively engaged in farming this should be restricted to provision for succession of the parent by not more than one successor.

10.4.2.13 As it would be difficult to determine assets if the successor is a minor, and as the granting of mortgage loans with insurance cover to a fairly elderly parent may be expected to impose an unfair burden on him, parents should qualify for financial assistance for purchases of land only if at the time of the transaction they are below a certain age.

It is envisaged and accordingly recommended that, if a successor (child) has legal capacity and is acceptable as a buyer and borrower, the Land Bank should finance him rather than the parent for the purchase of a viable farming unit. Such an arrangement would be preferable because the successor would then be able to run his own farm at a relatively early age, independently and without the interference of his parent. There would also be none of the uncertainty that surrounds testation, nor would there be any interruption in farming operations while the estate is being wound up.

10.4.2.14 The view is held that the Land Bank's long-term loan facilities should not be used for the unlimited buying of agricultural land by big farmers. In this regard it is to be borne in mind that if big farmers buy one farm after the other it means that several other farmers have to leave their farms, some of whom are capable enough of making a good living on viable farming units which could be passed on to a promising successor. It is felt that the loans granted at low rates of interest by State-aided institutions should not be used for such purchases of land and that big farmers should find private sources of credit if they want capital for this purpose.

The Commission subscribes to the view of the S.A. Agricultural Union and recommends that the relatively favourable financing facilities provided by State and State-aided financial institutions for the purchase of agricultural land should not be used for the purchase of land by persons already owning farms exceeding the limits stated in paragraph 4.6.2.1.5. (See also paragraph 4.6.2.3.1.)

10.4.2.15 The Commission's previous conclusions were so strongly reaffirmed by its present findings that it wishes to repeat here the recommendations made on the granting of agri-

* Dr P.D. Henning does not subscribe to this recommendation. His views are given at the end of Chapter IV

cultural credit in paragraphs 7.8.7.3.1.2 and 7.8.7.3.1.4 of its Second Report:

The Government and semi-Government credit institutions should, when deciding whether to grant credit to the agricultural sector, base such credit on the productive value of agricultural land and not on its market value, and discourage applicants for credit from stretching their credit in accordance with rising land prices.

The Government should persuade private sources of credit to limit the amounts granted to farmers to a level appropriate to the productive value of the agricultural land concerned.

10.4.2.16 Since the stock feed loan scheme, as applied lately, results in the overspending of the available loan funds, creates financial problems, blunts the farmer's sense of responsibility as regards his loan commitments and results in the veld being overtaxed, and since this kind of assistance merely serves to save animals temporarily, the Commission considers it essential that henceforth feed loans be granted on a sounder and more rational basis than at present.

The Commission therefore recommends that cognisance again be taken of the contents of its Interim Report in which it was pointed out how important it is, where grazing distress areas are scheduled and emergency loans granted, to lay down stricter conditions and requirements as regards soil conservation, grazing management and provision against drought, and that other conservation measures should be adopted and purposeful action taken and sustained in order to promote the recovery of the veld after droughts.

10.4.2.17 With further reference to the opinions expressed in paragraph 4.6.2.1.1, the Commission must again stress that it is essential that everything possible should be done to promote the successful application of credit granted to farmers by Government and semi-Government bodies, that such credit should be granted subject to conditions which will have this effect, and that the granting of credit should be followed up by a proper farm management advisory service.

The Commission therefore recommends as follows: (a) The State and State-aided credit institutions concerned should give serious consideration to the provision of expert guidance for the farmers to whom they grant credit; and consultations should be held with the three Departments of Agriculture and the South African Agricultural Union (including its Co-operative Council) to devise plans whereby such contributions as can be made by the available experts of the various institutions can best be linked and co-ordinated to promote the effective application by the farmers concerned of the credit granted; and (b) the State and State-aided credit institutions concerned should ensure that field officers are appointed whose function will be to visit long-term and short-term borrowers personally as often as necessary to see

that the records agreed upon are being kept up to date and that the farming plans are being carried out, and to keep in touch with the agricultural extension officers so as to ensure that the necessary extension is given and applied properly.

10.4.2.18 On the leasehold system as an alternative method of financing further views were put before the Commission, lending further support to the recommendation in paragraph 2.11 of its Second Report, which reads as follows: "The Commission recommends that the system of hiring and leasing agricultural land be encouraged and that serious consideration be given to methods of promoting this system."

10.4.2.19 Since this matter calls for a high degree of expertise and study, the Commission wishes to recommend further that a study group of experts be appointed as soon as possible by the Minister of Agriculture to make recommendations on the steps to be taken to encourage the lessing of agricultural land and on the statutory provisions considered necessary to protect the interest of both lessees and lessors and to place the leasehold system on a sound and well-ordered basis.

10.4.2.20 The Commission is also aware, however, that many farmers lean heavily on credit (long-term, medium-term or short-term) for the financing of agricultural production, credit which they can obtain from time to time on the strength of their creditworthiness, which is based largely on the productive value (and often the market value) of their farms. It has been asserted that under the leasehold system the farmer would have no land of his own which could serve as security for credit, and that it is hard enough as it is to get sufficient credit for production purposes. The Commission attaches so much importance to this matter that it recommends that if a leasehold system is adopted adequate facilities, particularly for adapted medium-term credit for tenant farmers as well, should be made readily available at the Land Bank, so that agricultural enterprises with relatively long production cycles can be financed and so that it will not be necessary to resort to other forms of credit.

10.4.2.21 On the strength of the evidence heard and the information at its disposal, the Commission recommends that the Land Bank should be enabled to expand appreciably the credit facilities which it can make available to the agricultural sector and that the following steps should be taken to obtain more capital in order to meet the expected increased demand of the agricultural sector:

- (a) The Land Bank should continue issuing Land Bank debentures as authorised by the Land Bank Amendment Act, 1959.
- (b) To encourage farmers to invest capital with the Land Bank for the purposes of agricultural financing, the interest earned by them on such investments should be exempted from tax, provided that this concession is limited to funds derived from farming.

- (c) Reserve funds held by agricultural co-operatives should, if invested with the Land Bank, also be exempted from tax.
- (d) The policy that the control boards' funds available for investment should be invested with the Land Bank must be upheld.
- (e) If the capital at the disposal of the Land Bank falls short of the justified demand for such capital, the Government should, as in the past, give favourable consideration to supplementing the funds required by the Land Bank, particularly where reasonable success has been achieved in getting capital to flow from the agricultural sector to the Land Bank as described above.

10.4.2.22 It appears indefensible that those farmers who contribute most to agricultural production, to the supply of the food and raw material requirements of the country and to the earning of foreign exchange should be denied the opportunity to avail themselves of certain benefits in agricultural financing. The Commission therefore feels that, except where mortgage loans for excessive purchases of land are concerned (as referred to in paragraph 4.6.2.1.6), favourable rates of interest and other benefits which the Land Bank would be able to offer if it could obtain more capital should be available to assist the production enterprises of the bigger and better farmers as well. Such concessions would benefit not only them but the country as a whole.

On the expansion of credit facilities by the Land Bank the Commission therefore wishes to recommend as follows:

- (a) If the Land Bank can obtain sufficient capital from non-agricultural and agricultural sources (as recommended in paragraphs 4.6.2.2.2.1 to 4.6.2.2.2.4) for it to be accepted as acting relatively independently of direct State aid, favourable consideration should be given to making its credit facilities more widely available to farmers whose means exceed the limits now set, particularly for the granting of long-term and medium-term credit.
- (b) If the Land Bank cannot obtain sufficient capital cheaply enough to be able to grant loans to well-to-do farmers at highly preferential rates of interest, the possibility should be explored of granting such loans at a rate of interest which would cover the Land Bank's costs according to the rate of interest at which the Bank has to pay for loans on the open money market.
- (c) As, for various reasons, the Commission does not consider it desirable that an agricultural financing institution such as the Land Bank should be involved in purchases of excessively big pieces of agricultural land, a limit should be set on the land purchases for which the Land Bank will grant mortgage loans.

10.4.2.23 The Commission expressed its concern at the way in which and the extent to which casual

debts sometimes become part of the long-term credit load of certain farmers. Although some of the branches of agriculture have called for greater leniency in consolidating casual debts, the Commission wishes to recommend that the Land Bank should, as in the past, treat applications for such consolidation with the greatest caution and that such applications should be granted only in highly deserving cases.

10.4.2.24 The attention of the Commission was drawn to the desirability of encouraging, for prestige purposes, the manufacture of estate wines by very competent private wine farmers and of granting them suitable financial assistance. It was stated that the co-operative wine cellars could get Land Bank loans for cellar equipment but that such loans were not available to private wine farmers producing quality wines.

This particular type of production enterprise is so deserving that the Commission has no hesitation in recommending that the Land Bank should give favourable consideration to making medium-term credit facilities in the form of hypothec loans available to such private producers of quality wines as well.

The Commission was informed, furthermore, that when hypothec loans for the control of downy mildew in vineyards were first granted it was found that the old procedure for considering and granting hypothec loans was too involved and took too long for the emergency to be satisfactorily dealt with. The Land Bank then agreed that the procedure should be simplified so that applications for loans could be dealt with fairly quickly with the aid of the local branch of the agricultural co-operative concerned. It is understood that this made it possible to deal with the loans so expeditiously and successfully that the procedure might well be extended. In conjunction with its earlier recommendation in paragraph 4.6.2.1.2, the Commission therefore wishes to recommend that the Land Bank should give favourable consideration to ways and means of simplifying the procedure for dealing with other types of hypothec loans in a similar way.

It is known that the Land Bank has also put into operation a hire-purchase system on the annuity basis whereby redemption and interest are spread evenly over the whole period for which credit is granted.

10.4.2.25 It was pointed out, however, in paragraph 4.4.1(f) that credit on the hire-purchase system as granted to agriculture by certain private credit institutions is excessively expensive. It is therefore recommended that a hire-purchase system for agricultural financing should be permissible only if it is arranged on an annuity basis.

10.4.2.26 As pointed out, the difficulties - particularly the financial ones - foreseen in converting to adapted farming systems are such that no progress can be expected unless the adjustment scheme is backed up by a realistic financing

scheme which is geared to it and planned carefully in advance for each farm.

To this end the Commission further recommends as follows:

- (i) Medium-term credit facilities should be made available to help farmers to undertake such an adjustment scheme.
- (ii) Special medium-term credit, or "tiding-over finance" as recommended by the Commission of Enquiry into Fiscal and Monetary Policy, should also be granted for this purpose.
- (iii) If financial assistance of this nature can be provided to help farmers to adapt their farming systems in this way, it should be non-recurring assistance for the farm concerned, granted on such conditions as may be considered necessary and in a way which will ensure that the aims set for such a change-over are achieved within a certain period and not afterwards abandoned.

10.4.2.27 The Commission fully supports the recommendation of the Commission of Enquiry into Fiscal and Monetary Policy in South Africa that special medium-term facilities should be made available by the Land Bank in the form of "tiding-over finance", and wishes to add that it considers this proposal to be so important that it merits top priority and urgent attention.

The Agricultural Commission further wishes to support the recommendations made by the above-mentioned Commission and wishes to add others, considered necessary in the light of its further findings, on the successful use of special medium-term financing as proposed:

- (i) As stated by the Fiscal and Monetary Commission, the term for this form of financing should be three years or more, but seldom more than ten years, and it should in any case be adapted to the particular production situation for which it is intended and for which it has to be applied.
- (ii) Special medium-term finance should be available to farmers when, owing to their particular production enterprises as described above, they have to be tided over periods longer than two seasons during which establishment and maintenance expenses have to be incurred, but when they can expect no or very little income, or if they "find themselves in financial difficulties as a result of unfavourable agricultural conditions."

This Commission also wishes to support the view of the Fiscal and Monetary Commission that such loans should not be granted to wealthy farmers for the purchase of land and that, in certain circumstances, farmers owning large farms cannot be expected to sell part of their land before they can be assisted in this way.

- (iii) Since no yield can be expected during the first few years after the establishment or re-establishment of orchards or while similar enterprises with long production cycles are still in their initial stages, the arrangements made for the repayment of the special medium-term credit granted must be adapted to the expected income from the enterprise so that it will be possible for the farmer to start paying off the loan three or four years after starting the project for which he was granted such credit.

