REFEREED PAPER

IMPACT OF RECAPITALISATION AND DEVELOPMENT FUNDING IN THE SOUTH AFRICAN SUGAR INDUSTRY

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Abstract

Recapitalisation and Development funding, as a developmental tool, seeks to provide black emerging farmers with social and economic infrastructure and basic resources required to run successful agricultural businesses. In 2011, the government entered into a partnership agreement with the sugar industry to facilitate the implementation of the recapitalisation and development programme (RADP) funding. Government invested a total of R313 million to 177 sugarcane farming enterprises in KwaZulu-Natal and Mpumalanga provinces for planting, ratooning and machinery between 2011 and 2014. This funding was accompanied by strategic partnerships with accredited companies or well-resourced and experienced individuals as mentors. The industry contributed by investing in capacity building, and this was done through the allocation of R2.7 million for training on farming skills, governance and business management. Based on this investment of funds, it was important to measure the real impact of the RADP funding in the industry, and to establish whether the industry is meeting the desired outcomes. The industry has begun to see a return on investment (ROI) from RADP funding, which has also yielded permanent and seasonal job creation, the inclusion of black contractors in agricultural production processes, and increased tonnage delivery from some of the farms that were funded,. This paper concludes that the sugar industry meets the desired outcomes of the policy for recapitalisation and development.

Keywords: development, funding, land reform, recapitalisation, sugarcane

Introduction

The sugar industry took a strategic decision to be proactive and embrace the land reform programme. Government had anticipated that it would have transferred approximately 110 000 hectares of commercial cane land by 2014 (Thomson and Bates, 2005). This target has not been achieved. Only 74 624 (22%) hectares of freehold land that have been transferred into the hands of the black commercial growers by government. In the midst of challenges relating to transfer of land, there was the challenge of new entrant farmers who were not able to farm productively due to lack of agricultural support. During 2008, government recognised this challenge and started to conceptualise different interventions. One of the interventions was to formally introduce a recapitalisation and development programme (RADP) which had an element of development finance.

Development finance is popular amongst communities, NGOs and emerging businesses, and it is said to help grow markets and improve the economic climate of the people. In the agricultural sector, government channels some of its funding towards development projects.

Throughout the land reform programme, the sugar industry partnered with the Department of Rural Development and Land Reform (DRDLR) to synergise support towards land reform growers. One of the areas of support was financial support in the form of RADP funding. There has been a question of whether development funding is sustainable, and whether it actually makes an impact. This paper attempts to highlight the impact made by funding invested in the sugar industry between 2011 and 2014.

Objectives

The main objectives of this paper are:

- to establish whether RADP funding has an impact on production and job creation.
- to establish whether the sugar industry met the desired outcomes of the RADP policy.

Background on recapitalisation and development funding

Land reform has remained a priority of government for a number of years. Because of its challenges, it has also been subjected to critical review within and outside government. This has resulted in government introducing the RADP as a strategic intervention to deal with criticism and, most importantly, to deal with sustainability of struggling land reform projects. In March 2011, the DRDLR released the RADP policy framework. The objective of this intervention was to assist land reform farms which had received limited or no assistance from the post-1994 democratic government. These would be (i) all land reform farms which had failed, or were sustainable but needed agricultural support, (ii) farms that had mortgage components and were on the verge of being repossessed; (iii) purchased farms with loans from different financial institutions that were experiencing similar difficulties, and (iv) small-scale farmer irrigation schemes in communal areas.

The policy had two elements. Firstly, the recapitalisation element, which meant that government assists with partial funding, and the difference in funding is invested either by a commercial farmer, agribusiness or a strategic partner who is willing to invest and has a certain level of risk appetite. Secondly, the development element which was operational in nature in that it required the farming enterprise to assess agronomic operations and develop a credible and bankable business plan which would show a positive bottom line. This would be submitted to government as a request for funding with the aim of running a successful farming enterprise. In general, the RADP fund was transferred to the industry's operations based on 25% of the purchase price of the farm property (DRDLR, 2011).

In 2013, a reviewed policy was approved. This review was aligned with Chapter 6 of the National Development Plan, with the intention of providing black emerging farmers with the social and economic infrastructure and basic resources required to run a successful business. It was designed as a deliberate push factor of black emerging farmers towards an agricultural value chain by government. The strategic focus of the revision was to rekindle the class of black farmers destroyed by the 1913 and 1936 Land Acts, and getting all farms to 100% production stage, to combat poverty, unemployment and income inequity, and to reduce rural-urban migration (DRDLR, 2013). The review was aimed at addressing challenges on farms falling under specific categories, including properties acquired since 1996 through the restitution and redistribution programmes. The categories of beneficiaries since 2013 are (i) selected distressed land reform properties, (ii) properties selected by the District Land

Reform Committees, (iii) sites within former homelands and communal areas, and (iv) farms acquired by individuals or collectives from historically disadvantaged communities requiring strategic support.

