

SHORT COMMUNICATION

## FINANCIAL MANAGEMENT OF FARMERS' ASSOCIATIONS FOR SMALL-SCALE GROWERS: LESSONS FROM THE MALELANE MILL CANE COMMITTEE

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### Abstract

There has recently been a lack of participation in projects aimed at small-scale farmers in the Malelane Mill Area. The authors believe that this problem is being experienced throughout the sugar industry. Investigations conducted by the Canegrowers Grower Support Officer indicated that a lack of institutional capacity at project level, to successfully and sustainably manage financial affairs, has contributed to the collapse of the small-scale projects. The ineffective management of communal accounts was a cause for concern, as 'free riding' was evident. Some growers were subsidising others.

To strengthen and tighten financial control, it was imperative to provide technical and material support to the project leadership. This was achieved by facilitating compulsory induction training on institutional governance and basic financial management to the project clerks and chairpersons. This was aimed at capacitating the leadership and promoting accountability.

Clerks were provided with a template to capture monthly expenditure and balance against bank statements. The Mill Cane Committee (MCC) administrator captures the individual project templates and supervises this process monthly, and the MCC retains copies for record purposes.

The implementation of these measures had a positive impact, as it immediately exposed growers who defaulted in paying their association charges. The project chairpersons are now able to present the consolidated financial report at the grower meetings and at the annual general meeting (AGM). The improved accountability by the leadership has minimised delays in routine maintenance and conducting emergency repairs.

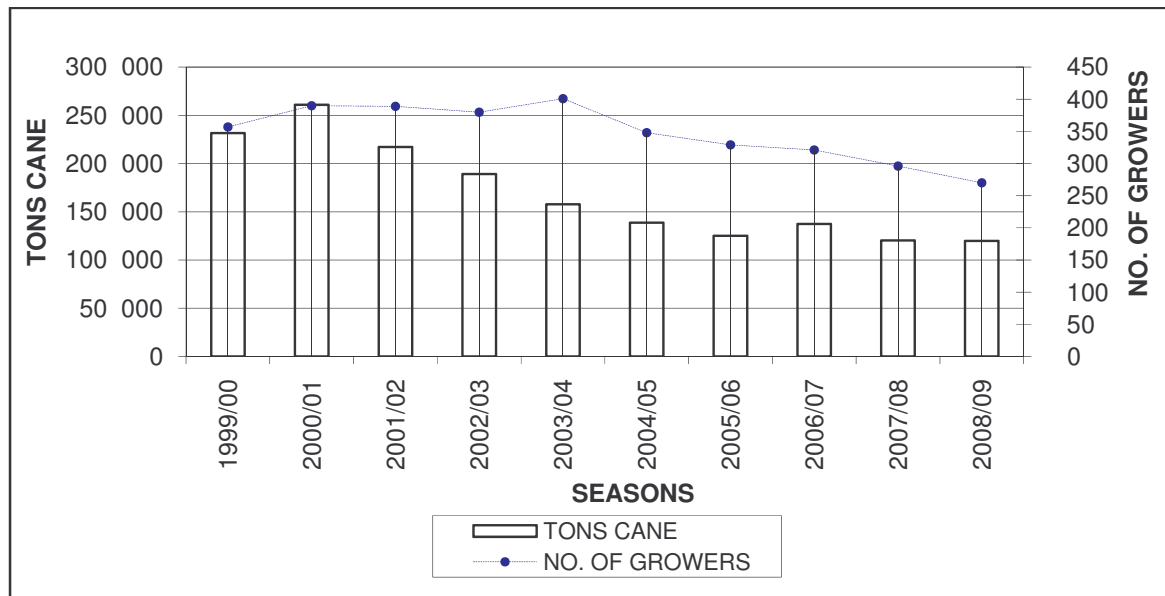
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### Introduction

Financial management is crucial to the success of any organisation, and farmers' associations for small-scale growers are bound by this principle. The Malelane Mill Cane Committee (MCC) has recently witnessed the lack of participation by disgruntled members at individual projects. At farmers' association meetings and at annual general meetings (AGMs), financial

reports were not presented. Members were often informed about the state of their finances only when there was a shortfall, and they were required to sign for new loans.

