Transformation Symposium – 2016

Article and photos: Gawie Geyer

Potatoes South Africa’s 4th annual Transformation Symposium took place on 9 June 2016 in East London with Linking Farmers to Finance and Markets being the key theme. The panel discussion was a first at a Potatoes South Africa Transformation Symposium and proved to be highly successful with the panel not holding back on contentious issues relating to the importance of agricultural finance for agricultural and setting goals for the future.

Ms Immaculate Zinde, Potatoes South Africa’s Manager: Generic Product Promotion, who acted as program director said that the symposium is the ideal platform to report back on the progress made with transformation in the potato industry based on the four components of Potatoes South Africa’s transformation program, i.e. enterprise development, small grower development, farm based training and the tertiary skills pipeline.

Setting the scene – Potatoes South Africa’s vision on transformation

Mr Bernhardt du Toit, chairperson of the organisation’s Transformation Committee, said that there is more to becoming a successful farmer than access to land. Potential farmers would for example also need financial support and good knowledge about all facets of production and marketing of a specific crop. He added that as far as commercial potato production is concerned it is wrought with barriers to entry such as extremely high set-up and production costs, having access to enough land for a proper rotation program, being highly labour intensive and water dependent as well as very prone to pest and disease infestations.

The deed of the Potato Industry Development Trust and the guidelines provided by the National Agricultural Marketing Council do not allow Potatoes South Africa to finance the purchase of land and equipment. However, the organisation is entitled to assist with seed as well as
fertilizer and chemicals, but most importantly it is in a position to provide technical assistance and transfer skills to ensure that the farmer does it right the first time.

As far as Potatoes South Africa’s transformation enterprise development program is concerned he stressed the need to spend the available funds optimally. “Whereas in the past the emphasis was on increasing the number of emerging farmers being helped the focus has now shifted to assisting established farmers to make potato production a segment of their farming enterprise in order that they can farm potatoes commercially and thereby ensuring their viability and sustainability.”

He added that there should be a bigger focus on partnerships between commercial farmers and emerging farmers, as well as input suppliers and off-takers. However, it should be worthwhile for the commercial farmer as he would have to give-up his time and energy that would otherwise be dedicated to his own farming enterprise. In addition diversification should receive high priority in order to spread the risks associated with potato farming.

“Potatoes South Africa places high emphasis on market access. It makes no sense to have a product available and no platform to sell it. However, in order to ensure a viable price it would be advantageous as a start for an emerging farmer to sign an agreement with a processor or wholesaler for the uptake of the whole crop. That way the emerging farmer will not be exposed to the price volatility on the fresh produce markets where the daily price is determined by supply and demand”, he said.

As far as purchasing inputs such as fertilizers and chemicals Mr Du Toit recommended that the farmers in a specific production area band together to buy in bulk in order to negotiate discounts.

**Keynote address**

Mr Mlibo Qoboshiyane, MEC of the Eastern Cape Department of Rural Development and Agrarian Reform, in his keynote address stressed the important role agriculture must play in the development of the Eastern Cape Province in order to ensure food security and job creation that will have a positive impact on poverty and thus grow the economy of the province. He added that although the province had no mineral deposits to speak of it is blessed with ample available arable fertile land and water which could make it the country’s new food basket.

As far as making it happen he said that all role players, including the government, should get involved so that all available resources could be pooled to ensure success. “It is therefore imperative that platforms such as the Potatoes South Africa Transformation Symposium come up with executable plans that could be rolled-out successfully. It is also important that land reform forms an integral part of package, for example ensuring that farmers receive title deeds in respect of land they farm on. In my opinion the authorities should limit their evolvement to facilitating the process and leaving farming to the farmers. If we fail in our endeavours it would be an agricultural calamity leading to hunger.”