In 2014, the policy was again revised to streamline process issues relating to banking, procurement of goods and services, political management and funding approval.

The policy stated that individual farmers should set aside a percentage of the profit in order to enable beneficiaries to, firstly, build a credible financial record, and secondly, to invest in future operational or developmental activities of the business. This would be saved on an upward sliding scale from 20% of the first production cycle to eventually 100% of net profit of the production cycle. However, the policy did also state that the beneficiary was entitled to use the profit towards social and livelihood commitments. To save this, a strategic partner or mentor would have to open a separate investment bank account for the purposes of dividend retention.

The policy does not create a welfare programme, and certainly excludes people who have the means to develop their farms without government assistance; the so-called ‘proxy farmers’ who hire farm managers to run their businesses while they are in towns or cities; and failed commercial farmers who desire to make money from disbursements which are meant to compensate strategic partners for work done (DRDLR, 2013).

Desired outcomes of the RADP

The desired outcome of the programme would be to have emerging farmers working together with commercial agriculture and private farming sectors to promote black empowerment, to create partnerships between emerging and established farmers, to create linkages between agricultural produce retailers and small farmers through procurement and contracting out, and to build institutions that will contribute to more equitable structures of production and ownership through support for new enterprises in the agricultural sector, employment equity and skills development (DRDLR, 2013).

Partnerships and grower training

Thomson and Bates (2005) indicated that the most vulnerable farmers in the sugar industry were the land reform farmers, due to lack of or limited commercial farming experience, and cash constraints resulting from high gearing. Thomson and Bates further highlighted the need to provide an environment for success through support structures, training and technology transfer that was appropriate in order to meet the challenge of increasing new entrants to the sugar industry. The industry responded to this by providing a comprehensive support structure. On the other hand, government sought industries and organisations that could provide what the sugar industry was providing.

Engagements between private and public sector led to the Strategic Partnership Agreement (SPA) between the sugar milling companies and government. This was accompanied by the Service Level Agreement (SLA). The SPA and SLA were later replaced by the Tripartite Agreement. This served as a guiding tool for implementation between three parties: the government, the strategic partner/mentor and the farmer, hence it was called a Tripartite Agreement. This agreement stipulated the disbursement procedure and management of the

RADP funds in the interest of good governance. It also stipulated the roles for each party to the agreement.

Responsibilities of partners in management of the RADP funding

Strategic partners/mentors
The sugar industry currently has four milling companies as strategic partners and one as a mentor. In addition, the industry is seeing individuals, mainly experienced commercial farmers, starting to emerge as strategic partners or mentors. Their roles include implementing and monitoring achievements of the project output, reporting timeously and authentically to government, communicating challenges and proposing solutions, providing beneficiaries with skills to be competent producers, advising government on project budget requirements based on the business plan, disbursing funds in accordance to disbursement procedures, assisting beneficiaries in planning to service their loans, and managing the farm inputs, equipment and management services procurement process.

The Department of Rural Development and Land Reform (DRDLR)
The DRDLR also has specific responsibilities as a custodian of the RADP funding. These responsibilities include appointing a strategic partner or mentor and entering into agreements, appointing an independent auditor to the project, appointing a financial service provider to support the project, accessing information (including financial information) about the project from third parties, disbursing RADP funding timeously, and monitoring implementation.

Beneficiary or 'grower' in industry terms
The beneficiary, known as the 'grower' in the sugar industry, has specific responsibilities for the duration of the Tripartite Agreement. These include written confirmation of eligibility to gain from the fund, complying with the terms of the business plans, registering as a legal entity to run farming operations, signing of the Notarial Deed which gives the Department the right of first refusal against selling of the farm, compliance with tax requirements, disclosing loans, not using the farm as collateral, setting aside a portion of the net profit as a saving for reinvestment, and to deliver the cane from the farm to the mill of the Strategic Partner for the duration of the Tripartite Agreement.

Industry role players
The industry role players continuously provide services to complement the RADP implementation by supporting all stakeholders in various ways. The South African Sugar Research Institute (SASRI) conducted a number of agronomic assessments and produced reports that feed into the development of business plans. The South African Cane Growers' Association (SACGA) developed a number of business plans that are presented to government in request for funding. For every project that has been funded, there has been an agronomic assessment and a business plan. The Shukela Training Centre (STC) provides training to each and every project that has benefited from RADP funding, while SASA's Land Reform department manages the Grower Development Account which allocates funds for training, coordinates reports to industry and government, provides governance support, orientates new black entrant growers to the industry and provides social facilitation support.

Grower training

SASA was given the mandate to initiate and manage sustainable land reform and rural development programmes for the sugar industry. These programmes are designed to transfer skills, empower rural communities and ensure stable cane supply. The importance of training cannot be underestimated in its impacts on improving productivity, increasing adaptability to deal with changes and crises, facilitating the diversification of livelihoods and mitigating risks in rural communities. For these reasons the industry has set aside R2.7 million for training land reform growers from 2012 to 2015. SASA further leveraged R11.5 million from the Agribusiness Development Agency for accommodated training. Training was provided to growers in KwaZulu-Natal and Mpumalanga with the purpose of responding to the new technical, economic, social and institutional situations (Ellenson, 2012).

