INCLUSIVE BUSINESSES IN AGRICULTURE

What, how and for whom?

Critical insights based on South African cases

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Inclusive Businesses in Agriculture – What, how and for whom? Critical insights based on South African cases

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List of Acronyms

AGM	Annual General Meeting
AMPIC	Amadlelo Milk Producers Investment Company
(B-B)BEE	(Broad-Based) Black Economic Empowerment
BCtA	Business Call to Action
BMB	Blue Mountain Berries
BWT	Bessieplaas Werkers Trust
CASP	Comprehensive Agricultural Support Programme
CET	Coega Empowerment Trust
CPA	Communal Property Association
CPI	Consumer Price Index
CPAC	Commodity Project Allocation Committee
CPP	Community Private Partnership
CRDP	Comprehensive Rural Development Programme
CSR	Corporate Social Responsibility
DAFF	Department of Agriculture, Forestry and Fisheries
DBSA	Development Bank of South Africa
DEDT	Department of Economic Development and Tourism
DFI	Development Finance Institute
DLA	Department of Land Affairs
DoA	Department of Agriculture
DRDLR	Department of Rural Development and Land Reform
DTI	Department of Trade and Industry
ECDC	Eastern Cape Development Corporation
ECF	Employment Creation Fund
EIA	Environmental Impact Assessment
FAO	Food and Agriculture Organisation of the United Nations
FIETA	Forestry Industry Education and Training Authority
GAP	Good Agricultural Practice
GFC	Golden Frontier Citrus
GSSC	Gauteng Shared Service Centre
HACCP	Hazard Analysis Critical Control Points
HDP	Historically Disadvantaged People
IB	Inclusive Business
IDC	Industrial Development Corporation
IFC	International Finance Corporation
KZN	KwaZulu-Natal

LARP	Land and Agrarian Reform Project
LORWUA	Lower Orange River Water User Association
LRAD	Land Redistribution for Agricultural Development
MABEDI	Maruleng and Bushbuckridge Economic Development Initiative
MALA	Ministry of Agriculture and Land Affairs
MCC	Magaliesberg Citrus Company
MCPA	Moletele Communal Property Association
NDA	National Development Agency
NEF	National Empowerment Fund
NGO	Non-Governmental Organisation
NPO	Not-for-Profit Organisation
NQF	National Qualifications Framework
OECD	Organisation for Economic Cooperation and Development
PLAS	Proactive Land Acquisition Strategy
PtO	Permission-to-Occupy
RADP	Recapitalisation and Development Programme
RCF	Risk Capital Facility
RECAP	Recapitalisation and Development Programme
RLCC	Regional Land Claims Commission
RV	Recoverable Value
SASA	South African Sugar Association
SDP	Supplier Development Programme
SDT	Social Development Trust
SHE	Safety, Health, Environment
SLAG	Settlement/Land Acquisition Grant
SPF	Supplementary Payment Fund
TFPM	Tshwane Fresh Produce Market
THS	Tongaat Hulett Sugar
UNDP	United Nations Development Programme
WBCSD	World Business Council for Sustainable Development
WCP	Winterveld Citrus Programme
WUFA	Winterveld United Farmers Association

INCLUSIVE BUSINESSES IN AGRICULTURE

"More than ever, companies realise that it is good business to share benefits with the communities in the developing countries in which they operate. Enabling small, local firms to supply or distribute goods and services to larger enterprises creates more efficient supply chains. At the same time, it maximises development benefits by helping local companies to grow and create jobs."

Lars H. Thunell,
Executive Vice President and CEO,
International Finance Corporation (IFC)

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Introduction: Inclusive Businesses in Agriculture – South African case studies

This book positions itself at the crossroads of three restructuring processes within the South African agricultural sector:

1. land reform, and the necessity to integrate smallholder and emerging farmers within commercial agriculture;

2. broad market restructuring in the agricultural sector overall; and

3. the need to go beyond the more basic inclusive instruments, such as contract farming.

Firstly, almost 20 years after the inception of land and agrarian reform measures, the racial configuration of the land and agricultural sector still persists. This mainly results from the status quo of the agricultural activities of a large majority of the previously disadvantaged farmers and the high rate of failure of many of the land reform projects (Kirsten & Machethe, 2005; Binswanger-Mkhize, 2014). Although policy and governance are often highlighted as major challenges, the failure to develop a vibrant smallholder sector is also recognised to be associated particularly with market-related (lack of access to markets), managerial (financial management of commercial enterprises), and institutional aspects (non-recognised ownership structures and lack of access to credit) (Anseeuw & Mathebula, 2005).

Secondly, following the dismantling of international commodity agreements and the liberalisation of agricultural and agri-food markets, agricultural markets have become increasingly consumer-driven and vertically integrated (Reardon, Timmer, Barret & Berdegué, 2003). The modernisation of markets results in, besides other things, the rise of supermarkets and closed value chains in developing countries (Swinnen, 2007). Due to the industrialisation and globalisation trends world-wide, in particular in North America and parts of Europe, supply chains have become tighter aligned, and fewer, larger farms and agribusinesses have emerged. South African agribusiness firms are following these developments (Reardon *et al.*, 2003). This trend has the potential to exclude small-scale and emerging farmers from mainstream agrofood markets, including those in South Africa (Louw, Chikazunga, Jordaan & Biénabe, 2007). Smallholder and emerging farmers often do not have access to technology and the economies of scale that are required to be competitive in these restructured agricultural markets and agrarian economies.

Thirdly, experiences on the ground, as well as studies in extensive academic literature, have shown that the more basic inclusive instruments, such as cooperatives or contract farming (see hereafter in this chapter), are not a panacea (Fréguin-Gresh & Anseeuw, 2014). Analyses of these instruments emphasise potentially encouraging results from the smallholders' perspective: for example, contractual arrangements can improve agricultural production, access to services (such as training, capacity building and technical assistance), access to resources (production factors, inputs, credit and information), and the development of new opportunities to participate in competitive markets, subject to strict standards

(Eaton & Shepherd, 2001; da Silva, 2005). Nevertheless, counter-arguments emphasise that such instruments are dependent on internal factors (product- and processing-related) and external factors (including market structure, norms and government support) which strongly affect their establishment, effectiveness and sustainability. Not only are the results of such instruments limited, they reach only a small minority of smallholders (for example, it is estimated that only 2.5% of all smallholders in South Africa participate in contract agreements) (Fréguin-Gresh & Anseeuw, 2014). Worse, the transfer of production management and decision-making processes to agribusinesses, often embedded in such agreements and instruments, leads to the need to fully examine the expectations, interests and motivations of the stakeholders, and to question the economic, social and political viability of these instruments for securing sustainable and equitable relationships, and for obtaining mutual benefits (Fréguin-Gresh & Anseeuw, 2014). The above observations lead to question their effectiveness as instruments for market inclusion and for overall effective agrarian transformation, particularly for the smallholder farmers.

It is against this background that several innovative 'Inclusive Businesses' (IB) have been developed representing innovative set-ups, often combining several of the above-mentioned basic inclusive instruments. These are promoted as solutions; on the one hand, to overcome the challenges and obstacles of these basic instruments to integrate smallholder and emerging farmers into commercial value chains, and, on the other hand, to rescue the many failing land reform projects and revitalise smallholder agriculture. Indeed, it has been acknowledged that the experience of such IBs, as broader and more integrated value chain approaches, including financial resources and linkages to downstream and upstream activities, can play an important role in ensuring continuous productivity, as well as providing market access and knowledge transfer to smallholder and emerging farmers (Eaton & Shepherd, 2001; da Silva, 2005).

Nevertheless, little information is available with regard to these models, the impact on their beneficiaries in general, and on smallholders in particular. As Gradl (2015) emphasises on the Inclusive Business Hub "While there is a lot of talk in the Inclusive Business space about the need for innovative business models, business models are rarely analyzed as such". Despite the hype around IBs as an innovative solution for sustainable and fair development, there is little understanding about their structural set-up owing to a lack of evidence on the actual performance and long-term effects of IBs, so far. Although extensive literature is available on basic instruments and set-ups for inclusive farming, such as contractual arrangements (Bellemare, 2012; Barrett, Bachke, Bellemare, Michelson, Narayanan & Walker, 2012), tenant farming and outgrower schemes, and lease and management models (Vermeulen & Cotula, 2010) besides others, the more complex IBs are less known. Indeed, limited research has been done into the several partnership structures and their impact on local communities and smallholder farmers. Hence the need to better understand these IBs. It is important to describe IBs' institutional set-ups and structural dimensions, and to determine the suitability and the criteria for success of these IBs, firstly as institutional vehicles for linking farmers to agribusiness supply chains, and subsequently to overcome the obstacles that had previously constrained these farmers from developing into more sustainable commercial farming enterprises. Generating solid evidence in these areas can help consolidate (or not) a robust business case for developing more IBs and thus more equitable growth.

Inclusive Businesses – A definition

A number of definitions of IBs have been offered, such as those by the UNDP, the World Business Council for Sustainable Development, and the IFC (Box 1.1).

Box 1.1 Inclusive Business defined in the literature

The UNDP describes IBs as "Models that aim to include poor people into value chains as producers, employees or consumers in ways that are both equitable and sustainable" (UNDP, 2010:3).

The term Inclusive Business was coined by the World Business Council for Sustainable Development (WBCSD) in 2005. For the WBCSD, it refers to "sustainable business solutions that go beyond philanthropy and expand access to goods, services, and livelihood opportunities for low-income communities in commercially viable ways. Inclusive business leads to the creation of employment opportunities for low-income communities – either directly or through companies' value chains as suppliers, distributors, retailers and service providers. Alternatively, companies can develop ways to supply affordable products and services to meet basic needs for food, water, sanitation, housing and health care. Or they can develop innovative business models to enhance access to key development enablers such as energy, communications, financing and insurance. In essence, inclusive business models try to find synergies between development goals and the company's core business operations. Sound inclusive models can deliver higher socio-economic value for communities, and presents an exciting opportunity for the private sector because it is good for business. A variety of commercial returns – market entry, market share, secure supply chains, product line innovation, competitive advantage – all help to build market value (WBCSD, 2014:1).

The IFC, which provides financial support to Inclusive Businesses, defines these models as "… commercially viable and replicable business models that include low-income consumers, retailers, suppliers or distributors in core operations" (IFC, nd).

Neither the WBCSD nor the IFC include the aspect of equitability in their definition, but rather imply that through increased economic opportunities for the low-income communities, they will benefit from inclusion in the commercial value chain. Furthermore, these definitions have a number of elements in common:

- Integration of **poor people/low-income communities** into the value chain;
- Either as **supplier** (of goods, services or employment) or **consumer**;
- In a **commercially viable** manner.

In the framework of this book, a number of initial reflections and comments to better delineate the use of the term Inclusive Business seem necessary. Firstly, this book focuses on inclusion of smallholders, i.e. on the production of primary crops, excluding purely agro-processing initiatives and consumers. Beneficiaries are thus included as suppliers of land, produce or (value-sharing – see hereafter) employment.[1] Secondly, it centres on partnerships – an essential aspect often lacking in the above definitions. As such, this work discusses arrangements for sharing ownership, decision-making, risks and benefit

1 In the framework of this research, pure employment contracts are not considered to be an IB instrument. They can be, when linked to other instruments such as equity-sharing and added value distribution mechanisms.

between smallholders and agribusinesses or large commercial farms. Thirdly, IBs are considered to be more inclusive if they involve close working partnerships with local landholders and operators, and if they share value among the partners. In other words, for an IB to be inclusive, it must not only involve a collaborative relationship, but also fair and equitable terms (Vermeulen & Cotula, 2010).

For this book, IBs therefore adhere to the following definition:

> An IB is a profit-orientated partnership between a commercial agribusiness and low-income communities or individuals, in which the low-income community or individual is integrated in the commercial agricultural supply chain as a supplier of land, produce or value-sharing employment with a particular aim to develop its beneficiaries.

