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REQUIREMENTS FOR CONTRIBUTIONS

Articles in the field of agricultural economics, suitable for publication in the journal, will be welcomed.

Articles should have a maximum length of 10 folio pages (including tables, graphs, etc.) typed in double spacing. Contributions, in the language preferred by the writer, should be submitted in triplicate to the Editor, c/o Department of Agricultural Economics and Marketing, Pretoria, and should reach him at least one month prior to date of publication.

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Contents

NEEDED ADJUSTMENT IN AGRICULTURAL FINANCING

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INTRODUCTION

In the past few decades, the agricultural sector has, in many ways, undergone revolutionary changes. These changes mainly reflect adjustments inherent in economic growth and are necessitated by the aim of a higher level of prosperity for the entire national economy.

In this process of change, the agricultural sector has become more commercialised, often leading to greater specialization by individual farmers. Because of this, agricultural enterprises should, to a greater extent than before, be approached as businesses.

The inceasing role of capital is a typical characteristic of this process of change and this has brought the need for, and rationalization of agricultural financing strongly to the fore. The problem of the provision of credit and agricultural financing, has , therefore, enjoyed considerable attention in the Republic in the past few years, not only from the Government, but also from certain unofficial institutions.[1]

As the reports of the Agricultural Commission form the central theme of this congress, this paper will be mainly devoted to the Commission's recommendations regarding the adjustments to the present agricultural financing framework that may be deemed necessary.

BASIC PRINCIPLES FOR A SOUND FINANCING POLICY

The basic theoretical principles of financing are applicable to all types of business and agricultural enterprises are no exceptions in this case. In order to formulate a rational financing policy for agriculture, it is of the utmost importance that the following three principles, namely, profitability,* liquidity and solvability, should form the basis of formulating such a policy.

* Often referred to as rate of return on capital

TYPICAL CHARACTERISTICS OF AGRICULTURE

The agricultural sector is characterised by certain typical distinctive features, setting it apart from other sectors of the economy. From a financing point of view, the influence of these distinctive features on the nature and the extent of the capital requirements, the stability of the income and the long-term profitability, are extremely important, as these factors would determine to what extent the general guide-lines for a sound agricultural financing policy would have to take on a character of its own.

Both the Study Group for Inquiry into Agricultural Credit[2] and the Agricultural Commission[3], in their various reports, discuss several factors in the abovementioned respect. For the sake of completeness, the most important aspects are briefly discussed below:

(a) Nature-bound production and its seasonal nature

The fact that agricultural production is closely dependent on nature, is undoubtedly one of the most important factors determining the characteristic features of financing an agricultural enterprise. The fluctuations in natural conditions from year to year bring about considerable fluctuations in physical agricultural production, even when production factors are applied at constant levels. The uncontrollable influence of nature on agricultural production also impedes the adjustment of production to changing demands.

The seasonal nature of field crop production in particular leads even within production periods to fluctuations in the income on the one hand and the need for operating capital on the other.

Agricultural production is, therefore, characterised by considerable fluctuations in income and operating capital requirements, appearing within as well as between subsequent production processes.

(b) Marketing factors

The agricultural sector produces primary consumption goods, mainly characterised by the low price elasticities of demand. Relativelysmall changes in quantities produced therefore bring about large fluctuations in price. Although price stabilisation measures by the Government can mitigate these fluctuations considerably they do not necessarily ensure greater income stability, as the physical production can still fluctuate considerably as a result of natural conditions.

(c) The importance of land as production factor

Land is the primary production factor in agriculture, and usually represents the greater part of the capital needs of a farming enterprise. Land, however, has the unique quality that it forms an irreplaceable asset with a virtually unelastic supply. Compared to this, the demand for land for agricultural as well as non-agricultural purposes is ever increasing. Land prices therefore tend to rise continually and this rise is not always related to the productive value of the land for agricultural purposes. This tendency towards the separation of the market value and the productive value of agricultural land has considerable significance for the establishment of a realistic financing policy for agriculture.

(d) Predominant tenurial and organisational forms

Traditionally the one-man business organisation dominates in agriculture, and the farmer is usually also the owner of the entire or the biggest part of the farming unit on which he farms. Thus, ownership and management in agricultural enterprises are unusually embodied in one person. Because of the particularly high standards demanded of the individual farmer by this situation in present circumstances, the personal characteristics, knowledge and managerial ability of the farmer, strongly come to the fore in considering agricultural credit.

