INCLUSIVE BUSINESS MODELS FOR LOCAL ECONOMIC DEVELOPMENT

Wytske Chamberlain & Ward Anseeuw
University of Pretoria
What is an Inclusive Business Model?

- “Models that aim to include poor people into value chains as producers, employees or consumers in ways that are both equitable and sustainable” (UNDP)

- Inclusiveness is determined by the level of cooperation between commercial partner and its workers, suppliers, customers and its operating environment
Dimensions of inclusiveness

- **Internal inclusiveness**
  - Ownership: land, assets, produce
  - Voice: decision taking power
  - Risk: financial, production
  - Rewards: financial, social

- **External inclusiveness / linkages**
  - Input
  - Market
  - Labour

- **Scalability**
  - Internal growth potential
  - Sustainability
  - Replicability
Why Inclusive Business Models?
Drivers for stakeholders

- Agribusiness
  - Access to land/crops
  - Corporate Social Responsibility
  - Favourable financing (government/DFI)
  - Development opportunities for historically disadvantaged people

- Beneficiaries
  - Access to knowledge, market, financing, inputs
  - Government guidelines
The Models

- Employee Equity Share Scheme
- Outgrower
- Mentorship
- Cooperative
- Community Private Partnership
- Lease Management
- Cluster
Employee Equity Share Scheme

The model:
- Employees hold equity share in commercial farm entity
- Operator/manager (and financier) other shareholders
- Internal inclusiveness mainly on paper

Characteristics of cases:
- High-value, capital intensive crops
- Both new and existing farms
- Funding is important driver
- Successful if operator is passionate about employee development
Employee Equity Share Scheme

Equity share in Inclusive Business Entity

- Can be majority share
- Can also be financed with grant from government
- Dependent on financial contribution

Legend:
- Employees
- Operator
- Financier
Employee Equity Share Scheme

- **Inclusiveness**
  - Internal inclusiveness is shared due to share in inclusive business, dependent on size of equity share
  - Linkages with local markets weak
  - Easy to replicate, but highly dependent on operator

- **Main issues**
  - Who is in and how to get out

- **LED impact:**
  - Mostly through employment
Outgrower

- The model:
  - Landholder produces crops for agri-business on pre-agreed supply contract
  - Mostly involves financing of inputs
  - Market access for small and emerging farmers

- Case characteristics
  - Wide range of products
  - Driven by need for produce supply
  - Part of farming activities mix
Outgrower

Emerging farmer
Beneficiary + Company owner

Mphiwe Siyalima

McCain Foods
Strategic Partner
Irrigated crops section

Central Pivot

Pea produce

Insurance
No commissions
Reduced rates

Input finance
Maize production
2% Interest

Local mining company

Government
RECAP funds

BEE
R2.6 million
Equipment

Oinia Fertilizers

Alexandra Forbes-Marsh

Alexander Forbes-Marsh

Investment
Grants
Loans/Finance
(Loan) repayment
Advice
Rent (Land)
Insurance
Outgrower

- **Inclusiveness**
  - High degree of ownership for individual farmer
  - But little voice and high risk
  - Easy to scale and replicate

- **Main issues**
  - Fair pricing to prevent indebtedness

- **LED impact:**
  - High in numbers
  - Dependent on large number of variables
Mentorship

- The model:
  - New/emerging farmer trained by agribusiness / NGO to become self-sustainable
  - Mentorship on technical, financial and managerial skills
  - Can include access to finance

- Case characteristics
  - New farmers, benefitting from government policy
  - Emerging farmers assisted by NGO
  - Both cash crops and staples
Mentorship

TechnoServe – Massmart Limpopo

Fruitspot (Massmart)

External market

Walmart

51% shareholding

Packhouse non-profit company
- 3 board members (Massmart, TechnoServe, Farmers)
- First right of refusal on produce

R800,000 (refurbishment)

Massmart

Trust account

R3 million

Loan account (revolving)

R3.5 million

Farmer

87 farmers on 24 farms

Loans, to be repaid at the end of the season

TechnoServe

- Manages the fund
- Provides support

Day-to-day management
Ground programme
Training

External actors

Land Reform

Jobs Fund
Mentorship

- Inclusiveness
  - High responsibility and ownership of farmers
  - Risk reduction through mentor involvement

- Main issue
  - Sustainability after mentor retreats

- LED impact
  - Dependent on farmer’s drive
Cooperatives

- The model:
  - “an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise”
  - Cooperative members are active in agricultural processes
  - Arms-length assistance from commercial partners

