

# **Sugar Cane: A Case as Development Crop In South Africa**

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## **Executive Summary**

The Sugar Industry is a major contributor to the rural economic activity in the sugar cane growing areas of South Africa, namely, KwaZulu-Natal (KZN), Mpumalanga and the Eastern Cape generating an income from the sale of sugar and molasses of about R4 985 000 000 (R5 billion). The industry is composed of 15 sugar mills, 13 of which are scattered from the southern border of KZN to its northern border, and 2 of which are in Mpumalanga. Most of the sugar cane supplied to these mills [85%] is produced by over 53 000 registered cane growers, the balance being supplied by the mill estates.

The sugar industry is an important provider of jobs. Its role in this regard has been particularly valuable as it is a rurally based industry and so the jobs both in milling and growing are in the rural areas. The quest for increasing efficiency has reduced the number of workers per ton of sugar, but expansion in production has limited job losses.

The production of sugar cane on communally held land has expanded significantly in the past 25 years and now represents approximately 15% of total cane production. This is nearly the quantity of sugar cane produced by the entire Swaziland sugar industry and represented a gross farming income in 1998 of R430 million. Allied to the expansion in cane production in these areas has been the development of a large number of contractors who harvest and transport the cane. The multiplier effect of the industry is evident in backward; forward; upward and downward linkages. The social programs and the government/private sector joint projects that have been facilitated and implemented by the sugar industry bear testimony to the industry's conscious commitment to the socio-economic and welfare up-liftment of its sugar cane growing community.

This presentation will examine the factors that have influenced the successful development of commercial cane production among Black growers and the policy environment as well as the institutional arrangements that enables such developments.

The following is a summary of the most important factors in this development:

- (i) the existence of mills within an economic distance of large areas of suitable land, the nature of the crop and the way in which the proceeds sharing partnership between growers and millers has operated based on recoverable value (RV) pricing system,
- (ii) the creation of an industry fund to finance cane development against the security of a cession on the income from the crop,
- (iii) the support given by the milling companies to the development of additional cane supplies,
- (iv) Land re-distribution initiatives by the Miller companies, CANEGROWERS land policy and sugar cane grower settlement strategies,
- (v) the support given by Government in tariff protection, commodity access to compulsory levy
- (vi) State creation of a infrastructure and support services managed by the sugar industry,

- (vii) the support of the existing cane growing communities and organisations and the SGDT in establishing training and supporting local farmer organisations to enable them to participate in the industry structures,
- (viii) the research and extension support services provided by the Sugar Association, and
- (ix) the dedicated economic, resource utilization (productivity and costs minimization), database information systems, and organizational management advisory services by CANEGROWERS.

*The key challenge for the sugar cane industry remains the maintenance of competitiveness in relation to other world class producers and industries.*

In its quest to achieve this for all cane farmers, irrespective of farm size, type of tenure, geophysical location or affiliation, CANEGROWERS is convinced that the following are crucial:

- (i) research and technology development that leads to improved farmer productivity per unit of production,
- (ii) infrastructure investment in potential rural areas,
- (iii) development of sustainable farmer institutional formations,
- (iv) targeted human resources development,
- (v) farmer-friendly policies that are informed by local imperatives and export opportunities, taking care of monopsonistic relations in world sugar business markets,
- (vi) improved efficiency of capital resources utilisation and a conscious management of natural and environmental resources, and
- (vii) targeted social and capacity building projects that invest back into the community.
- (viii) Committed government policy to develop the industry within manageable international competitiveness conditions (Sugar Act Review).

## **1. PROFILE OF SUGAR INDUSTRY IN SOUTH AFRICA**

The South African Sugar Industry produces sugar and molasses for both the local and export markets from 15 mills. These mills are supplied from sugar cane grown in KwaZulu-Natal, Mpumalanga and the Eastern Cape.

There are 53 000 registered cane growers comprising approximately 2 000 farmers farming on freehold land and approximately 53 000 growers farming on Tribal Authority land represented by the S A Cane Growers' Association [CANEGROWERS]. These growers produce approximately 85% of the South African cane crop. About 17% of this is produced by small-scale Black growers. The 15 mills process this sugar cane and also produce the remaining 15% of the South African crop from their own lands.