From a financing point of view, the fact that the one-man enterprise predominates in agriculture is important also for some other reasons. It firstly leads to a limited source of own capital for the enterprise. This does not only apply to the establishment of a new enterprise, but also to problems experienced by existing enterprises with a lack of economic vitality to provide the ever increasing capital needs. It is therefore usually necessary to lean heavily on borrowed capital. Secondly it has the effect that a larger number of entrepreneurs, each autonomously, makes production decisions and therefore hampering the adjustment of supply to changing market conditions, irrespective of the effect of climatic conditions. Lastly, serious financial problems can occur with the succession arrangements of a one-man enterprise as a result of the traditional inheritance systems found in agriculture.

(e) Long-term profitability

In developed countries there is a tendency for the yields on capital in agriculture, even in favourable years, to be low compared to yields on capital obtained in other sectors.[4] This puts the agricultural sector in a poor competitive position for loan capital on the open market, particularly in the higher phases of the business cycle when interest rates are high and funds are scarce. If agriculture cannot depend on preferential interest rates, this would also mean that the utter limit at which loan capital can be profitably attracted would be reached sooner in the case of agricultural enterprises than in the case of other business types.

BROAD GUIDE-LINES FOR A RATIONAL FINANCING POLICY IN AGRICULTURE

The basic principles of financing broadly amount thereto that an enterprise regarding credit should still have a sound liability structure after it receives that credit. In order to maintain liquidity, periods in terms of credit must be adapted to the term over which the capital is required within the enterprise. In order to maintain solvability, the total extent of liabilities should not exceed a reasonable resale value of the assets. In addition, the level of profitability on total capital achieved in the enterprise, compared to the interest rate payable of loan capital, determines to what extent borrowed capital can advantageously be attracted to the enterprise.

In the discussion of the typical characteristics of agricultural production, it becomes apparent that three aspects in particular, have important implications on the application of the above principles, namely:

(a) The relatively low profitability on agricultural capital;
(b) the instability of income over the short run; and
(c) the gap between the market and the productive value of agricultural land.

As has been mentioned, the relatively low profitability on agricultural capital limits the extent to which loan capital can profitably be applied in an agricultural enterprise. It is, therefore, important that new as well as existing farmers who apply for more credit should nave at their disposal enough own capital in order not to exceed this limit in credit provision. Because of the instability in income, it is also necessary to set up reasonably broad limits for the continuous maintenance of liquidity in order to enable the farmer to have enough means and/or clearance at his diposal, even in times of low income, to meet his obligations to suppliers of borrowed capital, as well as to continue his farming operations at a desirable level. The implication of the gap between market value and productive value of agricultural land, from a finance point of view, is that the farmer's ability to pay can become separated from the value of the securities in his enterprise, even when a sound financial structure is maintained. This phenomenon renders necessary the determination of credit provision on the basis of the economic expectations of the farm and not on its security value. In the first case, aspects such as the type of farming, the managerial ability of the farmer and market conditions should be taken into account. Thus, credit provision should be based on the ability of the farmer to meet his obligations out of the net income of his farm without endangering the minimum standard of living of the farmer and his family.[5] The importance of the size of the enterprise in the establishment of a realistic finance policy clearly flows from this last statement.

Although the above approach is, in broad terms, applicable to the agricultural sector as a whole it does not hold for all farm types and regions to the same extent. In formulating guide-lines for rational agricultural finance, it is therefore necessary to differentiate very distinctly between different farming types and/or regions. As considerable differences in economic prospects of farm enterprised may exist, even within relàtively homogeneous farming regions, particularly as a result of differences in the inherent production potential of farms and managerial ability of farmers, it is imperative that such differences should be thoroughly taken into account when individual farmers are financed.

Agricultural economic studies in the past few years indicate that differences in the abovementioned respect are at present relatively large in South African agriculture.

With respect to the gap between the market value and the productive value of agricultural land, it can generally be stated that the more extensive the farming type, the greater the relative difference between the average productive value and the market value of the land.[6] The Committee of Inquiry into the Financial Position and Financing of Small Stock Farmers, for example, estimated that in 1970/71 the average productive value (capitalised at 10 per cent) of the farm capital in the Central Karroo (extensive sheep farming) was only 40,1 per cent of the estimated market value.[7] In contrast to this, it was shown that the average productive value of the capital investment in irrigation farming in the sixties was slightly higher than its conservative market value.[8]

The average net income per unit of capital also differs considerably between farming types. At the present stage a general norm for net farm income per R100 capital, would be R5 in the case of extensive stock farming compared to R13 in the case of irrigation farming.[9]

The existence of large differences between the efficiency level maintained by the best third of farmers as against that of the poorest third of farmers, even in relatively homogeneous farming regions, has been sufficiently proven. These variations occur in good as well as poor years.[10]

THE PRESENT FINANCIAL POSITION OF FARMERS

There exists a serious lack of sufficient dependable information on the present financial position of South African farmers, particularly on the distribution between and within various farming regions. In this case a few important facts and conclusions flowing from the available information will have to suffice.