As far as potato production is concerned he said that the product can play a pivotal role in ensuring food security as well as entrepreneurial opportunities. He also referred to discussions held with McCain Foods that requires 60 000 tons of potatoes for processing per annum from Eastern Cape black farmers and highlighted the benefits it could hold for agricultural development in the province. “It is important that partnerships like this bring about wealth, food and dignity to the people of the region and at the same time eradicate poverty for the benefit of future generations. It is consequently important to steer away from monopolies as it would take away opportunities and benefits for a lot of people.”

“As far as government intervention is concerned a new model for financing agriculture in the Eastern Cape Province is a must as it is currently failing its farmers. In addition more state funds should be allocated to the agricultural budget to really make a difference”, he said.

He added that funding alone will not make a difference and that it should be ensured that the farmers have access to services such as agricultural extension services. This is in line with the services already rendered by Potatoes South Africa’s transformation department in the Eastern Cape and North Eastern Cape production regions.

“It is important to change the minds of society to accept that agriculture is the driver for change in the Eastern Cape Province in order to unlock the potential of the land. Our ultimate goal must be to make the province the new agricultural hub of South Africa”, Mr Qoboshiyane said in conclusion.

**Linking farmers to finance and markets**

Mr Andrew Makenete, director and owner of Manama Hole Holdings and Ensorox, started his presentation by saying that that as far as the vegetable market is
concerned potatoes are by far the fastest growing in terms of consumption which underlines the huge potential the cultivation of the product offers the Eastern Cape Province.

“It is said that lack of farming and management skills, poor transport and farming infrastructure, no access to markets and lack of access to funding are the key barriers obstructing black farmers to create wealth and jobs through vegetable farming. However, chips is replacing pap, because everywhere you go you see people eating chips, so evidently there is a market for producing potatoes. Even the fresh produce markets and the processors are crying out for more potatoes. Then we have not even touched on the potential for potato starch that could easily be more profitable and bigger that the maize starch market. As far as finance is concerned, funds are not an issue as all levels of government are saying there is money and so do the National Development Plan, Treasury’s Job Fund and the Land Bank. On the flip-side are the private sector buyers with contracts and orders to buy”, he said.

According to Mr Makenete the root of the problem is that markets and the ability to finance production is not in sync and as a result the funding does not reach those with the ability to produce potatoes for the market. “The reasons for the dilemma are that the Marketing Act of 1994 does cater for the needs and conditions of small holder farmers and nor do the changes in agricultural financing. Examples of the aforementioned are land and water rights that fail to accommodate them, the lack of appropriate investments in infrastructure and a misguided view of what a sustainable unit is in order to support viable production.”

As far as the South African fresh produce markets are concerned he said that producers, and small holder farmers even more so, are mere price takers and if they are not organised or individually big enough will have no influence on either prices, markets and market determinants. Add to the mix high production and transport costs and the small holder farmer finds himself in a real tight squeeze.

“It is not easy for small holder farmers to get financing as they can seldom offer security because vegetable farming is not financed through traditional financiers for a variety of reasons. It must also be taken into account that potato production is associated with high risks and high costs and as such is not for the feint hearted”, he said.

Mr Makenete emphasised to necessity to provide black farmers with big enough farms to produce on a commercial scale. “In addition land tenure must be such that it can be used to secure financing and water rights must be secure and transferable. As far as state funding is concerned it should be more targeted as well as used discriminatively.”

He concluded by saying that if headway is to be made in linking finance to markets it is imperative that, for example, the:

• contractual / purchasing power mechanism be reformed;
• financing structures must be made flexible to accommodate small holder farmers who cannot provide the existing forms of security;
• purchasing contracts offered by buyers, and in particular the main buyers, should be allowed to be used as collateral;
• small holder farmers must be treated like any other farmer in terms of the price paid for his produce and time frame for effecting payment;
• government should provide subsidies and grants and input suppliers should increase their contribution as so-called input financiers; and
• implementation of new funding models.

