

Restructuring & Diversification Management Unit

Evaluation of Performance of the Ratoon Management Fund Study

Objectives

- To develop a viable and sustainable model for the management of a revolving fund, managed by the industry, to assist growers to finance their ratoon management operations
- To develop an operational plan for the establishment of an institutional framework and fund implementation
- To propose actions that could be financed from the EC accompanying measures to contribute to the setting up of the fund (excluding working capital)

Expected Result

- A blueprint for setting up a fund (*system*), complete with operational plan and budget.

Understanding the Problem

- General declining productivity.
- Price / cost squeeze.
- High debt.
- Frequent poor farm management.
- Difficulties in accessing seasonal loans.
- Delays in undertaking ratoon management.

Grower Funding Overview

- Historic:
 - VIF
 - MOAC – Komati & Usuthu Pilot Project Revolving Fund.
 - Development Finance Institutions – FINCORP, SIDC, SwaziBank
- Current:
 - MOAC
 - DFI's - FINCORP, SIDC, SwaziBank
 - Commercial banks

DFI Situation

- DFI,s have indicated that they face delivery and management difficulties.
- They generally admit that they need assistance.
- They would like to see industry involvement.
- They are reluctant lenders.

ADB Learning

- Clear communication.
- Loan structuring.
- Land tenure issues should be resolved prior to the commencement of projects.

Mill Lessons

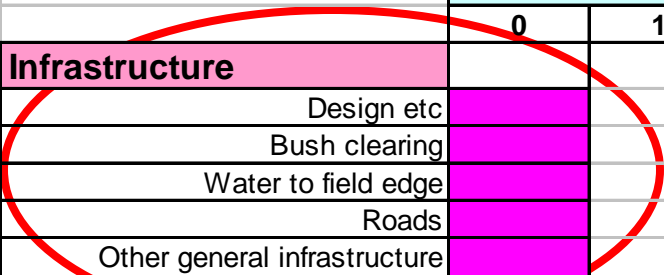
- Provide timeous support services.
- Ensure clear, timeous and appropriate communication.
- Structure the conditions of loans to coincide with the sugarcane production requirements.
- Ensure input costs are minimised.
- Provide appropriate training.

“A Diversion”

Basic Financing Model

- Loan term 8 years.
- Interest rate 15.5%
- Sucrose 14.5%
- Sucrose price E1,804 (2008) escalating at 3%.
- Input costs escalated at 10%.
- Infrastructure cost E45,000 per hectare.
- Crop establishment E13,000 per hectare.
- Crop maintenance E7,000 per hectare.
- Farm management E1,000 per hectare.
- Harvesting and transport E7,000 per hectare.
- The base case yield was taken as 100 tons cane per hectare.