SASRI provides a three week Junior and a six week Senior Certificate Course in Sugarcane Agriculture. These courses equip farmers with knowledge of Botany, Varieties, Husbandry, Pests and Diseases, Weed Control, Soils and Nutrition, Harvesting, Irrigation, Mechanisation, Farm Planning, Environmental Management and Farm Management. Also offered are modules in Soil, Variety and Environmental Management, Land-use Planning, Weed Control, Mechanisation and Management. The mode of delivery is formal, taking the classroom style of learning along with practical exercises. The STC provides agricultural training on farms under operational conditions. This allows the instructors to conduct training while farmers are at work with the least disruption to farming operations. This form of training has proven to be highly effective because of its practical nature (Ellenson, 2012).

Offering training to growers is a requirement in the Tripartite Agreement for recapitalisation and development. A total of 3472 growers were trained during the 2011-2014 period (Figure 1). The bulk of the training provided was on-farm skills based courses, with less than two hundred growers attending formal Junior and Senior courses provided by SASRI. During 2012-2013, the training providers, SASRI and STC, made adjustments by providing additional resources and creating additional training periods to cater for the new entrant land reform growers, hence the increased attendance for the year. Course attendance declined in 2013-2014 as most growers had been involved in intensive training the previous year. Fifty randomly selected growers were asked whether training had made a difference in their lives. Grower responses highlighted that they had started implementing correct farming practices learnt from courses.

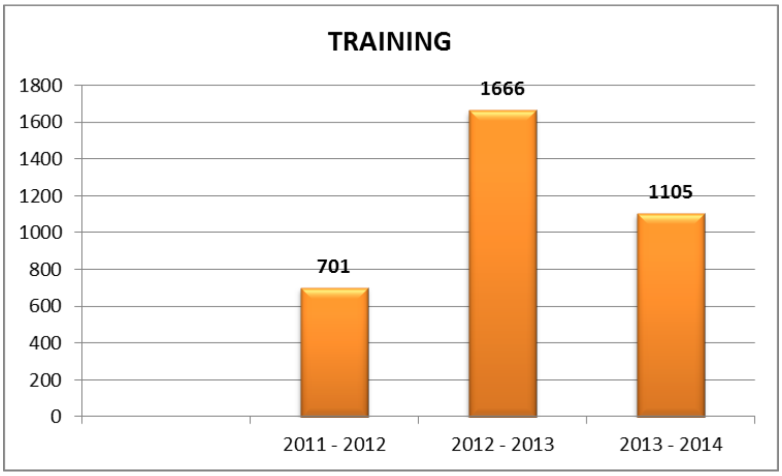

Figure 1. Number of growers trained from 2011-2012 to 2013-2014.

SASA further implemented a three year programme to provide governance support to 29 land reform projects across KwaZulu-Natal and Mpumalanga. The key elements of the project involve extensive social facilitation, governance and business management support and capacity building. In addition, the industry holds quarterly land reform workshops to capacitate new entrant growers on business management and governance, as well as educating them about the industry and related contemporary issues that affect them.

Methodology

Data was collected from two sources. The first source was KPMG auditing firm's RADP review report, and the second source was the sugar industry's actual delivery statistics. The KPMG auditing firm was appointed by DRDLR as an independent body to review implementation of RADP from 2009-2014. The reports from KPMG presented a picture of activities around RADP in the sugar industry, and the findings were used in this paper. The second source of data collection was to retrieve statistics of tonnage delivered by growers who had benefitted from the RADP funding. This was to confirm whether there was a tangible impact on production and jobs created. The milling companies provided statistics for each farm from 2011 to 2014. This data was consolidated to provide an industry wide picture.

Findings

KPMG report findings

KPMG presented its findings to The Minister of Rural Development and Land Reform, Mr G Nkwinti, in May 2013 for the reporting period of 2009-2013. The RADP funding was implemented in nine provinces to the amount of R2 145 186 854 to 1269 projects (Figure 2).