This problem is inherent in the small-scale business sector. ‘Most proponents of a strong small-scale enterprise (SSE) sector assert that SSE continues to suffer from lack of proper financial management.’ (Rudkins, 1990). Poor budgeting, inadequate record keeping and lack of profitability have eradicated the incentive to farm. As displayed in Figure 1, the amount of cane produced and the numbers of small-scale growers continue to decline.



Source: SACGA Small Scale Grower cost survey 2008/09.

**Figure 1. Number of small-scale growers in the Malelane mill area and tons cane produced from the 1999/2000 season to 2008/2009.**

### Background

In Mpumalanga, SSGs are consolidated in Irrigated Projects, as they share a communal irrigation infrastructure. Malelane MCC has 13 projects delivering cane to the Malelane TSB Mill. The MCC is composed of members elected annually from each individual project. MCC members are further elected to the Mpumalanga Cane Growers' Association, a member of the South African Cane Growers' Association (SACGA), which represents the interests of all sugarcane growers. The MCC is administered through grant funding from the South African Sugar Association's Grower Development Account and, through the improved financial management that has been achieved with training, it is no longer necessary to impose a levy on members.

The selection of growers into the projects was based on land ownership. Each project has a committee which is comprised of Chairman, Vice Chairman, Secretary and Treasurer. Although the committee did not until recently receive institutional governance training, managing the association did not appear to pose a challenge. No one queried or questioned the lack of financial reporting at project meetings and AGMs.

During the establishment of the projects grower returns were good and more growers were attracted to farming. As the majority of farmers are aging, they are being substituted by younger, more knowledgeable farmers. However, as the input costs continued to rise and grower returns declined, more pressure was exerted on the project leadership to present credible financial reports.

### **Financial management**

The Malelane (MCC) promote the interest of its members (the projects) and serve as a medium for mutual advice and assistance between growers and other agencies in the business of producing and marketing sugarcane.

Individual projects share common irrigation infrastructure and each project has three accounts: for administration, maintenance and electricity payments. At the beginning of the season each grower signs the cession towards these accounts, and the project committee manage the utilisation of the funds. The chairman and the treasurer sign orders for payments.

The accounts were generally poorly managed. No financial reports were presented at project meetings or at AGMs, hence farmers lost interest in the group. The ineffective management of communal accounts was a cause for concern as 'free riding' was evident, with some growers subsidising others. Farmers' associations lost credibility, and this had an influence on the integrity of grower representative structures.

### **Training and support**

The MCC has as one of its objectives the empowerment and development of its members. The MCC identified all project Chairmen, Treasurers and Clerks to be trained in basic financial management (basic bookkeeping). This notion of training is supported by Swart (2005): 'Unfortunately, instead of gradual transfer of responsibility, farmers were thrown in the deep end without being taught to swim first.'

The MCC provided guidance on acceptable recording systems, and a simple standard template was offered to be utilised. The tool will assist project leadership in presenting the financial status of the organisation. The MCC administrator captures the information and assists with the monthly reports.

### **Credibility**

To monitor credibility of the training, the programme and the report by Thomson (2009) concur that there is need for Institutional Capacity Building (ICB) of the project leadership. '(ICB) is defined as the provision of technical or material support designed to strengthen one or more elements of organisational effectiveness. The element of organisational effectiveness includes project governance, management capacity, human resources, financial resources service delivery, external relations and sustainability.' (Thomson, 2009). The facilitation of skills transfer by the social facilitator 'Lima' has enhanced accountability and transparency of the project leadership. The delays in routine maintenance and emergency repairs have been minimised.

### Lessons

The process has both pros and cons. On the positive side, the training encouraged better reporting and transparency, and better decision making by the grower leadership. There was better reporting at project meetings and AGMs, and credible information was provided. Although those who benefited previously are obstructive, the authors believe that, as more people benefit from the projects, the momentum will increase.

### Conclusion

Spencer (1998) illustrates that one needs to change one's behaviour in order to change the outcome. Those who benefited under the previous financial management structure have resisted changing their behaviour, while those who do not fear the unknown have found the financial training helpful and inspiring.

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