- Case characteristics:
  - Land ownership by poor people
  - Non-subsistence crops
  - To gain access to market and financing
  - Can be combined with other models
Cooperatives

Aspire
- Project support

ATS Consulting

Employment Creation Fund (ECF)
- R35 mln

Gxulu Berries
- R150,000 (establishment costs)

Eastern Cape Development Corporation (ECDC)
- R800,000
- 30% share

Upper Gxulu Cooperative
- 70% share

Yummiberry Projects / Amathole Berries
- Sale of plant material
- Knowledge sharing
- Marketing

Grant
Non-monetary support
Shareholding
Cooperatives

- Inclusiveness
  - High level of inclusiveness, usually with high risk
  - But individual risk reduced

- Main issue
  - Democratic governance can be complex and slow
  - Free-rider problem

- LED impact:
  - High due to large number of participants and geographic concentration
Joint Venture

The model:
- Operating company held by landholding community and agribusiness partner
- Community provides land and financing from grants
- Agri-business partner provides financing, expertise and market access

Case characteristics:
- Land restitution projects
- Existing farms with high value crops
- Driven by need for access to produce
Joint Ventures

Assistance from:
- Limpopo RLCC
- Limpopo Dept of Agriculture
- MABEDI
- Maruleng Municipality

Moletele Traditional Council
- 2 ex-officio members
- 3 board members
  - 52%
  - 3 board members
  - 52%
  - 3 board members
  - 51%

Moletele Communal Property Association (MCPA)

Community Sub-group 1
- 15 members

Community Sub-group 2
- 1 board member

Community Sub-group x
- 1 board member

Moletele Communal Grazing

100%

Scotia / Eden Farm Communal grazing

Richmond CPP – Separate Case

New Dawn
- 48%
- 3 board members

Dinaledi
- 49%
- 3 board members

Batau
- 48%
- 3 board members

Strategic Farm Management

Boyces Group

Chestnet
- Replaced by Bono-SAFE as caretaker

Land Claims Commission
- 1 board member

Limpopo Dept of Agriculture

MABEDI

Maruleng Municipality
Joint Ventures

- Inclusiveness
  - Shared ownership, risk, benefits and negotiating power BUT
  - Power inequality between partners

- Main issues
  - Government funding dependency
  - Lack of inclusiveness driver

- LED impact:
  - Limited due to high level of failure and large number of geographically dispersed community members
Lease Management

- The model:
  - Landholder (individual or community) leases land to agribusiness
  - Only passive involvement, benefits limited to rental
  - Several sub-models: landholder cooperative, CPP, sale-and-leaseback

- Case characteristics:
  - Cash crops
  - Driven by agri-business need for resources
Lease management

- **Contractors**
  - (Harvesting and transport, ratoon after year 1)
  - Claim

- **Tonga Hulett Sugar**
  - R20m annually

- **THS Project Office**
  - (Management of cooperative accounts)
  - R12.37m

- **Government (DEDT)**
  - R52m

- **THS Small-scale Growers Unit**
  - Coordination

- **Individual land holders**

- **Cooperative**

- **SASA**
  - (SPF fund)
  - Land use rights for 10 years
  - Employment

- **Contractors**
  - (Planting + ratoon 6 months)

- **Savings Fund**
  - (SASA managed)
  - Land Rental (10% of sales)
  - Ratoon maintenance (per tonne)
  - Other
  - Dividend Savings

- **Land holders**

**Notes:**
- R2m annually
- R52m
- R20m annually
Lease management

- **Inclusiveness**
  - All operational control and risk with agri-business partner
  - Can include sharing of profits

- **Main issues**
  - Long-term contracts takes land away from community
  - No involvement leaves community passive

- **LED impact**
  - Very limited, but option for ‘free’ income
Cluster model

- **The model:**
  - Integration of numerous links in the value chain, including small/emerging farmers
  - Shared risk among stakeholders

- **LED impact:**
  - Theoretically high due to high number of active participants in geographically limited area
  - No successful case
Conclusions

- Many combinations of models with complex structures
- LED and inclusiveness: Chances of employment, economic benefits, market access and skills development
  - LED and inclusiveness, both model and case dependent
  - Different impacts per model
  - Much depends on driver behind a project: economic gain or empowerment?
- Overall impact sometimes very limited BUT even small benefits make a big impact in severely impoverished areas