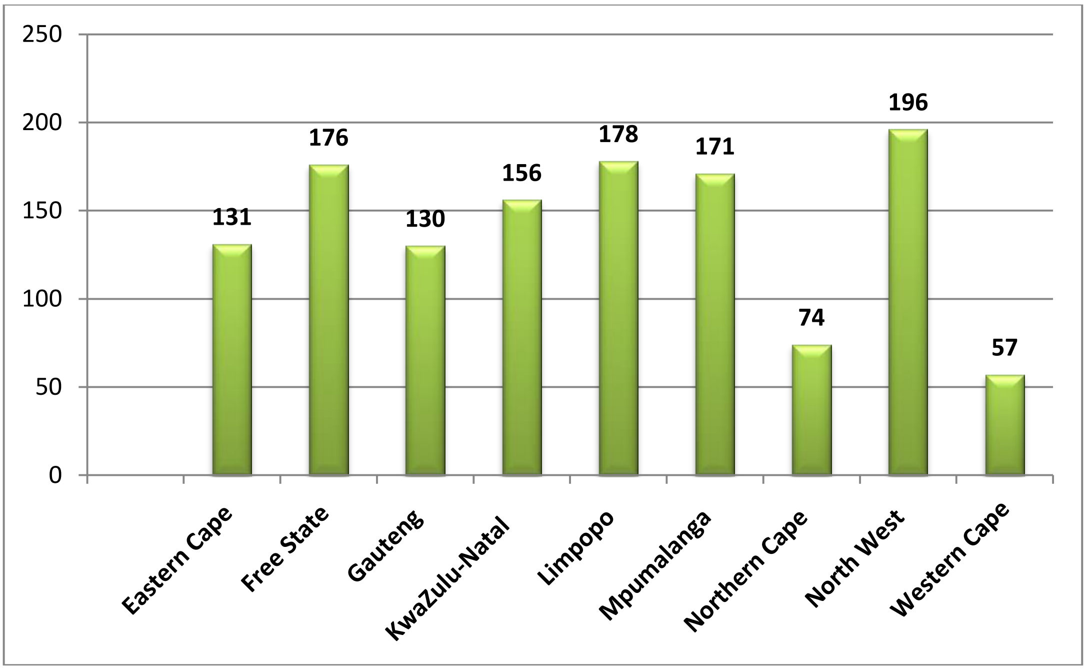

Figure 2. Total number of projects funded through the recapitalisation and development programme (RADP) in South Africa (2009-2013).

Figure 3 shows the proportions of RADP funding spent per province. The sugar industry is included in the Mpumalanga and KwaZulu-Natal provinces.

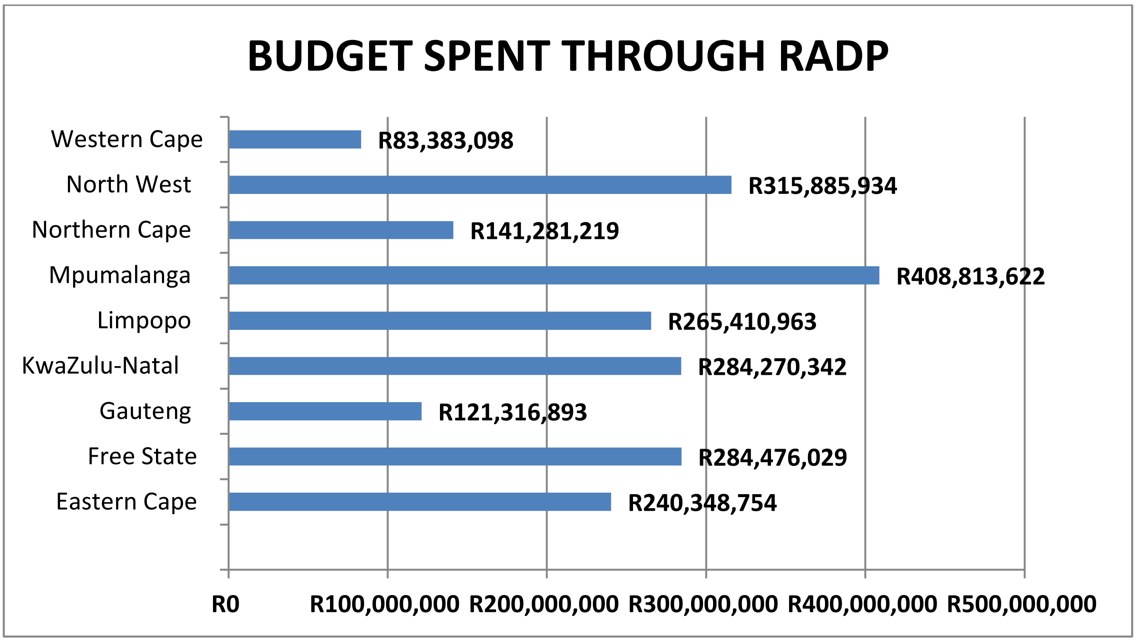

Figure 3. Recapitalisation and development programme (RADP) budget spent in South Africa (2009-2013).

Figure 4 shows that the sugar industry accounts for 45% of RADP funding allocated in KwaZulu-Natal and Mpumalanga provinces.