This kind of credit should be used to assist young farmers during the initial stages of their farming operations.

- (iv) Interest on loans of this nature should be payable from the start at rates such as those at present charged by the Land Bank and should be related as closely as possible to the average income expected from agricultural production.

10.4.2.28 The Commission considers it to be in the best interests of agriculture that a medium-term credit system of this kind should incorporate an incentive for borrowers to pay back the money borrowed as soon as possible.

The experience gained up to the present with the revolving loan system in Rhodesia is so favourable that the Commission recommends that both the Land Bank and the Agricultural Credit Board should seriously consider incorporating into the special medium-term credit scheme (initially proposed by the Commission of Enquiry into Fiscal and Monetary Policy in South Africa and endorsed in the foregoing paragraphs) a rising interest system at rates of interest yielding an average rate acceptable to both bodies, with suitable arrangements for capital redemption.

10.4.2.29 The Commission wishes to refer to its conclusion in paragraph 4.5.4.3.4 that the Agricultural Credit Board should not be changed as had been proposed. The Commission recommends that the credit facilities provided by the Government through the Agricultural Credit Board and the Department of Agricultural Credit and Land Tenure should be retained and, if necessary, be extended so that, due regard being had for the matters of policy set out in paragraphs 4.6.2 to 4.6.2.1.11.2, the enterprises of deserving but financially weaker farmers (landowners, young farmers and tenants) can be financed and guided towards independence, assistance also being given in the enlargement and conversion of non-viable farming units into viable ones.

10.4.2.30 As regards group insurance to cover mortgage loans (see paragraph 4.6.2.1.9), the Commission wishes to recommend further that the necessary adjustments be made and administrative steps be taken for the creation of a group insurance scheme, similar to that offered by the Land Bank, to cover mortgage loans taken by farmers with the Agricultural Credit Board through the Department of Agricultural Credit and Land Tenure.

The Commission considers, however, that permission for borrowers to join such a group insurance scheme should be considered only five years after the granting of a long-term loan and that the application for such permission should be granted only if the borrower produces evidence of his effective use of the credit granted and of his having complied with all the conditions governing such credit.

10.4.2.31 In respect of estate duty the Commission wishes to point out that a farm is not merely a temporary asset, such as a building or a mine, but that its fruits have to be used to sustain a nation from generation to generation. Whether a nation will endure therefore depends on how fruitfully the land is tilled and how its natural resources are used.

The Commission therefore recommends that the machinery for passing on a farm from one generation to the next should be set up with this in mind and that the value of a farm should for estate duty purposes be based on its estimated productive value and not its market value. (See paragraph 4.5.4.1.)

10.4.2.32 As there are circumstances which make it desirable for the legal transfer of the farm from parent to child to take place while the parent is still alive, the Commission considers that by rights the transfer and the amount which the child as successor has to pay the parent should, as regards the levying of transfer duties, not be treated in the same way as an ordinary sale but rather as a way of ensuring continuity in the farming enterprise, as is done under the company system.

The Commission wishes to repeat its recommendation made in paragraph 11.3.2 of its Second Report and recommends that the transfer of a farm from parent to child before the parent's death should be encouraged and that for this purpose a special concession should be made in regard to succession rights, provided that the farming unit concerned is viable.

10.4.2.33 The financial problems created for successor-farmers and the industry as a whole by such testamentary dispositions cannot be solved permanently by adapting or increasing credit facilities to tide them over such difficulties. These situations should be prevented from arising, and such testamentary dispositions should be discouraged. By rights, it should be policy not to grant credit so readily to a successor-farmer who has been burdened in this way by testamentary dispositions; but this can hardly be regarded as fair, especially if the successor-farmer is sufficiently creditworthy, in spite of these problems.

- (a) It is therefore considered to be in the best interests of future generations of farmers, of the farms and of the country that this matter should be publicised widely. The Commission therefore recommends that the Agricultural Credit Advisory Council to be established

should give this matter its constant attention, concentrating particularly on enlisting the co-operation of members of the legal profession (such as attorneys and advocates), commercial banks and other private credit institutions, Organised Agriculture and agricultural co-operatives so that when they are consulted by farmers they will, in drawing up wills, be able to guide them in the right direction.

- (b) The Commission also recommends that, if any Government, semi-Government or private credit institutions are approached for credit to finance the payments necessitated by testamentary dispositions referred to in the foregoing paragraphs, the applicant must be made fully aware of their adverse effects. The applicant should then be convinced of the inadvisability of making such dispositions so that he can change his will before it is too late and make the conditions of succession more favourable for the successor to his farming enterprise.

10.4.2.34 The Commission came to the conclusion that the registration of their enterprises under the Companies Act might be very advantageous to many farmers with efficient farming enterprises - not only would the farmers themselves benefit by such an arrangement but also their heirs who are to succeed them as farmers.

The Commission therefore recommends that such farmers should seriously consider this possibility and obtain further information on the matter from legal practitioners and/or chartered accountants with a thorough knowledge of the Companies Act and the Income Tax Act.

10.4.2.35 The evidence convinced the Commission that Indian farmers are in such straits that special consideration should be given to ways of providing credit facilities adapted to their circumstances and at rates of interest better suited to what their agricultural enterprises can yield. The Commission therefore recommends that the Land Bank and the Departments under which this matter falls should hold consultations to decide on the adjustments that would be necessary if the most pressing credit requirements of Indian and Coloured farmers are to be met.

10.4.2.36 The Commission recommends that consideration be given to the possibilities of developing the functions of the Agricultural Credit Board and/or the Land Tenure Board to enable one or both of them to perform all the functions of the trust for White agricultural land as mentioned in paragraph 4.7.2.2. Should this not prove possible, it is recommended that a separate trust of the kind described in Chapter IV be established under an Act. In such an event, responsibility for and supervision over land which is or will come to be held by the State as agricultural land and which is intended to be used for purposes which should fall under such a trust would be transferred to the trust for White agricultural land, as well as the matters affecting the financing of such land.

10.4.2.37 The Commission recommends that consideration should be given as soon as possible to the necessary adjustments to be made in the Department of Agricultural Credit and Land Tenure so that the functions envisaged for the proposed trust for White agricultural land may be undertaken. The report and recommendations of the Interdepartmental Committee might indicate that relatively slight adjustments are required to deal with this matter effectively.

10.4.2.38 The Commission recommends that an Agricultural Credit Policy Advisory Council be constituted by the Minister of Agriculture to advise him on matters affecting agricultural credit policy and on steps to be taken to ensure that policy directives are complied with by all participating institutions involved in the granting and application of agricultural credit in the best interests of agriculture and the country as a whole.

The Commission further recommends that the Minister appoint to the Council a member from each of the following institutions:

Department of Agricultural Economics and Marketing;

Department of Agricultural Credit and Land Tenure;

Department of Agricultural Technical Services;

Department of Finance;

Land Bank;

Reserve Bank;

S.A. Agricultural Union, as well as

a person representing the commercial banks;

the Registrar of Co-operative Societies, and

the Chairman - specially appointed by the Minister.

The Commission further recommends that this Advisory Council should be provided with the necessary administrative auxiliary services by the Department of Agricultural Credit and Land Tenure and that its recommendations should be submitted direct to the Minister of Agriculture for consideration.

10.5 STATE AID TO THE AGRICULTURAL INDUSTRY (See Chapter V)

10.5.1 Conclusions

10.5.1.1 In the modern capitalistic system State aid to certain sectors of the economy is nothing out of the ordinary. In its inquiry the Commission occasionally came across the widely held view that agriculture is a State-aided industry, which perturbed the Commission. However, the Commission did find a system of State aid on a broad basis in operation in virtually every developed country. State aid is given not only to agriculture but also to other sectors when circumstances so require and when certain political and/or economic

aims considered to be in the national interest have to be achieved.

10.5.1.2 Against the background of the knowledge already gained from its wide-ranging technical and economic studies, the Commission concluded from its investigation of the problem of State aid to agriculture that it supports the broad principles of such aid. Before going any further, however, the Commission must stress the dangers of granting such aid indiscriminately. In studying the matter, the Commission tried to establish whether the agricultural industry has certain inherent characteristics that justify State aid, and concluded that the agricultural industry does have various distinctive features which set it apart from other sectors. In a developed national economy, furthermore, the agricultural industry can hardly maintain its income position unless State aid is given directly or by means of adjustments to the marketing mechanism in order to encourage the necessary structural adjustments on a continuous basis.

10.5.1.3 The special circumstances in the agricultural industry which are of importance in this regard are present in various fields. Numerous physical and economic situations arise in agriculture with which individual producers are unable to cope effectively unless they are assisted by the Government. Apart from the physical factors beyond his control, the producer has to contend with instability in the industry owing both to internal factors of supply and demand and to external factors, such as developments in the general trade cycle and in foreign variables. This makes it more difficult to plan a farming unit than any other production unit, because, apart from knowing his field, the producer must also reckon with a variety of factors over which he has little or no control. Furthermore, the farmer's production unit is relatively small, and it is impossible for him to obtain the services of specialists, such as cost accountants, and other expert services which have to be paid for, on the same basis as other production industries can obtain comparable services.

10.5.1.4 Apart from its more obvious distinctive features, the agricultural industry has an inherently poor ability to compete in the economic interplay of supply and demand. This is due mainly to the low income elasticity of the demand for agricultural food products. By its very nature, the agricultural industry is also in a relatively poor position to pass on the rising costs of production to the consumer of its products, except where price-fixing is based on production costs. Owing to these inherent factors, the agricultural industry in a developing economy tends to lag behind the rate of growth in the national economy as a whole. The basic aim of creating an orderly marketing mechanism for the sale of agricultural products and of introducing programmes of State aid is to compensate for the above-mentioned inherent limitations. Without these stabilising measures and certain other measures there would be disastrous fluctuations in the agricultural industry, which would inevitably result in too many agricultural entrepreneurs being pushed out of the industry.

10.5.1.5 In considering the nature and scope of measures aimed at bringing about greater stability in the industry, the Commission came to the conclusion that such measures should meet certain requirements. What is of particular importance in this regard is that such measures should not have the effect of entrenching inefficiency since this would, among other things, delay or even prevent the exodus of agricultural producers who lack the basic managerial skills or those farming on undersized units. On the other hand, the measures concerned should provide sufficient stability to make the industry orderly so as to ensure, among other things, that the exodus of entrepreneurs from the industry and the process of adaptation to changed circumstances will take place in a rational way. In the opinion of the Commission the present structural defects in the industry owe their origin to a significant extent to the earlier view - which, however, is still held in certain quarters - that as many entrepreneurs as possible should be kept in agriculture. Successive decades of relatively favourable economic conditions, as well as the measures adopted, have contributed to the extraordinary success achieved in keeping entrepreneurs in agriculture. By curbing the effects of economic laws the sifting process has been retarded, with less favourable consequences for the agricultural industry as a whole.

10.5.1.6 The system of State aid for agriculture cannot be dealt with in isolation; such a system must function within and be viewed within the broader framework of agricultural economics, and it must be applied in the national interest.

10.5.1.7 Unless State aid to agriculture is aimed at eliminating basic weaknesses in the industry, then all that is done is to delay the elimination of undesirable conditions, which might ultimately entail greater problems. What should be guarded against are programmes which are initially introduced for short-term assistance but which gradually and unobtrusively become a permanent part of the overall agricultural economic pattern. In many cases this has meant that the results achieved with such State aid never come to be evaluated. It is the Commission's considered opinion that the general principle to be applied in any form of State aid to agriculture is that short-term programmes should be formulated for such aid and that a definite time limit should be set for them. The Government body administering a particular scheme must also ensure that the progress made in achieving the object initially set is evaluated from time to time.

10.5.1.8 The Commission also wishes to state as a matter of general policy that State aid to agriculture, whether direct or indirect, should be granted only if the particular objective cannot be achieved more effectively by means of some existing mechanism, for example, the marketing mechanism. The Commission also considers that the granting of assistance and other forms of preferential treatment should not be directed primarily towards raising the farmer's income, but should enable him to raise his income through increased efficiency. The Commission considers

the last-mentioned form of assistance, i.e. assistance from which sufficient financial benefit is not derived immediately, to be the only form of State aid which can be justified as a more or less permanent measure.