The South African Sugar Association [SASA] is a partnership between CANEGROWERS and the South African Sugar Millers Association Limited [SASMAL]. All activities and representative structures are funded by members of the Industry. This

partnership provides specialist services in marketing, logistics, research and administration to add value to the cane growing and milling business of the industry. CANEGROWERS is an integral part of the national, international and SADC sugar policy formulation and in this way farmers are represented from the farm gate, through processing and marketing, to the customer.

The Sugar Industry is a major employer of people in KwaZulu-Natal, as well as the cornerstone of business development in rural areas in which sugar cane is grown.

## **2. SOCIO-ECONOMIC IMPACT OF SUGAR CANE IN SOUTH AFRICA**

The South African sugar industry generates both direct income and employment in the regions within which it operates and indirect economic activity because of the many backward linkages that exist between the sugar sector and the core business that supply the sugar industry. Forward linkages to downstream industries also afford significant employment opportunities.

The sugar industry's earnings for the year 2000/2001 totalled R4 985 000 000 (R5 billion), while indirect revenue averages around R3,9 billion. Based on actual sales and selling prices, it is estimated that the industry contributed R1,5 billion to the country's foreign exchange earnings.

Employment within the sugar industry totals 104,620. Direct and indirect employment is estimated at 124,000 people. Over half a million people are estimated to be dependent on the sugar industry in the regions if one assumes a 1:5 dependency ratio per employee.

## **3. CANEGROWERS REPRESENTATIVE STRUCTURE**

CANEGROWERS was established on 9 August 1927 with the purpose that one organisation should be responsible for the interests of all cane growers. Over the years, the Natal Cane Growers' Association (representing the Indian cane growers), the Mangete Cane Growers' Association (representing the Coloured cane growers of Mangete) and the KwaZulu Cane Growers' Association (representing the cane growers situated in the then self-governing territory of KwaZulu) were formed and affiliated to CANEGROWERS.

Prior to 1992, the basis of representation on the policy making body of CANEGROWERS was determined by the cane tonnage produced by the members of the local cane growers' organisations and seats on the Central Committee of CANEGROWERS were allocated pro rata to this tonnage. This resulted in those Grower Groups who had largely white cane growers as members being entitled to 32 of the 37 available seats, while the KwaZulu Cane Growers' Association was entitled to 3 seats and the Natal Cane Growers' Association to 2 seats. The cane tonnage produced by members of the Mangete Cane Growers' Association was too low to warrant a seat on the Central Committee.

Given the nature of the sugar industry partnership arrangement between Growers and Millers, it became apparent that there was a need for fuller participation by all cane

growers in the representation, decision-making and communication processes of CANEGROWERS' organisational structures.

During 1992 the Articles of Association of CANEGROWERS were amended to move away from the accepted business principle of representation based on the scale of production, to the principle of regional representation of cane growing areas. Further, the concept of equality of representation between regions was fostered, irrespective of the number of cane growers farming in the cane supply area or the cane tonnage produced by those growers.

In terms of this new representation structure and in line with the principle of freedom of association, individual cane growers are entitled to join any local cane growers' member organisation which operates in their mill supply area. It is acknowledged that, in practise, different member organisations will represent mainly large scale growers or small scale growers respectively.

Each member organisation is entitled to elect delegates to the Local Grower Council (LGC) established in each mill supply area. Organisations representing small scale growers elect a total of 12 delegates to the LGC and organisations representing large scale growers also elect a total of 12 delegates to the LGC. Therefore there is equality of representation between large and small scale growers on the LGC.

The LGC elects four persons to represent its region on the Board of Directors of CANEGROWERS. The Board is the policy making body of CANEGROWERS and thus determines CANEGROWERS policies and principles in its activities in the sugar industry partnership with Millers and in providing services to its farmer members. The Board elects annually a Chairman, Vice Chairman and Executive Committee. By virtue of the democratic representative structures, the Board, in general, comprises members drawn equally from the large scale and small scale cane growing sectors.

In some of the mill supply areas, the need for separate local cane grower organisations has disappeared and the various groups have merged into one organisation e.g. the Darnall Farmers' Association and the Malelane Cane Growers' Association. Steady progress in this regard has been made in other cane supply areas.

At the time of the constitutional amendment, the proposed new organisational structure was reviewed by social, political and business commentators. These commentators and all the member and affiliated organisations endorsed this new representative structure.

