

The Miracle of the Liguguletfu Cooperative:

How Small Scale Growers have raised equity to create a R100 Agricultural Development Fund

Small scale growers who farm predominantly on tribally held land in communal areas face many challenges when seeking finance for projects or schemes which would enhance their long term sustainability. Small scale growers at Mpumalanga decided to take ownership and responsibility for their situation and have come up with a scheme which provides a unique opportunity to contribute to securing the future of sugar cane production in the Mpumalanga region.

On the 6 May 2010 the Khula Akwandze Fund (KAF) was launched at the Zoe Faith Temple Church in Kamhlushwa near Malelane in Mpumalanga. The launch established a R100 million fund, the product of collaboration between Akwandze Agricultural Finance and Khula Enterprise Finance.

Small Scale Growers access to credit is a challenge faced the world over and the South African Sugar Association (SASA) addressed this need for sugar cane farmers with the formation of the Financial Aid Fund (FAF) in 1973. This fund was later renamed Umthombo Agricultural Finance (UAF). After providing finance to Small Scale Growers for 32 years and, against the backdrop of financial assistance available to the small scale sector through the Government's Mafisa programme, SASA no longer extends credit facilities to growers..

Small Scale Growers in Mpumalanga recognized that access to credit is critical to the success of sugar cane farming and along with the Mpumalanga Cane Growers Association approached the region's sugar miller, Tsb Sugar Ltd to seek a joint solution.

A process of negotiation and consultation followed which culminated in the formation of the Liguguletfu Co – Operative a wholly grower owned cooperative. Liguguletfu was created to raise equity to invest in a Grower Financial Organization.

Although agreement had been reached to enable the creation of Ligugulefu, a number of hurdles remained. The most important hurdle was to raise the equity required to on-lend. UAF ceded its outstanding loan book to this soon to be created financial organization which provided a good start with a R14 million loan book. The cash flow from the loan book was however not going to facilitate the funds that were required in the regions sugar industry.

Ligugulefu set about raising R5 million in share equity by asking its 880 members to invest R1000 / ha over a two year period. Tsb Sugar Ltd agreed to match Ligugulefu rand for rand and over the course of two seasons and an additional R10 million was made available.

The enormity of the task achieved by these growers should not be underestimated. SSG's traditionally face declining margins associated with a lack of scale economies. The rocketing of input prices, during 2009 most notably fertiliser saw many of the growers facing decreasing efficiencies associated with old and poorly maintained irrigation systems. Despite these challenges SSG's had the foresight and discipline to take R1000 / ha out of their own pockets to secure their access to credit into the future.

Akwandze Agricultural Finance started extending credit to growers in August 2006 and it quickly became evident that the demand for credit exceeded the resources available to AAF at the time. AAF management set about investigating opportunities for partners and Khula Enterprise Finance was identified as a suitable partner.

The Khula-Akwandze Fund (Pty) Ltd was established in October 2009 with a lending capacity of R100 million. AAF have contributed R25 million and Khula R75 million resulting in a 25:75 shareholding. AAF utilise their experienced and capable staff to provide the fund management services.

Sugar Industry stakeholders have bought into this initiative and extension, technical, financial and social support is provided by Tsb Sugar Ltd, South African Sugarcane Research Institute, Department of Agriculture, Rural Development and Land Administration and CANEGROWERS.-.

AAF is seeking additional partners to enable the extension of credit on a competitive basis to Land Reform beneficiaries as well as Large Scale Growers. The implication of which is that an initiative which started out trying to secure access to finance for Small Scale Growers has grown into a development fund of R100 million with the potential to grow further.

By identifying a risk to their business and having the foresight and fortitude to dip into their own pockets to raise R5 million Small scale growers in Mpumalanga have been able to leverage their investment and have created a development fund worth R100 million.