On the basis of illuminating analyses, the Agricultural Commission concludes that the economic progress of the agricultural sector has generally kept in step with that of the rest of the national economy since 1947/48. It is also the opinion of the Commission that little doubt could exist over the fact that the average growth trends in economic prosperity of farmers have been relatively favourable, particularly during the sixties. It points out, however, that a generalisation on the basis of averages would probably be an over-simplification of the real state of affairs and that it would not reveal the extent and nature of the true underlying deviations. In this respect the Commission particularly refers to factors such as the instability and the skew division of income between regions, as well as between individual farmers.[11]

In Table 1 the total debt burden, the estimated value of capital assets and the mean debt ratio for agriculture in South Africa at the end of 1970/71 is shown. According to this it appears that the total debt burden amounts to R1 142,2 million, of which nearly 60 per cent consists of mortgages on land. Against this, the estimated value of capital assets in agriculture is R7 060,5 million, land and improvements accounting for approximately 72 per cent thereof. The mean debt ratio in agriculture can therefore be put at 16,2 per cent.

Superficially one could come to the conclusion that the position of debt in agriculture is fundamentally sound and that there is no reason for concern. A considerable number of factors should, however, be taken into account in this respect.

In the first instance, the total debt ratio gives no indication of a probable imbalance in the liability structure and should only be regarded as a reflection of the security position of a business of enterprise. The recent inquiry of the Committee of Inquiry into the Financial Position and Financing of Small Stock Farmers has also shown that an imbalance does occur in the liability structure of this group of farmers.[12]

Secondly, it has already been mentioned that the gap between the productive and the market value of agricultural land gives rise to a discrepancy between farmers' abilities to pay and the security value of their farm assets, even when a sound liability structure is maintained. Particularly in the case of extensive types of farming, farmers would encounter problems, even at a relatively low debt ratio, to meet their financial obligations.

Thirdly, consideration should be given to the size of the net income of a farm compared to family living requirements. If these needs have been met, farmers with relatively small enterprises would also encounter problems in meeting their debts, even at a relatively low debt ratio.

In conclusion a strong possiblility exists that, because of the distorted division of income between regions as well as between individuals, the distribution of debt burdens would also be skew. More light has been thrown on this aspect through a study by the South African Agricultural Union undertaken in 1970.[13] From this study it emerged that for the Republic as a whole, 17,5 per cent of the farmers had no debts and that the debt ratio of a further 14,9 per cent was less than 5 per cent. Against this, more than 10 per cent of South African farmers had a debt ratio of between 40 and 60 per cent, while approximately 6 per cent had a debt ratio of more than 60 per cent.

In the above study, similar comparisons were made on a regional basis, in which the Republic was subdivided into 34 regions. Even though the boundaries did not coincide with the natural farming regions of the Republic,[14] it was particularly evident that regions in which a relatively high percentage of farmers had a debt ratio of more than 60 per cent, consistent mainly of the extensive stock farming regions of the Karroo, the Eastern Cape and Northern Transvaal. A relatively high percentage of farmers with a large debt ratio was also found in the mixed farming regions of the Western Cape, as well as in the South Eastern Free State, where a high risk is attached to cash crop production.

It is therefore meaningful that, in the first-mentioned regions, it is estimated that an alarmingly high percentage of farming units do not comply with some minimum requirements for viability,[15] and that in the case of the latter, a real danger exists for maladjusted farming systems to be applied.

In summary, it can be stated that the security position of the South African farmer is reasonably sound on the whole, but that, from the point of view of farmers' abilities to pay, the situation is not quite as rosy. The skew distribution of the debt burden among individual farmers has shown that, even from the point of view of security, the financial position of a certain group of farmers gives reason for concern. The fact that these farmers are particularly concentrated in extensive stock farming regions where there is a high incidence of non-viable small farms, confirms that in these regions the continuous existence of large parts of the farming community is being threatened by a poor financial position.

