

South Africa to take on innovative funding through Blended Finance Scheme (BFS)

By Thapelo Machaba

Farmer development has always been a priority in South Africa, the interest in development formed a relationship between the government and private sector to work together to bring about transformation and change within the agricultural industry.

The Blended Finance Scheme intends to leverage public and private sector resources to support investments that will unlock and enhance agricultural production, agro-processing infrastructure and comprehensive land acquisition by black producers through deliberate, targeted and well-defined financial and non-financial interventions. This scheme aims at developing previously disadvantaged black producers. The grant-loan initiative will not only empower black producers but it paves a way for the industry players to work together through collaboration between the financial institutions, organized agriculture (i.e producer organisations), growers and the government.

The BFS was proposed in 2018 following the failure of the recapitalization programme, which was formerly known as (RECAP), a post-settlement scheme that the Department of Rural Development and Land Reform introduced to support black beneficiaries, the programme had its shortcomings throughout its roll-out, however, some beneficiaries who participated in the programme were greatly assisted with production inputs, infrastructure and farming machinery, while other producers were assisted through the programme to ascertain factors of production, maintain and lead a successful and sustainable farming project. However, the department also lost millions of rands which is still unaccounted for, due to beneficiaries misusing approved funds allocated for their projects, beneficiaries received cash transfers in tranches from the department straight to their accounts without financial regulatory measures set in place to monitor the use of the funds, this contributed to funds being misused and mismanaged. In addition, poor monitoring and evaluation of the RECAP programme resulted in fraudulent activities by beneficiaries leaving little to no accountability by beneficiaries and the department.

Based on public consultations with industry role players, the draft BFS proposals aim at supporting producers throughout the agricultural value chain by making financial and non-financial contributions throughout to support their beneficiaries. The programme will seek support for smallholder, medium-scale and large-scale producers and the selection criteria will be done by both private and public sector. The fund administrator will play a huge role when it comes to the grants being rolled out. If the BFS is rolled out in the format presented at the consultation forums, agricultural organisations, financial institutions and the department will jointly support beneficiaries through BFS as stakeholders identified to make the programme a success. Simply put, this means that both the financial institutions and the department will be jointly liable should the project owner and, or the beneficiary default on the set grant-loan terms. Both parties (department and banks) will incur losses in that project. If such a case arises then the beneficiary will also carry the risk and will have to repay the bank and the department. Through the BFS the beneficiary will be held accountable for the default as appropriate recovery plans will be followed by both banks and the department, unlike with recapitalization, where policies did not have penalty agreements.

With recapitalization there wasn't any policy agreement between the financial institutions, department and beneficiary enforcing accountability for when and where resources were used or misused especially of funds diverted from its original use allocation. Beneficiaries got away with a lot of "free" money unaccounted for and no measures were taken to have the participants pay-back the money.

The BFS aims at correcting issues that producers go through, for example, marketing challenges, financial issues, technical support, market access and infrastructure. A group of stakeholders will be required where issues will be addressed, organisations are willing to come on as supporting structures to provide services such as research and insurance. The department together with participating and willing stakeholders will hold the responsibility to monitor and evaluate the projects, mitigating risks likely to occur from the beneficiaries diverging from the line of business.

A blended funding model joint workshop was held by the Agricultural Portfolio Committees on 06 March 2019 with DRDLR Minister and DAFF Deputy Minister in attendance. In the meeting, Mr A Madella voiced his concerns with BFS saying it worries him that the scheme will not cater for the 250 000 emerging black producers but will support those with a turnover of over 30 million a year and Mr Mlengana in response mentioned that the programme will support sustainable investment that would unlock and enhance production by black producers through deliberate, targeted and well-defined interventions.

Link to meeting summary <https://pmg.org.za/committees/>

There has been criticism in the past about delays that beneficiaries experienced due to other similar programmes in government. Due to the delays in the programmes beneficiaries were left frustrated as they'd miss the peak planting period during their production seasons, which resulted in job losses and disturbed livelihoods. This particular funding model aims at rectifying the failures of all other farmer support programmes which were introduced in the past that didn't perform so well and had dire challenges. Collaboration, communication and transparency amongst the organisations, banks and the department will be key to the success of the BFS.