

SHORT NON-REFEREED PAPER

## **POTENTIAL ECONOMIC BENEFIT OF ADDITIONAL TRANSFORMATION INITIATIVES TO SMALL SCALE GROWERS IN THE SOUTH AFRICAN SUGAR INDUSTRY – 2018/19**

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### **Introduction**

The South African sugar industry realises the importance of transformation and as part of the effort, spent an additional R172 m in 2018 on such an initiative (SASA, 2018). In addition, the industry has committed to spend a further R1bn over a period of 5 years. The transformation initiatives are funded solely through levies from sugarcane growers ( $\pm 64\%$ ) and millers ( $\pm 36\%$ ) in the South African sugar industry. This comes at a time when the industry is experiencing significant challenges, with an extremely low world price, cheap imported sugar from heavily subsidised countries, recent devastating drought events and the imposition of the Health Promotion Levy (HPL), all of which are impacting severely on its revenue base.

As part of the transformation interventions, funding has been committed to paying all black growers a premium price for their cane, whilst also considering the difficulties that they face with regard to access to training and seedcane, as well as the complicated and expensive logistic challenges. The fund aims to promote the financial stability of the small sugarcane growers and land reform growers, while at the same time it is a tool to ensure access to knowledge and information for better decision making.

This intervention fund has eight key interventions to accelerate and progress transformation in the sugar industry. This paper focuses on Interventions 1, 3 and 5 of the funds which provide direct financial relief to SSGs within the sugar industry. Intervention 1 is a grant cane payment, intervention 3 subsidises sugarcane transport costs and intervention 5 subsidises sugarcane grower levy costs.

### **Methodology**

In order to estimate the benefit to SSGs from the immediate interventions funding, the following three direct cash to SSG interventions were analysed (2018/19 only), with a total value of R41.10 per ton cane.

**Table 1. Direct funding interventions 2018/19.**

Interventions	R/ton cane
Intervention 1: cane payment	R27.27
Intervention 3: transport subsidy	R10.24
Intervention 5: levies subsidy	R 3.59
<b>Total</b>	<b>R41.10</b>

Two scenarios are used, one for rainfed and the other for the irrigated areas of the South African sugar industry. The rainfed and irrigated results are separated, as the costs of

production differ. The rainfed assumption yields are based on average historical data for SSGs at 47 tons per ha, with an average RV% cane of 11.20% which yields an average of 4.60 RV tons per ha. For irrigated areas, the yield for SSGs averages 71 tons per ha with an RV % of 13.01%, which yields average RV tons of 9.34 per ha.

From a cost point of view, this study is based on the SSG cost surveys done by the SA Cane Growers' Association (SACGA, 2016). Only actual data for the 2016 season were available, and the data for the 2018 season were estimated using indices from the Crops and Markets Reports released by the Department of Agriculture, Forestry and Fisheries (DAFF 2018). The Gross Revenue in this study was extrapolated from the actual 2016 SSG cost survey data. The extrapolation was done by using actual changes to the RV price.

## Results and Discussion

Tables 2 and 3 below display the estimated impact of the transformation Interventions for SSGs in 2018/19 in the South African sugar industry for rainfed and irrigated areas, respectively.

For the rainfed areas calculation, based on the average assumptions it is estimated that a loss of R71.05 per ton cane is made with the interventions. However, as displayed in Table 2, the estimated loss would have been worse (-R112.15 per ton cane) if not for the interventions. Unfortunately, even with the interventions there is still a loss due to the very low 2018/19 final RV price, which can be explained by high sugar imports, the HPL which decreased low local demand and the large sugar crop which increased export exposure.

**Table 2. Dryland estimation of small-scale growers' economic benefit with and without interventions and average in the 2018/19 season.**

<b>Weighted average Income</b>	<b>R/ton cane</b>	<b>R/ton cane</b>
Cane Income	349.52	349.52
Other Income (SPF, VAT Flat Rate and Cane Supply Incentive)	30.00	30.00
<b>Interventions</b>		
Intervention 1		27.27
Intervention 3		10.24
Intervention 5		3.59
<b>Total weighted average cane income</b>	<b>379.52</b>	<b>420.62</b>
<b>Weighted average costs</b>		
Harvesting (incl. contractors)	44.88	44.88
Haulage and transport	122.54	22.54
Fertiliser	82.47	82.47
Chemicals	40.92	40.92
Planting	88.31	88.31
Levies		
Sundry expenses	112.54	112.54
<b>Total Operating Expenses</b>	<b>491.67</b>	<b>491.67</b>
Loans (Capital and Interest)		
<b>Total Costs</b>	<b>491.67</b>	<b>491.67</b>
<b>Profit/Loss</b>	<b>-112.15</b>	<b>-71.05</b>

In the irrigated areas, the estimated loss will be R41.67 per ton cane with the interventions. However, without the interventions, the loss is estimated to have been R82.77 per ton cane.

**Table 3. Irrigated land estimation of small-scale growers' economic benefit with and without interventions in the 2018/19 season.**

<b>Weighted average income</b>	<b>R/ton</b>	<b>R/ton</b>
Cane Income	409.13	409.13
Other Income (SPF, VAT Flat Rate and Cane Supply Incentive)	30.00	30.00
<b>Interventions</b>		
Intervention 1		27.27
Intervention 3		10.24
Intervention 5		3.59
<b>Total weighted average cane income</b>	<b>439.13</b>	<b>480.23</b>
<b>Weighted average costs</b>		
Harvesting (incl. contractors)	32.77	32.77
Haulage and transport	163.70	163.70
Fertiliser	69.39	69.39
Chemicals	54.17	54.17
Planting	134.52	134.52
Levies	5.75	5.75
Sundry expenses	61.61	61.61
<b>Total Operating Expenses</b>	<b>521.90</b>	<b>521.90</b>
Loans (Capital and Interest)		
<b>Total costs</b>	<b>521.90</b>	<b>521.90</b>
<b>Profit/Loss</b>	<b>82.77</b>	<b>41.67</b>

It must be noted that these results are based on the average SSGs for rainfed and irrigated sugarcane in the South African sugar industry. It is commonly known that small scale grower yields, sizes and soil types differ vastly throughout the industry and therefore every SSG result is likely to differ.

### Conclusion and Recommendations

This study needs to form part of the Monitoring and Evaluation programme that is required in the South African sugar industry transformation initiatives. Monitoring and evaluation of the initiatives will allow the industry to understand which initiatives have a meaningful impact. The industry can, therefore, be responsive to this and change seasonally to suit the needs of SSGs. Poorly implemented and unsuccessful initiatives are especially ill-afforded at a time when the industry is experiencing significant financial challenges.

### REFERENCES

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