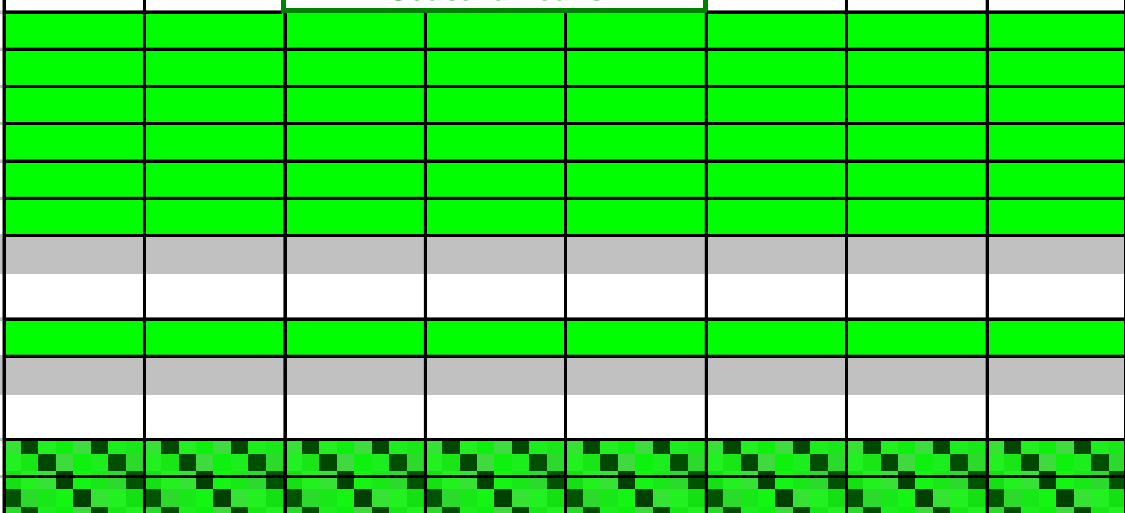
		Season									
		0	1	2	3	4	5	6	7	8	
1	Infrastructure										
	Design etc										
	Bush clearing										
	Water to field edge										
	Roads										
	Other general infrastructure										
2	Sugarcane establishment										
	Infield irrigation infrastructure										
	Land preparation										
	Ridging										
	Seedcane										
	Planting										
	Plant fertilizer										
3	Crop maintenance										
	Top dressing fertilizer										
	Herbicides										
	Labour - weed control										
	Labour - irrigation										
	Electricity										
	Ripener chemical + application										
4	Farm management										
	Management & Admin.										
5	Harvesting										
	Harvest										
	Transport										



Medium-term Debt



Seasonal loans



Basic Financing Model

- Grower would need to achieve an productivity level of over 110 tons sugarcane per hectare.
- Average yields are below 100 tons sugarcane per hectare.

		Season								
		0	1	2	3	4	5	6	7	8
1	Infrastructure									
	Design etc									
	Bush clearing									
	Water to field edge									
	Roads									
	Other general infrastructure									
2	Sugarcane establishment									
	Infield irrigation infrastructure									
	Land preparation									
	Ridging									
	Seedcane									
	Planting									
	Plant fertilizer									
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	Labour - weed control									
	Labour - irrigation									
	Electricity									
	Ripener chemical + application									
4	Farm management									
	Management & Admin.									
5	Harvesting									
	Harvest									
	Transport									

Season

0 1 2 3 4 5 6 7 8

1 Infrastructure

- Design etc
- Bush clearing
- Water to field edge
- Roads
- Other general infrastructure

Long-term Debt

2 Sugarcane establishment

- Infield irrigation infrastructure
- Land preparation
- Ridging
- Seedcane
- Planting
- Plant fertilizer

Medium-term Debt

3 Crop maintenance

- Top dressing fertilizer
- Herbicides
- Labour - weed control
- Labour - irrigation
- Electricity
- Ripener chemical + application

Savings &/or short-term debt

4 Farm management

- Management & Admin.

5 Harvesting

- Harvest
- Transport

Sensitivity Analysis	Total - 8 Season	
	LT loan	
Base case	-13,012	
Infrastructure loan reduced to 6 yrs	-46,360	
Interest rate 10% decrease	-6,139	
Interest rate 10% increase	-20,010	
Productivity 10% increase	10,248	
Productivity 10% decrease	-36,273	

Financing Lessons

- Cost of infrastructural development can be crippling in sugarcane projects.
- Sugarcane yield levels are the most critical component for generating a surplus.
- Correct loan structuring is essential for the viability of a project.

Set-up for failure

- High costs of development.
- Inappropriate finance structuring.
- Below projected yields.
- Poor management – not factoring management capacity.
- Over indebtedness.
- Possible inadequate monitoring & controls.

Basic Credit Management

- Debt carrying capacity and expected cash flow?
- Understand the production risks.
- Determine how risks can be mitigated - focus on the controllables.
- Monitor loans every step of the way - every critical aspect of the production cycle.
- Ensure follow-up.

Financier Beware!

- The crop may be low risk; the financing of it carries all the normal credit risks.