10.5.1.9 Whenever State aid assumes a long-term character, the farmer automatically makes provision accordingly in his farming plan, with the result that in the end he cannot manage without such aid and is therefore likely to persist in practices tending to cause the misapplication of resources. This sort of thing has already become so wide-spread in South African agriculture that it is possible to make the generalisation that programmes of State aid for agriculture are frequently introduced but rarely brought to conclusion. Further, there is always a tendency to adapt schemes so as to increase the immediate financial benefits to the producer, the basic objects of the schemes being completely disregarded. The Commission considers that schemes for financial assistance to agriculture, with the exception of those mentioned above (i.e. where the producer does not gain any immediate financial benefit), should be instituted for a fixed period or on a non-recurring basis for the achievement of a specific objective.

10.5.1.10 On the basis of its general consideration of the subject, as well as of the factual information gained from the wide field covered in its inquiry, the Commission came to the conclusion that the need for State aid to agriculture stems primarily from the fact that there are structural weaknesses in the industry. The three main weaknesses are: farming systems which are not in harmony with environmental factors and which conflict with the principles of conservation farming; farming enterprises which are not run on sound business principles; and farming units which are too small to ensure an adequate income for the entrepreneur. A further problem is that of entrepreneurs who lack the ability or the means, or both, to make the required adjustments to rapidly changing conditions. Any programme of State aid which in the long run has the effect of perpetuating such weaknesses in agriculture must necessarily be regarded as harmful to the industry. Any such programme merely serves to put off corrective action indefinitely and in the mean time the persons concerned have to go on struggling to make a living for the very reason that they have been assisted by the Government. Furthermore, such problem situations make it hard to lay down any sound agricultural policy.

10.5.1.11 The Commission is aware that the existing structural weaknesses in the agricultural industry are to a large extent due to historical factors and weaknesses in the general functioning of the market economy in South Africa. To a large extent it is the functioning of this mechanism that determines the farmer's economic reasoning and therefore greatly influences his operational decisions.

10.5.1.12 In debating the matter from a more general point of view, the Commission was not unsympathetic towards those on undersized farming units; but, on the other hand, the Commission

came to the conclusion that relief measures should not be specifically introduced by the Government to assist, or be aimed basically at assisting, producers on undersized units. If such producers find themselves in financial difficulties and turn to the Government for assistance, their position as agricultural producers must be placed in the balance.

10.5.1.13 The Commission is aware that on principle the Department of Agricultural Credit and Land Tenure does not help producers on undersized units; nevertheless the Commission wishes to stress the desirability of encouraging such agricultural producers to withdraw from the industry and seek a living elsewhere. Measures to speed up the process and to ensure that it causes as little inconvenience as possible appear, however, to be equally essential.

10.5.1.14 The Commission wishes to state as a general principle that, in the granting of financial assistance by the Department of Agricultural Credit and Land Tenure, the keeping of farming records by producers receiving financial assistance other than aid under special circumstances should be regarded as of cardinal importance. The Department concerned must also ensure that the results of such records are used as a basis for the extension and guidance provided for such producers to enable them to step up their efficiency. Although this matter was dealt with in the Commission's previous reports, the Commission again stresses this principle here as essential to the orderly granting and proper control of public funds.

10.5.1.15 In its Interim Report the Commission pointed out that drought relief schemes make no contribution whatsoever to soil conservation. On the contrary, drought relief is usually accompanied by the delayed withdrawal of stock and the overtaxing of veld. Where farmers disregard the principles of conservation farming, the granting of relief during droughts would contribute to the misuse of natural resources.

10.5.1.16 Although the Commission has consistently emphasised in its reports the need for farmers to make conservation farming their top priority, it realises that there are problems obstructing the way to success in achieving an ideal such as this. The principle the Commission wished to lay down is that the objects of the Soil Conservation Act can only be achieved if every officer to whom planning is entrusted makes it his business to take due account of all the relevant factors in carrying out his task. Wherever subsidies are granted, they must be conditional, and priorities must be set for subsidised enterprises, due regard being had to their importance to sound farming practices.

10.5.1.17 The Commission considers that the business of assessing the supply and demand position of agricultural products and laying down the eventual price policy to be followed to obtain the desired results should fall under the proposed National Advisory Council for the Planning

of Agricultural Production, as recommended by the Commission in its Second Report. The Commission trusts that this question of differentiated subsidisation will be reviewed by the proposed Advisory Council, if it is established, or, failing this, that other arrangements be made for the adaptation of such subsidies.

10.5.1.18 The Commission trusts that this question of differentiated subsidisation will be reviewed by the proposed Advisory Council, if it is established, or, failing this, that other arrangements be made for the adaptation of such subsidies.

10.5.1.18 The Commission is convinced that poor management is also one of the biggest problems in South African agriculture and that it is related to most of the other problems such as, for example, undersized farming units, veld deterioration and poorly adapted farming systems.

10.5.1.19 The Commission is alarmed to find that South African farmers do not know how to make proper use of a system of farming records which is an important instrument of management, or completely disregard it, and the Commission considers that this matter is so important that the Government should use powerful incentives to make the farmer realise the merits of farm accounting.

10.5.2 Recommendations

10.5.2.1 As regards poorly adapted farming systems, the Commission is aware of the present deficiencies in the basic factual information which could serve as a guide in laying down definite qualificatory norms. In its Second Report, the Commission recommended that provision should be made in the Department of Agricultural Technical Services for a central unit which would make an intensive study of agricultural land and agricultural climatology on a national basis for the purpose of collecting and processing the data required for planning adapted agricultural systems and practices on a regional basis. The Commission wishes to reiterate that recommendation and to recommend further that, as the studies concerned yield information so that poorly adapted farming systems can be analysed on the basis of factual data, a general qualificatory norm must come into operation, whereby such poorly adapted farming systems can be excluded from any form of direct State aid.

10.5.2.2 In its Second Report the Commission dealt at length with the problem of undersized farming units and made recommendations in that regard. To supplement those recommendations, the Commission recommends further that, if an agricultural producer on an undersized farming unit finds himself in financial difficulties and turns to the Government for assistance, he should not be helped to place his enterprise on a sound footing, the Government should rather buy up such land for subsequent consolidation with other units.

10.5.2.3 In regard to drought relief, the Commission considers that the stock reduction scheme

should be regarded as a substitute for the fodder subsidy scheme. The former scheme now gives stock farmers ample opportunity to adapt their farming practices to the natural conditions peculiar to their farming units once and for all. The Commission therefore supports the current arrangements for granting drought relief as announced by the Government on 10 August 1971, but wishes to recommend further that a fodder subsidy scheme should not be introduced again unless there is absolute certainty that a disaster drought is being experienced in a particular area.

10.5.2.3 The Commission recommends that the veld reclamation scheme be abandoned. Better possibilities for veld recovery are offered by the stock reduction scheme.

10.5.2.4 As interest in the grass ley crop scheme has declined so much and it has therefore lost so much of its effectiveness, the Commission recommends that it be terminated.

10.5.2.5 The Commission subscribes to the broad principles underlying the stock reduction scheme. The Commission is nevertheless convinced that the conditions for participation in the scheme should be made even stricter. The Commission therefore recommends that, apart from the conditions to which participation is already subject, the following requirements should be set:

- (a) Farming must be adapted to the natural conditions of the environment.
- (b) Even in cases where only some of the stock are withdrawn, it should be a requirement that the farm be planned, the works necessary for pasture rotation and the resting of the veld be constructed and soil conservation measures be kept in operation before the final payment is made for stock reduction or before the farming unit is again stocked in accordance with the prescribed stocking rate.

For areas where the withdrawal of stock is considered necessary owing to the deterioration of the veld but where the stock reduction scheme does not apply the withdrawal of the veld, without compensation, should be prescribed under the provisions of the Soil Conservation Act.

10.5.2.6 The Commission endorses the subsidisation of boring, but recommends that the following conditions be added to those already in force:

- (a) The minimum requirement that land should be at least 25 morgen in extent to qualify for the subsidies must be amended so that in future the criterion will be whether the farm is an economic unit.
- (b) To promote soil conservation, it should be made a requirement that stock watering points be dispersed properly over the farm.

10.5.2.7 The Commission recommends that subsidies on "other irrigation works" should remain as they are at present.

As in the case of boring, the Commission recommends that the prescribed 25-morgen minimum size for land to qualify for the subsidy should

be abolished and that the criterion be adopted that the land should constitute an economic unit. For the rest, the scheme should remain as it is at present.

10.5.2.8 The Commission has given favourable consideration to representations to the effect that mortgages with private individuals and other money-lenders should also qualify for the subsidy on interest on farm mortgages. Although problems might arise in controlling some of these mortgages, there are nevertheless a large number of them that can be controlled. The Commission considers that it is wrong in principle to exclude these mortgages from the scheme and recommends that the subsidy on mortgage interest should also be made applicable to all bona fide farming mortgages.

10.5.2.9 The Commission considers that the amount spent annually on price stabilisation subsidies must be accepted as inevitable. These subsidies not only serve a useful purpose but have become such an established part of the economic system that their withdrawal appears impractical.

The Commission therefore recommends that price stabilisation subsidies should be retained in their present form. In the future determination of prices in this regard, the matter should, however, be approached cautiously, thorough consideration being given to both the advantages and disadvantages involved.

10.5.2.10 The Commission has already stated that it prefers a system of ad hoc assistance, whenever there is an emergency in a particular industry, to a system of permanent subsidisation.

The Commission firmly believes in the merits of this kind of State aid to the agricultural industry. The Commission therefore recommends that the Government should continue providing this form of assistance to tide a particular branch of the industry over any abnormal situation which might arise. The Commission does not wish to recommend a time limit for such cases since that would depend on the situation and the industry concerned, but it does view this as a kind of temporary short-term assistance.

10.5.2.11 The Commission recommends that a subsidy be introduced, to be payable to farmers for a farm accounting system which meets the conditions set by the Department of Agricultural Economics and Marketing, and that steps should be taken to ensure that the necessary economic extension will be given in conjunction with this system, in order to improve the business and managerial ability of the farmers concerned as much as possible.

10.5.2.12 The Commission recommends that the following existing subsidies should be retained, i.e. those in regard to:

- (a) Flood damage (through the agency of the Departments of Agricultural Economics and Marketing, of Agricultural Technical Services and of Water Affairs).
- (b) "Other irrigation works".

- (c) Provision of cuttings and saplings (Department of Forestry)
- (d) Control of pests and diseases
- (e) Control of proclaimed weeds
- (f) Fertiliser subsidy (including transport rebate) and transport rebate on agricultural lime, manure and compost
- (g) Interest subsidies to the Land Bank
- (h) Interest subsidies to the Department of Agricultural Credit and Land Tenure
- (i) Ad hoc distress relief
- (j) Farm mortgage interest
- (k) Rebates of customs and excise duties on fuel for agriculture
- (l) State-nominated Bull Scheme and the Milk Recording Scheme
- (m) Beef Cattle Performance Testing Scheme

10.6 CONTROLLED MARKETING OF AGRICULTURAL PRODUCTS (See Chapter VI)

10.6.1 Conclusions

10.6.1.1 Economically and biologically sound farming systems are determined by the profitability with which the available factors of production are used. The way in which the factors of production are allocated and used is influenced by the economic benefits which can be attained and these, in turn depend to a large extent on the profitable sale of the products produced. The marketing of agricultural products, and particularly prices, therefore have a considerable influence on the pattern of production and hence also the farming systems adopted in the various production areas.

10.6.1.2 The Commission accepts that the statutory measures providing for intervention in the free operation of supply and demand as regards agricultural products sprang from a sincere desire on the part of the Government to promote and maintain, on the one hand, stability and efficiency in agriculture and, on the other hand, to ensure, with due regard to the national interest, a reasonable return for producers, as well as on the capital invested in agriculture. Where such an approach is adopted, it is necessary to keep the existing marketing arrangements under constant review.

10.6.1.3 In the Commission's view, the object of applying control measures to agricultural products is mainly to stabilise and, where necessary, to raise the income and standard of living of the producer, at the same time bearing in mind the general long-term interests of the country as a whole. If this object is to be achieved, production must be adjusted to sales opportunities on an economic, rational and fairly stable basis for both the producer and the consumer. In this, agricultural prices play a key role. As already mentioned, it is not advisable to give the market mechanism

free rein the formation of agricultural prices. On the other hand, it is equally clear that the arbitrary fixing of prices, without due account being taken of all the economic factors involved in supply and demand, can do considerable harm to both the agricultural sector and the national economy as a whole.