THE FINANCING PATTERN IN AGRICULTURE

In its written as well as oral reports before the Agricultural Commission, the South African Agricultural Union stressed that the most important problems of the agricultural sector centered around financing and that the general pattern of financing in agriculture should enjoy the serious consideration of the Government.[16] In my opinion, however, it is important that the poor financial position of some farmers should not only be sought in deficiencies in the finance pattern, as the financial problems of many farmers could only be a symptom of which the real underlying causes could be found outside the field of finance. From the above discussion it would seem that small units and maladjusted farming systems play a particularly important part in this respect. The Agricultural Commission therefore set as prerequisite for rational credit provision that such inherent weaknesses in farming enterprises should be taken into account, and if necessary, be discriminated against.[17]

Because of the limited time at my disposal, and because of support for the view of the Commission on Agriculture that the present situation, regarding agricultural credit, is not that critical as to warrant drastic changes to the present system, only a few aspects that warrant closer attention will now be discussed.

(a) Relative importance of credit sources

Table 2 shows the relative importance of the different credit sources in agriculture on the basis of the most recent agricultural census data (1970/71). From these data it emerges that the Land Bank is the most important single source of finance for farmers and that at the end of 1970/71 it held 24 per cent of the farmers' outstanding debts. Where direct financing of farmers is concerned, the Land Bank concentrates on the long-term needs of farmers but is also an important source of finance for agricultural co-operatives, who in their turn are an important source of short-term credit to farmers. Farmers' outstanding debts to Government Departments amount to approximately 8 per cent of the total. This type of credit provision is aimed at the so-called "category III farmers,"[18] who can broadly be described as farmers who are less credit worthy, and who cannot obtain credit from other sources. Where private institutions are concerned, commercial banks are the most important source of finance and are by far the

TABLE 1 - The total debt burden, estimated value of capital assets and the debt ratio in South African Agriculture, 1970/71

		R million	
(1) Total debt burden[1]			
(a) Mortgages on land			682,4
(b) Other debts according to term -			
5 years and more		184,9	
1 - 5 years		101,3	
1 year and less		173,6	459,8
Total debt burden			1 142,2
	31 December 1970[2]	31 December 1971[2]	30 June 1971[3]
	R million		
(2) Value of capital assets			
(a) Land and improvements	4 997,9	5 150,3	5 074,1
(b) Machinery, equipment, vehicles and tractors	712,3	763,1	737,7
(c) Livestock	1 205,7	1 291,6	1 248,7
Total value of capital assets	6 915,9	7 205,0	7 060,5
(3) Debt ratio			16,2%

Source: 1) Agricultural census - 1970/71 (30 June 1971)
2) Abstract of Agricultural Statistics - 1973 (prelimmanary figures)
3) Calculated as the arithmetical average between 1970 and 1971

TABLE 2 - The percentage composition of outstanding farming debts in the Republic according to credit source, 1970/71

Total debt burden and source	Form and term of debt				Total debt burden
	Mortgages on land	Other debts and loans			
		above 5 years	1 - 5 years	1 year and less	
	R million				
Percentage composition according source	682,4	184,9	101,3	173,6	1 142,2
	%				
Land Bank	33,0	22,8	5,8	0,9	24,0
State Departments	9,2	11,0	5,2	1,0	7,9
Co-operatives	0	1,3	7,7	27,5	5,1
Commercial banks	15,0	11,0	28,4	42,6	19,8
Insurance companies	5,8	7,7	1,7	0,7	5,0
Executors chambers	8,3	5,0	2,1	0,9	6,1
Other financial institutions	9,6	14,9	16,3	4,1	10,2
Private persons: Farmers	5,9	5,7	8,2	2,2	5,5
Other	12,8	17,0	17,2	4,4	12,6
General dealers	0	0,3	1,1	5,8	1,0
Garages	0	0	1,8	3,7	0,7
Docters, dentists, etc.,	0	0	0,1	0,7	0,1
Other businesses	0,4	3,2	4,4	5,5	2,0
Total	100,0	100,0	100,0	100,0	100,0

Source: Agricultural census - 1970/71 (30 June 1971) most important suppliers of short-term credit to agriculture (42,6 per cent of loans under one year). Outstanding debts to other financial institutions such as insurance companies, hire purchase banks, etc., jointly amount to 21,3 per cent of the total. Private persons still remain an important source of finance for many farmers (18,1 per cent) and it is particularly noticeable that 25,4 per cent of the loans with a term of one to five years are owed to private persons.

The fact that a specialised agricultural financing institution such as the Land Bank presently provides less than one third of the credit needs of farmers, together with the fact that the credit facilities of private financial institutions are not always geared to the specific conditions of agriculture, should definitely be seen as an important deficiency in the present financing structure in agriculture.