Inclusive Business is not to be confused with 'inclusive growth', a concept that implies both macroeconomic and microeconomic determinants of the economy and its growth (OECD, 2013).[2] The microeconomic dimension captures the importance of structural transformation, whereas the macro dimensions of growth and development refer to changes in economic aggregates, such as the country's gross national product or gross domestic product (Ianchovichina & Lundstrom, 2009). For the same reason, the concept of 'inclusive development' is avoided. Inclusive development, a term developed by the UNDP, refers again to macroeconomic trends, following a human development approach, and integrates the standards and principles of human rights, such as participation, non-discrimination and accountability, as well as elements such as social safety nets, public services and fiscal policy (UNDP, 2014). Inclusive Businesses are business set-ups referring to often complex combinations of instruments and strategies which structure resources, partnerships and market relationships, in order to create and capture value, and which include smallholders in an equitable manner. Lastly, while dealing with IBs (or other/similar set-ups engaging smallholders, agribusinesses and public sector), some literature refers to public–private partnerships (PPP) defined as a government service or private business venture that is funded and operated through a partnership of government and one or more private sector companies (Kanu, Salami & Numasawa, 2011). As will be seen in this book, although some cases are partnerships between government and private sector companies, others do not engage government while linking commercial agribusiness and low-income communities or individuals. Therefore, the term PPP is not generically used in this publication.

The promotion of Inclusive Businesses in South Africa and beyond – Towards a new development paradigm?

Business linkage initiatives are obviously not new, but they have been the focus of increased attention in recent years. There is growing evidence that commercially viable business linkages between large corporations and micro-, small, and medium enterprises in developing countries can play a vital role, not only in creating local jobs, improving livelihoods, supporting gender diversity and enhancing economic options, but also in transferring skills, technologies, quality management and sound business standards along value chains (Nelson, Ishikawa & Geaneotes, 2009).

2 Also see http://www.oecd.org/inclusive-growth/about.htm.

In South Africa, these models are presently being promoted as 'win–win' strategies for smallholders and agribusinesses, as well as solutions for revitalising stagnating – particularly smallholder and emerging – agricultural development (e.g. EDD, 2011; NPC, 2011; DAFF, 2013; Vink, 2014).

Stagnating land reform projects led the national Department of Land Affairs (later the Department of Rural Development and Land Reform) and the Commission on Restitution of Land Rights to explore ways in which necessary skills and resources could be made available to claimant groups, and agricultural production could be maintained (Lahiff, Davis & Manenzhe, 2012). It was therefore that the Limpopo province first promoted the strategic partnership model in 2001, whereby claimant communities would enter into joint ventures with existing firms to operate the farms. Cited by Lahiff *et al.* (2012), Derman, Lahiff & Sjaastad (2010:310) summarise the factors leading to the implementation of the strategic partnership model in Limpopo as follows: "An economic imperative to maintain the productivity of commercial farms and minimise the impact on employment and the local export economy; a developmental imperative to ensure long-term benefits to claimants, over and above the symbolic value of the return of the land or the limited benefits perceived to flow from alternative land uses (e.g., 'subsistence' agriculture); a political imperative to preserve the image of the government — in the eyes of political opponents, potential investors, and international commentators — as competent, dependable in fulfilling its promises, and responsible in the use of state resources."

From 2005 onwards, strategic partnerships have become a major model for agricultural development for smallholder farmers in the country. First, it was normalised in high-value restitution cases, concentrated in the subtropical zones of Limpopo and Mpumalanga provinces. According to Lahiff *et al.* (2012), this can be attributed to the higher quality of the transferred land as compared with land claims in other parts of the country, the technical and financial challenges faced by large claimant communities in operating these farms and, perhaps most importantly, growing pressure on communities from state agencies to include commercial partners in order to avoid a repetition of the well-publicised collapse of a number of earlier restitution projects. From 2010, it was generalised to the entire country, particularly through the implementation of the Recapitalisation and Development Programme (RADP, also called RECAP). Through RADP, distressed farms receive both technical and financial support from government, while they are obliged, in order to ensure the sustainability of assisted projects/farms, to enter into a partnership with a strategic partner or mentor (DRDLR, 2013a). The term 'strategic partnership' is used here (and widely in South Africa) to signify a joint venture or other form of collaboration between an established commercial firm and a new (or 'emerging') group of workers, shareholders, small farmers, entrepreneurs, or community members, with limited commercial experience and little or no access to finance or leading-edge markets. Such collaborations typically have social, as well as economic objectives, including empowerment of workers, women or other previously disadvantaged groups, skills transfer, accelerated career paths, and creation of trading opportunities for small and micro-enterprises. This in turn forms part of the state's wider programme of Broad-Based BEE which is being implemented across the wider economy (Lahiff *et al.*, 2012).

But also beyond South Africa, the IB approach has now been recognised globally as a strategy for smallholder development. This is particularly the case in the framework of large-scale land and agricultural-based investments, a phenomenon that has accelerated after the 2008 food price crisis, and which has seen large tracts of land being acquired by corporates, institutional investors and international actors (Cotula, Vermeulen, Leonard & Keeley, 2010; Deininger & Byerlee, 2011a; Anseeuw, Fréguin-Gresh, Biénabe, Banda,

Derembwe & Nicholson, 2012, and others). Calls have mushroomed not to harm, exclude or marginalise smallholders, local land owners and traditional land occupiers in this process, but rather, to include them by aiming at more inclusive, equitable and sustainable development.

Two core fundaments support this call. First of all, there is a growing consensus among policymakers, development experts and business leaders that the alleviation of poverty and the achievement of other key development goals cannot occur in the absence of a diversified and productive private sector (Nelson *et al.*, 2009). The demand on the agricultural sector in this context is considerable: crop production has to increase by 70% to feed a growing, and increasingly urban-based, population, as well as the developing biofuel industry (FAO, 2009). In this framework, investment is needed (US$ 83 billion, according to this very same FAO report) and large companies are considered to have the potential to make a significant contribution to this funding requirement – as well as to poverty alleviation and overall development – through 1) core business operations and value chains development, 2) corporate social investment and strategic philanthropy, 3) hybrid models that combine social and commercial capital and/or public and private resources, and 4) public advocacy, policy dialogue and institution building (Nelson , 2006). Secondly, another consensus lies in the broad acceptance that markets and governments, particularly in the poorer countries in the Global South, are not sufficiently developed, or do not have the capacities, to support a more internally driven growth pattern by providing the necessary services and support mechanisms for local, often smallholder, farmers' development and growth. Large companies would then come in as an alternative, mobilising their core competencies in ways that, beyond the generation of employment, would improve the quality of supply chains, helping local businesses to diversify and/or become competitive. Innovations or technologies that make it easier for individuals and small businesses to develop would also be included (World Bank, 2005; UNDP, 2008).

Therefore, a new paradigm for development seems to become dominant (de Janvry, 2010). Indeed, the present approach for agriculture development seems not to be focusing on an endogenous growth of smallholders on the one hand (for defenders of such an approach, see besides others, Hazell, 2011 and Bosc, Sourisseau, Bonnal, Gasselin, Valette & Bélières, 2014), or on a reliance on large farm enterprises, whether private (Collier & Dercon, 2009) or state-owned (Lewin, 1968) solely, on the other hand. It rather focuses on the links between large enterprises and/or investments, and smallholder farmers, recognising the needs and benefits of large investment directly for growth and development, as well as for the integration of smallholders in value chains.

This paradigm has lately been widely promoted, and also beyond the agricultural sector, as is illustrated by the publication of the World Bank's World Development Report in 2005, *A Better Investment Climate for Everyone,* and the UNDP's 2008 report, *Creating Value for All: Strategies for Doing Business with the Poor*, as well as by the *Business Call to Action* initiative launched by the British Prime Minister, Gordon Brown, in 2007. The initiative aims to mobilise large companies to support the achievement of the Millennium Development Goals through new investments that harness their core competencies and value chains. The *Business Call to Action* was supported by over 60 member companies in 2015, and is establishing an independent monitoring mechanism to track progress of the commitments and their contributions to development (BCtA, 2015).

More recently, the IB paradigm has been broadly promoted as instrument, policy, and planning priority within the framework of international voluntary guidelines, in particular the Principles for Responsible Agricultural Investment (RAI) in the context of food security

and nutrition – Principle 3, calling for "inclusive growth and desirable socio-economic and distributional impacts" (CFS, 2014:2), as well as by several African governments and regional development agencies, such as the African Development Bank and NEPAD Business Foundation (Kanu *et al.*, 2011; NEPAD Business Foundation, 2012).

Objectives of this book

The objective of this book, being empirical by nature and practically orientated, is to get a more thorough understanding of the range of IBs in agriculture: what form they take, how they work, and what makes them possible. A better understanding of what works, where, and under what conditions, can provide useful insights not only for smallholders, their support groups, and governments willing to promote more IBs and subsequently, a better integration of smallholders in commercial value chains, but also for investors looking to invest in a more equitable and sustainable manner in agriculture.

Concretely, the overall objective of this book is to better understand the development and implications of different types of IBs for small-scale and emergent farmers, and to assess their potential for market integration, poverty alleviation and job creation. The overall aims of the book are therefore threefold:

1. to establish an overview of the several IBs developed and adopted across South Africa;
2. to assess the impact each of these models has in the following areas: smallholder development, employment, food security, poverty reduction and empowerment; and
3. to focus on the lessons that can be learned from the experiences in the different IBs, leading to recommendations to the different public and private stakeholders.

This will allow us to answer several questions:

1. Which IBs are developed and how do these different IBs support small-scale farming system consolidation? Can these arrangements improve farmers' livelihoods? If yes, under which conditions? Can any type of farmer, engaged in any commodity and production systems, benefit from these arrangements, or are there thresholds and conditions, for example, in terms of productive investment, land assets, and the like?
2. Can we develop general models of IBs or enhance existing ones, adapted to small-scale and emergent farmers? How would an IB facilitate the integration of these farmers into modern markets and what impact would this integration have on farmers' livelihood consolidation, job creation and poverty alleviation?
3. Which are the critical determinants for the sustainability of these IBs as tools for market integration, poverty alleviation and employment creation? What kind of external (private or public) support is required? Do current agricultural land and other policies facilitate the integration of these farmers into modern markets?

Based on this analysis, the book intends to analyse whether the IB approach is an effective model for smallholder integration in commercial value chains and for revitalisation of smallholder agriculture in general (see Box 1.2 for details regarding the term 'smallholder'). It will also provide a discussion with regard to the conditions required for such tools to be effective, presenting determining elements to increase small-scale and emergent farmers'

market access through IBs and to draw specific policy recommendations to support (or not) their implementation.

Box 1.2 The term 'Smallholder'

Definitions for the term 'smallholder' vary according to the crop and context, and there is a wide variety of models for assessing them (Sourisseau, Bosc, Fréguin-Gresh, Bélières, Bonnal, Le Coq, Anseeuw & Dury, 2012). In reality, as they often farm on collectively owned land, especially in (South) Africa, in opposition to the common understanding of a smallholder as a plot owner, smallholders often include small farmers who do not own or control the land they farm. This being said, there are a number of characteristics common to smallholders, whether or not they own or control the land they farm or the commodity they produce (adapted by authors from several sources, including ETI, 2005; Sourisseau *et al.*, 2012):

- They produce relatively small volumes of produce on relatively small plots of land.
- They are generally under-resourced compared to commercial-scale farmers.
- They may produce an export commodity as a main livelihood activity, or as part of a portfolio of livelihood activities.
- They are usually considered to be part of the informal economy (i.e. they may not be registered, tend to be excluded from aspects of labour legislation, lack social protection and keep limited records).
- They may be men or women.
- They may depend on family labour, but may hire workers.
- They are often vulnerable in supply chains, and in models where smallholder farmers are integrated into (global) value chains vary.

In South Africa, although the National Department of Agriculture, Forestry and Fisheries has engaged in an exercise to define smallholders, no precise definition has been formulated as yet (DAFF, 2012). This is all the more difficult, as it is not a homogenous group but rather – particularly in South Africa – has very scattered livelihoods, both geographically and by sector (Perret, Anseeuw & Mathebula, 2005).

In this book, and in the different case studies, a broad approach is taken: smallholders included in the IBs are either suppliers of land, produce or (value-sharing – see hereafter) employment (or a combination of these). This being said, the use of 'smallholder' in this book can be interchanged with terms such as 'beneficiary', or more specific, denominations that might be more adapted to the particular IB.

