SHORT COMMUNICATION

INTEGRATING SMALLHOLDER GROWERS INTO COMPETITIVE SUGARCANE PRODUCTION

MALAZA S and MYENI DM

PO Box A36, Mbabane, Swaziland
sibusiso.malaza@rdmu.org *david.myeni@rdmu.org*

Abstract

The Government of Swaziland has made a significant investment in irrigation infrastructure development to encourage smallholder farmers to engage in commercial farming and increase productivity for poverty alleviation. An example is the Maguga Dam Project, a collaboration between Swaziland and the Government of the Republic of South Africa, which supports the development of about 6 000 hectares of land under the Komati Downstream Development Project (KDDP). A further example is the development of infrastructure for the Lower Usuthu Irrigation Project (LUSIP) in the southern lowveld of the country, which has recently been completed to cover 11 500 hectares under irrigation.

Sugarcane farming is one of the most strategic crop options for the smallholder growers, given the success of the industry and the confidence of the agriculture credit service providers in the industry. Currently, 7 000 hectares of the total 57 000 hectares under cane are farmed by smallholder associations, with land areas ranging up to 50 hectares per association.

However, the inept performance of the existing sugarcane smallholders under the KDDP has required a re-examination of the operation and efficiency of these associations. A key challenge is the unsustainably high level of debt owed to local financial institutions, which may be the result a combination of factors including smallholder management practices, the constitution of the farmer associations, the rapidly increasing cost of production inputs and a suppressed sugar price.

Analysis indicates that under optimal management conditions smallholder cane growing can provide significant returns that can contribute to improved livelihoods for the communities and enhance the competitiveness of the industry by increasing throughput. To achieve this, a Model has been developed to improve the viability of these growers, using lessons learnt from the KDDP and integrating industry practices to enhance the commercial content of the growers’ operations. New entrant growers, particularly from the LUSIP, and the existing growers will be the beneficiaries.

The concept of this Model is to rationalise technical and governance issues to optimise industry production and the transition of the grower entities to mainstream commercial operations. A group of schemes within the same proximity will pool their resources to hire a professional farm manager, who will work closely with the sugar mills and the financiers to enhance productivity and minimise production costs. This will entail establishing a strong alliance between the grower, the miller and the financier, the creation of a Ratoon Management Fund (RMF) and the support of a Central Procurement System through the mills. The financiers are optimistic about this Model.

This short communication presents the proposed Model and gives perspective on opportunities for future customised financing options. The Model ensures development of sustainable business entities with lasting benefits for growers, millers and financiers.

Introduction

The industry requires increased sugarcane production and enhanced throughput to achieve economies of scale, and the smallholder growers are best positioned to supply the additional cane from the Komati Downstream Development Project (KDDP) and the Lower Usuthu Irrigation Project (LUSIP) areas.

While this is the case, smallholders are faced with a number of problems, not least of which is access to finance:

- Ever-increasing production costs
- Poor ratoon management, due to difficulties in accessing seasonal loans for farm inputs
- Declining productivity, due to poor ratoon management
- Low returns on production, due to suppressed sugar price
- High levels of debt, due to inability to repay existing loans.

It is imperative that smallholders attain optimal yields and sucrose content if they are to maximise their income from sugarcane farming. A major determinant of good yield is the timely and adequate application of fertilisers, herbicides and irrigation throughout the crop cycle.

In recent years input costs have increased, as have interest rates. This is putting a strain on profit margins, as sugar prices have not kept pace. At the same time, smallholder associations have a complex relationship with banks and development finance institutions, on whom they depend entirely for working capital. Finance institutions have cession orders with the mills which allow them to receive 100% of the sucrose proceeds directly from the mills. As a result of an inadequate understanding of sugarcane production operations and scepticism with poorly performing schemes, the financiers disburse too late or provide inadequate funds for the inputs for the next crop. This is particularly the case where smallholders have no collateral, no business management experience and are heavily in debt. All these factors combine to form a cycle of poor yields and further inability to pay back loans.

Given the problems smallholders have with servicing their debt obligations, financial institutions have become reluctant to extend any form of credit to smallholder growers. Poor management, comprising business, agronomic and technical aspects, has resulted in below optimum productivity, which has increased the exposure of financial institutions to credit risk. Funding problems are not new, but date back several years. Lack of proper planning and timely implementation of important farm activities such as fertiliser application and weed control have impacted negatively on production, and subsequently on the capacity of some of the smallholders to repay their loans. This is because financing from Development Finance institutions and commercial banks is frequently delayed due largely to late submissions of annual budget proposals, attributed to inexperienced management and low technical knowledge of production requirements to ensure timely application and use of resources.