(b) **Sufficiency of agricultural credit**

It appears that a relatively excessive supply of mortgage loans were available to the farming community and that this contributed to the rise in land prices.[19] Where short-term credit is concerned, it can be stated that it was often so easily come by that farmers used it indiscriminately for the financing of maladjusted farming enterprises and often also to finance medium-term projects.[20] All evidence, however, indicates that there has been a shortage of suitable medium-term credit facilities for the farmer for a considerable time. It is, of course, also possible that farmers are ignorant of the facilities supplied by the Land Bank and the Agricultural Credit Board.[21] The lack of proper liaison between financial institutions connected with agricultural finance is also clear in view of the fact that in some cases there is an over-supply of funds, while a shortage occurs in other cases.

(c) **Effective procedures**

The time delay brought about by certain administrative procedures in the consideration of applications for credit can play an important part in the timeliness, and therefore also the effectiveness, of granting credit. This factor is of particular importance in the consideration of loans for the purchase of tools and short-term production requirements, but it can also be of decisive importance for long-term loans in cases where options for purchase are involved. Private institutions are forced by their competitive position to follow extremely efficient administrative procedures, while the widespread branch systems of some of these organisations contribute much thereto. Both the Agricultural Commission[22] and the Committee of Inquiry into the Financial Position and Financing of Small Stock Farmers[23] mention, however, that according to evidence, doubts exist over the efficiency of application procedures at the Land Bank as well as the Department of Agricultural Credit and Land Tenure.

(d) **The effectiveness of credit provision**

It is self-evident that the effectiveness of credit provision must be measured against the way in which it contributes to the realisation of the general aims set for agriculture. The Agricultural Commission defines the aims for effective credit provision as the extent to which it helps the farmer to become more self-reliant and credit-worthy and the way in which it promotes agricultural production on the basis of the conservational use of natural resources. The Commission holds the opinion that, apart from the sufficiency of agricultural credit, there is also ample reason to be concerned about the effectiveness of credit, particularly put at the disposal of farmers by private sources. They also have the impression that Government-aided credit institutions in particular, tend to help less meritorious entrepreneurs, while many better farmers are obstructed because they cannot obtain the necessary capital for meritorious expansion if their productive activities.[24]

It has repeatedly been stressed that the ever-increasing gap between the market and the productive values of agricultural land makes it imperative for the farmer's ability to pay to be used as the decisive factor in credit provision in agriculture. Private financial institutions, however, tend to provide credit on the basis of farmers' securities, particularly when funds are readily available. Apart from this, the policy of providing credit on the basis of abilities to pay is greatly obstructed by the general lack on the one hand of a simple methodology to determine a farmer's ability to pay and, on the other hand, by the lack of sufficient dependable physical and economical norms.[25]

It would seem that there is a lack of co-ordination regarding the use of more uniform standards, even between the Land Bank and the Agricultural Credit Board.

In the determination of creditworthiness, it is common practice for credit institutions to bring the personal characteristics of the farmer into calculation, merely on a purely subjective basis according to personal impressions. Seen in the light of the decisive role of the managerial ability of the farmer in the eventual financial success, this procedure must also be regarded as a serious deficiency in the present agricultural financing pattern.

As in the case of the investigation of the Agricultural Commission, several other investigations in which the core of the problems of South African agriculture have been highlighted, have led to the conclusion that too small farm units and maladjusted farm practices and systems are some of the most important problems of agriculture at present. The question can in all fairness be put to what extent injudicious credit provision has contributed to these problems and to what extent it is geared to overcome these problems. Unfortunately the necessary information is not available, particularly with regard to private credit sources, to give a definite answer to these questions.

It has been the policy of the Land Bank, as well as the Agricultural Credit Board, for some time now, not to finance farmers with small non-viable units, unless the financial support is aimed at converting the existing unit into a viable one. In the case of the Land Bank, however, doubt exists about the basis on which the decision is made whether a unit is viable, as this is usually based upon the subjective judgement of the Land Bank valuator concerned.

With regard to maladjusted farming systems and practices, it cannot be denied that injudicious finance has also played a role in the maluse and malutilization of land that have led to so many problems[26] In this respect, necessary information on Government support to farmers exists only with respect to production and stock feeding loans. The Agricultural Commission has pointed out that approximately one quarter to one third of the total number of applications for production loans in the Republic, from 1967/68 to 1970/71, originated from ten districts in the summer rainfall region, regarded partially or wholly as sub-marginal for the production of cash crops.[27] Further analyses have shown that in comparison to the more acknowledged cropping areas, a higher percentage of the applications from these areas were successful.[28] In reference to the stock-feed loan scheme, the Commission holds the opinion that this scheme has largely contributed to delayed stock reductions and therefore over-utilisation of the veld.[29] Without doubt the need exists for better cooperation between the Department of Agricultural Credit and Land Tenure and the other Agricultural Departments so as to ensure that the direct and indirect results of Government financing activities would serve the promotion of the general agricultural policy of the State.