10.6.1.4 In the opinion of the Commission, the income position of producers in the branches of farming concerned should, within limits, be taken into account in price fixing. Apart from the income position, price fixing should also take account of changes in production costs, the elasticity of supply and demand (as well as the long-term shifts that can be expected in the supply and demand curves), production and consumption trends, prices of substitutes, the import possibilities and overall agricultural policy.

Income in the respective branches of farming therefore cannot be stabilised in isolation from the rest of the national economy nor without certain important biophysical production requirements being met.

10.6.1.5 The Commission accepts as a general principle, furthermore, that the rate of growth in the real income of the agricultural industry should as far as possible keep in line with that of the rest of the economy. Farming units rarely specialise completely in a single branch of production, however. Consequently, it is difficult to apply this principle to a particular branch of production.

10.6.1.6 To share in the growing prosperity of the country, agriculture must, as is evident from Chapter II, meet certain basic structural requirements and the farmer should also make his proper contribution towards increasing that prosperity. By this is meant that the long-term increase in the farmer's productivity per unit of production factor must keep pace with that of the rest of the community.

This principle, if applied strictly, should help to ensure balance between the various branches of production in agriculture since it would direct the use of land and other factors of production in agriculture towards branches with the highest productivity.

10.6.1.7 Absolutely stable prices in agriculture, if they could ever be achieved, would entail great economic sacrifices in other respects. Enforced price stability between crop years is of doubtful value in a country such as South Africa where weather conditions can cause considerable variations in output. In such circumstances stability in prices would make for instability in income.

10.6.1.8 Since stabilising the standard of living of the producer is one of the main objects of control, the Commission did not find much fault in principle with the general approach of the South African Agricultural Union, namely, that prices should be adjusted for normal fluctuations in production so as to eliminate the effect of such fluctuations on the income of producers. However, the concept of "normal fluctuations" is relative and, because many of the farmer's costs are fixed, even these costs would tend to cause substantial

fluctuations in prices from year to year unless, of course, normal fluctuations are regarded as relatively small price variations. Important disadvantages are attached to big changes in prices from year to year. Apart from the problems these fluctuations create for the farmer in planning his farming operations properly, they can largely nullify the role which prices should play as a guide to rational production.

10.6.1.9 Conditions in South Africa tend to vary so much from farmer to farmer that maintaining an income level for an entire branch of farming is no guarantee that the individual producer's income will be stable. As appears from Chapter II, such a measure can very easily land some producers with unstable incomes, quite apart from fluctuating prices.

10.6.1.10 Although the Commission considers that annual fluctuations in production should be reckoned with in price determination, the desirability of price stability should also be borne in mind. There can be no objection to moderate price adjustments aimed at adjusting supplies to the effective demand. The Commission does not wish to express an opinion on where the emphasis should fall: that would depend on circumstances.

10.6.1.11 Generally speaking, policy should be to promote the production of those products in respect of which the Republic has a comparative advantage. The Commission wishes to associate itself with the following point of view expressed by the South African Agricultural Union in its evidence to the Commission on what the primary aims of agricultural policy should be: Developing the production of a certain commodity into an export industry or maintaining it as such is justified only in cases where South Africa is, in the long run, able to compete on the export market at world market prices. If this can be done only through permanent State subsidisation, regardless of the form such subsidisation takes, it would mean that the factors of production would be misapplied, the result being that optimal application of these factors would not be possible - to the detriment of the national economy as a whole.

10.6.1.12 Consistently adjusting local producer prices to keep them in step with price fluctuations on the world market would necessitate frequent, drastic price changes. In addition, it is not always certain whether world prices, which might be high or low at any particular time, are an indication of future trends. Therefore only long-term trends should be taken into account, appropriate stabilisation funds being built up to make this possible. Of course, the extent to which the producer can be cushioned against the ups and downs of the world market will depend on circumstances. Local producer prices for products primarily dependent on the world market will, unavoidably, have to be closely related to overseas outputs, since in such cases it would not be feasible to build up sufficiently large funds to ensure a stable income for producers.

10.6.1.13 As regards the principle of production restrictions, the Commission has cause for serious

doubt whether the advantages of direct production control measures justify such restrictions. Especially in a young developing country like the Republic, the adoption of such measures should be considered only in exceptional circumstances and, if they are found to be justified, they must be applied with the greatest circumspection. This is why the freedom of the individual farmer to decide how much of a product he wishes to produce also weighs heavily with the Commission.

10.6.1.14 It is realised that the more the State is expected to support the farmer's income in an artificial way, the more the State will come to arrogate powers over the activities of the farmer. Admittedly, price as a guide to production has its shortcomings, but then the possible alternatives are by no means foolproof either and the solutions they offer might not necessarily in the long run be in the interests of agriculture nor in the wider national interest. It is doubtful, moreover, whether the farming community would always be prepared to accept these alternatives readily.

10.6.1.15 To supplement the conclusions reached in paragraph 2.7.1.2.2 of Chapter II of this report, the Commission wishes to point out that price is patently an unsuitable way of remedying the income position of farmers on farms which are under-sized or which have other serious structural defects. If a price that has been determined on the basis of long-term economic considerations does not produce sufficient income to meet the needs of small-scale producers, other measures must be devised to cope with the matter. Merely increasing the prices of a product in such circumstances must inevitably in the long run lead to overproduction and an eventual price collapse.

10.6.1.16 Although the Commission accepts that prices must necessarily be a key factor in indicating the right directions, in so far as this is possible, it must at the same time emphasise that it is essential for the price-determining bodies to have at their disposal the results of economic studies of both supply and demand to enable them to determine prices on a rational basis.

10.6.1.17 The Commission considers that, if the principle of price parity is adopted, prices should be fixed so as to ensure that all the various agricultural enterprises would derive the maximum income from the various markets over the long term. This would obviously make tremendous demands on the bodies which have to advise on prices. They would have to keep themselves informed of all factors affecting the supply and demand of the various products on local as well as on foreign markets, and their sales strategy would have to be purposeful. Some control boards are already equipped for this to a certain extent.

10.6.1.18 As regards price situations under a system of controlled marketing of agricultural products, the Commission has therefore come to the conclusion that the determination of prices depends on numerous factors whose effects differ from enterprise to enterprise and from time to time. This applies particularly to industries with sharply varying yields and large exports.

10.6.1.19 Various farmers' organisations have to a greater or lesser extent been drawn into the marketing arrangements of the control boards and in this way information is disseminated among farmers.

The Commission does not wish to deny that a better flow of information is desirable. However, the Commission cannot simply accept that the appointment of a few additional producer members to the control boards would be the most effective way of achieving this. Other considerations are also involved, such as fair representation of the various interest groups and the desirability of keeping the size of the boards within reasonable limits.

10.6.1.20 Complaints have been submitted to the Commission of certain boards going too far in the direction of processing and encroaching unnecessarily on the preserves of private enterprise.

The Commission attaches great value to the advantages of private initiative over State-controlled undertakings, particularly because in private initiative there is greater incentive to efficiency. Private undertakings tend to be more cost-conscious and are also more receptive to new ideas and better able to adapt to them. In this regard, a control board acting as the sole consumer or processor can easily become inflexible over the years, particularly since, in the absence of other competitors, there is no satisfactory yardstick for measuring the costs and results of a control board. Owing to the manner in which they are constituted, control boards cannot be expected to exercise proper managerial control over such activities. The Commission therefore considers that the policy of entrusting the physical handling or processing of products to private enterprise is sound and that this policy should be deviated from only where justified by exceptional circumstances.

10.6.1.21 The Commission does not wish to digress to a field already covered fully by the Co-operative Commission. It cannot, however, omit to acknowledge the exceptional significance and value to agriculture of the co-operative movement. In fact, the administration of a system of controlled marketing is considerably facilitated by the existence of co-operatives to which certain of the control bodies' activities can be entrusted. Likewise, the introduction of the control board system has been of great benefit to the co-operative movement. Both must be of service primarily to agriculture but must also act in the best interests of the nation as a whole.

10.6.1.22 The Commission agrees with the views of the National Marketing Council as quoted below:

"In all instances control measures should be limited to the minimum required to achieve the basic aims. Notwithstanding the advantages control can secure, it also has weaknesses. State interference inevitably involves rigidities which tend to retard initiative and economic progress. Certain products are simply not

amenable to controlled marketing or to extensive control measures and it is essential that the interests concerned should recognise the limitations that exist, as the shortcomings of any particular scheme tend to become the basis of criticism of the system as a whole. ... Control cannot be extended for the sake of control and the emphasis must always be on stability and more efficient marketing."

10.6.1.23 Although the Commission has studied the reports listed in section 6.5.1 of Chapter VI, as well as other reports, it does not consider itself fully competent to put forward authoritative opinions or make recommendations on any of the schemes dealt with in those reports nor on the controlled marketing of the other commodities. The Commission wishes, however, to touch on a few aspects of controlled marketing which were brought to its attention and which it considers to be of special importance owing to their particular effect on various facets of agricultural marketing and agricultural production.

10.6.1.24 Although the Commission considered that its constitution was not fully such as to enable it to analyse in detail any of the marketing schemes under the system of controlled marketing and to make specific recommendations on them, its findings on animal production and the information it obtained on the problems in marketing slaughter stock and meat convinced the Commission that this matter is so important to the livestock industry and the farming in South Africa in a wider context and, more specifically, as regards the urgent necessity for reducing stock particularly during droughts, that far-reaching changes should be seriously considered in this regard.

10.6.1.25 The Commission has reason to agree with various bodies and persons that, although very serious attention has been given to the matter, many adjustments have been effected and much progress has been made with the aid of controlled marketing, there are still several shortcomings which are hampering the marketing of slaughter stock and meat in South Africa, particularly as regards certainty about marketing prospects and physical facilities for the timely and orderly slaughtering of stock, as well as for the processing of meat and the various by-products at abattoirs.

The Commission gained the impression that there is considerable room for improvement and expansion as regards the establishment of central slaughtering and processing units to serve the larger centres. The question also arises whether serious consideration should not be given to the establishment of strategically situated and well-equipped units with supplementary cold storage facilities to serve the country's major centres of population.

10.6.1.26 The Commission was most gratified to learn of the steps, recently announced by the Minister of Agriculture, to eliminate certain bottlenecks in the marketing of livestock and meat.

The Commission, however, considers this matter to be so important and has also gained the impression that so many bodies have an interest in the marketing of livestock and meat that, if the above-mentioned steps are not successful, a determined effort will have to be made immediately to find a set-up which would be a better answer to the complexity of the situation, if necessary by establishing a utility company to handle slaughtering, the processing of by-products, and the storage of meat.

10.6.2 Recommendations

10.6.2.1 Apart from the contribution made at present by the Marketing Council as regards controlled marketing, there is a need for a body to advise the Minister of Agriculture on the broad approach to agricultural marketing and price policy for agricultural products. The Commission considers it important, furthermore, that these recommendations should be based on factual data on matters affecting marketing and price situations.

In regard to such an advisory body the Commission therefore recommends as follows:

(a) A National Advisory Council on Agricultural Marketing and Price Policy should be established to advise the Minister of Agriculture on price policy and the marketing of agricultural products.

(b) Members on the Advisory Council should be appointed by the Minister of Agriculture from, or should be representative of, the following bodies:

The Department of Agricultural Economics and Marketing
the Department of Agricultural Technical Services
the Department of Commerce
the Department of Industries
the South African Agricultural Union
recognised consumer organisations, and
organised trade and industry
The Chairman should be appointed by the Minister

(c) The Advisory Council must also be given the services of a special economic research unit falling under the Department of Agricultural Economics and Marketing and specialising in matters underlying marketing and price policies.

(d) This Advisory Council must maintain close contact with the proposed National Advisory Council on Agricultural Production (see paragraph 9.7.5 of the Commission's Second Report).

10.6.2.2 The Commission is deeply impressed by the extent to which the system of controlled marketing has promoted the orderly marketing of agricultural products and by the contribution which this system has made to progress in agriculture. In the course of its investigations, however, the Commission's attention was directed to the desirability of making certain adjustments to controlled marketing, but the Commission considered that its constitution was not fully such as to enable it to

make a more profound analysis of the operation of controlled marketing and to make full recommendations on this matter.