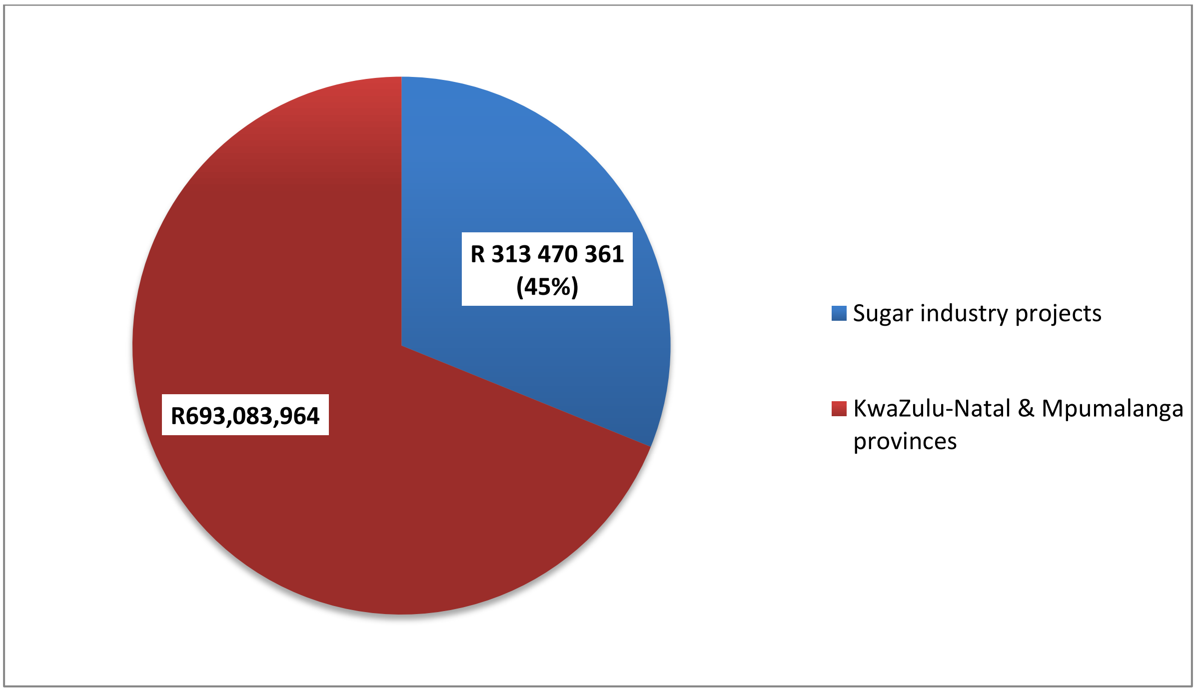

Figure 4. Proportion of recapitalisation and development programme (RADP) investment by government in the sugar industry.

Figure 5 shows the amount of RADP funding that has been invested by the DRDLR on sugarcane farms. This fund was invested in 177 farms across KwaZulu-Natal and Mpumalanga provinces.

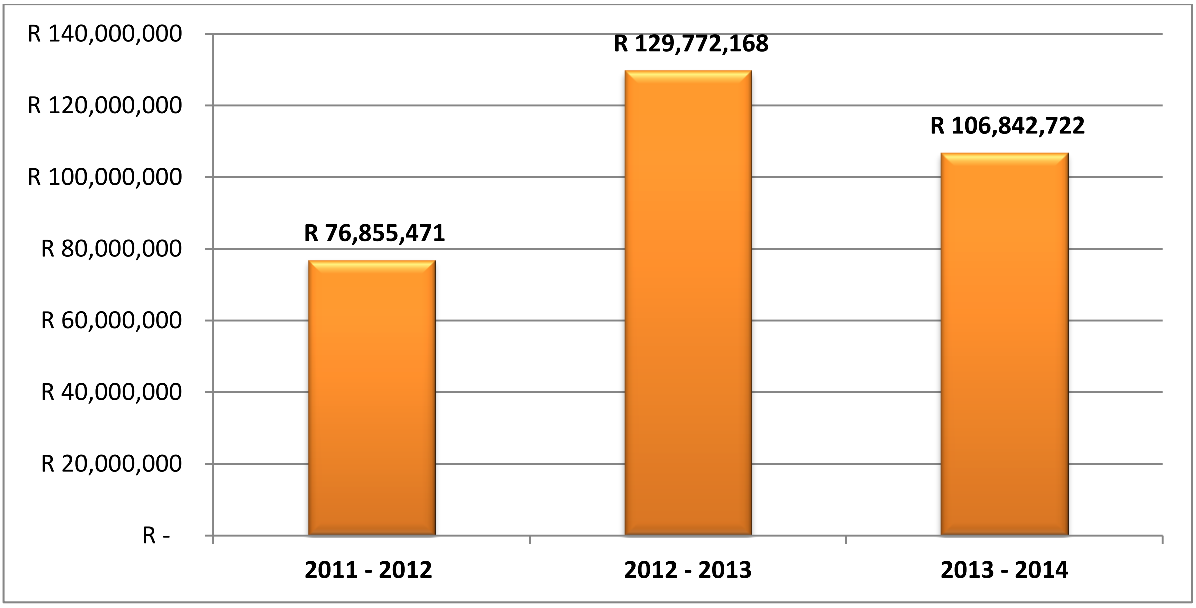

Figure 5. Actual recapitalisation and development programme (RADP) funding to sugar industry 2011-2014.