Potatoes South Africa’s revised transformation strategy

Ms Nomvula Xaba, Manager: Transformation of Potatoes South Africa, reported that the aim with transformation at the organisation and in the potato industry is threefold, i.e. to assist black owned enterprises to produce more potatoes and delivered it to markets, to contribute towards the country’s food security by supporting rural communities and to provide tertiary assistance to ensure that there is a pool of agriculturists to serve the growing emerging sector.

In order to reach the goals Potatoes South Africa has set itself in terms of transformation, it has divided the activities into four components, viz. enterprise development, small grower development, farm based training and a tertiary skills development pipeline. In respect of the 2015/16 financial year approximately R9.9 million was allocated to the transformation core business.

“In respect of 2015/16 we had 30 farmers participating in our enterprise development program. Before a farmer is accepted into the program he has to comply with specific
criteria to ensure that the money invested in his enterprise is well spent. If a farmer complies with the criteria a soil analysis of his land is done followed by a pre-feasibility study and identifying a suitable mentor to assist him. We also prepare a full business plan which includes the identification of partners such as input suppliers”, she said.

During the past five years Potatoes South Africa managed and funded 55 small grower development programs in KwaZulu-Natal and the Northern Eastern Cape. It was attended by more than 3 150 growers who mainly plant potatoes for food security purposes with the remainder of the crop being sold to people in their immediate communities. The assistance included the lending of specially designed and built planters, ploughs and harvesters.

As far as skills development is concerned a total of 104 bursaries were awarded since the 2008 academic year to deserving students for diploma, undergraduate and postgraduate studies.

“In view of the numerous challenges faced Potatoes South Africa has decided to revise its transformation strategy. We are now concentrating on assisting fewer farmers which allows us to assist them up to commercial level. In addition existing farmers are now targeted as they already have the necessary access to resources which would make it that much easier for them to include the production of potatoes as a segment of their farming enterprise. We are also working closely with other agricultural industry partners such as financial institutions, input suppliers and off-takers to ensure success”, Ms Xaba said.

The journey to access funding

Mr Vuyani Kama, a participant in Potatoes South Africa’s enterprise development program, bought his first farm in Maclear with money saved when working in the forestry business. After two years on the farm concentrating on livestock, he started planting potatoes using old unused equipment he obtained from his neighbour who also offer seed potatoes and some mentorship. The potatoes were sold on the East London, Port Elizabeth and Umtata fresh produce markets and with the returns he purchased a tractor.

“I was introduced to Potatoes South Africa by Mr Gary Vorster, a local potato producer and director of the organisation, who also assisted me in producing seed potatoes which I stopped doing after a few seasons due to the numerous challenges associated with seed potato production. Potatoes South Africa’s initial financial support covered four hectares of potatoes which was later extended by five hectares. At the time I was planting potatoes for the table market. Because of insufficient rainfall in the Maclear area I set up a family cooperative to purchase an additional farm in the Ugie area. My only outside assistance was for putting-up fences and funding I got from Potatoes South Africa.”, he said.

In 2011 Mr Kama applied for funding through RECAP which was only approved in 2015. With this funding he had put up a packing shed and purchased a tractor, potato planter, a potato lifter and a ridger.

“I am well settled now and is the process of increasing the hectares planted with potatoes, which include land that I am leasing from my neighbour. The fact that I am now properly equipped to sort and pack my potatoes on the farm is a huge step forward in the marketing and direct selling of my potato crop. I am also seriously considering to get back to seed potato production as well”, Mr Kama said.

The Western Cape perspective on extension and advisory services

Mr Mogale Sebopetsa, acting Chief Director: Farmer Support and Development at the Western Cape Department of Agriculture said that the department’s agricultural related activities are in line with chapter 6 of the National Development Plan with the emphasis on growing the economy and increase jobs by expanding irrigated agriculture through water use efficiency and new irrigation schemes. They concentrate on those regions and industries with the highest potential for success and focussing on the processing of agricultural produce in the value chains in order to create jobs and growing the rural communities. He added that land reform is the key to success and placed special emphasis on successful collaboration between commercial farmers and land reform beneficiaries.