Assessment of Inclusive Businesses – From inclusive instruments to complex IB structures

Instruments to integrate smallholders into markets have been in existence for some time, and are therefore well documented and familiar to those working in agriculture as practitioners, policy makers and academics (e.g. Eaton & Shepherd, 2001; da Silva, 2005; Vermeulen & Cotula, 2010). These instruments are summed up in Table 1.1.

Table 1.1 Individual inclusive instruments for smallholder integration in commercial value chains

Instrument	Description
Collective organisation	A group of farmers or community members organised in a (commercial) collective with a common goal. Beneficiaries can be active farmers, passive landholders, workers, or a community association. The commercial partner can also partake in this organisation. A collective organisation is not based on shared ownership.
Contracts	Smallholder growing crops for commercial agribusiness based on pre-signed agreement.
Mentorship	(Temporary) assistance to emerging farmers to help overcome lack of knowledge on agricultural and business practices, as well as market access.
Lease/ Management	Agreement between smallholders and a commercial partner for the commercial entity to operate on the beneficiary's land. Payment based on benefit-sharing clause and/or fixed amount.
Equity	Commercial entity with shared ownership between beneficiary (community or employees) and commercial agribusiness.

Source: Authors

This being said, as mentioned earlier, little information is available with regard to IBs, as set-ups that are more complex have not been covered. These complex set-ups are related to two evolutionary patterns. Firstly, they are a response to the challenges related to the concrete implementation on the ground of the basic instruments, which has led to specific adaptations of these basic tools. They are also developed, as we will see in this book, through the combination of several of such instruments integrating smallholders, in order to overcome, in part, the limits of each of the individual tools. Secondly, these IBs have gradually evolved over time. Although the broad concept continues to centre on a long-term commercial partnership between a community or smallholder/emerging farmer, and a commercial operator, more innovative arrangements – based on technology, but also on a learning process and experiences on the ground – have developed.

As illustrated throughout this book, IBs occur in various forms, based on diverse multi-partite institutional arrangements (between smallholder/land reform beneficiaries and private sector, often also engaging government and sometimes civil society). They include complex outgrower schemes, as well as strategic partnerships, equity share schemes, corporate shareholding structures, and integrated value chain clusters. As such, several innovative ways (such as RECAP's strategic partnerships, or IDC's cluster approach and integrated value channels) have been developed to integrate smallholder farmers into commercial agricultural value chains.

As Vermeulen and Cotula (2010) mention, full assessments of such concrete experiences require more detailed data than is available in the literature. In the framework of this book, this will be provided for in three particular areas:

- the detailed structure of individual businesses, particularly their exact institutional set-up, contractual arrangements and economic and financial structure;
- issues of process: how a particular business model came to be chosen, compared with alternative options, what conditions made the operation of that business model possible, what factors constrained it, and how they were addressed by the company and smallholders;

- outcomes, including sustainability and the actual impacts on inclusivity[3] and empowerment.

Generating solid evidence in these areas will help consolidate a robust information base with regard to IB cases.

In order to assess IBs, two methodological approaches were developed in the framework of this book: 1) the assessment of the IB institutional set-ups; and 2) the assessment of inclusivity.

With regard to the institutional set-ups: it is considered here that IBs are complex forms of organisation representing hybrid structures combining several inclusive instruments. Indeed, in order to take into consideration the diversity, complexity, and dynamics of the IBs, an approach based on 'hybrid forms of organisations' (developed by Williamson (1991) and re-modelled by Ménard (2004)) was adopted. These set-ups, or hybrids, are structured according to "a diversity of agreements among legally autonomous entities doing business together, mutually adjusting with little help from the price system, and sharing or exchanging technologies, capital, products, and services, but without a unified ownership" (Ménard, 2004:348). It results in a diversity of complex forms of organisation of production, characterised by three criteria: 1) pooling of resources – all hybrids are orientated towards coordination and cooperation of different firms or independent actors; 2) instruments of contracting and governance structure, in which there is always a form – more or less formal – of contract between the different stakeholders involved in the hybrid, in our IB case the instruments focused on will promote inclusivity; and 3) competition — the shaping of a particular arrangement is always somehow the result of competitive pressures (within the hybrid IB between partners, and competition with other arrangements); the result will depend on the negotiation process engaged in to set up the IB (Ménard, 2004).

With regard to the inclusivity: besides establishing a characterisation of the different cases identified, this book will evaluate each of the models according to their inclusivity. This book is indeed focusing on the way business models integrate smallholders and share value between the different stakeholders. Based on Vermeulen and Cotula (2010), four criteria are used to assess the ways in which businesses share value:

1. **Ownership:** of the business (equity shares), and of key project assets, such as land and processing facilities.

2. **Voice:** the ability to influence key business decisions, including weight in decision-making, arrangements for review and grievance, and mechanisms for dealing with asymmetries in information access.

3. **Risk:** including commercial (i.e. production, supply and market) risk, but also wider risks such as political and reputational risks.

4. **Reward:** the sharing of economic costs and benefits, including price-setting and finance arrangements.

These four aspects are closely interlinked. For example, ownership can influence voice; voice in price-setting crucially affects benefits, and ownership influences risk. A perfect correlation between the two should, however, not be assumed (e.g. in a joint venture,

3 The terms inclusivity and inclusiveness are used interchangeably in this publication

equity shares and board representation may not be perfectly aligned) (Vermeulen & Cotula, 2010). In addition, while this conceptual framework enables the assessment of business models in abstract terms, its application to any given investment project must be grounded in the concrete context within which the project takes place (Vermeulen & Cotula, 2010). For example, the same distribution of ownership, voice, risk and reward may have very different practical viability and implications in contexts characterised by different population densities, or with different levels of smallholder capacity to engage in commercial agricultural production.

In addition, inclusivity can be assessed internally and through the linkages that the models have with their environment indicating whether and how they can be implemented to achieve goals such as rural development, job creation, and the advancement of previously disadvantaged people.

South African IB cases

South Africa as an ideal case study

South Africa presents an ideal case study for analysing IBs for two complementary reasons. Firstly, the dual configuration of the South African agricultural sector, combined with its concentration and vertical integration patterns in the up– and downstream segments of the agricultural value chains, seems to make the partnership route between small and large a necessary – or perhaps the only – way for smallholder integration.

Indeed, South Africa is characterised by a longer-term engagement of large agricultural enterprises (agribusinesses and commercial farmers). The past legacy of segregated development has led to a dual primary sector where large, often very sophisticated farms, co-exist with a large number of very small, often pluri-active farms (Cochet, Anseeuw & Fréguin-Gresh, 2015). This consolidation pattern has been reinforced since 1994 with the deregulation and liberalisation of the agricultural sector and economy overall (Bernstein, 2013).[4] The privatisation of the country's physical and financial assets, such as the former cooperatives which had accumulated from four decades of state subsidy, led directly to the establishment of powerful agribusinesses (Amin & Bernstein, 1996), and indirectly to the consolidation of the larger farm enterprises that can sustain the costs of privatised services. In addition, food processing and distribution activities are also highly monopolistic in South Africa. Not only is food processing characterised by a few large corporations (i.e. National Brands, Pioneer Foods, Tiger Brands, and Nestlé SA), the food retail sector is also highly monopolistic, continuously concentrating with only four retail chains controlling the sector (Biénabe, Vermeulen & Bramley, 2011; Bernstein, 2013). These major chains have developed highly centralised systems to procure fresh produce, with their main procurement system relying on preferred suppliers (Biénabe & Vermeulen, 2007). This system aims to ensure a consistent supply. It requires farmers and processors to comply with food safety standards such as Euro-Retailers Produce Good Agricultural Practices (EurepGAP) – a set of standards for farm products – and Hazard Analysis Critical Control Point (HACCP) – an approach to ensure food safety (Biénabe *et al.*, 2011).

4 See for example the Cooperative Amendment Act of 1993 – http://www.gov.za/sites/www.gov.za/files/a37_1993.pdf.

Beyond the concentration and vertical integration, these trends have the potential to exclude small-scale farmers from mainstream agrofood markets (Louw *et al.*, 2007). While it is also argued that there is scope for restructured agri-food markets to provide viable market opportunities for smallholders, the general trends of market restructuring have clear exclusionary effects on small-scale farmers in South Africa (Anseeuw *et al.*, 2011; Biénabe & Vermeulen, 2007). Indeed, these restructurings and present practices within the agri-retail sector entail higher levels of sophistication, and represent higher barriers to entry for small-scale farmers. The sector seems more than ever blocked, providing very few prospects for the now legitimised newcomers to prosper since the end of apartheid. With public agricultural extension and support services still existent, but often ill adapted and inefficient (Anseeuw & Mathebula, 2005), the call for this very same and well-developed private sector to engage with smallholders in order to facilitate their integration seems a relevant and obvious one.

Secondly, South Africa is characterised by a longer-term engagement of large agricultural enterprises (agribusinesses and commercial farmers) with smallholders and a policy environment which is conducive, in theory, to smallholder and emergent farmers' integration (see Box 1.3). This is directly related to the country's developmental policies, which – as we have seen earlier in this chapter – have been promoting strategic partnerships between smallholders and large farms or agribusinesses. On the other hand, it is also related to the country's well-developed business and financial instruments (Chamberlain & Anseeuw, 2015). For example, the existence of well-developed and accessible insurance contracts will reduce risk and facilitate the engagement of commercial enterprises with smallholders. Also, the well-established equity instruments, allowing for joint ventures to be established without issues of respect of property rights, has allowed for the development of innovative tools and business models. These public and private engagements, historically built and reinforced since 1994, have led to a multiplication of IB cases in the country for a number of years now.

Box 1.3 Policy measures to stimulate transformation in South African agriculture

Settlement/Land Acquisition Grant (SLAG–1995) – The first policy instrument focusing on land redistribution was SLAG, which ran between 1995 and 1999. It was focused on giving poor people the opportunity to purchase land through grant funding (initially R15 000, then R16 000 per household). Due to the small amount of the grant, people often pooled together to obtain land title, resulting in complex ownership structures (Jacobs, Lahiff & Hall, 2003). In addition, no funding was available for the new landowners to turn their land into a productive asset (Hall, 2004).

Land Redistribution for Agricultural Development (LRAD–2001) – LRAD replaced SLAG in 2001. This policy offered considerably higher grants (from R25 000 to R100 000, proportionally to the beneficiary's own contribution), aiming to facilitate the establishment of a black commercial farmer segment (Hall, 2004). Grants were not necessarily linked to the purchase of land, and could also be used for equity schemes or infrastructure and land improvements (DoA, 2001). LRAD was terminated in 2010.

Comprehensive Agricultural Support Programme (CASP–2004) – Further funding for farmers was made available through CASP, implemented in 2004. This programme was specifically aimed at supporting farmers in areas such as capacity building, market development and financing services (DoA, 2005).

Proactive Land Acquisition Strategy (PLAS–2006) – To improve access for poor farmers to land with high agricultural potential, the DRDLR has launched PLAS in which DRDLR purchases land which is then leased to beneficiaries selected by the Department (DLA, 2006).

Agri-Broad-Based Back Economic Empowerment (B-BBEE–2008) – A BEE framework for agriculture was released in 2004, and a Sector Charter was gazetted in 2008, to increase the involvement of black businesses in agriculture throughout the commodity chain. As with other sectors of the economy, the aim was to encourage greater black ownership and control of existing and new agricultural businesses, and to ensure that black people are involved in executive and senior management positions in agricultural businesses (NDA, 2006).

Land and Agrarian Reform Project (LARP–2008) – LARP highlighted the need to accelerate the pace of service delivery by proposing an accelerated land and agrarian reform project, to be managed as a joint and aligned project by the different departments. Without a budget of its own, this initiative is to better integrate government agencies, and to promote both commercial agriculture and agribusinesses.

Comprehensive Rural Development Programme (CRDP–2009) – CRDP was developed to deepen support to land reform beneficiary support by enabling broader rural development through improved access to basic services, enterprise development and village industrialisation.

Recapitalisation and Development Programme (RADP also called RECAP–2010) – RADP focuses on financial recapitalisation, mainly through infrastructure development and operational funding of properties in distress, and newly acquired ones through the land reform redistribution, restitution and other programmes since 1994. RADP requires that land reform beneficiaries enter into strategic partnerships or mentoring relationships with commercial farmers or agribusiness.

