



V.1 Objectives

To provide adequate funding mechanisms for the floriculture industry, in terms of production, industry-wide initiatives and the enabling environment

V.2 Background

Currently, the financing environment surrounding South African floriculture is characterised as follows:

- There has been insufficient utilisation of available funding mechanisms for both individual production and industry-wide initiatives
- The criteria for production financing is too inflexible to adequately capture the opportunities within the industry
- The DTI definition of agro-processing makes floriculture ineligible for much needed competitiveness funding
- Limited support for the industry, particularly for emergent farmers, for help in preparing financing proposals
- The environment for supporting foreign direct investment (FDI) is too restrictive

Without money, approved and allocated appropriately, the floriculture industry cannot grow at the rate that the scale of opportunity would allow. The industry is in a position where currently its development is severely constrained by a lack of financing, both on an individual grower level and as an industry overall. It will be unable to increase its production volumes to meet market demand and maximise opportunity, and it will be unable to invest in the support systems it needs to become a world class floriculture player without a significant level of financial support.

The situation is further aggravated by a low awareness amongst key financial players (including commercial banks; developmental institutions such as IDC, and Land Bank; and the DTI) of the opportunities in the industry. ***This lack of understanding about the potential for the industry if it develops efficiently, (including lack of knowledge about the appropriate investment levels and areas for investment) to ensure efficient development takes place, is not giving the industry the much needed injection of cash.***

Furthermore, ***the industry is not clear on the options available to it***, nor how to execute these options whether this money is in the form of private or Government loans, grants or through joint ventures and other methods of FDI. As a result, historical financing has not been channelled into the highest priority investments for individual farmers, or for the industry as a whole.

Government has pledged to help the development of SMME industries, particularly with regards to building export capability, yet many agricultural sectors, including floriculture, are not getting access to the competitiveness funding needed due to definitional technicalities. Furthermore, the fragmented nature of Government funding makes it difficult to receive the adequate funds across the board, as it is difficult to show “the big picture” repeatedly on several different funding applications. Therefore, ***if the DTI is committed to supporting the growth of agricultural SMMEs, it should consider designing an all encompassing supply-side package aimed at developing a world class agricultural sector, much like the commitment it showed in designing the Motor Industry Development Programme.***

V.3 Areas for strategic focus

V.3.1 Specific initiatives

**1. CREATE A
TAILORED
PRODUCTION
FINANCING
PROGRAMME**

**2. INDUSTRY-
WIDE/ENABLING
ENVIRONMENT
FINANCING
THROUGH
TAILORED
SUPPLY SIDE
PACKAGE**

**3. EXPLORE ALL
INTERNATIONAL
FINANCING
OPTIONS**

Initiative 1: Create a tailored production financing programme

Context

The primary financing provider for the floricultural industry is the Industrial Development Corporation. Historically, and particularly in the last year, there has been significant investment in the floriculture industry, the vast majority of which has been very successful. However, both the IDC and growers have complaints. The IDC has, up until this project, not had sufficient insight into the opportunities within the industry, making lending more difficult and risky. As a result, a number of growers feel that the financial requirements (security and financial contribution) are too strict, thus constraining growth in the industry. Therefore a solution is required which will allow free flow of investment in to the industry, whilst minimising (and spreading) risk.

Key action steps

The overriding task is to design a standard methodology for both the preparation and evaluation of production proposals.

This concept has been discussed for a long time and is badly needed. With the results of this study, both growers and financiers are in a much better position to understand where to place investment emphasis – what to grow, where to export it to and how to get it there. SAFIC, through the support services group, has a critical responsibility to communicate these opportunities to the industry so that applications for financing are in line with the industry strategy.

SAFIC also must assist growers, particularly new ones, in the preparation of proposals. The most efficient way to do this is via the preparation, jointly with the IDC, of a standardised proposal format. The IDC, and for that matter other financing institutions, will then be in a much better position to evaluate each proposal on their economic merit.