He referred to the successes attained with the commodity approach followed by his department with special emphasis on role of Potatoes South Africa’s Ms Nomvula Xaba as chairperson of the Vegetable Commodity Projects Allocation Committee (CPAC), plays to disburse the
governmental funds made available for vegetable projects that are BEE compliant.

“The commodity approach has proved extremely valuable as it allows for mentorship to smallholder farmers and creating market access for them. The fact that our commodity partners also provide extension services to these farmers means that we can do a lot more with less. The exposure to the industry through for example farmer information day and the aforementioned activations, ensures the ideal platform for these farmers to graduate to full-scale commercial producers. A study conducted by an external body has shown that we have a 62% success rate in respect of our projects, something we are very proud of”, he said.

Mr Sebopetsa said in conclusion that in the opinion of his department partnerships with industry role players is critical to success. “As agricultural advisors would have to remain at the forefront, their retraining to keep abreast of development is cardinal, especially in view of the challenges brought about by climate change and its impact on food security.”

**AgriBEE funding – what does it entail?**

Mr Mmemmogolo Malomane, acting Director for Enterprise Development at the Department of Agriculture, Forestry and Fisheries said that the key objectives of the AgriBEE Fund are to support the economic empowerment and successful entry of black people into the agricultural sectors and value chain. “A person who wishes to apply for funding must be a black South African or black legal entity with valid identification documents or a certificate of registration and must also be in a position to contribute 10% to the venture. In addition the applicant must be skilled on the intended business venture and must provide a viable business proposal which should, amongst others, have a market partner or identified market with a market plan and preferably long term contracts in place.”

As far as the conditions for funding is concerned he said that R5 million is the maximum. However, the department and the Land Bank can increase the amount on condition the applicant is in a position to contribute 20% of the loan amount. For applications in respect new equity deals, the applicants must hold at least 49% in the initial investment.

“There are a number of instances where the department will not consider applications. They are where land claims have been registered, to politicians, government and Land Bank officials, in a 100% interest in acquisition, to speculators and for the purchasing of farms, Mr Malomane said.

**The role of AgriSETA**

Mr Sello Khoza, on behalf of the chief executive officer of the AgriSeta explained that the AgriSETA was established to create an enabling environment for skills development in the agricultural sector. “Our focus is on the formation of strategic partnerships with industry role players, the allocation of funds to develop entrepreneurial skills in the industry and the development of responsive learning programs with the emphasis on corporate governance and mentorships.”

This is done by proving training grants for example for the implementation of skills development interventions and the development of training interventions. The grants are made available to accredited training institutions whose activities are monitored to ensure that it complies with the set guidelines.

“As far as the national skills development strategy is concerned one of the main goals is to encourage and support the training efforts of cooperatives, small enterprises, workers, non-governmental organisations and communities. However, skills development is not only about training people for employment; it must also empower people to create opportunities to make a living for themselves. To reach our set goals we believe it is imperative that we engage with industry organisations such as Potatoes South Africa because of its direct contacts in the field and therefore has the knowledge where the need for financing is”, Mr Madiba said.

**Summary and the road ahead**

Dr André Jooste, chief executive officer of Potatoes South Africa, in his summary of the day’s proceedings indicated that a lot has been said that would require further attention by Potatoes South Africa as representative organisation of all potato producers in South Africa.
“Our biggest responsibility as an industry is to produce food, and I am not always sure that everybody realises the massive responsibility all potato farmers have, be they commercial, small holder or community potato farmers. We, therefore, have to use all available platforms to make every stakeholder aware of the important responsibility we have to provide the nation with a foodstuff that is nutritional, versatile and that offers value for money” he said.