“Back on Track”

Recommendations

- Address over indebtedness of KDDP farmers' associations. The proposal that a Govt rebate be given to these growers should be followed through urgently.
- Review the debt status of all farmers. Where problems are identified establish what remedial action should be taken.

Recommendations

- Remedial action:
 - Debt rescheduling.
 - Partial or total debt write-off should be seriously considered where necessary. Continue with sugarcane production with adequate systems/controls in place. Diversification will probably not be a solution.
 - Address management issues.
 - Take the required action without further delay.

Recommendations

- Establish a finance delivery system that will apply and abide by the essential financing principles.
- Explore and use the support services being offered by the sugar mills.
- Establish an input procurement system that will strive for the keenest pricing of inputs

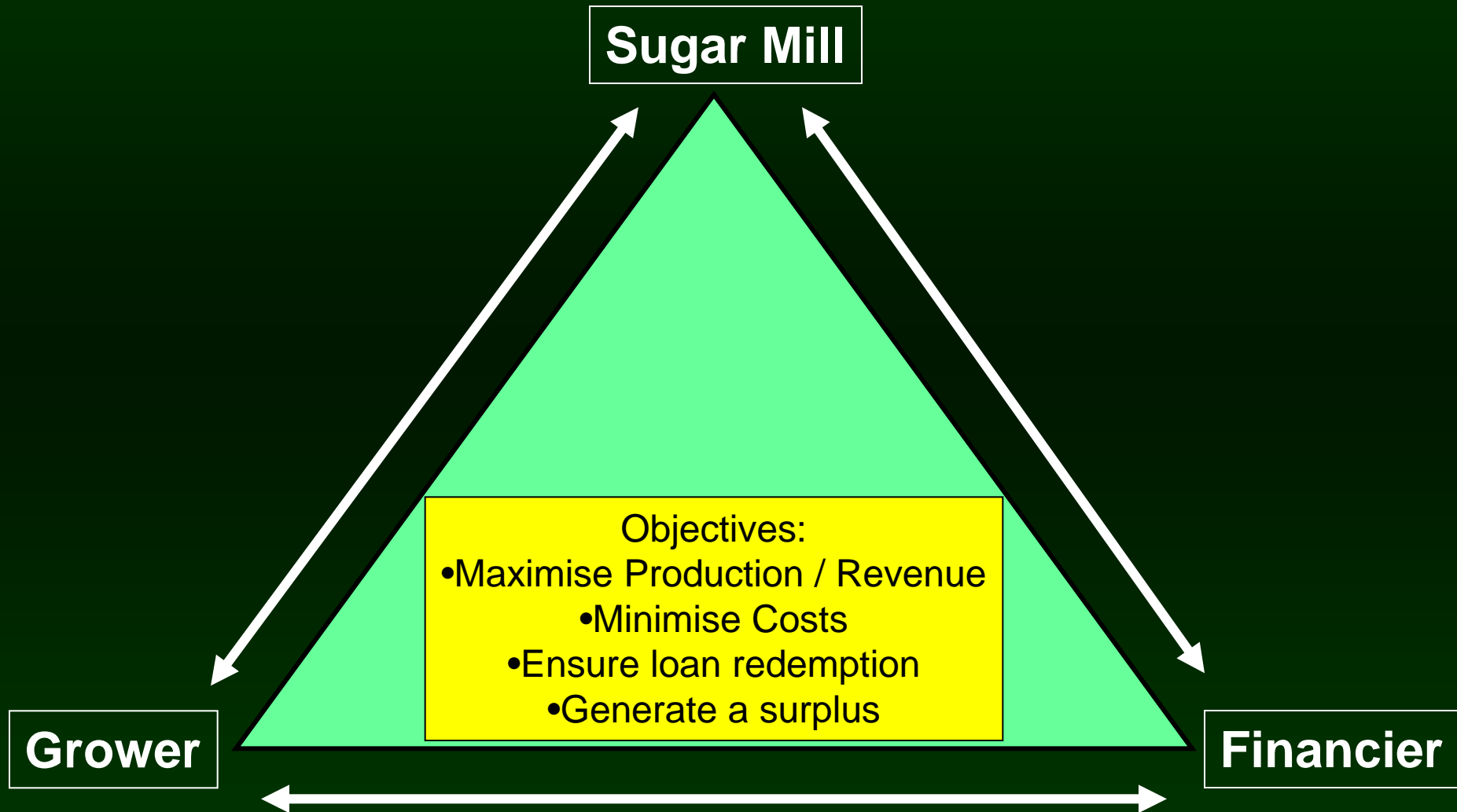
Another DFI !!!??