The criteria for approval also need to take into account additional criteria to reflect the nature of the investment more accurately. Currently, the main criteria are the 'usual' ratios – financial contribution by the client, security, cash flow etc. Evaluation of proposals should also look closely at the following aspects (also included in the standardised business plan):

- Is production geared towards the domestic or export market?
 - Export market products yield on average 50% better pricing.
- If export, which countries represent the primary target markets?
 - Volume markets (in particular direct distribution to Germany, UK and the Netherlands), Japan are in general most attractive.
- Which products are being developed? Which cultivars in particular?
 - Indigenous products, in the short term, are likely to attract the greatest returns; in the medium to long term, traditional greenhouse products.
- What developmental aspects are included within the proposal (training, PDI ownership etc.)?
 - The industry overall will not achieve financial success without a serious commitment to skills transfer and PDI ownership.

By understanding, in detail, the answers to the above questions (in the context of the opportunities set out in the products and markets section), financiers should be able to understand further the risk profiles of different investments. In this way, greater flexibility can be incorporated into some of the other ratios (in particular financial contribution and security). In this way, both the industry, and the financiers will experience the greatest and fastest financial return, as well as maximising the employment opportunities.

Finally, the IDC should not bear all the risk (and reward) from the flower industry. SAFIC must broaden its outlook and be active in encouraging the following organisations to become active investors:

- The Land Bank (particularly for black economic empowerment initiatives)
 - See the Land Bank's *Black Economic Empowerment Initiative* booklet, November 1998. Here there are details on numerous financial service offerings that differ in nature from the IDC
 - The Land Bank also tends to have lower security requirements (although often charge higher interest rates)
 - They also offer a number of programmes for group projects with concessionary interest rates\
 - Contact: Mike de Klerk (GM, Research and Development), George Oritzer (GM, Projects) who have both expressed interest to discuss the financing needs and framework for developing the flower industry
- Commercial banks
 - Similarly, since this study commenced, there has been a strong desire from the commercial banks to start open dialogue with the flower industry. Again, they are particularly interested to understand in greater detail the risk profiles of different investments

Initiative2: Industry-wide/enabling environment financing through tailored supply side package

Context

This project has identified a number of much needed industry-wide initiatives that will create enormous benefits to all the individual stakeholders in the floriculture industry, and which similarly affect other agricultural SMME sectors. From designing an eco-label compliance programme to managing the pooling process, to conducting branding initiatives, money will be required to finance all these initiatives. The DTI matching grant programme for the flower export council, which is the primary revenue generator at an industry-wide level, has made a start but this programme will not be enough to facilitate the most efficient realisation of potential in the short, medium and long term.

Therefore floriculture needs a totally new financing model to create the necessary support structures to serve the entire industry. ***The drive***

and initiatives are all industry-based (including a plan for self-financing) but in the meantime, the floriculture industry needs a significant injection of funds to kick start its development and achieve its goal of becoming a major floriculture player in the world market. In achieving its goal, the industry will bring tremendous benefits to South Africa both in terms of foreign exchange and job creation.

Key action steps

Developmental government funding is the place to start. There are a significant number of funds set up by the DTI to assist SMME industries and to generally enhance competitiveness, unfortunately due to definitional issues, floriculture is precluded from much of this funding because it does not qualify as agro-processing.

The main fund for which the floricultural industry is eligible, the Sectoral Partnership Fund (SPF), is likely to play a key role in the first main initiative of the industry – the hiring of the support services manager. Unfortunately, this fund does not have the resources to support “broader picture” development across the whole industry.

There are many other funds that SAFIC needs to examine, including DTI incentive schemes such as:

- Workplace challenge
- Export Council training funds
- Inward Buying Mission

Again, whilst these funds provide valuable assistance for smaller, discreet activities, they are not able to provide the all-encompassing support the industry needs to develop fully.

Government must therefore re-examine its current supply-side measures and design an effective “Agricultural SMME industry development programme.”

Plan for self-financing

The industry must be reminded that developmental funding is not an ongoing concern, and moreover that developmental funding often comes only as an initial investment and is granted only if the proposal comes with a solid plan for self-financing in the medium to long term. It is for this reason that the industry needs to investigate and implement a levy system.