Compared with other African countries where IBs might be relatively new (often related to the recent surge of large-scale land investments and acquisitions) or relatively less developed (as business and financial instruments are less established), South Africa offers a large number of cases, some with a longer-term track record. For this reason, this book is entirely anchored in South Africa, and based on South African cases. This does not mean that other cases and examples do not exist in other parts of the continent and beyond; and it is indeed of interest to draw lessons from their challenges and success factors. But instead of spending an entire chapter on these other cases (which in any case will be too limited and will not do justice to them), they will be referred to when relevant throughout the book, in the different cases and the analysis.

The cases

The case studies described in this publication are located across the country and include several sub-sectors and commodities, such as labour-intensive crops, tropical fruit for export, vegetables, diary, sugar and even forestry. They target domestic and/or international export markets. Table 1.2 summarises the main characteristics of the cases studied.

Table 1.2 List of case studies presented in this book

Case study	Province	Year started	Crops	Market
Benoni Farm	Free State	2011	Cattle	Domestic
Blue Mountain Berries	W. Cape	2006	Blueberries	Export
Gxulu Berries	E. Cape	2010	Blueberries	Domestic
Katmakoep Boerdery	W. Cape	2009	Dried grapes	Domestic
Mondi Paper Kranskop	KZN	2008	Forestry	Domestic
Mphiwe Siyalima	Gauteng	2009	Vegetables, (maize, cattle)	Domestic
New Dawn / Dinaledi	Limpopo	2008	Tropical fruit	Export
Richmond	Limpopo	2010	Tropical fruit	Export
Seven Stars Trust	E. Cape	2009	Milk	Domestic
TechnoServe–Massmart	Limpopo	2011	Vegetables	Domestic
Tongaat Hulett Sugar	KZN	2009	Sugar	Domestic
Winterveld United Farmers Association	Gauteng	2002	Citrus and vegetables	Domestic

The cases were identified through a snowball random sampling approach, where initial cases were selected based on the authors', implicated researchers', and key informants' knowledge and awareness of certain cases. Other cases were subsequently identified by the IBs themselves, by pinpointing other IBs they were aware of that were similar or different to theirs. The selection of the cases for this project was based on 1) the time passed since the implementation of the IB, which had to be long enough in duration to allow for constructive and thorough assessments; 2) the presence of continuing productive activities, so as to be able to assess effective undertakings; and 3) the occurrence of a diversity of elements, instruments and/or strategies, so that the retained IBs are able to present certain specificities and elements interesting to analyse and understand.

The 12 IB cases described in this publication are part of a wider study comprising numerous cases that have been studied across the full spectrum of vertical integration between the spot market and fully incorporated activities within the chain. Those selected for this book have been selected purposely as they add value to the overall understanding of IBs.

Multi-stakeholder implementation of research project and book – A cross-fertilisation of experiences and expertise

The results presented in this book are based on in-depth empirical studies, implemented on all the IBs presented. The fieldwork stretched over an 18-month period, from October 2013 to March 2015.

Better understanding the IBs required conducting in-depth case studies on which to implement the above-described methodological and conceptual approach. It is based on the implementation of in-depth surveys with all IB actors engaged, from funders and investors/agribusinesses, to the smallholders and beneficiaries, via third parties such as civil society and supporting government departments. Such business-related, in-depth case studies are only possible where access to data for outside researchers is facilitated (commercial confidentiality concerns may constrain access to information). To enable this, the research project promoted direct participation of the IB actors in the research, which

included sharing of experiences among practitioners directly involved with the design and implementation of more IBs (whether on the agribusiness or the smallholder side), and wider dissemination of that experience between different actors to generate insights. Additionally, several of these practitioners have been invited to participate in writing up their IB experiences and are partaking as co-authors to the different chapters, leading to a cross-fertilisation of experiences and expertise, thus making this book a wealth of concrete, precise and topical information.

As such, this book contributes to the literature and adds value to the knowledge creation on IBs in agriculture through a more inclusive and thorough assessment of IBs by presenting analyses of a large number of in-depth case studies, and sharing of experience among practitioners involved with the design and implementation of these models. These in-depth analyses recognise the importance of specific engagements, particularly those of actors and local contexts in affecting the success (or failure), sustainability and replicability of different IB cases.

Structure of the book

The book is empirical by nature and aims at providing concrete examples from real world IBs in South Africa which involve complex combinations of various instruments and models.

The 12 following chapters will thus each present a different IB in practice. Each of the chapters will initially describe the IB case in-depth, from details regarding its initiation process, the effective implementation, to the different actors engaged. By doing so, specific attention will be given to the different instruments constituting the IB. It will also contextualise the IBs and their implementation processes within South Africa's policy and agricultural and economic environments to better understand the different support or broader contextual frameworks directly affecting the IBs. Secondly, a major part will concern the assessment of the inclusivity of the IBs. Major attention will be given to the aspects of ownership, voice, risk and benefits, as detailed in the conceptual framework. This will allow for a thorough understanding of how IBs, in practice, effectively integrate smallholders into commercial value chains and distribute the value-addition of their activities. The final aspects presented are that of scalability, replicability and sustainability, in order to assess whether the IB can be easily implemented elsewhere, and whether it could be sustainable in the long-term. This analysis will cover the main issues encountered by the different models, as well as their success factors. Aspects such as the history of a project, the role of government, and the drivers behind a project will be discussed to establish an insight into how certain models can be scaled up or replicated. This should mainly lead to practical insights.

Chapter 14 presents a transversal analysis of the studied cases. The combination of instruments will be assessed in light of the development of IBs. Although it does not seem possible to propose an ideal case, elements of success and failure will be identified and discussed through the comparison of the different IBs assessed. This will particularly highlight the relationship between IBs' institutional set-ups (i.e. how they combine different inclusive instruments) and their outcomes, with regard to the inclusion of smallholder farmers. Again, the results of the IBs will be contextualised as context is crucial: the same distribution of ownership, voice, risks and benefits may have very different practical viability and implications in contexts characterised by different natural and structural features –

such as levels of smallholder capacity to engage in commercial agricultural production, and proximity to markets, as well as more specific elements such as the presence of a leader, etc. Practical and policy discernments and recommendations will subsequently be recorded as the final outcome of the chapter.

The book concludes, in Chapter 15, with a broad reflection on IBs. Are IBs effective instruments for smallholder integration, revitalisation of small-scale farming and poverty alleviation? And if so, do they represent a tool for genuine structural transformation of the South African agrarian economy? This chapter will consist of a broader debate with regard to structural transformation in South Africa's agrarian sector and will question IBs' role as catalyst (or not) for the transition of a sector and economy that are presently, and more than ever, characterised by dualism and structural non-transformation from the smallholders' perspective. These discussions are crucial, as similar business models and investments are mushrooming in other parts of Africa and the world, in particular in the context of large-scale, land-based investments. Lessons drawn from the South African IBs are thus of crucial importance for reflecting on the continent's development trajectory, as well as on smallholder development overall.

2

Mentorship's technical and managerial support for, in theory, independent emerging farmers – The case of the Benoni Farm

Ward Anseeuw

Mentorship programmes aim to equip the mentee with training, marketing, finance, networking, and other farm-related skills to ensure that the mentee can start producing, enter markets, and create successful farms and enterprises (DRDLR, 2012). In theory, a mentorship offers technical and managerial support to independent farmers, without any transfer of ownership and decision-making power (Femi & van Schalkwyk, 2006; Terblanche, 2011).[1]

This chapter describes the case of a mentorship, implemented within the framework of South Africa's RECAP. Mr Benoni,[2] a 53-year-old farmer from Steynsrus in the Free State, and lessee of a 687 ha government-owned farm, was assigned a mentor in consideration of the grant of RECAP funds allowing him to start developing his farm and growing his livestock herd. Although the farm project seems to have grown sustainably, Mr Benoni's relationship with his mentor does not allow him to fully reap the benefits from his newly acquired farmer status: biased power relations, and a mentor who is in full control over the farm and its activities, do not allow for a transfer of knowledge and the capacitation of the farmer, nor do they lead to the farmer's autonomous emancipation.

Unlike the other examples detailed in this book, this chapter presents a case study based on a single instrument for inclusivity, i.e. mentorship. Two farm visits (the first one in 2013, the second one in 2014) allow us to analyse how a single inclusive instrument is often not a panacea for emerging farmers' capacitation and market integration. The results presented in this chapter show indeed the divergences between effective implementation and the 'genuine' principles of mentorships. The chapter is also structured in that way, presenting the principles first, and then describe the effective implementation and its evolution. As such, it will introduce the necessity of utilising the often more complex set-ups, which combine several inclusive instruments. Although these arrangements, as will be seen in the following chapters, also encounter challenges and are often not ideal solutions.

After the overall project description, the project inception and implementation will be detailed. Thereafter, through the analysis of the project's inclusivity and the description of the challenges, the chapter will discuss the mentorship tool as an instrument on its own, as well as its implementation as a single instrument aiming at integrating emerging farmers into commercial value chains.

1 For more theoretical literature regarding mentoring and mentorships, see Zachary (2000), Young & Wright (2001), beside others.

2 Upon request this paper is anonymous. The name of the farmer has been changed to withhold the identity.

Project description

Mr Benoni is, in principle, an independent farmer on the Benoni farm in Steynsrus. He gained access to the farm through the Proactive Land Acquisition Strategy (PLAS) and benefited from a RECAP grant (see hereafter for more details). In the framework of the RECAP support, he was assigned a mentor who owns a company providing mentorship and guidance to numerous farmers in the area.

Mr Benoni has leased a 687 ha farm since 2011 on which, from 2012 onwards, he has developed livestock activities. In 2013, he had three bulls, 84 cows and 40 calves. Four hectares of lucerne were also planted on the farm, which were utilised as fodder on the farm (even though production was a failure that first year) (see Table 2.1). Until 2013, no produce was marketed, leading to no income being generated from the farm. These activities were developed and controlled within the framework of RECAP.

In 2014, farm activities were diversified. After the sale of some head of cattle (in particular a number of cows and calves, sold locally through the mentor's contacts for the amount of R63 000), small stock and chickens were acquired. At the time of the second survey, the farm counted three bulls, 48 cows, 38 calves, eight goats, 48 sheep, 60 lambs and 15 chickens. Another planned activity is the fattening of sheep: 700 sheep to be bought at R850 per head are to be sold at R1 500 per head. Although it was stated that this activity would not be part of the RECAP project, the lack of (farm and other) income suggests RECAP as being the only possible source of funding.

Table 2.1 Farm structure, production and assets

Year	2013	2014
Land	687 ha lease farm	687 ha lease farm
Activities/ production	3 bulls, 84 cows, 40 calves 4 ha lucerne	3 bulls, 48 cows, 38 calves, eight goats, 48 sheep, 60 lambs, 15 chickens 4 ha lucerne
Sales	-	Cattle
Farm income (Rand)	0	63 000
Assets	Old: dilapidated barn New: bakkie,[3] fencing, a water pipe, a generator, and three wind pumps	House

Source: Authors

The farm being in a poor state upon acquisition (with only a dilapidated barn remaining), several assets were acquired for the farm with the RECAP funds. These included a bakkie,[3] fencing, a water pipe, a generator, and three wind pumps. Initially, no house was built, but in 2014, under pressure from Mr Benoni, the building of a R400 000 farmhouse was started, again with RECAP funds.

3 A 'bakkie' is the South African term for pick-up truck.

Inception

Prior to the Benoni Farm lease agreement, Mr Benoni and his family were farming in the area of Steynsrus (Free State). First working for government, and then established on his own, he used to graze, on average, ten cattle on municipal commonage land, as a part-time farmer. While using a shared bull, or one of his own young bulls, his herd never grew above a dozen head. This was mainly related to the availability of land – or the lack thereof. The commonages are subdivided into individual blocks of about 10 ha each, rented and shared with several households. Some of the blocks have infrastructure (such as an old shed and former dipping kraal – as these were previously farms) and water; though most do not. According to Mr Benoni, other problems included the proximity to the city and its peri-urban surroundings leading to a high rate of theft, the poor quality of the bulls and the herd, lack of extension services, and the unavailability of private technical services for such type of smallholder, commonage farmers. Production costs were relatively high, as he had to hire a full-time shepherd – or rather, a guard against theft – and purchase most of the feeds, as grazing and water were not sufficient.