Follow-up of credit provision

The Study Group for Inquiry into Agricultural Credit had already mentioned in its report which appeared in 1961 that "category III farmers" could not be rehabilitated by financial measures alone and required special guidance. The Study Group was also of the opinion that the guidance was required not only on technical aspects, but particularly on aspects such as finance and the economic management of the enterprise.[30] The Agricultural Commission, however, points out that although good progress has been made with the financing of this group of farmers, serious gaps still existed in the follow-up of credit provision. In this respect the Commission refers to applicable technical and economic extension services, the planning of farms, production programming and the continuous revision of production plans, the keeping of purpose-directed farm records and the regular handing-in of progress reports. It also holds the opinion that such follow-up arrangements are necessary for Land Bank cases.[31]

NEEDED ADJUSTMENTS

Needed adjustments in the present agricultural finance set-up in South Africa can broadly be divided into two categories. On the one hand, it deals with measures needed to correct the structure, policy and procedures of credit institutions, as well as to acquaint farmers with the basic principles of finance. On the other hand, it deals with financial support which can be used to supplement other measures in overcoming the basic causes for the present structual problems in agriculture. As these measures would in many cases overlap, they cannot be placed into two watertight compartments. For the purpose of a systematic discussion of these measures, it will consequently be put under the following headings:

(a) **Corrections in the structure, policy and procedures of credit institutions**

(i) **Corrections in the structure** — Because of the fact that private financial institutions are not able, for several reasons, to adapt in all respects their credit provision services to the specific needs of agriculture, there is a relatively general feeling that a specialised agricultural financing institution should undertake a bigger share of agricultural finance. With the exception of the Agricultural Credit Board, which confines itself to a specific group of farmers, the Land Bank is generally accepted as the financing institution best suited to the particular characteristics of agriculture. Apart from the Agricultural Commission, both the Commission of Inquiry into the Fiscal and Monetary policy in South Africa[32] and the Committee of Inquiry into the Financial Position and Financing of Small Stock Farmers[33], suggested several measures aimed at enablement of the Land Bank to meet the financing needs of the agricultural sector on a wider front. These measures are mostly aimed at enabling the Land Bank to attract more funds. The Agricultural Commission recommended that, apart from existing procedures that should be maintained, tax concessions based on interest on capital invested with the Land Bank, should be made to farmers and co-operatives.[34] It should be kept in mind, however, that funds flowing to the Land Bank in this way would in most cases bring about the withdrawal of funds from other institutions and that it would not necessarily enlarge the total amount of funds that could be put out at the disposal of the Land Bank and the farming community as a whole. In this respect, the recommendation of the Committee of Inquiry into the Financial Position and Financing of the Small Stock Farmers that the Land Bank should strengthen its funds with foreign capital that can be drawn at favourable interest rates, certainly holds merit. This would enable the Land Bank to act more independent of direct Government support and it would also be possible to implement the recommendation of the Commission that it would be preferable in such circumstances to put the credit facilities at the disposal also of wealthier farmers, subject to certain conditions regarding the purchase of land.

(ii) **Expanding medium-term credit to farmers**— In its Third Report the Agricultural Commission mentions that it is under the impression that a particular need exists for a type of medium-term credit that would support agriculture as adequately as possible in certain perennial production situations. Situations in which such intermediate credit would be necessary would firstly be during times of successive years of unfavourable natural conditions; secondly, in the finance of correcting maladjusted farming systems; and thirdly, for the establishment and re-establishment of farm enterprizes with long production cycles. On this basis, the Commission supports the recommendations of the Franzen Commission[35] that special medium-term facilities in the form of intermediate financing by the Land Bank should be made available and that it merited high priority and urgent attention. Because the recommendations of the latter Commission is mainly applicable to cases where financial problems are being encountered as a result of unfavourable agricultural conditions, the Agricultural Commission has made additional recommendations to make similar facilities available for the correction of farming systems and the establishment and re-establishment of crops with perennial production cycles.[36] There is no doubt that the implementation of these recommendations will fulfil a long-felt need in agriculture.