In initiating discussions about implementing a levy, the industry should be aware that an involuntary levy is already in place across

certain product-based industry organisations (eg SAPPEX) and that an involuntary levy can only be implemented by undergoing a lengthy statutory process with the National Agricultural Marketing Council (NAMC).

If the industry decides to institute a levy it must also recommend an enforcement, collection and distribution mechanism as well as decide the basis for contribution, ie whether it be based on a revenue percentage or a fixed sum per kilo exported. The services group of SAFIC should play a key role in administering the levy which may alternatively be outsourced to Government bodies such as the PPECB.

Industry buy-in will be critical for the success of a levy system, and is particularly important when applying for a statutory levy as one will only be granted if an overwhelming majority of the industry supports the idea. As this may take sometime, the industry should use the short term to convince growers of the benefits of pooled resources for marketing, pooling, R&D, and financing using the developmental funds before introducing the concept of a levy. Once the industry recognises the cost savings and skill transfer benefits of working on a larger and more organised scale, the job of selling a levy to continue these beneficial activities will have already been done.

Initiative 3: Explore all international financing options

Context

Although, there is no doubt that the South African Government should be the largest single investor in the development of the floriculture and other SMME industries, the industry should supplement this support where possible with international developmental funding and other forms of FDI, including joint-ventures.

Not only is this valuable from a financial investment perspective, but it will also bring in much needed support in terms of technical advice and international knowledge.

Key action steps

The Industry must start to develop a network of international funding sources for individual growers and exporters to tap into as well as for industry development. The industry's full-time employee (See Industry Organisation section) should explore and contact a variety of sources, both public and private including:

- International joint venture partners

- South African – UK Partnership programme (‘Helping UK companies develop long-term co-operation with South African partners’)
- International Chambers of Commerce
- International developmental funding
 - World Bank
 - United Nations Development Programme’s PARUL Programme (Poverty- Alleviation through Rural-Urban Links)
- FDI
 - International trade organisations
 - E.g. Westgrow (‘Attracting UK investment into the Western Cape’)

Additionally, the industry should work with organisations such as Investment SA on a strategy for attracting FDI into the floricultural industry including printing brochures or a prospectus advertising the opportunities for financial gain through investment in floriculture.

V.3.2 Key responsibilities

Lead	Government	<p><u>Enabling environment</u>- Provide initial start-up funding for industry-wide initiatives (e.g. Sectoral Partnership Fund for one off activities such as employment of services group manager). Re-examine the supply-side measures currently in place, including definitions of agro-processing that currently excludes floriculture from the majority of competitiveness funding. Design a tailored package for an “Agricultural SMME industry development programme”</p> <p><u>International funding</u>- Support industry in encouraging FDI by reviewing bureaucratic obstacles (e.g. ownership ceilings)</p>
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Support	Growers/ exporters	<u>Production financing/Enabling Environment</u> - Be open with SAFIC in providing the necessary revenue and cost information so that industry-wide financing structures can be developed.
	Industry-wide bodies:	<u>Production financing</u> - SAFIC must take a lead role in helping the industry understand its financing options (at all levels), develop the standardised proposal format and work with key financing players to develop clear risk and opportunity profile for floriculture industry <u>Enabling Environment</u> – Continue to apply for Government funding from various sources for discreet activities, and work with DTI to design a tailored SMME agricultural development programme for all-encompassing development support <u>International financing</u> - Develop network of international financing sources and communicate options to members as well as provide application assistance
	Related industries	<u>IDC and other financiers</u> - These groups must be open in sitting down with the industry to develop tailored financing programmes (they have already expressed a willingness)

V.4 Implications for other agricultural sectors

The following financing issues should be explored from a pan-agricultural perspective:

- Creation of an “Agricultural SMME industry development programme” (see Financing initiative 2)
- Similar risk profiles across other agricultural sectors need to be developed to facilitate the most effective financing
- Domestic financing options need to be communicated at a pan-agricultural level
- Shared agricultural resources should be put towards developing international financing options for the entire sector