Of the 7464 permanent jobs created as a result of RADP funding, 2577 were created in KwaZulu-Natal and Mpumalanga provinces (Figure 6).

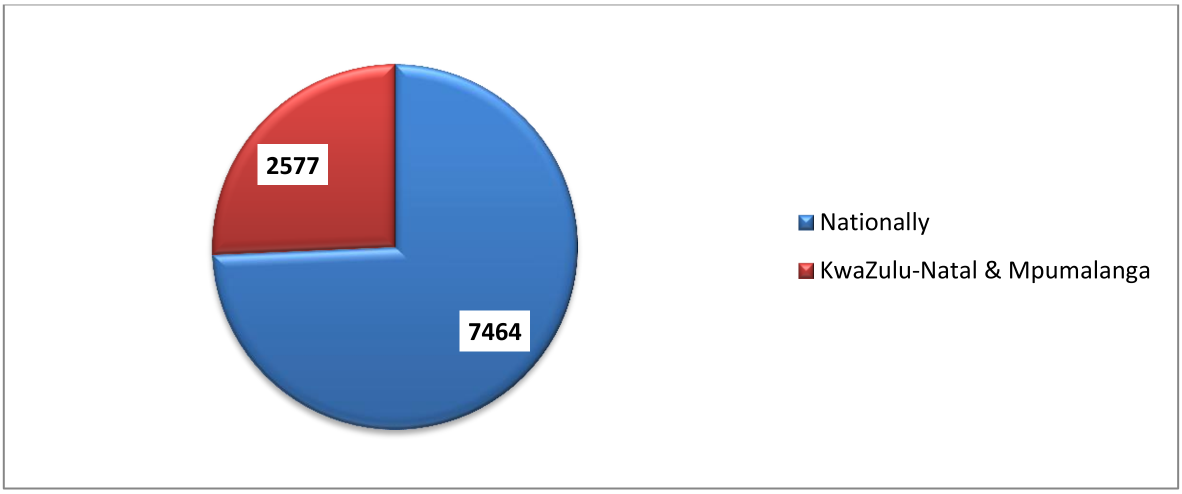

Figure 6. Permanent jobs created as a result of recapitalisation and development programme (RADP) funding.

Figure 7 shows that 52% of permanent jobs were created by the sugar industry.

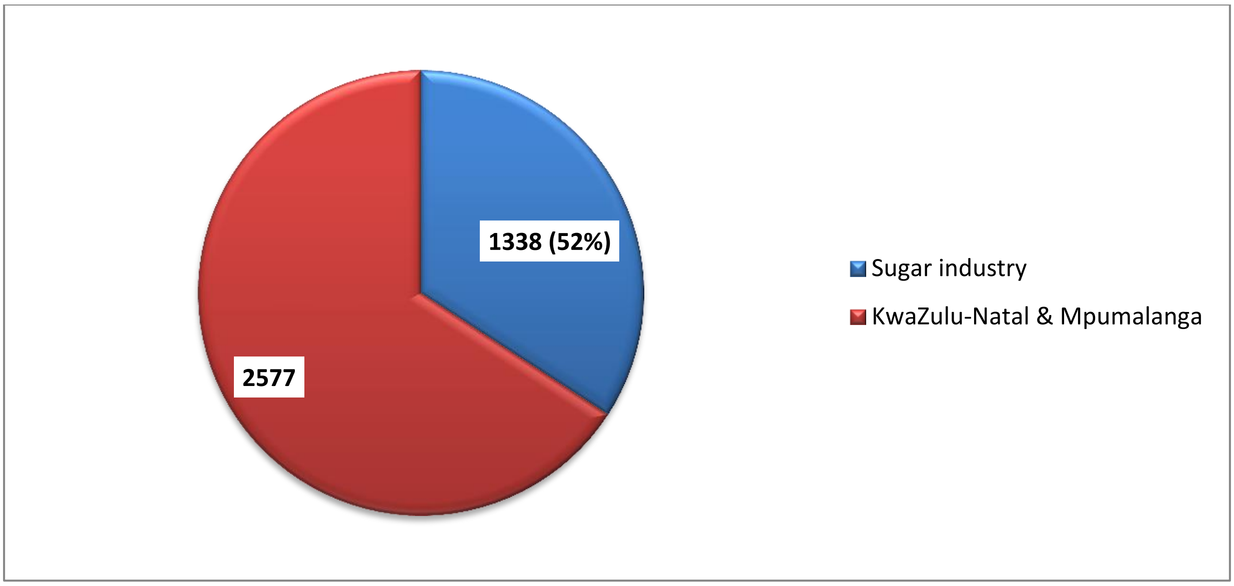

Figure 7. Permanent jobs created as a result of recapitalisation and development programme (RADP) funding in the sugar industry.

In addition to 1338 permanent jobs created by the industry in KwaZulu-Natal and Mpumalanga provinces, Figure 8 shows that 4041 seasonal jobs were created.