Mr Benoni, wishing to become an emerging farmer and expand his farming activities, sought opportunities to access and acquire more land. In 2004, he therefore contacted the then Department of Land Affairs, hoping to benefit from the Land Reform for Agricultural Development (LRAD) programme and subsidy. Owing to a lack of public funds, support was unavailable. However, in 2011 the new Department of Rural Development and Land Reform informed him that he was entitled to a farm through the recently implemented PLAS programme. In November of that same year, he gained access to the 687 ha Benoni farm based on a lease agreement. PLAS farms, acquired by the State, are leased out on a five-year basis.

Alongside the farm acquisition, Mr Benoni placed a RECAP funding request. In 2010 Mr Benoni had already been approached by the Department of Rural Development and Land Reform who informed him of the implementation of the Recapitalisation (RECAP) programme (Box 2.1). RECAP funding, however, can only be acquired when land access is secured. This obstacle now being overcome, the RECAP request was approved and access to RECAP funds was granted in 2012. According to RECAP, funds are only permitted to be released on the basis that the beneficiaries accept the assignment to them of a mentor by the department (in this case) or a strategic partner. This programme aims to equip the new farmer with training, marketing, finance, networking, and other farm-related skills, to ensure that the beneficiary can start producing, enter markets, and create a successful farm enterprise. In the case of Mr Benoni, an individual mentor (and the owner of an all-encompassing consultancy company, but who does not invest financially in the farm project), was assigned as such on a yearly basis.

Actors and drivers

The main actors in this project are Mr Benoni and his mentor, as well as the Department of Rural Development and Land Reform.

Mr Benoni – the official beneficiary and farmer

Mr Benoni is an independent farmer who, officially and in principle, is the main decision maker with regard to all farm activities, bears the risks (although these are alleviated through the mentorship programme), and is thus the rightful beneficiary of the profits related to the farm operations. Besides the cattle (mobile assets as part of the grant), he does not own the fixed assets (the land being under leasehold).

Box 2.1 The Recapitalisation and Development programme

The RAPD or RECAP programme consists of two major axes: Recapitalisation and development (DRDLR, 2012).

1. Recapitalisation

The recapitalisation aspect focuses on the funding of the business elements of the project, and how to nurture the enterprise to become profitable and sustainable based on a business plan. Essentially, it involves restructuring the farm's debt and equity mixture, most often with the aim of making the farm's capital structure more stable. Stable is being defined here as a farm which, in theory, can develop its own revenues to be financially viable, including the income for the farmer, the remuneration for the mentor and all costs related to the day-to-day running of the activities (such as rent, labour, inputs). It is based on a five phase funding model:

a) Phase 1: 100% funding for infrastructure and operational costs;

b) Phase 2: 80% funding for development needs;

c) Phase 3: 60% funding for development needs;

d) Phase 4: 40% funding for development needs; and

e) Phase 5: 20% funding for development needs.

The funding shortfall from Phase 2 onward is to be derived from proceeds of the relevant preceding phase. It is envisaged that for the first five years (and more for longer-term investments) the DRDLR would play an instrumental role in overseeing the management of the projects. In some instances, the DRDLR may serve on the board of managing directors. In relation to the above model, it means that by year six, the business would not require any funding from the Department and has become self-sustaining.

2. Development

The development function focuses on the human development and actual physical development of the farming enterprise. This includes appointing mentors or strategic partners, as well as other on-farm capacity building initiatives. Other government departments, including the Department of Agriculture, Forestry and Fisheries (DAFF), have a central role to play as development partners.

Mentorship

The mentorship programme aims to equip the mentee with training, marketing, finance, networking, and other farm-related skills to ensure that the mentee can start producing, enter markets, and create successful farms and enterprises. Mentorship would become a central element of the programme, given the skills gap of land reform beneficiaries. Not all projects would require a mentor though.

Mentors (accredited by the PRADAC and approved by the NARADAC) are appointed and expected to equip land reform beneficiaries with the necessary skills to run successful enterprises. Different mentors are assigned to different projects in accordance with their skills and knowledge for an agreed upon period. The costs of mentorship are expected to be covered by the enterprise once it has started generating a profit. As such, the RECAP would only fund the expenses of a mentor for 12 months or until the end of the first production cycle, if this cycle is longer than 12 months.

Strategic partnerships

Strategic partners can be companies or individuals that, in addition to mentoring the land reform beneficiaries, invest in the land reform project. As such, the most important element of a strategic partnership is risk sharing, which implies capital investment in the project that does not encumber the land (therefore, restricted to production loans, where necessary), or user agreements in relation to assets of both partners (beneficiary and strategic partner), and general accountability in terms of the business operations.

Strategic partnerships can include, besides mentorship (see above), contract farming, co-management and share equity schemes. The remuneration of strategic partners will be dependent on the type of contract they enter into with the Department and farmers. This may include a profit-sharing arrangement or a specific fee for services rendered.

In many cases, both recapitalisation and development will be required to achieve the objectives of a project's business plans.

Mr Benoni is the initial driver behind this project. Indeed, he approached – initially unsuccessfully – the Department of Land Affairs in 2004, leading to the Department of Rural Development and Land Reform later offering him the opportunity to acquire a farm under leasehold within the framework of PLAS. As the official lessee of the farm, he was also approached by the Department of Rural Development and Land Reform within the framework of RECAP.

The engagement with a mentor is a result of his need for funds and his commitment under RECAP. The mentorship is indeed a condition for gaining access to funds. Besides the mentor transferring skills to the farmer, it allows for a certain degree of monitoring of the funds granted to the farmer to develop his business.

As an independent farmer, Mr Benoni's remuneration is related to his activities and sales. This being said, since no farm revenue was generated, and thus no remuneration was received during the first two years of operation, a successful request was made by Mr Benoni to receive an allowance within the framework of RECAP.

The mentor

The mentor, the owner of an all-encompassing consultancy company (Rhenosterrivier), was appointed by the Department of Rural Development and Land Reform. His appointment is in terms of a contract between the mentor and the department. His appointment is for one year, which can be renewed for up to five years. He receives a monthly payment from the department for his mentoring services (R10 000 per month, per project – notwithstanding the time spent on the farm/project), which is covered by the department under the framework of RECAP. The mentor's remuneration for the following years should, in principle, be covered by the farm project itself. The inputs of the mentor are in no case financial. The mentor, according to the contract, should always be available for support and is to spend at least one day per week on the farm.

Although RECAP's policy states that a mentor should be responsible for only one project, this particular mentor – or at least his company – is known to follow up to ten projects in the region. Although there is no matching process between the mentee and mentor (and the needed and offered skills), the mentor has been selected and assigned by the department

on the basis of expertise for this particular livestock project. Also, being a commercial farmer himself, he not only engages as a mentor in this project, he and his company fulfil numerous jobs, including the management of the project and subcontracting activities on the farm.

The funder

The Department of Rural Development and Land Reform is engaged according to several modalities. First of all, DRDLR is the funder of the project, as it acquires the land under PLAS and provides the RECAP funds for farm recapitalisation on a medium-term basis of five years. Secondly, it is, and remains, the owner of the assets (excluding those assets and improvements obtained by the farmer), which are conveyed through the leasehold. Thirdly, it is the employer or remunerator of the mentor, in principle for the first year at least. Thereafter the costs related to the mentor should be covered through the farm's revenue.

Although it is not the driver behind the individual projects and their structure, and does not take farm-related decisions, through its financial and structural influence, the department retains major control over the projects. The department is not only a policy-implementer, it also becomes indirectly involved in the structuration of the projects as it approaches the potential beneficiaries and assigns the mentors. It also has, on paper, a mediating and monitoring role.

Support

Support in the framework of this mentorship programme is two-fold: 1) financial support, and 2) technical and managerial support.

Firstly, beyond the purchase of the farm through a PLAS grant and the five-year lease agreement, the financial support – the recapitalisation aspect – focuses on the funding of the business elements of the project. This aims at nurturing the enterprise to become profitable and sustainable based on a business plan. Essentially, it involves restructuring the farm's debt and equity mixture, most often with the aim of making the farm's capital structure more stable. It is based on a five phase funding model (See Box 2.1 above).

In the Benoni farm case, a grant of R1 675 000 was requested and received for the first year (Benoni, 2012). These funds were used for infrastructure (which partly includes the costs related to a new house) and equipment, as well as production and functioning capital – inclusive of the R10 000 mentorship fees per month (Table 2.2). The grant funds for the following years had not been received at the time of the second interview.

Table 2.2 Funds received in the framework of the mentorship programme (2012-13)

Items	Fixed infrastructure (including house)	Equipment	Livestock	Working capital (including rent)	Mentorship (including of functioning)
Funds received (Rand)	476 000	368 000	690 000	141 000	120 000

Source: Authors

Some of the above costs, initially absorbed through the RECAP grant, should be covered by the farm itself in the second year, or when it becomes profitable. These include, for example, the mentorship fees and the rent.

Secondly, related to RECAP funding, additional support is provided through the appointment of a mentor by government who has the main task to equip the farmer with skills in order to run this enterprise successfully. Besides the administration and supervision of the use of the RECAP funds for the project, the main duties of the mentor include technical and managerial skills transfer (DRDLR, 2013b). More particularly, these include:

- Technical skills: In this case, it is mainly related to the technical skills of cattle farming, which include aspects such as herd management, field management, artificial insemination, dipping, and additional feeding.
- Managerial skills, such as strategic decision-making, accounting abilities, and financial management, as well as labour issues.
- Input and output markets: The mentor is also responsible for training the beneficiary with regard to markets and their functioning, as well as for facilitating effective market access for the farm. The role of the mentor thus goes beyond the pure transfer of information and skills, and is also to facilitate secure market access for the beneficiary. These activities include support with contract negotiation and facilitating access to fresh produce markets.

Implementation

Once Mr Benoni had secured land access, and had thus secured the basis for putting in a proposal for RECAP funding, he was appointed a mentor by DRDLR. This particular mentor was already registered as a mentor with the DRDLR and was identified for his experience with cattle farms in the region.

Although the mentor did not initiate the project, he was the lead behind the project concept and the preparation of the business plan. The RECAP application was indeed prepared according to the mentor's ideas and terms.

The mentor has the duty to supervise the implementation of the RECAP funds according to the approved business plan. In order to implement this, a joint bank account was opened linking the beneficiary and the mentor – any transaction, in theory, needs the signature of both the stakeholders. All funds of the project are transacted through this joint bank account, thus facilitating the traceability and monitoring of the use of the grant.

While mentorship is by definition the accompaniment of decision-making with the transfer of skills to be applied by the beneficiary, a process very similar to that for the funding is implemented for effective decision-making as regards the farm. Indeed, for all the decisions, the farmer consults the mentor, who – in addition – also has to sign for the release of RECAP funds (Figure 2.1).

Even though the RECAP set-up calls for a non-hierarchical, consultative process based on a transfer of knowledge, the relationship is not always ideal. As seen in this case, and as illustrated hereunder, this can be related to the mentor taking over decision-making and managerial power. Two complementary main issues were noted: the first one relates to decision-making processes, and the second one concerns the control over funds.