(iii) **Adjustments in financing policy** — In its Third Report the Commission repeatedly stresses the need for private financial institutions to use the productive value of an agricultural enterprise as the decisive factor in providing credit for agricultural purposes. Therefore the Commission recommends that the Government should take the leading role in persuading these institutions to follow this principle.[37] Because the implementation of such a policy is obstructed by a lack of applicable standards, the Commission also feels that general standards for the prevailing conditions in each region should be set.[38] The Committee of Inquiry into the Financial Position and Financing of Small Stock Farmers took this recommendation even further by suggesting that the Agricultural Departments should immediately make existing standards available to institutions undertaking agricultural financing and should supplement the lacking standards as quickly as possible. The Committee also recommends that the relevant Department should compile a guide containing a basic method for the determination of a farmer's ability to pay and that it should be made available to all financial institutions.[39] It is therefore very heartening to learn that the compilation of economic standards will enjoy high priority in the work programme of the Division of Agricultural Production Economics in the following year.[40]

The Agricultural Commission also recommended on occasion that the importance of the selection of applicants on the basis of their personal merit should also be considered seriously.[41] Apart from the submission of dependable farm records, the use of the managerial aptitude scale[42] would, to my opinion, fill an important gap in this respect, particularly in the case of applications considered by the Agricultural Credit Board.

(iv) **Conditions for and the follow-up after providing credit** — With reference to the credit provision of the Land Bank and the Agricultural Credit Board, the Commission recommends that it should be provisional and that it should be followed up by an efficient management advisory service.[43] In this respect, the Commission recommends that the Land Bank and the Agricultural Credit Board should seriously consider expert extension services to their farmer debtors, and that the Departments of Agriculture involved and the South African Agricultural Union should be consulted in order to obtain the best utilisation of the available expertise. The Commission also expresses the view that the two credit institutions involved should appoint field officers to help with the follow-up work and to act as liaison with the extention service.[44]

The present shortage of expert staff should be regarded as an important obstacle in the implementation of the above recommendations. In view of the enormous success of the "Farmers' Home Administration Scheme" in America,[45] the author deems it desirable to work in this direction in future as far as agricultural credit cases are concerned.

(v) **Institution of a rising-interest system** — In view of the success to the present of the rising-interest system in Rhodesia, the Agricultural Commission recommends that the Land Bank, as well as the Agricultural Credit Board, should seriously consider applying a similar system in the case of the formerly mentioned special intermediate credit schemes. Because the interest rate in this system systematically rises during the term over which the loan is redeemed, it serves as an important incentive for the farmer to redeem the loan as soon as possible, enabling him to bring about considerable cost savings. It is important, however, that a thorough investigation should be undertaken before the implementation of such a system, because even though it holds definitive advantages, it can also be detrimental in certain circumstances.

(vi) **Co-ordination between credit institutions**– From the investigation of the Agricultural Commission the need for closer liaison between agricultural credit institutions and the co-ordination of the action of all institutions concerned with agricultural finance emerged clearly. For the realization of this aim, the Commission recommends the appointment of an advisory council on agricultural credit policy by the Minister of Agriculture to advise him on a wide range of aspects regarding agricultural credit policy.[46] This recommendation of the Commission should definitely be regarded as an important step in obtaining a rational agricultural financing policy. That the urgent need for such a body is officially recognised, is shown thereby that the Minister of Agriculture has already appointed a Committee for the Co-ordinisation of Agricultural Credit Policy and that this Committee has already sat for the first time on 16 August 1973.

(vii) **Drainage of capital through legacy** — In cases where two or more heirs are concerned, traditional legacy systems in agriculture usually lead to the origin of too small farm units and/or to the drainage of capital from agriculture. Considerable capital drainage arises in cases where a single business successor has to pay out the other inheritors. Because this legacy is determined according to the market value of the property, the successor usually starts out with considerable financial problems. The Commission has therefore found it necessary to recommend that the necessary co-operation of members of the legal profession and other instances concerned be obtained through the proposed advisory council on agricultural credit in order to enable farmers to word their wills correctly. The Commission has also recommended that estate duties should be imposed on the basis of the productive value of the land.[47] An aspect that should definitely receive further attention, is the disadvantages of a legacy in which the successor is only granted usufruct of the land.

(b) The correction of deficiencies in the agricultural structure

It has already been indicated that the fundamental causes for structural problems in agriculture cannot always be overcome by financial measures alone, but financial measures can still be utilised as a powerful additional instrument. In this connection, I will limit myself mainly to the problem of non-viable farm units and maladjusted farming practices and systems.