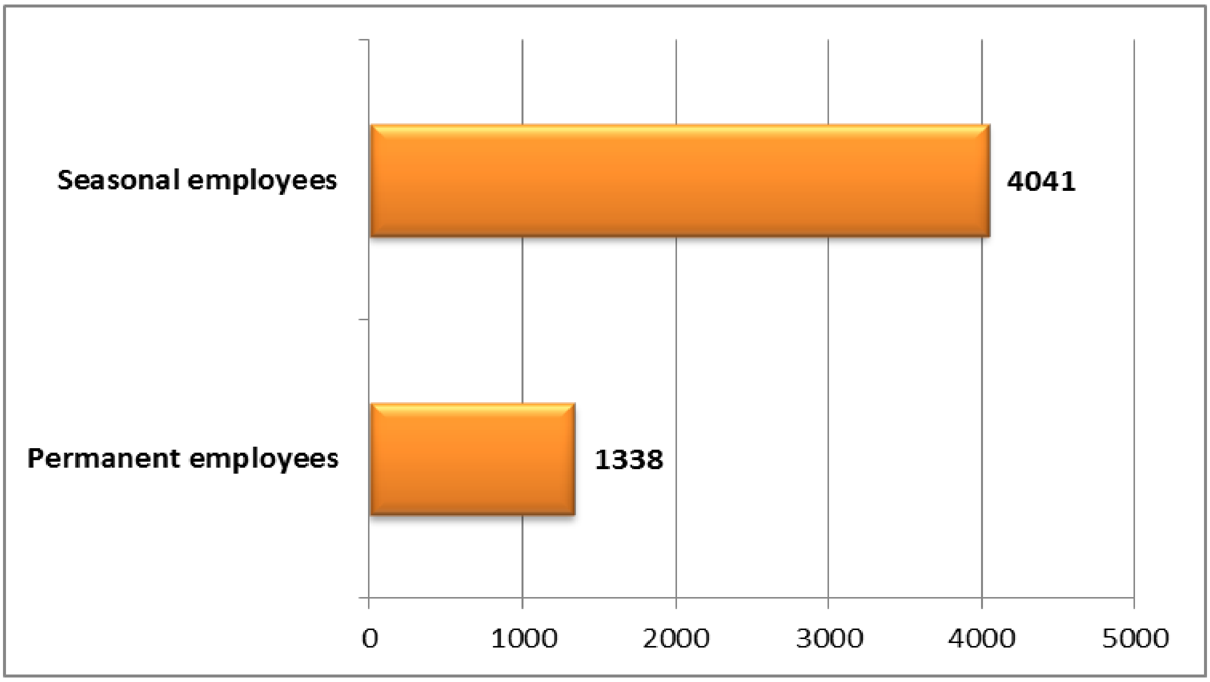

Figure 8. Total number of jobs created in the sugar industry.

Industry reports

Industry reports show that 177 projects were funded from 2011 to 2014. Seven projects were in Mpumalanga province and 170 were in the KwaZulu-Natal province. The industry was funded with R313 million between 2011 and 2014.

Figure 9 shows an increase in area planted as a result of RADP funds invested. This has a positive impact on production.

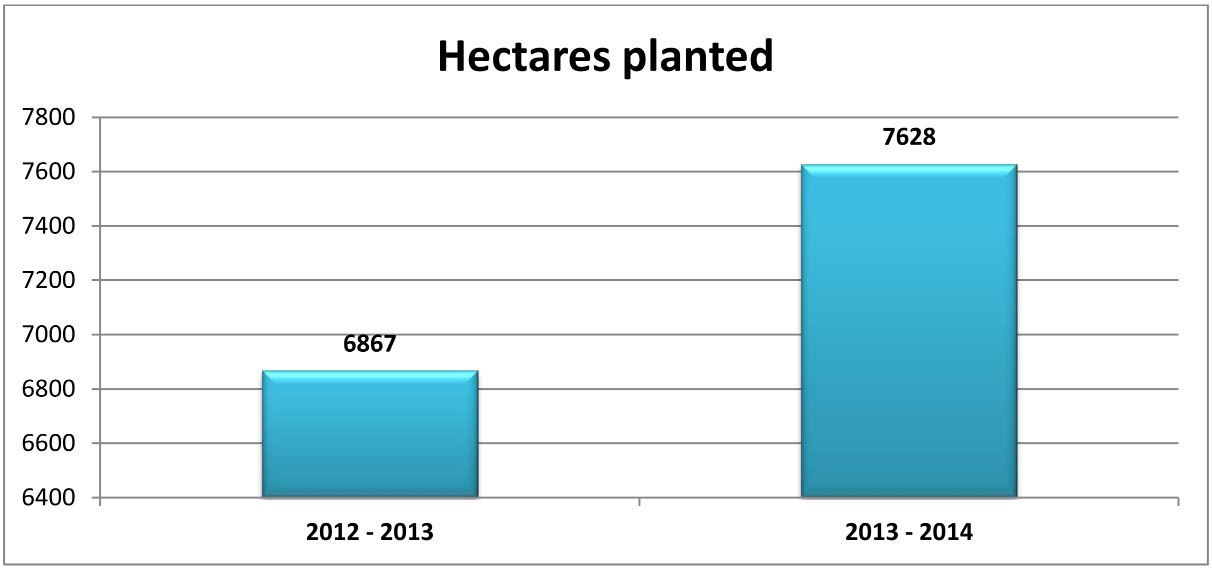

Figure 9. Hectares planted using recapitalisation and development programme (RADP) funding.