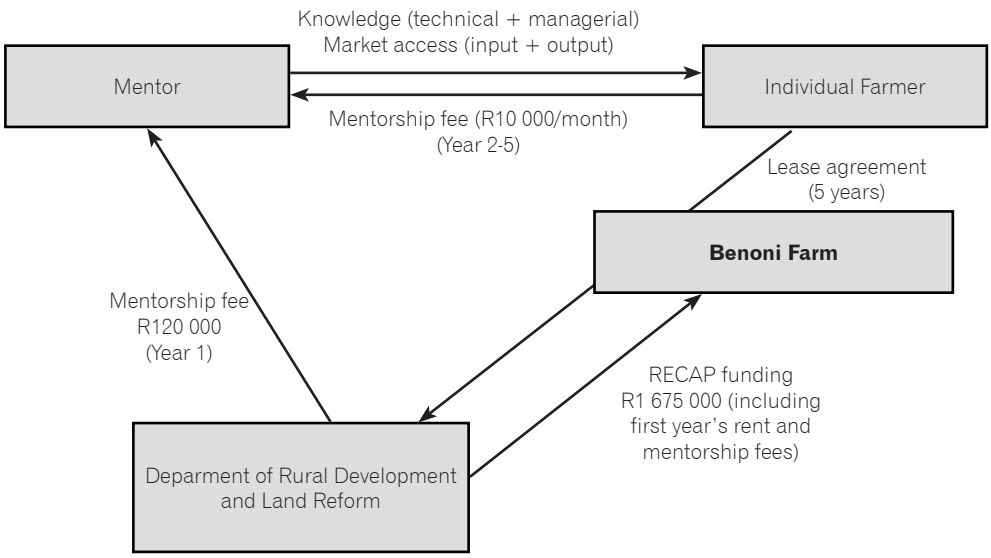

Figure 2.1 Benoni farm mentorship model

Source: Authors

Firstly, on many occasions, decision-making is done by the mentor in isolation. In this regard, Mr Benoni mentioned not having any say with regard to the activities or strategic aspects related to the farm. The mentor had decided that the farm would only be used for cattle, and that during the first years the cattle herd was to be built up, thus not allowing for any sales and/or other activities. This led to underutilising the capacity of the farm and did not allow for intermediary funds to flow in, thus not allowing for Mr Benoni to sustain his family, nor to cover the costs related to the mentor and the rent, or to the day-to-day functioning of the farm, which he was supposed to cover after the first year. Also, Mr Benoni noted being surprised one day when he arrived on the farm and a tractor was busy ploughing four hectares of land on the farm in preparation for the planting of lucerne.

Secondly, directly related to the non-consultative decision-making process, the mentor is in control of funds and spending. On the one hand, this has led to the beneficiary being unaware of spending and account issues. Illustrative of this are Mr Benoni's responses to enquiries with regard to his bank account and statements. When asked about the amount of money granted, he responded R140 000 for the first year (2012) and R170 000 for the second year (2013) – a response in contradiction with the reality. On the other hand, it results in the inability of the beneficiary to shape and influence decision-making, and in the mentor controlling RECAP funds. As such, all service provision on the farm is implemented by Rhenosterrivier, the consultancy company of the mentor and his family. The fact that there was no formal meeting or decision-making process (the farmer stated meeting the mentor about once a month, often on spontaneous visits) does not mean that the farmer is free to decide, but rather that he relies completely on the mentor and can take no decisions without him, as he is financially totally dependent on the mentor.

Accordingly, in 2013, Mr Benoni stated that the mentor was managing all the funds without consulting him, that he was taking decisions over the farm without consultation, and that

there was no sharing or transfer of skills or information. Mr Benoni went as far as stating that the RECAP set-up was not benefiting him at all:

> "Not only is RECAP not benefiting me financially, I am also not the farmer of this place anymore. I am not a farmer. I can just see what this mentor is doing with my farm." (RECAP survey 5/4/2013)

In 2014, however, the situation had changed significantly (this might have been related to the first evaluation and feedback to the DRDLR related to this research project). Mr Benoni states that at present he is getting to develop his own business. As such, he was allowed to engage in small stock activities, including sheep and goat farming. Mr Benoni also took over the cattle activities. This being said, even though the farm and the household income has since improved, and Mr Benoni is now in a position to decide on certain aspects, the degree of real decision-making power held by Mr Benoni is still limited, as he has to consult with, and requires approval from, the mentor for all expenses and strategic issues. A rather hierarchic and paternalistic relationship thus remains.

Inclusivity

In theory, mentorship should be respectful of all aspects of inclusivity, both internal and external. These should include, according to the definition for mentorship instruments, transfer of technical and managerial skills, as well as securing access to markets. The overall description of the implementation of this mentorship project shows, however, that results with regard to inclusivity can be compromised in practice.

The farm is growing significantly in assets. Growing from an unsustainable 10-cattle activity on collective land, to a (seemingly sustainable) multi-activity project combining cattle, small stock, and crop farming on leased lands with fixed assets, it can certainly be viewed as a success on a project basis. The project is similarly successful when external inclusivity is considered; market access has indeed increased. Through the mentor, the farm presently accesses not only input supplies, but it also engages in output markets for activities directly related to the RECAP funding (cattle farming), and indirectly for the other activities (small stock). The increase in the volume of activities, the inclusion in market networks, and the technical and marketing knowledge have all allowed Mr Benoni to improve the entire panel of activities developed on his farm. This being said, external inclusivity and impacts were rather limited beyond the farm, as the mentor, through his company, undertakes all the activities related to the farm operations. As such, through the limited local engagement, there is no external trickledown effect or local benefits, limiting local developmental impact.

These limitations are also observed when internal inclusivity is considered. Indeed, while the farmer remains the main risk-taker (even though this is alleviated through the support received), his voice, ownership and benefits remain rather limited at present.

Firstly, all decision-making remains with, or is controlled by, the mentor. In this case, the farmer himself has gained limited voice within the project and the mentorship. Indeed, decision-making and the control over financial matters result in voice being transferred to the mentor, leaving limited power and capacitation for the beneficiary. This is certainly the case on the farm, and with the decisions directly related to the farm activities. It is also the case beyond the farm, as the farmer is not involved. Thus, the farmer's frustration and claim of 'not being a farmer' is pertinent. Only the intervention of a third party seemed

to have led to a re-balancing of these power relations and the farmer acquiring some freedom to decide and engage in his 'own' activities.

Secondly, ownership also remains limited. Beyond not being able to decide on, and thus lacking direction of, his activities, the farmer does not own the farm assets. He leases the farm for a period of five years only and does not own the productive assets acquired through the RECAP subsidies. The productive assets acquired by the farmer himself (before or during the project), or which result from the growth of the project, are theoretically owned by the farmer – but as seen, these remain limited. Two consequences have to be noted here. Firstly, the non-ownership of assets has led to the farmer not being able to develop autonomously; the lease is indeed too short in duration to be used as collateral. Secondly, it emphasises the farmer's subordinated relationship towards the mentor, entrenching – paradoxically – the paternalist connection which South Africa's reforms aim to overcome.

Thirdly, benefits remain low at present for the farmer. Although the farm's immobile and productive assets have grown significantly, the farmer and his family have benefited little from the activities and the mentorship. Until recently, the absence of sales, the exclusion of other activities (such as rearing small stock), and the rejection by the mentor of the request to build a house on the premises for the farmer, had left Mr Benoni stranded, with no financial or social benefits at all. Although it might be (partly) the price to pay for the development of a sustainable and viable enterprise, the situation was unbearable for the beneficiary. However, the lack of benefits is not only financial; it concerns the lack of transfer of capacities and knowledge as well – defeating the core objective of such mentorship set-ups. Indeed, the situation where the control and decision-making rests with the mentor, and the farmer is excluded from these processes, leads to a lack of skills transfer and capacitation. These observations are all the more problematic, since, on the one hand, the lack of ownership and voice has not allowed for major changes, while on the other hand, the mentor has been benefiting from the endeavour through a remunerated mentorship and the outsourcing of his company for related activities.

This is not a sustainable situation, particularly since the farmer carries the majority of the risks, while the mentor is an employee or an outsourced entity. Although the mentor controls the enterprise and takes the decisions, his risks remain marginal (especially since he mentors about ten of these projects).

Challenges and questioned sustainability

At project level, this mentorship case is accumulating in income and productivity and thus seems to be sustainable at the farm level. Similar results are being put forward in other case studies, where 'hands-on' mentorship programmes are developed for small-scale stock farmers (Jordaan, 2010). However, longer-term benefits of such mentorship projects are less obvious for the smallholder in terms of capacitation, and subsequently of farmer integration. Three main categories of challenges can be identified, directly or indirectly related to the mentorship model as implemented in this case, in the framework of RECAP.

A first challenge is the excessive and uncontrolled transfer of power to the mentor. Issues started from the beginning when the mentor, identified and appointed by the department, designed the business plan without engaging the farmer himself. Not only did this lead to the possibility of an unconstructive relationship developing between mentor and farmer, and of the project not corresponding to the farmer's perspectives, it also resulted in the farmer not being aware of the plans, strategies and perspectives. The mentor has authority

over the entire project, because according to the agreement, the mentor has control over strategy and funding – although joint signatures are endorsed, the hierarchical relationship nevertheless biases the authority. In this case, it led to the mentor choosing the project, and to the mentor managing the farm and benefiting from its activities (which are subcontracted to himself). For the farmer, this has resulted in a lack of inclusivity. Although external inclusivity such as growth and access to input and output markets has been significant; internal inclusivity, such as transfer of knowledge and capacitation, has been marginal, or even non-existent.

This is directly related to the second factor concerning the lack of an independent third party to follow, support, and evaluate the mentorship set-up. In this case, it was supposed to be the provincial DRDLR. The department, being under-staffed (Machethe, Anseeuw, Lubambo & Mukoya, 2014), is unable to follow up on every single project on a regular and constructive basis. Uncoordinated engagement between the departmental agent and the mentor leads to an unconstructive and disorganised follow-up of the project. Firstly, it does lead to rather weak assessments and interventions regarding the more technical aspects of the farm. It also leads to a non-awareness and lack of mediation in the case of biased power relations (as was the case between the mentor and Mr Benoni) and to the development of irregular activities (such as the mentor subcontracting activities to himself).

Last is the overall project set-up and implementation related to RECAP. The first issue is the lack of ownership accorded to the farmer, particular of land. The short-term lease for five years does not allow the farmer to engage in autonomous growth (owing to lack of access to financial and credit facilities – as described above), thus making him ever-dependent on grants such as RECAP. It limits the long-term perspectives of the farmer. The second issue is the inefficient implementation of RECAP and, more particularly, the non-disbursement (or at least non-timely disbursement) at the time of the project, of the second tranche of the RECAP grant. Although the project is expected to sustain some of the costs after the first year, the non-implementation of the grant according to the business plan directly puts pressure on the project's sustainability. The project is indeed designed according to the availability of the grant. The third issue is the short-term duration set for the project. The five-year agreement might jeopardise the effective capacitation of the farmer (if transfer of knowledge does not effectively take place), and it also narrowly shapes activities and accumulation strategies accordingly. The mentor's reason for not selling any produce during the first year might be linked to the strategy. This can constrain the farmer's autonomy and independence in favour of the mentor. Indeed, the hierarchal relationship between farmer and mentor is reinforced through the farmer not having his own means, not having a say over the available means, and not having benefited from extensive capacitation. The way RECAP is set up and implemented, reinforces some of these mentorship project shortcomings and brings into question the overall sustainability of the project.

Concluding thoughts

Although the project has accumulated fixed and productive assets, and thus seems to be sustainable at the farm level, the longer-term benefits of this mentorship project for the smallholder, in terms of capacitation and subsequently of farmer integration, are more questionable. Excessive and uncontrolled transfer of power to the mentor, leading to a shift of decision-making power and a lack of effective capacitation of the farmer, seems the

main reason. Although the mentorship instrument is concerned with the transfer of skills and capacities, the hierarchical relationship between mentor and farmer – particularly in the South African context – is a contentious one. Not only is such a hierarchy a polemical one, and might be considered illegitimate in the framework of a redistributive land reform programme, it can also lead to excessive transfer to, and control being exercised by, the mentor over decision-making power, asset ownership and benefits.

This leads to questioning the results of the mentorship instrument and also results in questioning the core fundaments of redistribution of ownership and structural reform (Murray, 1991). The potential lack of voice and ownership being effectively conveyed through this instrument does not transfer the power to the farmer to structurally change things, as was the case in this particular project. Not only did it not transfer the knowledge of how to do so, it did not allow for structural engagement to take place.

This does not mean that mentorships as an instrument are not useful or unsatisfactory (Murray 1991). This case study shows the potential benefits for smallholders and emerging farmers, particularly in terms of technical and managerial knowledge transfer (Jordaan, 2010; Terblanche, 2011). It also shows the challenges related to the effective implementation of the instrument: biased power relations and a control and decision-making power shift, leading to limited capacitation of the smallholder and emerging farmer. Similar and other challenges have been well described in relation to other instruments which aim at including smallholders and emerging farmers into commercial value chains, such as contract farming (da Silva & Rankin, 2013 besides others). It draws attention to the necessity of combining several inclusive instruments, in order to overcome the challenges related to the specific instruments.