The Commission therefore recommends that a special commission be appointed to inquire into and make recommendations on the controlled marketing of agricultural products and the effectiveness of existing arrangements in this connection.

10.7 MARKETING OF NON-REGULATED AGRICULTURAL PRODUCTS (See Chapter VII)

10.7.1 Conclusions

10.7.1.1 The normal growth of the population, rising per capita income, increasing urbanisation of Whites and non-Whites, a shift in consumption from high-calorie cereal foods to high quality low-calorie foods such as vegetables and fruit, as well as increasing per capita consumption of vegetables and fruit, particularly among the Bantu, should in the future have a favourable effect on the total domestic consumption of vegetables and fruit. In addition, the changed way of life and higher standard of living of the population will result in ever higher demands being made by the consumer when it comes to personal convenience and the quality of products. The demand for semi-processed and processed vegetables and fruit is expected to increase relatively faster than that for the unprocessed fresh products. Constant improvements in processing techniques are having a favourable effect on the cost structure of the processing industries.

On account of these factors and in view of our limited land and water resources, a better balance may be expected later between supply and demand. A larger total domestic market will obviously result in more stable prices, and therefore more stable, more concentrated and specialised production areas should develop. This will then create a more favourable climate for co-operative action which will enable producers to improve their bargaining position in the market. This is particularly important in view of the expected developments in overseas marketing. Britain's entry into the European Economic Community will have serious repercussions in South Africa's fruit industry, and timely adjustments are therefore becoming a matter of urgency.

The marketing of fresh produce is, as appears from the foregoing, more subject to variable factors than is the marketing of many other agricultural products. Adjustment to changing conditions is therefore a most important element in the process of developing the marketing system of fresh produce. It is important that adjustments in the marketing structure should keep pace with the general level of development in the social, economic and technical fields. Experience has shown that financial losses can be heavy if procedures are adopted which at a particular time are too far in advance of the general level of domestic development. Similarly, problems are likely to arise if adjustments to changing circumstances are not made timeously.

Since the Commission for Fresh Produce Markets Act and the measures under the Marketing

Act referred to in section 7.6 of Chapter VII, have not yet been applied, their effect on the industry cannot be determined at this stage. The Acts do, however, hold out the possibility of laying the foundation for a national policy for the marketing of perishable products. In addition, they create the opportunity for consultation and co-operation between the various groups of interests, which should lead to a better understanding of the problems in the industry.

10.7.2 Recommendations

The Commission considers it advisable to give attention particularly to such measures as may increase the efficiency of the marketing process in all its phases. This will promote stability for the producers and check the bypassing of produce markets.

The Commission consequently recommends that, in order to achieve the above-mentioned objects, serious attention should be given to the following steps, among others:

1. Co-operative action on the part of producers in the principal production regions should be encouraged to promote the planning of production and the efficient distribution and marketing of products.
2. An attempt must be made to orient production to the markets. To achieve this, producers must be well informed and be encouraged to produce and offer what the market requires, particularly as regards the quality and uniformity of products.
3. A national code for fresh produce markets must be drawn up, due account being taken of the size of markets.
4. Efficient marketing facilities must be provided, and these facilities and the sales system must be adapted timeously to changing circumstances, services being rendered according to the exigencies of the moment.
5. Purposeful marketing research must be conducted and market information disseminated to serve as a basis for policy-making and the guidance of the producer, the trade and the consumer.
6. Measures must be adopted to cut costs, for example, by the more efficient use of market buildings and other facilities and by the co-ordination and mechanisation of the accounting done by the market authority, market agents and the Department of Agricultural Economics and Marketing.
7. Market staff must be trained, particularly the staff at managerial levels.
8. Effective control must be exercised over products arriving at and leaving markets.

9. Measures must be adopted to promote sales of fresh produce in the Bantu residential areas as well.

10. Provision must be made for consultation and co-operation between all the parties involved in the fresh produce industry so that they may be better informed of each other's requirements and problems.

10.8 CROP INSURANCE IN AGRICULTURE (See Chapter VIII)

10.8.1 Conclusions

10.8.1.1 From the start there must be clarity about the precise objects of a crop insurance scheme, or else it can easily be used as a kind of subeconomic Government scheme to assist needy farmers who are faced with crop failures for reasons beyond the scope of the scheme as initially introduced. From the outset, therefore, a scheme of this kind should be run strictly on business principles.

10.8.1.2 Crop insurance must be run strictly on business lines and the main object must be to enable modern farm operators to spend, with reasonable confidence, large sums of cash on the production of a crop which will take six months or longer to cultivate and harvest and will yield an income only once a year, i.e. a crop the production of which is accompanied by calculable and insurable risks. No matter what precautions he takes any entrepreneur can have a crop failure, or the harvest may come to only half of what he expected. Such setbacks might be due to causes beyond the entrepreneur's control and his loss in income might be heavy. Often his losses are so great he finds it impossible to prepare for the next crop or has to borrow money at high rates of interest if he does not qualify for a production loan from the Agricultural Credit Board.

10.8.1.3 The insurance scheme must therefore ensure that the enterprising farmer who lacks large capital reserves will have a minimum income in the event of his crop being affected by certain insurable events beyond his control - similar to the cover provided by an insurance scheme for certain business men and professional persons in the cities. Crop insurance of this kind must therefore be aimed mainly at keeping the farmer's operating capital intact in the event of a poor crop.

10.8.1.4 Furthermore, the crop insurance system must be so designed as to promote sound farming practices.

10.8.1.5 The Commission was not in a position to make a closer study of the circumstances giving rise to the poor claims-premium ratios, but is of the opinion that, apart from the factors referred to, better results might be expected if there were greater selectivity as regards the areas and farming enterprises accepted for insurance and

if there were more differentiation in respect of areas and farms. There is some doubt as to whether it would be advisable for this insurance undertaking (Sentraoes) to spread its wings so wide - and evidently it is that way inclined - in running a pilot scheme for which reliable data for actuarial calculations are so sadly lacking.

10.8.1.6 In view of the circumstances with regard to judicious rotational grazing systems, the resting of the veld, soil conservation measures and the cultivation and storage of feed crops, as described in the Commission's Interim Report, and since no further particulars were furnished or proposals made on livestock insurance, the Commission makes no recommendation on this matter.

10.8.1.7 What made a deep impression on the Commission in the course of its investigations was the extent to which the changeability and unpredictability of climatic conditions create uncertainty in agricultural enterprises and tend to increase the risks in agricultural production. In time the Commission also became convinced that farmers themselves can do a great deal to reduce farming risks through proper farm planning, adapting their farming systems to environmental conditions and taking steps, before it is too late, to prevent or offset the adverse effects of unfavourable events. In various parts of its Interim Report the Commission stressed the importance of this as regards droughts, and in paragraphs 5.4 to 5.4.4.8.6 of that report directed attention particularly to the extent to which cash crops such as maize, wheat and groundnuts are cultivated in areas where stock farming is the main source of income and in areas that are very prone to drought. The Commission went on, "In addition, climatic conditions in several of these districts are often so unfavourable for cash crops that Government assistance in the form of production loans had to be made available repeatedly, as a result of drought conditions, to enable farmers to continue sowing cash crops."

10.8.1.8 The Commission emphasised, particularly in Chapter V of its Second Report, that economic stability in agriculture could be achieved only if agricultural production systems conducive to biophysical stability were applied. In paragraphs 5.5 and 5.6 of that report the Commission stated that a careful analysis of the situation with regard to practices of utilisation pointed to the fact that lack of discrimination in such practices was probably the most important single factor responsible for the deterioration in agricultural resources and the precarious financial position of many farmers. The Commission went on to say that a prerequisite for a system of optimal utilisation would therefore be for the various branches of farming to be conducted within the limits set by the potential of the natural environmental factors.

10.8.1.9 In regard to the weaknesses in agricultural production systems and practices to which reference was made in the Interim and Second Reports, the Commission stated in paragraph 2.7.1.1 of this its Third Report that it was convinced

"that the extent to which the recommendations made and fully substantiated in the previous two reports are implemented successfully will be the extent to which their beneficial effects will be felt by the agricultural community, their influence making itself felt on the biophysical as well as on the economic instability and unevenness of income distribution in agriculture."

It is therefore considered to be of fundamental importance that, in considering the risks to which agriculture is exposed, their influence on stability in agriculture and the hopes that are pinned on systems of insurance against possible losses, a clear distinction should be drawn between those risks to which agriculture is exposed on account of basic weaknesses in production systems and practices which can and must be rectified, and those risks that are inherent in setbacks that cannot be averted.

10.8.1.10 Any insurance scheme providing cover for risks that are inherent in weaknesses that can be traced back to ill-adapted farming systems would undoubtedly be very prejudicial to attempts at achieving economic stability through biophysical stability based on adapted production systems and conservation farming. Admittedly, such a scheme might protect certain farmers against excessive fluctuations in production; but it would also tend to perpetuate production systems which are poorly adapted to local environmental conditions and which have other structural defects. Obviously, any insurance system so wide in scope and covering agriculture against risks with the consequences described above cannot be supported.

10.8.1.11 Much can, however, be said in favour of an insurance scheme specifically designed for optimally adapted farming systems and practices. Such a scheme could be a very valuable means of eliminating the adverse effects of normal fluctuations in production and giving deserving farmers effective cover against the risks to which their production enterprises are exposed.

10.8.1.12 In regard to the availability of factual information, the Commission wishes to refer briefly to the situation in maize production, illustrating its observations with the few data which the Commission itself was able to collect with the limited resources and in the limited time at its disposal. This is done mainly to show that, contrary to the impression created, factual information of importance to insurance is not so hard to come by. The Commission's view being that if a special effort were made such information could be supplemented to a great extent and processed a great deal more so that it can serve as guidelines in working out a sound policy and procedure for insurance.

10.8.1.13 Since the coefficients (of variation) are indicative of the fluctuations in maize yields in the various maize districts, they are also a very good indication of the degree of risk under which maize is cultivated in those districts and due account should be taken of them in the formulation of an insurance policy for those districts.

10.8.1.14 The preliminary collection and presentation of crop data in processed from given in Chapter VIII underlines the importance of such data in crop insurance and demonstrates that regional and farm differentiation in premiums is therefore indispensable in the planning of crop insurance and that, although crop levels must also be taken into account, the coefficient of variation of crops is of decisive importance.

10.8.1.15 Deviations in risks have to be guarded against in any insurance scheme. They may arise between districts, as appears clearly in the table given in Chapter VIII. They may also occur between farms within a district and between fields on a farm. The production unit must first be approved for insurance on the basis of the risk situation of a particular area and subsequently consistent control must be exercised over fertilising and cultivation of the crop. If this is not done, there will be too many loopholes and it will be impossible to keep the fund going for any length of time.

10.8.1.16 To gain greater support, particularly among farmers producing maize in areas where yields are comparatively high and subject to relatively little fluctuation and therefore to low risk, it is considered desirable to make provision for a no-claim bonus system.

10.8.1.17 The object of crop insurance should therefore be to cover only those risks over which the farmer has no control (but excluding certain risks such as earth tremors, excessive rain, wild animals and so forth), that is to say, the kind of cover that would not discourage him from at all times being as efficient and provident as possible in his farming. The Commission therefore considers that to refer to this kind of crop insurance as "comprehensive crop insurance" creates the impression that the insurance planned and offered provides cover for all crop risks. Comprehensive insurance of that kind cannot be supported, nor should such an impression be created. The Commission therefore prefers this kind of insurance to be referred to only as "crop insurance", thereby intimating that the intention is to insure crops only against certain risks.

10.8.1.18 The Commission has reason to believe that insurance of this kind can serve a good purpose and can be successful.

10.8.1.19 In view of the factors of importance in crop insurance in South Africa, the financial affairs of a South African crop insurance undertaking may be expected to be fraught with problems and would therefore have to be handled with great care if a realistic policy regarding insurance, on a sound business footing, is to succeed.

10.8.1.20 The Commission was therefore perturbed to note the eagerness (particularly in the case of Sentraoes) to expand insurance cover for both maize and wheat as rapidly as possible - even to nation-wide proportions, as is evident from the South African Agricultural Union's submission referred to in paragraph 8.3.2.2.