He also said that there are no quick and easy fixes to what had been discussed at the symposium. “We must acknowledge where we as an industry come from and that we had to overcome certain stumbling blocks to get where we are today. However, it is imperative that we take that as part of our learning curve in order not to repeat mistakes made in the past. The concept of patriotic private/public partnerships, the necessity of executing plans to optimise opportunities, harnessing and leveraging other government departments to reach goals and the importance of the value chain to attain success are some of the aspect that came up during the symposium.”

“I am of the opinion we sometimes rely too much on government in respect of what we want to achieve. Government should rather be seen playing the role of facilitator, like for example getting other departments involved in achieving our goals. Another matter that needs attention in order to make serious headway is building trust amongst ourselves, amongst role players in the value chain and between the private and public sectors. Finally I wish to highlight those catalysts that are paramount to our success such as the implementation of off-take agreements, access to finance and diversifying risks. What we have to do now is getting the right people together to find solutions, but more importantly to successfully implement those solutions to the benefit of emerging commercial potato farmers in particular and the potato industry as a whole”, Dr Jooste said in conclusion.

Panel discussion - The importance of agricultural finance for agricultural development

Panel Ms Phelela Mlilo (provincial manager: Eastern Cape Masisizane Fund), Mr Mike de Klerk (independent consultant), Mr Andrew Makenete (facilitator), Mr Barry Coetzee (Landbank) and Mr Phophi Raletjena (enterprise development farmer).

Mr Makenete said the outcome of the panel discussion should be the formulation of concrete resolutions that can be put forwarded to Potatoes South Africa and other industry stakeholders for possible implementation with a view to report on the progress made at the 2017 Potatoes South Africa Transformation Symposium.

Synopsis of panel discussion

• There seems to be a lack of commitment in respect of the development of small holder farmers as they are mostly left to their own devices, for example to obtain funding which is extremely difficult as they cannot offer any collateral.
• The Land Bank and other financial institutions are in a position to render financial assistance so the primary problem is not access to finance, but rather access to land, access to markets and formal off-take agreements that could be offered as collateral to obtain funding. Processors can play an important role in respect of the latter. It must be accepted that all financial institutions must comply with the stipulations of the National Credit Act.
• In addition to the above having access to the necessary infrastructure and equipment as well as farming skills, is also needed. As far as skills transfer is concerned programs, such as Potatoes South Africa’s enterprises development program, is a must.
• Consideration should be given to accept other forms of collateral such as the crop on the land and the yield, if a commercial farmer offers / rents a piece of his farm to a small holder farmer for production purposes and acts as a mentor, proof of fresh produce market deliveries and payments received over time as well as credit ratings.
• It is imperative that all role players operate collectively as partners to ensure proper appropriation of available funds to finance emerging agriculture, instead of the current situation where everybody is operating in individual silos. It should go hand in hand with monitoring expenditure.
• Support should not be a once-off exercise as it takes any small holder farmer a number of years to establish himself / herself. In addition the support should include more than just funding, such as assistance in obtaining suitable planting material, input supplies, information and access to markets.

• In order to successfully enter and operate viably and sustainably in the value chain, the support given to small holder farmers should result in the delivery of quality produce that complies with the needs and wants of the end user.

• The national and provincial governments should also be prepared to take more risks by joining other financiers in financially assisting the small holder farmer, i.e. introducing a shared risk model. In addition government should be prepared to finance irrecoverable expenses such as the cost of sinking and equipping boreholes.

• The application process to be followed by the small holder farmer to obtain financial assistance should be streamlined because at present he / she has to incurred excessive costs to appoint a consultant to drive the process on their behalf.

• The industry organisations should play a much bigger role in identifying small holder farmers that should qualify for financial assistance and also assist them in applying for financial assistance.

• Negotiations should be instituted with off-takers with a view to obtaining off-take agreements and shortening the period between the delivery of consignments and payment to small holder farmers.

• Potatoes South Africa must enter into negotiation with financial institutions, including the Land Bank, and the national and provincial governments in connection with rendering financial assistance to small holder potato farmers.