- Past history.
- Same problems.
- Do not repeat mistakes.
- Look for synergistic solution.

Way Forward

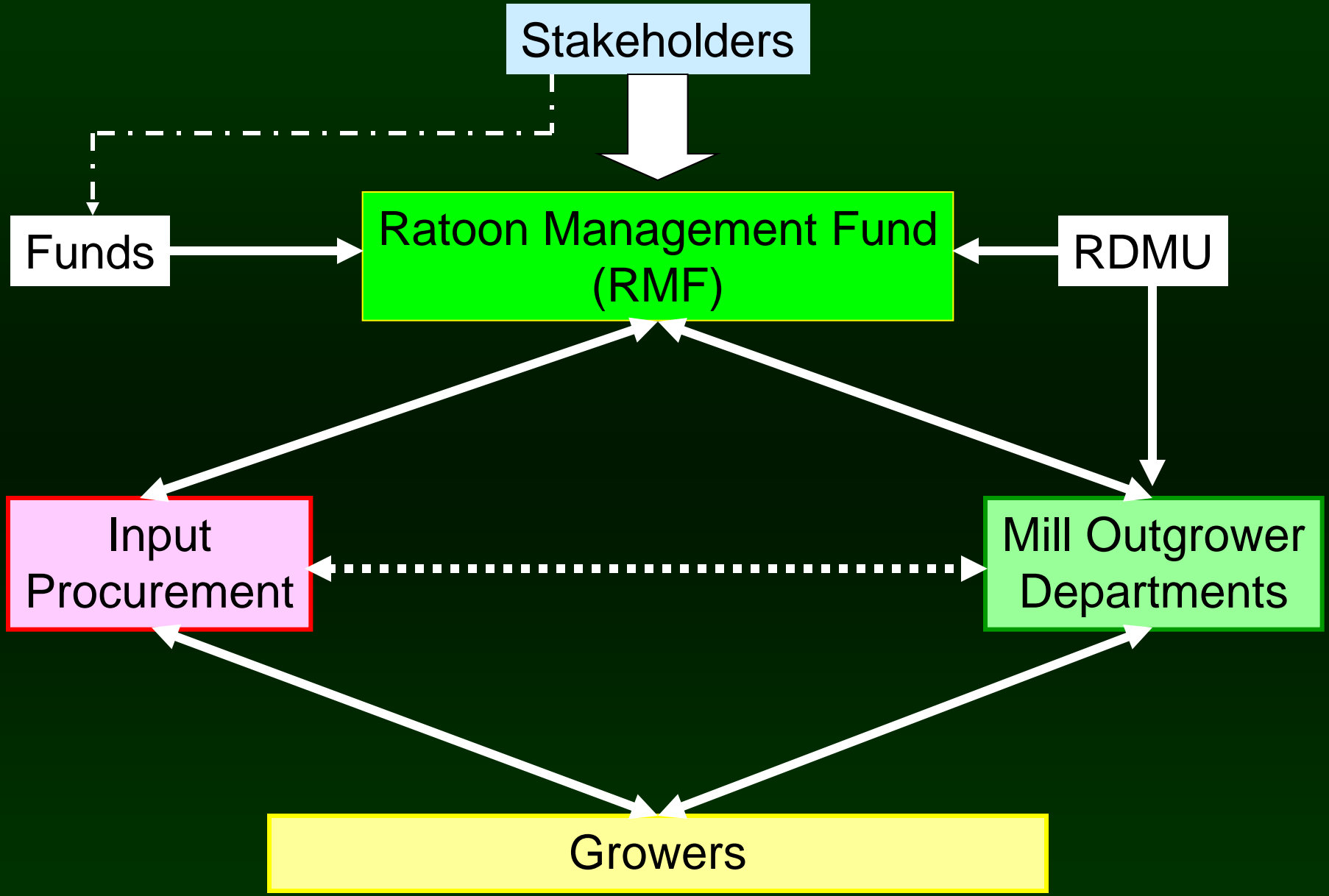
- Harness existing resources.
- Supplement them where required.
- Apply sound management principles to the provision of finance.
- Grower financing requires specialist systems and expertise.