### **New Freehold Growers**

Following an initiative by certain milling companies to sell off land to black farmers, a new sector of cane growers has emerged since 1995. The total land re-distributed at market value prices amounts to 10 000ha. The 108 growers have purchased freehold farms varying between 60ha and 90ha in extent. CANEGROWERS has undertaken an initiative to hold a series of workshops in the regions where these New Freehold Growers farm, to introduce them to CANEGROWERS' organisational structures and to facilitate their full integration and involvement in the local growers' organisations' structures and activities. The Institute of Natural Resources has been commissioned to assist in this regard. CANEGROWERS is committed to ensure that the New Freehold

Growers make a success of their farming ventures and that they are able to participate fully in all cane grower related activities. An additional 6-8000 ha second phase by the millers is already about to start.

#### **4. GROWER DEVELOPMENT SCHEMES: APPROACHES AND STRATEGIES**

##### **4.1 “Small” Grower Development Trust**

With the incorporation of small scale grower organisations into CANEGROWERS’ structures in 1992, it became evident that these organisations required institutional capacity development in order to empower the representatives of such organisations to participate fully in the decision making processes of the sugar industry. In addition, the technical and business skills of small scale growers and contractors could be improved to enhance their cane growing businesses through improved productivity and efficiencies.

Through funding channelled through the Small Grower Development Trust (SGDT), which was founded by CANEGROWERS in April 1992 and which has enjoyed substantial sugar industry support with a capital injection of R21.5 million, the following programmes have been implemented:

Institutional development training of small-scale grower representatives has been ongoing. To date, over 270 committees and local farmers’ associations have been trained, with over 4,193 grower representatives participating in such training at a total cost of R2,25 million during the period April 1992 to 31 March 2001.

Training of small-scale growers in cane husbandry related and business skills courses during the same period 31 March 2001, saw over 17,471 growers participated in twelve skills development training courses at a total cost of R5.9 million.

Training of cane contractors in technical and business skills courses from April 1994 to 31 March 2001, 1,918 contractors have participated in ten various training courses at a total cost of R4.42 million. A R3.2 million training has been outsourced to INR from April 2000 to March 2003.

In addition, the SGDT has underwritten the staffing, operation and administration shortfall in costs of 15 small scale grower organisations. This financial support allows the organisations to operate independently, with limited support services from CANEGROWERS. During the period April 1992 to 31 March 2001, these organisations enjoyed financial support in excess of R19.8 million.

##### **4.2 Contractor Support Programme**

Following needs identified through CANEGROWERS’ Grower Development Programme, the sugar industry is funding a Contractor Support Programme (CSP) aimed at developing viable black cane contracting businesses which can provide efficient services to the small scale grower sector. The Institute of Natural Resources

has been commissioned to implement the CSP over a three – five year period at a cost in excess of R3 million. This project is to be funded from Sugar Industry funds set aside for small scale grower development projects.

### **4.3 Umthombo Agricultural Finance (Formerly FAF)**

The Umthombo AgriFinance was established by SASA in 1973 (as Financial Aid Fund-FAF) to finance the growers who were not able to use their land as collateral to borrow money to finance their cane growing businesses. Since then the facility has grown to its current lending book value of R100 million. This makes Umthombo AgriFinance the largest financial institution in small scale agriculture in South Africa.

### **4.4 Extension Services for “Small” Growers**

SASA has entered into joint venture agreements with the Departments of Agriculture of Mpumalanga and KwaZulu-Natal to assist in the transfer of technology and empowerment of the Departments’ Extension Services.

### **4.5 The current Agreement with KwaZulu-Natal Department of Agriculture**

#### **4.5.1 The sugar Industry is currently working in an alliance with the Department which provides for:**

A Joint Venture Monitoring Committee comprising representation from the KZN DoA Directorate and South African Sugar Association Experiment Station (SASEX) management oversee the agreement and address any problems which may arise.

An agreement with a duration of a five (5) year period (1996 – 2001) and covers services to smaller scale growers located on both Tribal Authority and freehold tenure land.

Four senior SASEX Extension Officers are responsible for providing the technology transfer which has been generated largely from the SASEX research programmes.

Twenty-nine (29) Agricultural Technicians from the KZN DoA are responsible for conducting the extension programmes using groups of growers as target audiences. The programme is supported with field demonstrations, hands-on training and crop calendar work programmes.

In terms of the agreement the four senior SASEX Extension Officers are seconded to the KZN DoA, two (2) being funded by SASEX and two (2) by the KZN DoA.

The delivery of services in terms of the agreement was delayed initially by the Agricultural Technician training programme. However, recent reports indicate considerable progress in the Joint Venture.