(i) **Non-viable farming units** — The passing of the Subdivision of Agricultural Land Act (Act 70 of 1970) serves as a measure to prevent the formation of more non-viable farm units. The problem of existing farm units of a physical size that is insufficient to ensure to a farmer with a reasonable managerial ability a worthy existence, can, however, only be solved by the consolidation of such units. In this consolidation process it is inevitable that some farmers would have to leave their farms. Because it is important in order to be able to compete with other sectors of the economy that the agricultural sector should always be striving after a higher efficiency level, it is self-evident that the withdrawal of farmers should be aimed at agricultural entrepreneurs who do not have the necessary managerial ability to be successful in present day farming.

The dual function of financing in the withdrawal of inefficient farmers from agriculture, and the consolidation of too small farming units, is clearly shown by the recommendation of the Agricultural Commission that the policy followed in this case should be such that individuals and farming enterprises with good potentialities should be retained in agriculture or enabled to come into agriculture and that individuals or units must not be allowed to remain in the industry by injudicious credit provision.[48]

The Commission has made several recommendations, directly or indirectly concerned with the implementation of the above policy. Unfortunately there is no time to discuss these recommendations in more detail. The more important recommendations are mentioned only briefly:

- The establishing of a trust for White agricultural land to handle among other things the purchasing, maintenance, administration and allocation of too small farming units becoming available through evacuation.
- The appointment of a study group to investigate the desirability of the promotion of hiring systems as an alternative financing aid, and if desirable, making available at the Land Bank sufficient financial facilities for tenants.
- Conversion of non-viable farm units to viable units by suitable financing of land purchasing and changes in farming systems, as well as by suitable technical and economic extention services.
- Putting into practice a policy of non-financing by all credit institutions in cases of indisputable uneconomic units, with the exception of provisional financing in the case of farmers with an outside income as a temporary measure.

- All institutions providing agricultural credit should encourage those who do not qualify for credit on a basis of personal merit to look elsewhere for alternative work opportunities.

As the problem of non-viable units concerns whole communities in some regions, it can be expected that the Committee of Investigation into Rural Reform, which is at present busy investigating the situation, will make several recommendations in this regard.

(ii) **The correction of farming systems and practices** — In all its reports the Commission has stressed the fact that greater physical-biological stability is a prerequisite for greater economic stability. The pursuance of farming practices and systems that are fully adapted to environmental circumstances can contribute considerably to this goal. Financing policy can also serve a dual purpose in this regard — on the one hand the implementation of a policy of non-financing in cases where credit is applied for that would encourage or establish maladjusted farming practices and/or systems, and on the other hand by providing special financial support in order to enable farmers to change over to better adapted farming systems.

In the latter regard, the Agricultural Commission has recommended that a voluntary adjustment scheme on a regional basis should be established. It has also recommended that suitable medium-term credit facilities should be made available to farmers for this purpose on condition that it could only once be applicable to a particular farm and that the set goals would have to be reached and maintained within a certain period.[49]

The implementation of the above policy is obstructed to a great extent by the lack of sufficient knowledge of optimum utilisation systems in many farming regions. Although the determination of such systems would be a revolutionary process, this direction should be zealously pursued. In this connection, the Department of Agricultural Technical Services has an important part to fulfil. It is also important for this Department to make the necessary guide-lines available to credit institutions and to take the responsibility for decisions that have to be made in this regard.[50]

SUMMARY

In this paper I have endeavoured, in the first instance, to set broad guide-lines for a rational agricultural finance policy, taking into account the typical characteristics of agriculture. Secondly, I have briefly touched on the present financial situation of the South African farmer, identifying deficiencies in the existing agricultural financing pattern. In conclusion, I have paid attention to the measures necessary for the elimination of these deficiencies and the extent to which financing can be used as a supplementary instrument in the correction of existing structural problems encountered by agriculture.

The Agricultural Commission has accepted as a broad aim for agriculture the maintenance of a comparable growth rate regarding the real welfare between the agricultural sector and the national economy in general on condition that the long-term increase in productivity per unit of production factor in agriculture keeps pace with that in the rest of the community. Keeping this aim in mind and on the basis of the above analyses it can be concluded that it will require considerable effort of all persons involved in agriculture.

The necessary adjustments to reach the abovementioned goal are in many aspects dependent on the expert advice and guidance of the agricultural economist. In view of the small number of agricultural economists available for this task, it leaves no doubt that particularly high demands will be made on everyone of us, but it also serves as an inspiring encouragement to accept this challenge.

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