The “Partnership”



Proposal

- Establish a “Ratoon Management Fund”.
- Stakeholders –
 - » Growers
 - » Millers
 - » Financiers



Government

- Support
- Enabling
- Funds

Mill Outgrower Departments

- Grower interface:
 - Business management services.
 - Coaching, mentoring, training.
- Administration services.
- Production monitoring / reporting.
- Technical support services.

Growers

- Implement solutions.
- Attend to management issues.
- Improve productivity.
- Participate in ownership / governance.

Financiers

- Funds
- Existing book – resolving problems

Input Procurement

- Bulk procurement of inputs to reduce costs.
- Initial enquiry to mills to provide assistance / participate positive.
- Important issue is securing orders and funds to pay for inputs.

RMF Services

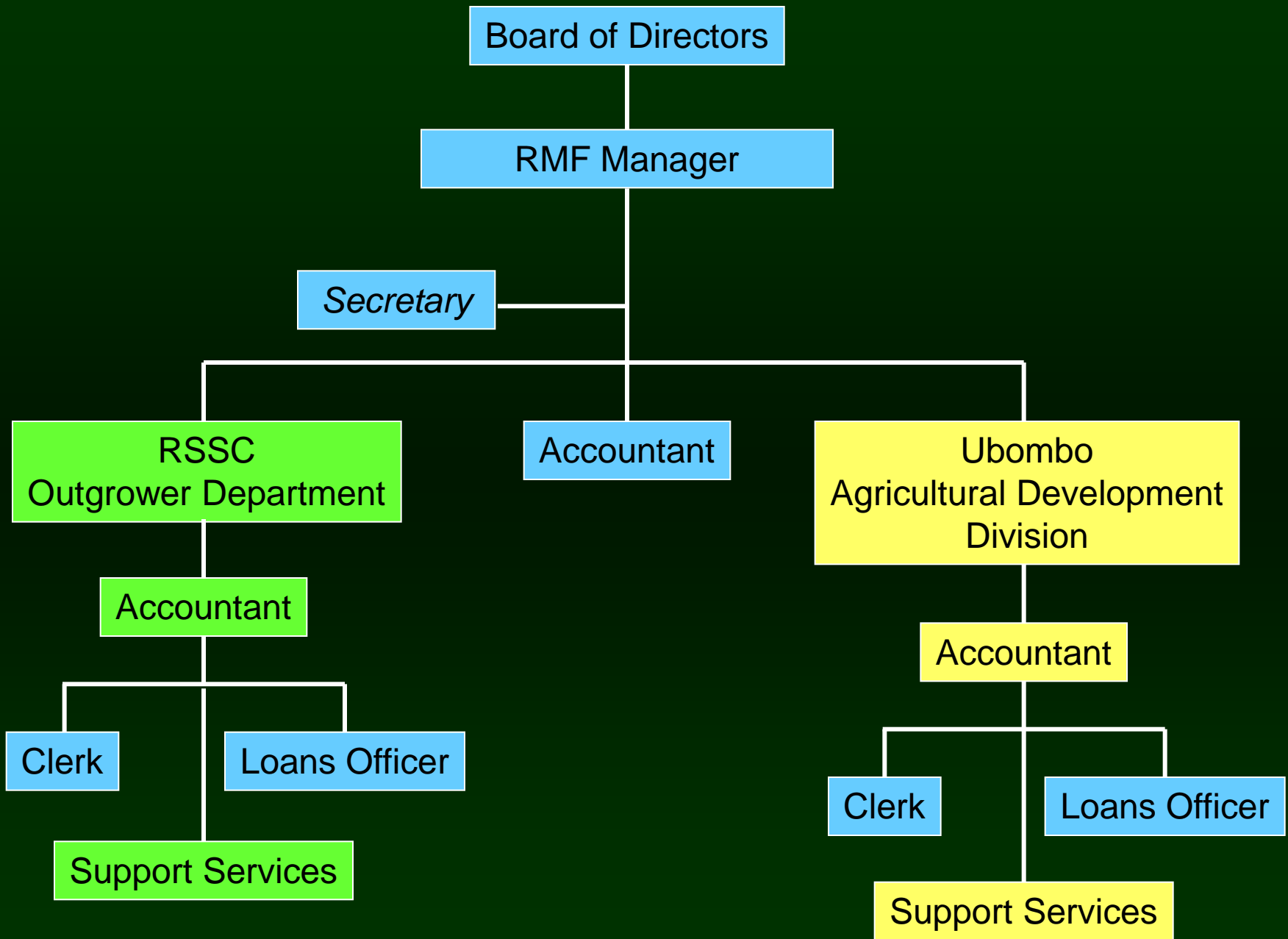
- Ratoon management loan administration.
- Ratoon management loans as an agent of financial institutions and/or as a funder itself.
- Input procurement fund administration.
- Suggested later development:
 - Provision of medium-term loans as an agent of financial institutions and/or as a funder itself.
 - Retention savings system.