#### **4.5.2 New South African Sugar Association (SASA) Commitment:**

On 28th July 1999, the Council of SASA agreed to the appointment of a Principal Extension Officer to be dedicated to smaller scale grower extension. The cost of this appointment is borne by SASEX.

With regard to the four senior Extension Officers seconded to the KZN DoA, the Council of SASA had agreed to provide only fifty percent (50%) of the staff costs involved should the DoA funding be reduced or withdrawn.

#### **4.5.3 Vision for the Future**

The Strategic Alliance vision of CANEGROWERS is a partnership with the Provincial Government where the sugar industry, through SASEX, would provide the technological support to an effective extension programme for smaller scale growers provided through the structures of the Department of Agriculture.

#### **4.5.4 The Sugar Industry Trust Fund for Education**

The Sugar Industry Trust Fund for Education [TFE] was established in the 1960's by SASA to stimulate education through teacher training. Since then the TFE has been involved in school building projects, bursaries for a wide variety of education opportunities and school quality improvement programmes.

#### **4.5.5 Community Development Programmes**

SASA has formed alliances with Government to assist with various RDP and community development programmes. This has required the support of the cane growing community in the least developed areas of the sugar industry. Community resources have benefited substantially from these programmes.

The impact of the capacity development training for small scale growers, as well as the Small Cane Growers' Financial Aid Fund, the Sugar Association's Experiment Station, the DoA's Extension Programme and the Milling Companies contribution, is evident in the improved yields and productivity from these growers. In 1998/99 3,4 million tons of cane at a value of R462 million was delivered by small scale growers.

### **5. ANALYSIS OF LAND TENURE SYSTEMS**

There is a popular belief that traditional land tenure arrangements as practised in South Africa currently are non-investment friendly, limit individual initiative, are a constraint to credit or finance access because they cannot be alienated and are counter productive and foster uneconomic practices.

There may be truth in some of the factors raised. However, the historical and land ownership process in South Africa have more to tell than meets the eye at first sight. Safe to say that as per current eco-political and financial market set-up, the traditional land tenure system is not viewed and treated with due fairness. As a result of development of support institutions that are alien to traditional African economic value systems, it is obvious that such Euro-based institutions will have little to do with revamping land ownership rights for African rural inhabitants.



At the core of the debate is ownership versus security of tenure. African traditional land ownership systems are pioneers and custodians of secure-life-long tenure arrangements. Because these have not been accepted by financial, legal and administrative institutions of the country, they are regarded as immobile and non-transferable and cannot be alienated in an event of failure to pay on the part of the user.

Access and tenure security have not been an issue for cane farmers so far. One of the biggest limitations though, is the impossibility on the part of current small-holder growers to increase their physical land size to a more economic unit. Due to societal pressures as infused in Traditional Authority Systems, household food security is the fundamental issue and any additional land for commercial exploitation is a luxury that cannot be sustained. This is a misnomer since there is visible evidence of fallowed and unused pieces and pockets of land in many aMakhosi areas. This is the case as the opportunity costs of not using the land are not obvious to the land holder/user.

Lack of Political Will and Foresight to rectify this economic discrimination is one factor the current government needs to tackle. All things being the same, it is not the land (soil/ground) that create wealth, but the investment on the land that makes the difference. If South Africa can approach tenure arrangements, issues from enterprise, profitability, tenure security and investment angles (and not physical ownership as the cornerstone to creditworthiness), the majority of rural entrepreneurs will assist in creating sustainable livelihoods and change perceptions about land use in traditional areas. A more pragmatic approach and bold Political Will is required to effect the proposed approach.

For the moment, many prospective growers will crave for the volatile freehold title because other tenure arrangements are simply discriminated economically, politically, financially, administratively and constitutionally.

## **6. CHALLENGES FACED AND LESSONS LEARNED**

The Sugar cane industry in South Africa has certainly gone through dynamic phases of change. Due to external factors from World Trade Organisation (WTO), the industry is facing new challenges in managing a process of a deregulated and a more freer trade environment. These will certainly impact on the socio-economic gains already achieved due to increase in imports of sugar and competing overseas brand names.

Although the industry believes that it is comparatively competitive at primary production, the value-adding chain is viewed to be vulnerable to outside competition. This is due to technology research and the rate of capital investment for improved productivity. For the South African cane industry to be a world beater, better access, acquisition and investment in labour-inducing technology is one best option that will be required. This will encourage keeping employment in the country-side and thus ensure food security.