3

An emerging farmer combining an outgrower scheme with diversified partnerships and a mentorship – Mphiwe Siyalima

Petra Benyei,[1] Wytske Chamberlain and Gift Mafuleka[2]

In the context of land reform in South Africa, where land has been redistributed to previously disadvantaged people, new business models have arisen with different forms and strategies to include these new owners in the commercial agricultural value chain, with the aim of enabling the growth of the new businesses and the overall well-being of the new land owners.

This particular case study will look deeper into such a new land owner who has implemented a traditional outgrower scheme along with other strategies, such as multiple agreements with commercial partners, and a mentorship programme, to become a successful, sustainable, independent farmer. This report will focus primarily on the outgrower arrangement between Mphiwe Siyalima and McCain as the cornerstone of the farm. But it will also outline the role of the other partnerships, as they are instrumental to the overall success of the farm.

Project description

Mphiwe Siyalima Trading Enterprise CC was founded in 2009 by Mr Gift Mafuleka in order to be in a position to apply for the lease of Leeuwfontein farm, a 342 ha mixed farming unit situated in Rayton, in the district of Metsweding, in Gauteng province. This farm was acquired by the government under PLAS for a total of R4.3 million, and has given Mr Mafuleka the opportunity to establish a venture in which McCain and other strategic partners play an important role.

The conditions in the Leeuwfontein farm lease are based on a partnership, mentorship, and co-management agreement with McCain and its former director, now mentor of Mphiwe Siyalima. The land is used to produce peas and sweet corn under a contract agreement with McCain, maize with the support of Omnia Fertiliser, and also to grow cabbages and to breed Tuli cattle without corporate support. A mentor supports the emerging farmer with all activities, both operational, financial and marketing.

Under the contract agreement with McCain, seed is provided by the company, but Mphiwe Siyalima has a high degree of freedom during the growth cycle of the crop; soil preparation

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2 Owner/manager Mphiwe Siyalima

is done independently, the farmer can select his own fertiliser and chemicals, he can determine the irrigation schedule, and so on. The farmer is supported in his activities by McCain's extension officers and specifically his mentor. Harvesting and transportation is managed by McCain. At harvest, the peas are bought per tonne according to market-related prices (considering the different qualities) and the price of seed is discounted from the total amount due to be paid to Mphiwe Siyalima. This agreement is common among other farmers in the region. Although McCain normally enters into contracts for the length of one crop only, in this specific situation it has committed to a five-year contract, aligning with the rental period of the farm. The partnership agreement further specifies financial support for irrigation equipment and conditions of mentorship.

The rent amount (R18 000/month per hectare in 2014) is calculated upon the value of the farm and is much higher than the market price, but can be paid under more flexible terms and includes use of the infrastructure on the farm. Out of the 324 ha, 30 ha is under irrigation and this land is all used for the production of fresh vegetables on the McCain contract.

Mphiwe Siyalima also rents 330 ha of non-irrigated land from neighbouring black owners who have received land from the government. The negotiated rental for this land (R300/350 per hectare) is much lower than the rental from the government, although 50 % must be paid in advance.

Out of the 2013 production, 30 ha of peas were delivered to McCain under the contract agreement, while the rest of the vegetable produce (cabbage and sometimes green maize) was delivered locally. The maize production is stored in the AFGRI silos located at Bronkhorstspruit, and then mainly sold to AFGRI and Farmwise with 25 % of the production being sold on the futures market. In addition, 100 tonnes are sold to the World Food Programme and five tonnes (possibly expanding to 10 tonnes) are set aside for the workers and donations to the community. The company is also involved in development research, including maize and cultivar trials. This is done in self-interest, as the view of Mphiwe Siyalima is to enhance the quantity, but also the quality, of their produce. In addition, Mr Mafuleka has expressed his interest in this project as being a way to spread the results of his efforts and to learn from other experiences. The Tuli cattle are intended for breeding, although some steer weaners have been sold for slaughter.

The commitment to give back to the local community has led to a partnership with African Blessings, a mission based in Bronkhorstspruit that has two food gardens in Nellmapius (near Leeuwfontein farm), which receives knowledge, access to the project's equipment, seedlings, and produce donations from Mphiwe Siyalima. This partnership is mostly seen as a mutual social relationship rather than as a donor activity, as Mphiwe Siyalima also sources some of its workers in cooperation with this mission. As a result, the relationships with the surrounding farmers are good and the enterprise is seen positively by the community, as it provided an opportunity for employment to their members.

Since the start of the lease, the farm's crop plan has grown from producing 80 ha maize, 60 ha of vegetables and 200 ha / 21 LSU (Livestock Unit) of beef production, to a crop plan that includes 500 ha of maize, 36 ha of vegetables, and 200 ha / 26 LSU of semi-intensive Tuli beef production. The number of workers, which started with five full-time and six seasonal workers in 2009, has since grown to ten full-time and 15 seasonal workers in 2014.

Mphiwe Siyalima Enterprises can be considered as the sum of four main components that are all self-sustained, but not profitable yet: the pea and sweet corn production on

contract agreement with McCain Foods, the maize production in partnership with Omnia Fertilisers, the vegetable production sold for cash to local markets, and the Tuli cattle production which is projected to mainly provide breeding stock for sale to commercial producers, but also beef for slaughter.

Inception

In 2006, Gift Mafuleka was hired as the crop manager for Leeuwfontein farm that McCain Foods then leased from a white farmer. At his intake interview, Mr Mafuleka expressed his desire to establish himself as a commercial farmer and he soon became a farm manager on Leeuwfontein. In this position, he gained valuable experience in farm management and this allowed him to establish key networks in order to later develop his own business. In 2009, in sight of the end of the McCain lease agreement, and considering that the owner wanted to sell the land, Mr Mafuleka proposed to the owner the possibility of selling the land to the government under the PLAS policy. Meanwhile, he contacted an ex-McCain director (with whom he had worked for McCain) in order to prepare a project proposal that was acceptable to the government, and that might grant him access to the land through a lease agreement with the Department of Rural Development and Land Redistribution (DRDLR). This mentor also assisted him in negotiations with potential business partners: McCain, SamQuartz and Alexander Forbes among others. To facilitate the activities, Mphiwe Siyalima Enterprises was established with Mr Mafuleka as sole owner.

The project proposal was based on three pillars, partly to satisfy the conditions set by government to qualify for the land lease, but also to ensure the success of the new business – strategic partnerships, mentorship and co-management. The mentorship and co-management with McCain Foods granted Mr Mafuleka the credibility and contacts to involve other strategic partners in the venture. The strategic partnerships granted Mr Mafuleka the possibility of establishing a solid, feasible business plan that satisfied the requirements of the government. The initial partners – McCain Foods, SamQuartz and Alexander Forbes – had to sign a farming cooperation agreement for the duration of the rental period in order to clearly define their commitment, roles and responsibilities to the project.

The company was also committed to assist in creating an employee trust fund, allowing permanent employees to benefit from the success of this project, but in the end this project was cancelled as there where, in Mr Mafuleka's view, more important things to achieve.

Actors and drivers

The initiator of the project was Gift Mafuleka, who, with advice from his mentor, established Mphiwe Siyalima Enterprises, and entered into partnerships in order to create a business plan that might grant him access to Leeuwfontein farm.

Mr Mafuleka was raised near Richards Bay and studied at the Tshwane University of Technology, where he obtained a B-Tech Degree in Crop Production. He also has a Management Development Programme Certificate from the UNISA Graduate School of Business Leadership. Additionally, he has broad working experience as a crop and farm manager.

Mphiwe Siyalima, owned and managed entirely by Mr Mafuleka, was founded in 2009. The company's only activity is farming, and it is specialised in the production of maize, vegetables and Tuli cattle. It has won several prizes for this activity, including the Best Agribusiness and Young Farmer of the Year award in Gauteng in 2013 (awarded by Gauteng Department of Agriculture and Rural Development), the New Entrant to Commercial Farming in 2012 (awarded by the Agricultural Writers Association of South Africa), and the Toyota New Harvest of the Year in 2011. For its grain production, it received Gold Membership Status in 2012 and Platinum Membership Status in 2013 from Grain SA.

The role of Mphiwe Siyalima is that of coordinating and managing all the operations on the farm. But in order to obtain financial means and access to the market, the company has entered various partnership agreements with McCain Foods, SamQuartz, Alexander Forbes and Omnia Fertilisers. The mentor has been instrumental in establishing these partnerships.

In addition, Mphiwe Siyalima rightfully claims to be a socially and environmentally responsible company. It provides employment, engages in local procurement, develops community projects such as a trainee programme, and provides food aid for local schools and orphanages.

The other main driver of the project is McCain Foods. McCain has been active in South Africa for 15 years, during which it has grown substantially in size. The company supplies potato products (chips) to retailers, quick service restaurants (McDonalds, KFC and the like), and restaurants. It also supplies frozen vegetables, mainly to the retail trade (supermarkets). Potatoes are processed in its Delmas factory, and vegetables in a factory in Springs. The company sources produce within a 300-400 km radius of these factories. The main centre of production is the Loskop area along the Olifants River.

McCain sources produce through two different channels: land rental and outgrowers. In the model where McCain rents land, the company is in control of all the activities. In its outgrower model, McCain provides either seed or financing for seed to commercial farmers. It selects farmers with sufficient access to land, water, and capital with whom it signs one-year contracts. This gives the farmers the freedom to choose, per year, what crop they want to grow on their land, while it allows an exit for the company in the case of non-performing outgrowers. Nevertheless, the company has a stable network of farmers it engages with. Overall, the company works with around 50 vegetable farmers and 150 potato growers. Roughly 90% of these farmers are white. With the exception of Mphiwe Siyalima, the remaining 10% who are emerging black farmers are considered as not being sustainable in the sense that they do not perform and no long-term relationships have been established. The company does not provide extra services, such as training or financial support, to these farmers, although they do receive regular visits from the extension officers, similar to all the other outgrowers.

Prior to the sale, Leeuwfontein was leased by McCain and the company was interested in maintaining a relationship with this farm to continue the supply of fresh vegetables. Through its experience with Mr Mafuleka, it was confident that the farm would be able to operate successfully under his management and was thus willing to sign a partnership agreement with him. This enables the company to rely on a further five years of vegetable supply.

Support

Numerous stakeholders have provided (financial) support in order to establish the farming activities of Mphiwe Siyalima. This is schematically illustrated in Figure 3.1 .

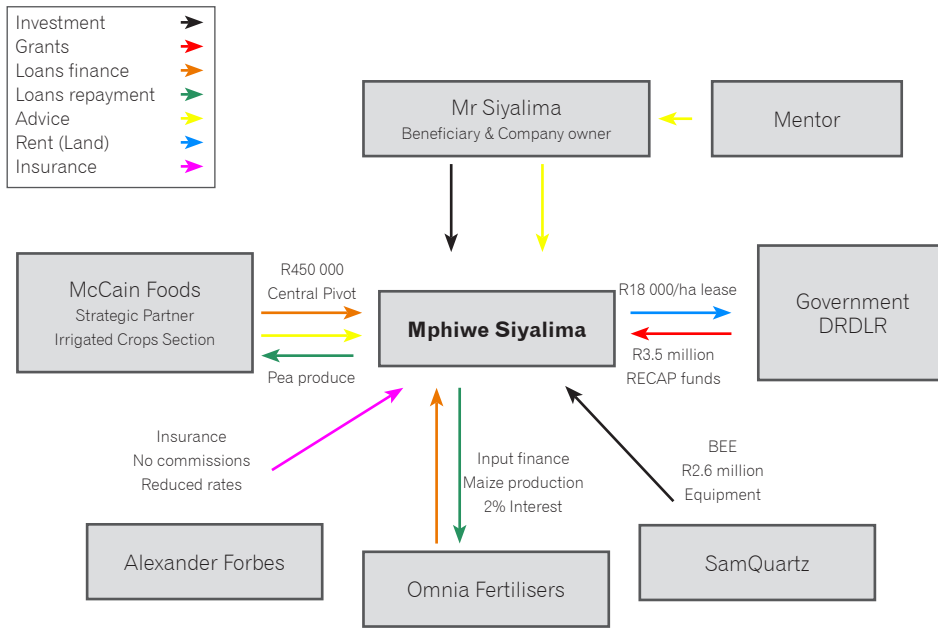

Figure 3.1 Institutional set-up and financial support

Source: Authors

McCain Foods

McCain Foods SA (Pty) Ltd is the key off-take and financial partner. In essence, the relationship with Mphiwe Siyalima is an outgrowing scheme, but with a closer relationship than most outgrower contracts. In order to apply for the government lease, Mphiwe Siyalima had to enter into an agreement with McCain Foods where McCain would provide financial advice, training programmes and financing for equipment in exchange for produce (mainly peas).