RMF Income

- Interest
- Service / transaction charges
- Must be viable and sustainable

Structure

- Point of departure
- To be finalised following stakeholder consultation.



Critical Component

- Information system

RMF Financial Plan

- Set-up grant - E2.5 million
- Technical / operating grant – E7 million
- Initial ratoon loan funds E17.5 million

–Equity or grant funding?

Ratoon Funding Estimate

	2009/10	2010/11	2011/12	2012/13	2013/14
Hectares	480	1072	1982	3143	3593
Total loan amount x E1000	3,836	9,429	19,188	33,467	42,084

Ratoon Cash Flow

CASH FLOW PROJECTIONS				
	Year 0	Year 1	Year 2	Year 3
<u>Cash inflows</u>				
Capital	2,500	17,500	-	-
Loan Finance	-	-	-	-
Grants	-	3,000	2,500	1,500
Operating income	-	3,537	3,820	4,186
Loan redemptions	-	3,836	9,429	19,188
Total income	2,500	27,873	15,749	24,875
<u>Cash outflows</u>				
Loans advanced	-	3,836	9,429	19,188
Capital expenditure	2,463	-	-	-
Total capital repayment	-	-	-	-
Operating expenditure	-	2,754	3,029	3,332
Less bad written-off	-	0	0	0
Interest Payable on Loan Finance	-	-	-	-
Tax	-	-	37	44
Reserve	-	-	-	-
Dividends	-	-	-	-
Total expenditure	2,463	6,590	12,495	22,565
Surplus / Shortfall	38	21,283	3,254	2,310

Funds – the “big” issue

- Initial E17.5 million equity/grant/loan capital required for ratoon loan demand first 3 years.
- Additional E32.5 million required to meet loan demand from year 4 to 10
- Total equity/grant/loan capital E50 million.
- Interest rate – there will need to be a margin to meet costs.
- What will be the cost of funds?

Source of Funds

- Stakeholders.
- Donors.
- Debt financing.

Sticking Issues

- Grower indebtedness.
- DFI's 100% sugarcane proceeds
cessions.
- Funding.
- Interest rate.
- Farm management.