However, it is worth noting that it is not only smallholders that contribute to the *status quo*, but also the financial procedures and policies adopted by financial institutions have aggravated the situation to unsalvageable levels. These institutions have established the principle of a 'roll-over' pool, where incoming revenues are used to fund the following crop's inputs. Commitments are over-extended and applications for funds are delayed awaiting incoming revenue.

Discussion

The new Model

The new Model seeks to address the problems by acknowledging that the poor performance of the smallholder cane growers impacts negatively not only on them, but also on the operations of the miller and the financier. As a result, the Model hinges on the following three principles or strategies:

1. **The Strategic Alliance** (the Golden Triangle). This is the relationship between the grower, the miller and the financier. The grower will improve returns through increased productivity. At the same time this increased throughput will make the miller more competitive and the financier will have loans being paid back from the increased profits.

2. **Farm Management.** Inept management practices compromise the profitability of the growers and hence increase production costs. Through the Strategic Alliance, growers located on up to 1 000 hectares within the same proximity will pool their resources to employ a professional Farm Manager to handle the technical and administrative operations of the schemes according to industry standards. The Manager will receive all the necessary technical and business management support and training from the Out-grower Development Units from the mills. This collaboration will facilitate the generation of effective reports and data to enhance overseeing of all operations of the schemes by all the role players in the Strategic Alliance. Any problems encountered will be noticed early, so that remedial action can be taken immediately.

3. **Ratoon Management Fund** (RMF). The RMF has been proposed to facilitate timely access to farm inputs for the growers. The operation of the RMF hinges on the Strategic Alliance through the mill (specifically the Out-grower Development Unit in collaboration with the Farm Manager) in compiling the farm inputs budget for the schemes and transferring funds from sucrose proceeds to the RMF. The balance of the proceeds will be used to pay the loan instalments and provide dividends for the smallholders.

Outline of Responsibilities

The financiers

The bank will maintain a set of three accounts for each smallholder association: the Ratoon Management Fund Account, the Loan Account and the General Account. Withdrawals from the Ratoon Management Account will not be possible without signatures from both the out-grower Extension Manager and the grower concerned, and will be payable on invoice. This will ensure that there is timely access to finance to purchase the required farm inputs. Surplus income will be deposited in the General Account after a payment to the Loan Account and the Ratoon Management Account. It is from the General Account that dividends will be declared at the end of the year without affecting the operation of the scheme.

The Out-grower Development Unit
Out-grower Development Units have undertaken to do a participatory business analysis and planning with smallholders. The objective is that smallholders will be taught how to manage a sugarcane enterprise, and how to undertake the tasks and activities identified in the planning process. The units will also assist smallholders in developing financial plans with an emphasis on cash flow, operational plans, human resource management, appropriate sugarcane husbandry practices and record keeping. The Out-grower Development Units will also provide irrigation infrastructure and systems advice, repair and maintenance services. Trained staff will be employed for this purpose. A fee may be charged for these services.

The Out-grower Units will also provide general extension services that were previously supplied by the Swaziland Sugar Association Extension Officers.

Where considered appropriate, and/or where supply problems exist, it will provide services to smallholders to assist with the acquisition of inputs and services required for sugarcane production. In respect of this service the Development Units will recover any costs and may charge a service margin or fee as determined from time to time from the sugar proceeds.

The Out-grower Development Units will liaise and meet with finance institution on a quarterly basis and will provide requisite information on the performance of the funded smallholders.

Growers
The growers will be supported to develop and practise good corporate principles to maintain their schemes as business entities. The Board of Directors will oversee the performance of the scheme and provide strategic policy guidance.

Conclusion

The aim of this Model is to enhance the productivity and competitiveness of the local sugar industry. The operations of the smallholder cane growers will be maximised through lessons learnt from the large estates on how to minimise production costs and ensure high yields and sucrose content for the smallholders. It will be necessary to restore financier confidence in the performance of smallholder cane growers.

Tremendous support exists for the success of this Model; sugar millers, the Swaziland Sugar Association, Government agencies, NGOs and other stakeholders have pledged both technical and financial support (70% European Union grant support).

Good governance is a key element in the capacity building of smallholder enterprises. Measures to improve business practices (procurement, accounting, budgeting, professional management) and the performance of both the executive and board will promote transparency and accountability in operational and financial management, and build the mutual trust that associations need to move forward and prosper.