10.8.1.21 In view of the predictably greater problems which may be expected in many respects in crop insurance in South Africa, the Commission therefore considers it imperative that the following policy should be adopted:

- (a) Plans for expansion must be treated with the greatest caution: every instance of expansion must be regarded as a trial phase and must not be embarked upon until the experience gained in the preceding phase has strengthened confidence that the direction in which crop insurance is moving offers a good chance of success with the minimum of State aid.
- (b) Right from the start there must be a high degree of selectivity as regards production areas for each of the crops, individual farms, farm planning and production practices, and the merits of each farmer particularly as regards his technical knowledge, managerial ability and business sense. The Commission considers that strict selectivity in the initial stages of an insurance scheme (with the possibility of more leniency as the undertaking becomes more firmly established) is vastly preferable to a policy of initial leniency which might later necessitate the curtailment of insurance facilities.
- (c) It is considered essential that, should the Government agree to give financial support to such an insurance undertaking, the nature of such assistance should be made very clear and its limits should be laid down very specifically. This is to prevent the Government from being pressed for ever larger sums for this purpose once such a scheme gets under way, as has happened in the U.S.A. in recent years.

10.8.1.22 In view of all these circumstances and the tremendous demands which will be made on crop insurance in South Africa, the Commission considers that, if the Government is to make a direct financial contribution to a co-operative crop insurance undertaking, the following conditions should attach to such financial assistance:

The Government's financial support must take the form of an amount decided upon by the Government and earmarked as a contribution towards administrative and appraisal costs, provided that such a contribution is not taken to mean that the Government assumes liability for the whole or part of these costs.

In the first place, it cannot be accepted that the Government should assume liability for all the expenses of administration and appraisal if these functions are not handled in their entirety as a Government undertaking and if the Government is not in full control of them.

Secondly, the Commission cannot support the idea of a crop insurance scheme as a Government undertaking (as initially recommended by

the Study Group on the Crop Insurance Trial Scheme; if prefers a crop insurance institution on a co-operative basis as recently recommended by the South African Agricultural Union.

10.8.1.23 Furthermore, because of the conditions in South Africa which might affect the success of a crop insurance scheme, it is necessary for the Government to have the assurance that definite limits will be set to the contribution expected of it, if recommendations in this regard are to be given favourable consideration. It therefore seems reasonable to link such financial assistance to the business turnover of the insurance undertaking on a percentage basis, which would mean that the Government's contribution might have to be stepped up as turnover rises, but then any such increase in the Government's contribution would have to be subject to the condition that a rise in turnover has resulted from procedures and expansion which the Government approved beforehand.

10.8.1.24 If administrative and appraisal costs tended to rise appreciably above the limit set for the contribution which the Government would be willing to make towards the crop insurance scheme, the insurance undertaking would be obliged to rationalise administration and appraisal, to become more selective with applications for insurance, or to bring the payment of claims into line with its financial position. Provision would, of course, have to be made for such a contingency in the co-operative's regulations and terms of insurance.

10.8.1.25 The Commission supports the South African Agricultural Union's proposal that income from premiums should in the long term cover claims. It would be reasonable to expect, however, that there would be years in which the total claims would exceed the premium income and accumulated reserves, particularly the initial years when the reserves would, understandably, still be low.

The Commission considers it desirable that the co-operative concerned should, under such circumstances, be granted credit facilities at a reasonable rate of interest to tide it over periods when reserves are low - facilities similar to those which the Land Bank has in many cases already granted to agricultural co-operatives with beneficial results.

10.8.1.26 The Commission is satisfied that a scheme for insuring cash crops against certain risks can serve a good purpose and that it is desirable to introduce such a scheme for the principal cash crop in the Republic. It considers, however, that an insurance scheme of this kind should first be introduced on a limited scale for a few cash crops as a trial scheme and that, as experience is gained and conditions become propitious for this, the trial scheme should gradually and systematically be expanded as regards both crops and areas. The scheme must be voluntary.

10.8.1.27 The Commission considers that the insurance scheme envisaged should not aim at absolutely comprehensive crop insurance and should also not be publicised as such. It should rather be

planned purely as "crop insurance" and should be publicised as a scheme to provide cover only against certain risks.

10.8.1.28 The Commission is not in favour of the Government's undertaking such an insurance scheme itself nor of its being involved too deeply or too directly in such a scheme.

10.8.2 Recommendations

10.8.2.1 For understandable reasons, it is essential that the risks and conditions attached to crop insurance for agriculture should be clearly defined and identified before such insurance cover can be granted.

Many such risks are, for example, listed in the conditions which Sentraoes (Koöperatief) Beperk lays down in its policies. The Commission does not consider it necessary to go into details at this stage, but recommends that, if official approval is given for the establishment of a co-operative insurance undertaking as recommended (see paragraph 8.7.4), careful attention should be given to the definition of the risks and circumstances which will be considered favourably for the purposes of such an insurance scheme, in order to ensure that their inclusion will be compatible with the objects of crop insurance as set out in Chapter VIII and that it will be possible to provide adequate cover for them in accordance with the aim of also making this insurance scheme financially self-supporting.

10.8.2.2 The Commission recommends that an insurance scheme on a voluntary and co-operative basis should be introduced and gradually expanded in the light of experience.

10.8.2.3 The Commission considers, however, that the above recommendation can only be implemented if the two co-operative institutions at present undertaking the broader insurance of maize and wheat were to amalgamate or reach some other settlement of a similar nature. It is therefore recommended that the parties involved should take the necessary steps to set up a central co-operative insurance body which will take on the task of providing crop insurance on a nation-wide basis and which will negotiate with the authorities as the sole recognised organisation in this field.

10.8.2.4 As regards the policy to be followed with respect to premiums and the payment of claims, the Commission recommends as follows:

10.8.2.4.1 The policy should be specifically to promote sound, adapted farming systems operated on recognised principles of conservation and sound management.

10.8.2.4.2 As a matter of the highest priority, all possible statistics on the cultivation of the crops concerned and on the climatic and other environmental conditions of importance in determining fluctuations in production and the risks involved in these undertakings in each of the principal areas must be collected and processed by the proposed insurance institution so that sound guidelines according to which policy may be formulated for premiums and payments can be ap-

plied and revised from time to time. Owing to the special circumstances in South Africa referred to in paragraph 8.5.6, the Commission considers it extremely important that serious attention should first be given to the above-mentioned matters before any crop insurance scheme is launched with official recognition and support.

10.8.2.4.3 For the reasons indicated above, a system of differentiation in premiums is to be preferred to one of uniformity, if this kind of crop insurance is to be more acceptable to farmers producing in areas where crops fluctuate less.

10.8.2.4.4 Favourable consideration must be given to further concessions in respect of premiums under the no-claim bonus system.

10.8.2.5 As regards financial arrangements, the Commission recommends as follows:

10.8.2.5.1 The premium rates and the basis on which payments are made for crop losses must be such that the insurance undertaking will pay its own way and such that in favourable years a substantial reserve fund can be accumulated from which payments may be drawn in unfavourable years when the undertaking has to meet high claims.

10.8.2.5.2 The Government should grant approval for the Land Bank to provide credit facilities for the insurance co-operative at a reasonable rate of interest to tide the co-operative over periods when the total claims and other expenses exceed income from premiums, provided that the loans concerned are paid back as soon as possible once conditions improve.

10.8.2.5.3 The Government should make a contribution (in the form of a subsidy) towards defraying administrative and appraisal expenses under the scheme when claims are considered, provided, however, that -

- (a) such a concession is not taken to mean that the Government assumes responsibility or liability for all the administrative and appraisal expenses;
- (b) this contribution does not exceed a certain percentage of the business turnover of the insurance undertaking, i.e. the premium income or payment of claims (whichever is the lower), provided the total amount voted by the Government in a particular year is subject to a maximum;
- (c) the Government must, before a start is made with this contribution, be satisfied as to the policy to be followed in setting premiums and paying claims, which should be based on advance planning on the strength of data significant in the formulation of such a policy with regard to insurance;
- (d) a certain degree of selectivity is maintained from the outset in the screening of applications for insurance as regards farmers, areas, crops, farms and production practices;

(e) the crop insurance scheme is expanded, as regards both crops and areas, only in consultation with the Minister of Agriculture;

(f) the Government contribution is revised after a predetermined period so that it may be withdrawn completely in due course.

10.8.2.5.4 The Commission recommends further that, should official approval be given to the establishment of a co-operative insurance undertaking, careful consideration be given by that co-operative and the Departments of Agriculture concerned to defining the risks and conditions which will receive favourable consideration for cover under such an insurance scheme, in order to ensure that the inclusion of such risks and conditions will be compatible with the purpose and object of crop insurance as outlined in Chapter VIII and that it will be possible to provide adequate cover for them, bearing in mind the aim of making this insurance scheme financially self-supporting.

10.8.2.5.5 Should crop insurance receive financial assistance from the Government in this way, consideration must be given to the withdrawal of facilities for production loans in all districts where the co-operative insurance scheme is in full operation.

10.9 CO-OPERATION IN AGRICULTURE: COMMUNAL USE OF EQUIPMENT AND CO-PARTNERSHIPS (See Chapter IX)

10.9.1 Conclusions

10.9.1.1 On account of the rapidly rising capital demands which the increased use of mechanical and technical aids is making on the farming industry, together with growing debt ratios and high rates of interest, the size of their farms is hampering many farmers to an increasing extent and pushing up the costs which have to be incurred per unit of production all the time.

The solution to the problem is to be found largely in optimal utilisation, not only of the soil and other natural resources, but also of the available labour and agricultural machines. This calls for the adoption of the basic principles of successful business in the individual farming enterprise and in the industry as a whole. This will undoubtedly lead to the establishment of larger farming units and/or the communal use of tractors and equipment. Therefore, it is essential that, if agricultural mechanisation in South Africa is to be successful, smaller farming units should be grouped together systematically or some form of organised purposeful production co-partnership should be created among farmers with a view to the communal use of tractors and agricultural implements, in order to ensure optimal utilisation.

10.9.1.2 The creation of larger farming units, i.e. the enlargement of smaller units into units meeting the requirements for optimal efficiency in the use of machinery, labour and capital, raises so many problems in practice, however, and is expected to

take so much time, that it is doubtful whether the problem can be solved within a reasonable period in this way alone.

10.9.1.3 Since there is an alarmingly large number of farming units which are uneconomic and which are threatening to become virtually State-subsidised farming enterprises, the time has come for serious attention to be given to making these units economic wherever possible. Under-sized farms can never provide a decent living for their occupants. The aim should therefore be to integrate them with other similar units or at least to link them together. This will make it possible to avert or at least relieve considerably the burden imposed by modern technology with its increasing mechanisation and unproductive labour. The mechanisation - labour ration in South Africa is seriously hampering agriculture and is becoming worse as time passes. The resultant cost burden is back-breaking: the implements become bigger and bigger, fuel and maintenance more and more expensive and expenditure on labour relatively greater.

10.9.1.4 It appears that attempts have been made to achieve greater co-operation in agriculture and the communal use of expensive machinery and equipment in very many ways, with varying degrees of success. In many cases attempts have been made to increase efficiency in the use of agricultural equipment through mechanical services such as those offered by private enterprise or even by general or specialised co-operative societies.

10.9.1.5 Local conditions would seem to indicate that a system within the framework of the co-operative movement in South Africa merits serious consideration, particularly since this would make the link-up with the rest of the co-operative movement very easy. Greater co-operation in this way would offer great benefits to small farmers in South Africa who wish to make use of such a system and organise their enterprises along such lines, particularly farmers in areas where enterprises are close together, for example, irrigation areas, intensive fruit growing regions or peri-urban areas.

10.9.1.6 In the light of its findings as reported on in Chapter X of its Second Report and in Chapter IX of this report, the Commission has come to the conclusion that the labour - mechanisation question is so important to agriculture and that the communal use of farm implements has so many advantages in regard to mechanisation, labour and capital, particularly for farmers on smaller production units, that this matter merits the urgent attention of all interested parties, especially the farmers themselves.

10.9.2 Recommendations

10.9.2.1 The Commission therefore recommends as follows: Organised Agriculture and the Departments of Agriculture must do everything possible to promote the communal use of farm implements, to condition farmers to this idea and to make the necessary adjustments to production processes which would facilitate such co-operation.