Investment in infrastructure that enable primary producers and entrepreneurs to be resourceful will provide an added impetus for better competitiveness and higher productivity. Rural infrastructure, such as access roads, strong bridges and catchment

dams to minimise flood damage, are important. Telecommunication services, electricity and informatics are critical for business transactions.

Institutional structures that provide human capital development in rural economy setting need constant support. The success of the sugar industry is based on strong local farmers organisation structures that uphold democratic values and champion common economic / commercial and financial objectives of sugar cane farmers. Institutions formed on non-economic objectives in a production setting have little room to survive.

Although government's obligations on the international arena is acknowledged, it is always important that our government, particularly line-function departments, get their hands dirty in wanting to understand the specific industries with a view of providing the necessary regulatory / legislative and trade regimes that are conducive for the sectors to compete fairly on the world stage. Protection for incompetence and sheer ignorance on world economic and trade imperatives should not be on the State's agenda. At the same time, blind acceptance of so-called international norms in trade liberalisation at the expense of domestic industries that provide livelihood to millions of rural lives should be thoroughly re-viewed and proper tests done with such sectors to ensure their readiness taking into account local structural unemployment situations. Policies that are farmer / industry friendly will go a long way to stabilise rural economy status.

The most important lessons learned during the history of the sugar industry to date encompasses the following:

Well organised partnership for a designer crop.

Nurture legitimate and effective democratic representative structures.

Cascading decision-making to resourceful, trusted and democratically elected representatives.

Acquire skilled scientists, researchers, administrators to drive the organisation objectives.

Target assistance to identifiable groups and get them to be convinced of the value-system in place as well as the rules of the game.

Develop and implement intervention projects that sustainably change the socio-economic status of the beneficiaries. They will in turn support the system via self-financing means e.g. extension levies.

Establish synergetic organisations with strong history of good governance and commitment to break constraints faced.

Quite often "governments and consultants" believe they can offer alien solutions to local problems. Start with what people know. Local people will always have solutions to their problems, but often do not have the wherewithal to solve them.

Beneficiaries must know ab initio the written and applicable rules of the game, the penalties to be faced in cases of misbehaviour and the benefits for astute entrepreneurs.

Minimise “group consumption mentality”. The more rights that are defined the least conflict is faced in managing productive resources. Risk of default is minimised drastically and splinter-group syndrome is obviated.

Nurture and encourage discipline, commitment and entrepreneurial Youth to lay a foundation for success. The cost and benefit scenarios and leisure / cost balance sheet must be explained thoroughly to beneficiaries involved.

Always let business objectives drive economic projects – not sentimental socio-political factors.

Investment in rural areas under traditional local authority is possible and should be encouraged. The fundamental principles of not alienating traditional leadership from land allocation should be upheld. However, the economics of land use must be thoroughly explained vis-à-vis certain perceptions about household food security, livelihoods, shelter and traditional institutional arrangements. There is no conflict between commercialisation of production in traditional areas under an established tenure arrangements that offer security of tenure to the entrepreneur, and the custodianship of Land vesting with local iNkosi. Cropping is more amenable to commercialisation than grazing. The sugar industry is providing hard economic advisory support to land reform initiatives where sugar is targeted to ensure sustainability.

## **Resumé**

### **Mamogaudi Bigman, J. MALOA**

Bigman, was educated at University of the North where he did B. Agric [Admin] in 1984 and Honours (Agricultural Marketing) in 1988. In 1989 he completed his M.Sc Agricultural Economics (Agricultural Marketing And Trade Policy) at University of London, Wye College, UK. Currently studying for a diploma in transport economics specializing in air cargo and road haulage and commodity in-transit storage with Rand Afrikaans University.

He is a member of Development Southern Africa, the Agricultural Economics Association of South Africa and the Japan Alumni Association of SA.

Previously he was employed with the Department of Agriculture, the University of the North, The Standard Bank of S A and the National African Farmers Union. He returned to the Department of Agriculture in 1994 to take up the position of Board Member – Agricultural Credit Board. Was moved to National department of Agriculture as Director: Programme Planning from 1996-1998 April. Was transferred to Northern cape as Head Of Departments/Accounting Officer from August 1998-August 1999. From September 1999, he joined CANEGROWERS till to day.

Bigman's home language is Sepedi and he is fluent in English, Afrikaans, isiZulu and several other African languages. He is married to Malenyalo and have two boys.