Figure 10 depicts a positive impact picture of increased tons delivered. There has been an actual increase in tonnage delivered by RADP beneficiaries from 401 775 tons in 2011-2012 to 783 641 tons delivered in 2013-2014.

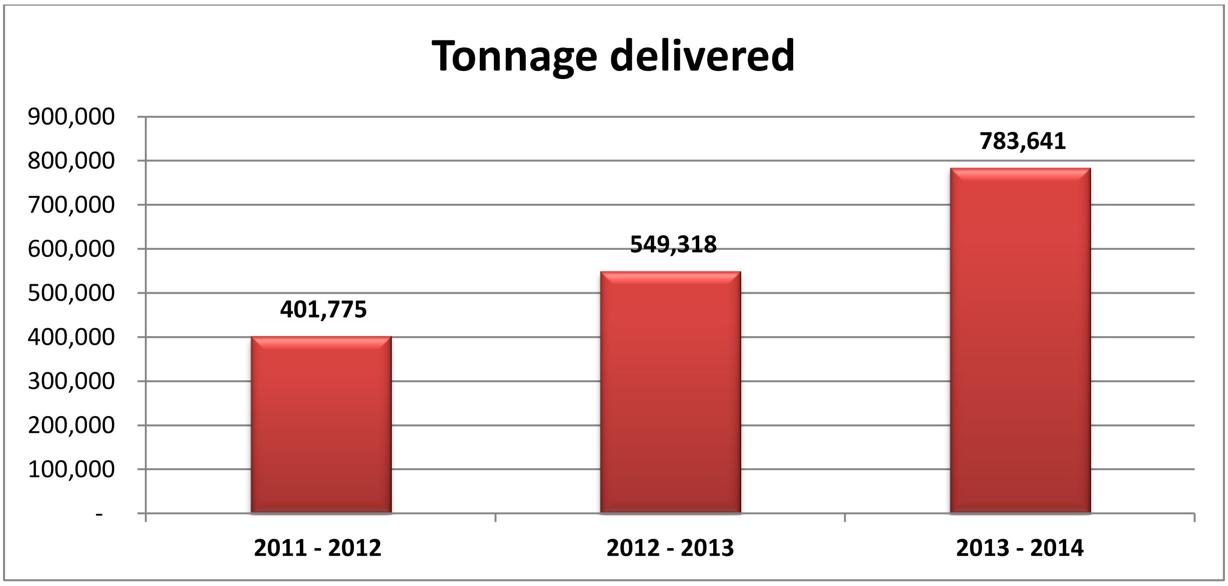

Figure 10. Tons delivered by recapitalisation and development programme (RADP) funded land reform growers.

Revisiting Objectives

The first objective was to establish whether RADP funding has an impact on production and job creation. An industry report shows tangible evidence that there has been an increase in production on farms that received RADP funding. This report also shows that permanent and seasonal jobs were created as a direct result of RADP funding.

The second objective was to establish whether the sugar industry meets the desired outcomes of the RADP policy. The desired outcomes of RADP funding included promoting black empowerment, more equitable structure of production, ownership, support of new enterprises, and skills development. This paper has highlighted that the industry meets the desired outcome of the RADP policy in all these aspects through grower capacitation and skills development means of training, governance and business management support, and technical support to new owners or enterprises.

“Key to the success of the RADP is the greater co-operation between government and the private agricultural sector, as can be seen between the sugar industry and government. There are certainly administrative challenges that inevitably arise between industry and the relevant government departments, and that can cause huge frustrations, however, the parties work through these challenges to ensure that land reform is sustainable.” (Madhanpall, 2013)

Conclusions

This paper has demonstrated that the government funding under the RADP had a positive impact on the sugar industry jobs created, evidenced by 1338 permanent jobs and 4041 seasonal jobs created since the inception of the programme. There has been a significant improvement in production, evidenced by 7628 hectares planted in 2013-2014. There was also a significant increase of tonnage delivered from 401 775 in 2011-2012 to 783 641 in 2013-2014. The paper has also shown that the sugar industry has met the desired outcomes of the RADP policy in areas of promoting black empowerment, evidenced by a number of black contractors; structured production by milling companies and SASRI, and support of new enterprises by SACGA and SASA; skills development by STC and SASRI, and ownership resulting from land transferred to the industry by government.

Recommendation

It is recommended that the industry conduct a study on sustainability of farms that had received recapitalisation funding as an alternative approach in demonstrating the impact of RADP funding in the South African sugar industry.

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