Conclusion

- Discussion with stakeholders has shown general support and a willingness to explore solutions.

A condition for an intervention would be that the DFI's would need to come to the “party”.

Project Plan

ID	Task Name	Duration	June					July					August				September				Oct				
			18/05	25/05	01/06	08/06	15/06	22/06	29/06	06/07	13/07	20/07	27/07	03/08	10/08	17/08	24/08	31/08	07/09	14/09	21/09	28/09			
1	<u>RMF - PHASE2</u>	95 days																							
2	PART 1 - Report back	36 days																							
3	Phase 1 report back	1 day																							
4	Review feed back	2 days																							
5	PART 2 - Consult / Negotiate	31 days																							
35	PART 3 - IS	9 days																							
41	PART 4 - Funding	19 days																							
54	<u>RMF - PHASE3</u>	1 day																							

Project Plan

ID	Task Name	Duration	July					August			
			29/06	06/07	13/07	20/07	27/07	03/08	10/08	17/08	
5	PART 2 - Consult / Negotiate	31 days	[Gantt bar spanning from 29/06 to 17/08]								
6	RDMU	1 day	[Task bar on 06/07]								
7	SSA	1 day	[Task bar on 06/07]								
8	SCGA	1 day	[Task bar on 06/07]								
9	RSSC	2 days	[Task bar on 06/07]								
10	Ubombo	2 days	[Task bar on 06/07]								
11	Financial Institutions	27 days	[Gantt bar spanning from 29/06 to 17/08]								
12	1st Negotiation	1 day	[Task bar on 06/07]								
13	SwaziBank	1 day	[Task bar on 06/07]								
14	SIDC	1 day	[Task bar on 06/07]								
15	Fincorp	1 day	[Task bar on 06/07]								
16	Other	1 day	[Task bar on 06/07]								
17	2nd Negotiation	1 day	[Task bar on 27/07]								
18	SwaziBank	1 day	[Task bar on 27/07]								
19	SIDC	1 day	[Task bar on 27/07]								
20	Fincorp	1 day	[Task bar on 27/07]								
21	Other	1 day	[Task bar on 27/07]								
22	3rd Negotiation	1 day	[Task bar on 10/08]								
23	SwaziBank	1 day	[Task bar on 10/08]								
24	SIDC	1 day	[Task bar on 10/08]								
25	Fincorp	1 day	[Task bar on 10/08]								
26	Other	1 day	[Task bar on 10/08]								
27	Government	4 days	[Gantt bar spanning from 10/08 to 17/08]								
28	Min Finance	1 day	[Task bar on 10/08]								
29	MEDP	1 day	[Task bar on 10/08]								
30	Min Agriculture	1 day	[Task bar on 10/08]								
31	Central Bank	1 day	[Task bar on 10/08]								
32	Report back	3 days	[Gantt bar spanning from 10/08 to 17/08]								
33	Stakeholder report back	3 days	[Task bar on 10/08]								
34	Review feed back	2 days	[Task bar on 10/08]								

Project Plan

ID	Task Name	Duration	August					September				October		
			27/07	03/08	10/08	17/08	24/08	31/08	07/09	14/09	21/09	28/09	05/10	
35	PART 3 - IS	9 days												
36	SASA	1 day												
37	IS integration	5 days												
38	Report back	3 days												
39	Stakeholder report back	3 days												
40	Review feed back	2 days												
41	PART 4 - Funding	19 days												
42	Refine plan	5 days												
43	Finalise costing	5 days												
44	Funding	6 days												
45	EU	1 day												
46	EB	1 day												
47	ADB	1 day												
48	IFAD	1 day												
49	Tibiyu	1 day												
50	Other	1 day												
51	Report back	3 days												
52	Stakeholder report back	3 days												
53	Review feed back	2 days												
54	RMF - PHASE 3	1 day												

Phase 2

- Address the details
- Reach agreement