10.9.2.2 The Department of Agricultural Technical Services (Division of Agricultural Engineering) and the Department of Agricultural Economics and Marketing (Division of Agricultural Production Economics) must make an exhaustive study of the whole question of using agricultural machinery on a communal basis. The above-mentioned Divisions must be expanded appropriately so as to be able to undertake and pursue such studies to promote ever greater efficiency in as many respects as possible as the technological pressure on agriculture increases.

10.9.2.3 Particular attention must be given to extension in agricultural mechanisation and especially in the communal use of agricultural equipment.

10.9.2.4 Government and semi-Government credit institutions must give sympathetic consideration to possibilities of providing financial backing for such mechanisation systems, and to adapting procedures in this regard to the circumstances and needs of such systems.

10.9.2.5 Consideration must also be given to ways of encouraging private contractors to provide mechanical services for farmers where very expensive equipment is required, e.g. for harvesting crops, earth moving and so forth. Consideration should be given to the granting of suitable credit facilities to such contractors in cases where agriculture would benefit by this to a considerable degree. As it is essential that contractors should be assured of stability in their operations where contract work is performed by expensive machines, farming communities should endeavour, in their own interests, to arrange matters among themselves so that contractors are encouraged to continue such services on a firm basis.

10.9.2.6 As the communal use of agricultural equipment is considered to be particularly important and promising in the case of irrigation farming on small plots where the supply of water offers considerable opportunities for the adaptation of production operations, special attention must be given in planning new irrigation areas to laying out plots and devising farming systems in such a way as to create the optimal opportunity for communal mechanical services. The Departments involved must adopt this aim as a matter of policy and must make special provision for the communal use of agricultural equipment even in the initial stages of irrigation schemes, focusing their studies on this aspect in any pilot development projects that may be laid out.

10.9.2.7 The Commission is convinced that greater co-operation in agricultural production within the frame work of the co-operative movement in South Africa can be very beneficial, especially to small farmers. However, success can be assured only if provision is made in the co-operative system for a small number of participants and for selective membership.

In this regard the Commission recommends as follows:

10.9.2.7.1 Provision must be made within the framework of the Co-operative Societies Act, 1939 (Act 29 of 1939), for co-partnerships between farmers on a co-operative basis, if necessary with appropriate provisos with regard to taxable income.

10.9.2.7.2 To this end the above-mentioned Act must be amended so that membership can be reduced to two persons in cases where the main object of the co-operative agricultural society or

co-operative agricultural company is "to carry on farming or any farming operations for or on behalf of its members on a co-operative basis".

10.9.2.7.3 The co-operative co-partnership scheme must be integrated into the existing co-operative structure in order to ensure that the new co-operatives do not overlap the existing co-operatives and that the greatest benefit is derived from the services offered by local co-operatives.

CHAPTER XI

BROAD APPROACH TO AGRICULTURAL DEVELOPMENT

The Commission felt that, to be able to execute its task, it would have to cover a wide field and investigate in some detail a great number of importance to its inquiry. The angle from which there matters were studied was that, essentially, agriculture has to fulfil what may be termed a threefold function, namely: to supply food and raw materials, to assure a living for the farming community, and to exploit natural resources in such a way that they will be conserved to meet future requirements. The Commission satisfied itself that a sound agricultural system is essential to the economic prosperity of South Africa. In an analysis of this matter it was pointed out that it was only about the middle of this century that agriculture became fully commercialised. Yet, in spite of the vagaries of nature and in spite of several serious setbacks, the industry had in this short time already succeeded admirably in supplying local requirements economically and in earning considerable amounts of foreign exchange. In this respect the agricultural sector has been so successful that there is full justification for regarding it as one of the Republic's key industries.

An analysis of the position as regards the other two functions which agriculture has to fulfil revealed, however, that developments in this connection have in many respects not been as favourable as those in the supply of foodstuffs, raw materials and commodities. Various shortcomings were revealed, many of which could be traced back to the distant past, while others must be ascribed to changed conditions in the last few decades. On the basis of the information obtained on the technical, economic and social aspects, the Commission in the course of its wide-ranging investigations wherever it had gained clarity on the steps which should be taken; in other cases it identified definite shortcomings in specialised areas, but felt that these matters could best be investigated further by some other body of experts.

In preparing its Interim and Second Reports, the Commission concentrated mainly on the problems which arise on the farm and which ought to be remedied there.

Having completed its inquiry, the Commission is satisfied that economic stability in agriculture cannot be achieved with farming enterprises which manifest an extraordinary degree of biophysical instability as a result of serious defects in farming practices and structural weaknesses. The Commission therefore considers the matters mentioned below to be of so much importance to agriculture that it is essential that they should receive the immediate and earnest attention of all farmers and other interested parties.

Drought is one of the oldest problems in South African agriculture, particularly in the extensive livestock regions. This is a problem which could be solved to a large extent by sound grazing practices, resting of veld, the production and storage of fodder reserves and the planting and judicious use of drought-resistant crops - all practices which form an integral part of conservation farming. What has perturbed the Commission however, is that on many farms, even those that are very prone to drought, very little justice is done to these precautionary and conservation practices, with the result that with increasing deterioration and overtaxing of the natural resources such farms are becoming more vulnerable to droughts and the farmers concerned tend to lean more heavily on State aid which, they expect, will make up for the deficiencies which are inherent in their farms.

The Commission is convinced, moreover, that the future of agriculture in South Africa depends almost entirely on the progress which each farmer can make in adopting systems on his farm which aim at conservation and optimal utilisation of the soil, water and pastures. However, the Commission had no option but to conclude that in this regard there are still too many farms in this country which leave much to be desired. The Commission considers this matter to be so important that in several cases where State aid in the form of special credit facilities or subsidies was being considered it had to recommend that before an application for credit can be given sympathetic consideration the applicant must satisfy the Government or semi-Government credit institution that he is practising conservation farming of a satisfactory standard.

It has also been found in many areas that farming systems - particularly crop production - are so badly adapted to the soil and climatic conditions of the area or farm concerned that the yields are subject to excessive fluctuations. This not only gives rise to big fluctuations in the income from such enterprises, but also has an adverse effect on branches of farming such as stock farming, which is much better suited to such areas and should have been the main source of income. In view of these findings, the Commission considers it essential that everything possible should be done to promote better-adapted farming systems and has made important recommendations on soil and climatic studies, regional planning and financing arrangements which would make it possible to achieve optimal adaptedness which is considered important for stability in agricultural production. However, the Commission had to come to the conclusion that wide fluctuations resulting from ill-adapted crop production systems cannot be eliminated satisfactorily by economic measures, nor by a crop insurance scheme.

Furthermore, various serious defects have been found which lie at the root of the problem of uneven distribution of income, a phenomenon which has become so noticeable in South African agriculture.

The Commission noted with concern that a very large part of the total number of farming units in the Republic are so undersized as to be non-viable. With its economic, biological and sociological ramifications, this question of uneconomic farming units is threatening the healthy continued existence of agriculture in the Republic of South Africa and is regarded as one of the greatest problems with which the industry is faced today.

To make matters worse, there are the great differences between the results attained by farmers who display good managerial ability and business sense and the results of farmers who, under similar conditions, do not run their farms so well.

The differences arising from the great disparity in farm sizes and in managerial ability are regarded as the main factors responsible for the strikingly uneven distribution of income in agriculture. These findings emphasise the need for training in agriculture and in farming business. Unfortunately, information furnished to the Commission indicates that the support received by the training facilities offered by the Department of Agricultural Technical Services at its five agricultural colleges and through numerous wider and special courses is far from satisfactory and that better use could also be made of the various extension services and the results of research. In this regard the Commission also found, moreover, that knowledge of business management in farming is particularly defective and that the economic extension services to remedy this state of affairs are largely inadequate. The Commission has spotlighted this in various parts of its reports and has made recommendations on how this deficiency can be rectified, also indicating what can be done when it comes to financing.

The Commission is aware that up to the present mechanisation has made a considerable contribution to horizontal development and increased production in agriculture, especially during the last two decades. The information on the rate at which agricultural mechanisation took place in that period is heartening, particularly when compared with the rate at which agricultural industries were mechanised during the same period in the various developed countries of the Western world. But the Commission's attention was also directed to various less favourable phenomena which accompanied mechanisation or were aggravated by it, phenomena which demand urgent attention for several reasons. The most important point is that there are signs of poor maintenance of farm implements, as is evident from the heavy expenditure on repairs and maintenance.

The Commission was disappointed to learn, however, that the productivity of labour (the farmer's own productivity as well as that of hired labour) in South Africa, unlike many other countries in the Western world, increased relatively little during this period of rapid mechanisation. This creates special problems in South Africa owing to the heavy expenditure on the maintenance and repairs of farm equipment, the high percentage of small farms in the Republic, the fairly strong tendency towards overmechanisation on account of the South African farmer's strong individualism and the special situations as regards the White - Non-White ratio in rural areas. The Commission considers that this should as soon as possible receive the urgent attention of every farmer and all other interested bodies and authorities, official and non-official. Everything possible must be done to increase the productivity of all labour (the farmer's own productivity and that of hired labour), to achieve greater efficiency in the use of farm implements and to achieve greater rationalisation in agricultural mechanisation.

In regard to the last-mentioned point, the Commission was struck by the fact that in Western countries heavy emphasis is laid these days on the effects of the scientific and technological revolution on agriculture; the increasing demands made on the farmer in respect of knowledge, managerial ability and capital; and the adverse effects on less competent farmers and those with non-viable farming units. Apart from special measures to consolidate agricultural holdings and enlarge farming units, recourse is being had increasingly to greater co-operation among farmers, the communal use of farm implements on a larger scale or partnerships among farmers on a co-operative basis. It is foreseen that this will pave the way to greater co-operation in agriculture - which is one of the best ways of achieving optimal use of machinery, labour and capital. It offers farmers, particularly those with smaller farming units, special opportunities to keep going despite the increasing pressure of technological development and rising costs, enabling them to tide themselves over such periods and gradually improve their position. The Commission found that there are already many co-operative undertakings in South Africa which offer auxiliary services in regard to a variety of agricultural production processes. The extension of the communal use of equipment and partnership in farming is, however, considered to be so important - particularly to the smaller farmers - that the Commission gave special attention to this matter and made several recommendations on ways of bringing about greater co-operation in agriculture and of supporting it financially.

Closer analysis of the factors underlying the problems experienced in South African agriculture revealed that these problems are basically of two kinds: those with which the less successful farmers (e.g. the ones who are poor managers, or have undersized farming units, or whose farming systems are ill-adapted, or who make inadequate provision against droughts, or who fail to take proper soil conservation measures) have to contend and those which beset the more successful farmers, i.e. the ones who are not hampered by structural defects in their enterprises or by serious personal shortcomings.

After thorough consideration of the conditions responsible for instability in agriculture and the uneven distribution of agricultural incomes, it was found that major concessions in the granting of credit or in the form of subsidies or price concessions to bolster the weaker farming enterprises would not be the solution to their problems, nor would such measures remove the managerial and structural defects in such enterprises. Financial relief measures cannot be successful while the managerial ability of these farmers and the structural pattern of such farming units show such serious defects. What is needed first and foremost in such cases is agricultural reform. This is regarded as part of a broader programme of rural reform which calls for a separate investigation approached from a social as well as an economic point of view. This task has now been entrusted by the Minister of Agriculture to a special committee on rural reform which has recently started its activities.

The Commission realises, however, that measures to promote rural reform will take a considerable time before they have any marked effect on the small farmer's prospects of making a living. In view of the fact that many of these farmers will in the mean time have to go on trying to make a living on such small units, the Commission in the course of its investigations gave constant attention to those aspects considered important to such farmers.

When attention was focused on the need for farming systems designed to prevent the adverse effects of droughts, based on the conservational use of natural resources and optimally adapted to local soil and climatic conditions, it was pointed out that such systems would be the best way of protecting farming enterprises against excessive risks and the best way of guarding against marked fluctuations in farming income - objectives considered to be of decisive importance particularly for farmers who have to operate small farms.

The Commission is satisfied, furthermore, that the prospects of making a living on small farming units could also be improved appreciably if the farmers concerned made a special effort to improve their farming practices and managerial ability, especially as regards the quality of farm animals and crops, production processes, the use and care of farm equipment, their own labour contribution, the use to which they put hired labour, and business sense.

It is therefore considered to be most important that such farmers should take the trouble to make better use of the training, extension and other auxiliary services offered by the Departments of Agriculture, that book-keeping should find for wider application among them, and that the communal use of expensive agricultural equipment (particularly the more expensive machines) and partnerships in agricultural production on a co-operative basis should be strongly encouraged among them.

Several of the Commission's recommendations on agricultural financing are aimed at assisting deserving small farmers experiencing difficulties as a result of circumstances beyond their control in such a way that they can afterwards regain economic independence. To achieve this, the Commission considers it essential that such assistance in agricultural financing should be conducted on a business and merit basis, that it should be accompanied by economic extension services and that the borrower should have to comply with certain requirements relating to planning, farming activities, book-keeping and management, all of which are considered to be of cardinal importance to successful farming.

The Commission is of the opinion that any financing and marketing policy that may be decided on for agriculture should be based on economic principles applicable to enterprises run on a structurally acceptable basis and at a nothing less than average level of efficiency as regards labour, mechanisation and capital. In preparing its Third - and final - Report the Commission therefore concentrated on such economic measures as are considered necessary to prevent the progress of such deserving farmers being hampered by shortcomings in production, financing and marketing conditions to such an extent that their enterprises cannot keep pace with the rate of progress as stimulated by technological advances and to enable them to meet the increasing demands of a rapidly growing economy.

From this angle the Commission made a thorough study of agricultural financing as regards the granting of credit, State aid schemes, the marketing of agricultural products and crop insurance and made numerous recommendations on these matters, as summarised in Chapter X of this report.

Considering the circumstances responsible for the instability in agricultural income, the unevenness in the distribution of personal farming income and the high incidence of uneconomic farming enterprises, the progress made by the more successful farmers in South Africa on economic farming units during the post-war years can only be described as phenomenal. This is borne out by data which the Commission received recently and which shows, among other things, that about half of the country's farmers have been responsible for no less than about three-quarters of the total agricultural output.

There can be no doubt that the contribution made by these more successful farmers to agricultural production justifies a policy in respect of financing and certain other economic measures which will take due account of their share in the national economy.

Having studied the available information on agricultural credit in depth, the Commission is

satisfied that the position of the agricultural sector as regards agricultural credit is not so critical as to necessitate drastic changes in the present systems or policy with regard to credit. However, the Commission found that the agricultural sector has a very real need for more adequate medium-term credit facilities that are better adjusted to the sector's special requirements. Important recommendations were made in this connection.

The Commission is of the opinion that the recommendations on steps which are mainly economic and are aimed at supporting agriculture in some way or other will not produce results that will really be of lasting value, even in the case

of the more successful farmer, unless the principal recommendations of the Commission in its Interim and Second Reports are implemented on every farm - recommendations aimed at sounder farming systems, better conservation practices, good management and biophysical stability and at a structurally sound basis for agriculture.

In conclusion the Commission therefore considers it important to emphasise its deep conviction that the recommendations made in this its Third Report will succeed in achieving their objects only to the extent to which the recommendations contained in its Interim and Second Reports are implemented.

ANNEXURE A

MEMORANDA RECEIVED BY THE COMMISSION

1. Afrikaanse Handelsinstituut
2. Afrikaskop Farmers Union (Harrismith)
3. Agricultural Unions of Lindley, Petrus Steyn, Steynsburg, etc.
4. Agter-Pakhuis Farmers Union
5. Albert Farmers Union (Burgersdorp)
6. Balmoral Farmers Union
7. Banana Control Board
8. Barclays Bank D.C.O.
9. Beef Producers Union: Natal, Zululand, etc.
10. Blyde-Olifants Farmers Union
11. Boereversekering (Paarl)
12. Boland Agricultural Union
13. Brakkloof Farmers Union (Swartruggens)
14. Brandwag Farmers Union: Mossel Bay
15. Bredasdorp-Napier Co-operatives, Farmers Union, etc.
16. Bronkhorstspuit District Agricultural Union
17. Buffelshoek Farmers Union (Graaff Reinet)
18. Bureau of Standards
19. Canned Apricot/Peach Control Board
20. Centabak of S.A.
21. Chicory Control Board
22. Chief Extension Officer, Gordonia
23. Chief Extension Officer, Nylstroom
24. Chief Extension Officer, Vryburg
25. Cilliers, Prof. S.P.
26. Clark Cotton Co. Ltd., J.L.
27. Co-operative Advisory Board
28. Dairy Industry Control Board
29. Deciduous Fruit Board
30. De Kock, H.J. (Queenstown)
31. Dept. of Agricultural Economics & Marketing (Co-operation in Agriculture)
32. Departments of Agriculture (Drought)
33. Departments of Agriculture (Technical-biological, Economics)
34. Department of Bantu Administration and Development (General)
35. Department of Bantu Administration and Development (Labour)
36. Department of Coloured Affairs
37. Department of Forestry
38. Department of Indian Affairs
39. De Swardt, S.J. (Crop Insurance)
40. De Wet, I.J. (Sterkstroom)
41. Director: Karoo Region (Dept. Agric. Technical Services)
42. Director: O.F.S. Region (Dept. Agric. Technical Services)
43. Director: O.F.S. Region (Dept. Agric. Technical Services) - Co-op. Mech.
44. Division of Nature Conservation (T.P.A.)
45. Donaldson, C.H. (Armoedsvlakte)
46. Dried Fruit Control Board
47. Dry Bean Board
48. Dunell Ebdon & Co.
49. East Coast Agricultural Union
50. Eastern Agricultural Union
51. Eastern Province Agricultural Union (Taxation)
52. Economic Advisor: Prime Minister
53. Egg Control Board
54. Egg Control Board (Minority Opinion)
55. Egg Production Industry
56. E.S.C.O.M.
57. Farmer Group: Ermelo
58. Farmers: Randburg Electoral Division
59. Farmers' Co-operative Union
60. Fertilizer Society of S.A.
61. Gouse, M.T. (Jamestown)
62. Grosskopf, J.F.W. (Univ. Pretoria)
63. Halfgewonne Agricultural Union (Bethal)
64. Hammonia Farmers Union (Ficksburg)
65. Hugo, W.J. (Karoo Region, Dept. A.T.S.)
66. Imperial Cold Storage Ltd.
67. Institute: Combating of Water Contamination
68. Institute of Market Masters
69. Karoo Agricultural Union
70. Kleynhans, F.J. (Tin Mines)
71. Knapdaar Farmers Union (Burgersdorp)
72. Kolbé, Prof. F.F.H.
73. Kreuttzner, A.W.
74. Kuschke Agricultural High School
75. K.W.B.
76. Kwelera-Gonubi Soil Conservation Committee
77. K.W.V.
78. Labuschagne, A.F. (Pretoria)
79. Landbank (Extent of assistance to farmers)
80. Landbank (General)
81. Lombard, Prof. J.A. and co-operators
82. Lucerne Seed Control Board
83. Maize Board
84. Malcomess Ltd.
85. Management Committee: Nationalist Party, Lichtenburg
86. Maree, R.P. (Ventersdorp)
87. Marikana Farmers Union
88. Marquard District Agricultural Union
89. Meat Control Board
90. Midlands Agricultural Union
91. Mohair Control Board
92. Moreland Molasses Co. Ltd.
93. Motor Industries Federation
94. Murray, C.A.
- 94(a) Murray, C.A. & Strydom, J.C. (Fison's)
95. National Institute for Water Research
96. National Karakul Farmers Union
97. National Parks Board
98. National Council of Women
99. National Veld Trust
100. National Wool Growers Association of S.A.
101. Natal Parks, Game and Fish Preservation Soc.
102. Natal and Griqualand Fresh Milk Producers Union
103. Neethling, J.C. (Dept. Agric. Econ. & Marketing - Labour & Mechanisation)
104. Netherlands Bank of S.A.
105. North-Eastern Agricultural Union
106. North-Eastern Cape Province Agricultural Union
107. Northern Cape Province Agricultural Union
108. North-Western Agricultural Union
109. O.F.S. Agricultural Union & Sentra-Oes. (Crop Insurance)
110. Oilseeds Control Board
111. Old Mutual
112. Omnia Agricultural Investments Ltd.
113. Orange River Agricultural Union (Co-op. Use of Implements)
114. Orange River Agricultural Union (Drought Relief)
115. Orange River Agricultural Union (General)
116. Organic Soil Association of S.A.
117. Phillips, Prof. John F.V.

118. Pietersburg District Agricultural Union
119. Postmasburg-Langberg Farmers Union
120. Potato Board
121. Registrar of Co-operatives
122. Research Institute: Veterinary; Onderstepoort: Dept. A.T.S.
123. Robertson Farmers Union
124. Rooibos tea Control Board
125. Rörich, A. (Controlled Marketing)
126. S.A. Cane Growers Association
127. S.A. Cotton Textile Manufacturers
128. S.A. Federated Chamber of Industries
129. S.A. Fruit & Vegetable Canners Association
130. S.A. Co-operative Citrus Exchange
131. S.A. Agricultural Union (Comprehensive Crop Insurance - 1st Report)
132. S.A. Agricultural Union (Comprehensive Crop Insurance - 2nd Report)
133. S.A. Agricultural Union (General)
134. S.A. Agricultural Union (Reconstruction: Droughtstricken Areas)
135. S.A. Agricultural Union (Debt Position of Farmers)
136. S.A. Agricultural Union (Debt Survey of Farmers)
137. S.A. Maize Producers Institute (Devaluation)
138. S.A. Maize Producers Institute (General)
139. S.A.N.L.A.M.
140. S.A. Oil Producers (Central Co-op. Ltd.)
141. S.A.S.K.O.
142. S.A. Sugar Millers' Association
143. S.A. Timber Growers' Association
144. S.A. Wool Board
145. S.A. Wool Commission
146. S.A. Wool & Mohair Brokers Association
147. Southern Africa League
148. Southern Lowveld Farmers' Union
149. Spoel, N. (Cold Storage Commission, Rhodesia)
150. Standard Bank of S.A.
151. Southern Cape Province Agricultural Union
152. South-Western Agricultural Union
153. Toikon Study Group
154. Town Council of Krugersdorp
155. Transkei Dept. of Agriculture
156. Transvaal Agricultural Union
157. Tree Planters Club (Kestell)
158. Truter, J.W. (Kommodagga)
159. Umvoti Agricultural Society (Greytown)
160. Van den Burgh, A. (Middelburg, Cape)
161. Van der Merwe, J.P. (Dept. A.T.S.)
162. Van Rensburg, F.C. (Vredefort)
163. Viljoen, A.C. (Highveld Region, Dept. A.T.S.)
164. Volkskas
165. Vryburg Farmers Union (General)
166. Vryburg Farmers Union (Stock Drinking Problems)
167. Vryburg Study Group
168. Wessels, J.J. (Johannesburg)
169. Whitlock, L.F. (Dept. A.T.S.)
170. Zeecoro River Soil Conservation Committee
171. Zeerust District Agricultural Union (Mining vs. Agriculture)

ANNEXURE B

OTHER DOCUMENTS CONSULTED BY THE COMMISSION

1. Department of Agricultural Credit and Land Tenure - Financing of the Agricultural Industry by the Government in accordance with the Act on Agricultural Credit, 1966.
2. Hattingh, H.S. (Dept. Agric. Econ. & Marketing - Economics of the Stock Reduction Scheme)
3. Hattingh, H.S. (Dept. Agric. Econ. & Marketing - Co-operative Production)
4. Highveld Region (Dept. A.T.S. - Drought Conditions)
5. Kotzé, Prof. H.A. (University of O.F.S. - Farming Companies)
6. O.F.S. Region (Dept. A.T.S. - Drought Conditions)
7. S.A. Agricultural Union (Extension of Landbank Services)
8. Transvaal Region (Dept. A.T.S. - Drought-stricken Areas N.W. Tvl.)
9. Transvaal Region (Dept. A.T.S. - Veld Condition Classes: Disaster Areas)
10. Transvaal Region (Dept. A.T.S. - State Aid to Farmers)
11. Transvaal Region (Dept. A.T.S. - Veld Conditions: Drought Areas)