As such, McCain provided a soft loan for the installation of a 30 ha centre pivot in 2009 (valued at about R450 000) on the farm. The repayment of the investment (70 % completed in 2013) does not have interest associated, but is done by supplying vegetables to the McCain factory. On other farms, McCain leases the irrigation system to the outgrower farmer, but Mr Mafuleka's view is that it is important for his company to obtain its own assets in order to grow.

In addition, McCain facilitated the opening of a bank account for Mphiwe Siyalima with ABSA. This account is used for transactions with McCain and also for the transfer of government grants under the RECAP programme. Owing to the co-management structure of the venture required by government, it is necessary that the mentor signs and agrees to all transactions related to this bank account. This account is used for all Mphiwe Siyalima transactions, including those related to the maize, local vegetable and cattle business.

Although Mr Mafuleka's mentor is an ex-employee of McCain, this banking arrangement was not instigated by McCain, but rather by government under its PLAS policy.

Other corporate partners

In order to spread risks and be able to fully use the area of the farm, Mr Mafuleka has entered into a number of other partnerships to establish farming activities alongside the vegetable production for McCain. As such, SamQuartz (Pty) Ltd (which later merged with Thaba Chueu Mining (Pty) Ltd) is another key financial strategic partner. This mining company has committed itself to support emerging black entrepreneurs as part of its corporate social responsibility and black empowerment programmes.

In the case of Mphiwe Siyalima, the company committed to purchasing farming equipment and machinery that will be used on the farm during the five-year period of the lease. If the enterprise succeeds, the ownership of this equipment will be transferred to Mphiwe Siyalima at the end of this period. The invested amount was expected to be R1.3 million during the first year of the project, and was agreed to be re-evaluated with a possible further investment of R2 million, making a total potential commitment to the project of R3.3 million over the five-year period.

Out of this amount, investments to the sum of R2.6 million were already made and delivered by 2014. The equipment purchased includes four tractors, a trailer, a disc harrow, a haymaker, a compressor, a water pump, a welder and a fire-fighting unit.

In return, Mphiwe Siyalima provides internship opportunities for two apprentices in collaboration with SamQuartz. These apprentices are specialised in welding and mechanics, and are initially trained for equipment maintenance, with the idea being for them to establish their own workshop with Mphiwe Siyalima receiving priority services.

Alexander Forbes (later sold to Marsh & McLennan Companies), one of the main corporate risk and insurance brokers in South Africa, has arranged insurance for the farm and the equipment at significantly reduced rates, including waiving of all commissions. This agreement was achieved thanks to the networking done by Mr Mafuleka's mentor.

Omnia Fertilisers is part of a range of enterprises that sell plant nutrition products directly to farmers, as well as cooperatives and wholesalers, specialising in dry, liquid and speciality fertilisers. They started their collaboration with Mphiwe Siyalima later than the rest of partners (in 2011). Its main contribution is the procurement of input finance for all the maize production at a 2% interest rate. This partnership earns Omnia BEE points and also enables enterprise development since it ties farmers to their products and establishes linkages with them for future business.

Government

The DRDLR can also be included as a key strategic actor in the success of this venture. In addition to the lease agreement, the department approved funding through the RECAP policy. This funding (which was critical to keep the farm running) was established at 25% of the price of the land (R4.3 million) amounting to just over R1 million for the first year. It was delivered in 2011 and used for overhead expenses and first year production costs.

Subsequently, R3.5 million (of which half has been used) was delivered for the second crop year. This funding was agreed to be used to cover production and input costs (specifically

those from the summer dry-land crops), but also helped with the purchase of another irrigation pivot, Tuli stud at the value of R430 000, and access to more land.

Implementation and outcomes

From the beginning, the pea production was stable because the farm had previously been leased by McCain for this purpose. Thus, the required infrastructure was already available. As a result of the commitment by McCain to a five-year contract farming agreement, Mphiwe Siyalima could look for other activities to supplement its income. These other activities, especially the Tuli cattle breeding (included later in the project), were harder to get started.

Despite the fact that the main buildings were already on the farm, there was important infrastructure to be repaired, including irrigation systems (installing pipes, cleaning the dam, purchasing and installing the pivot) and fencing. The RECAP funds required for both the first year production costs (including the maize expansion and cattle breeding establishment) and the maintenance activities, took nine months to process and were not paid until the end of 2010. Financial assistance from other partners was also slow to arrive. In this initial stage, McCain Foods played a very important role in providing some bridging finance and helping with the establishment of a bank account.

Functioning

Mphiwe Siyalima is organised as a private enterprise; all the decisions are made by the manager and owner, Mr Mafuleka. He negotiates with the partners and the government, with whom he holds meetings when needed in order to take financial or production decisions. These meetings take place at least once a year and are held to evaluate the activities and to plan financial and production strategies, as well as to keep partners accountable for their contribution and propose new ideas. The role of the partners in these meetings has mainly been to provide advice to Mr Mafuleka, not dictating the direction of the venture.

The workers are contracted on a yearly or seasonal basis. Mr Mafuleka holds operational meetings with the workers in which he explains the activities to be done and the crop plan. These meetings are held four times a year, and the purpose of each of them is clearly defined. Around March, the first meeting takes place. In this meeting, the employees and Mr Mafuleka discuss human resource issues, such as the bonuses (based on overall production to all the workers) or employee welfare. Around May or June, the second meeting is held. This is usually a training meeting in which the introduction of new equipment can be discussed and in which workers participate in workshops to improve their skills. In August, a third meeting covers the operational decisions which are explained to the employees. Finally, there is a last meeting around December where the results for the year are presented, and which also serves as a social-motivational gathering.

Contracts

Mphiwe Siyalima has engaged in different contracts, which enable the diversification of the farming activities. The mentor recognised diversification as the strategy to give the new farming company a chance to succeed. He identified the potential partners from his wide

business network, and he assisted the emerging farmer in the subsequent negotiations of these contracts.

The main contract of Mphiwe Siyalima is with McCain Foods for the production of peas and other fresh vegetables. This contract guarantees access to an established market for Mphiwe Siyalima, providing for a base income. This contract was essential for the land rental agreement, but also formed a sort of security for other partners to enter into agreements with the new farming company. Fertiliser company Omnia provides inputs for dry maize production at a favourable 2% interest. Through the involvement of the mentor, and the stable production and income base provided for by the five-year contract with McCain, Mphiwe Siyalima has also been able to secure favourable insurance and equipment under the CSR programme of a local mining company. It can be stated that the initial contract facilitated the other contracts, having an amplified effect on the growth of the company's activities.

Certification

In order to secure better prices for their products, Mphiwe Siyalima has endeavoured to obtain GLOBALG.A.P. certification for the vegetable section, but the implementation costs (required for infrastructure) were too high and the possible rewards from the certification did not constitute a strong enough incentive to undertake this action.

Nevertheless, for the McCain production, Mphiwe Siyalima is part of the Private McCain G.A.P. Certification process that follows up on the quality of the products. One of the aims for the future is to obtain a local G.A.P. certification under the McCain umbrella. The relationship with the commercial partner, based on a contract farming agreement, thus enables the farmer to qualify for a certification which would be too costly to obtain individually.

Employee development

Although the workers do not have ownership in the project, employee development has been an important goal for Mr Mafuleka from the outset. The project has doubled its number of workers since 2009, a growth which has resulted in employment being one of the major cost drivers. The employees are mainly (80%) sourced from the community, most of them coming from a low-income segment with no previous skills. These workers do not have any role in the decision-making process on the farm, but are given skills and housing, as well as food aid in the form of maize meal.[3] In order to process this meal, five tonnes of maize are sent to Pride (an associated mill linked to AFGRI). After paying a milling and packaging fee, the grain is processed and Mphiwe Siyalima collects the maize flour for distribution to its employees.

The contracting on an annual basis of ten workers, instead of sourcing workers seasonally, as well as the sourcing of unskilled workers from the community in order to train them and provide them the opportunities derived from the skills acquired, is a clear sign that proves Mr Mafuleka's commitment to support the local economy and community.

3 Flour made of maize, the basic ingredient of maize porridge known in South Africa as 'pap', which is a main staple food in the region.

In addition, the stability of the employment allows building up a strong and competent team that participates in occasional training programmes and is driving the farm towards success.

Inclusivity

Inclusivity can be considered internally or externally, linking the different actors in the project, and linking the project to outside players. In order to evaluate the internal inclusivity, it is measured and reported "how ownership, voice, risk and reward are shared between the business partners" (Vermeulen & Cotula, 2010:29). These issues are tightly interconnected as the lack of inclusivity in one aspect is usually followed by weak inclusivity in other arenas.

In the case of Mphiwe Siyalima, the land is still owned by the government. This has proven to be an obstacle to the expansion of the project in terms of access to financial means and investing in long-term activities. The business itself, though, is owned by the beneficiary of the land reform programme, but this ownership is not shared among the workers or other community members.

This exclusive ownership also affects the bearing of the risks. Since Mphiwe Siyalima is established as an independent enterprise, all the production and financial risks (in addition to other business-related risks) are taken by the company. The market risks related to the pea production are reduced owing to the supply contract with McCain, although Mphiwe Siyalima is exposed to price risks in general because the contract stipulates a market-related price. McCain has reduced the risk of their investment in the standard way of contract farming, namely by entering into a predetermined supply contract tying the outgrower to the firm. Supplying seeds of high quality, extension services, and even financing irrigation equipment, enhances the potential harvest. Lastly, the engagement of a previous director as mentor to a previous employee ensures that there is sufficient knowledge to secure a successful venture. The risks for the grain and vegetable production are taken by Mphiwe Siyalima. Through hedging 25 % of the maize production, part of the market risk is eliminated. Furthermore, the involvement in multiple crops, with multiple marketing channels, reduces the overall risk to the company.

McCain allows its outgrowers considerable responsibility in the production of its crops. As such, Mr Mafuleka decides on irrigation, fertilisation and other activities related to the fresh vegetable production. All financial decisions need to be taken in agreement with the mentor, while day-to-day activities are the full responsibility of Mr Mafuleka as CEO and owner of Mphiwe Siyalima. The workers are also taken into account (through holding periodic meetings), but do not have representation or any kind of official voice in the decision-making process. The partners played an important role during the inception, but now do not play any role in the day-to-day activities of the farm, except for McCain in the harvesting and control of the pea production and the financial agreement required by the mentor. This was the plan from the beginning, when Mr Mafuleka indicated he wished to establish his venture independently and be able to hold the decision-making power. The spread of activities has enabled Mphiwe Siyalima to attain a much larger degree of negotiating power over the farm, compared with dedicated outgrowers. Overall, Mr Mafuleka endeavours to engage with the other partners and the workers in order to generate a transparent and collaborative working environment.

Regarding the rewards, we must consider that until now there have not been any profits accrued from the activities of Mphiwe Siyalima, even though the different activities are economically self-sustainable. Still, in the event of profit making, the exclusive ownership that Mr Mafuleka holds in Mphiwe Siyalima Enterprises, means that the dividends will be owned exclusively by Mr Mafuleka. The growth of the firm will benefit the community indirectly through the growing employment opportunities and all the other linkages that Mphiwe Siyalima has established. Nevertheless, through the current set-up based on contract farming and mentoring, the company has been able to increase its activities and gain access to favourable financing and equipment. It is expected that the commercial partners, McCain and Omnia, have benefited from their engagement with Mphiwe Siyalima, although this is part of their overall operating activities.

The fact that local people are employed on the farm and that they are contracted on a permanent basis can be seen as a way in which the rewards from the activity of Mphiwe Siyalima are spread to the community. The input supply mainly comes from local sources. Chemicals, seed and fertiliser are bought at Delmas (a nearby town), contributing in this way to strengthen the local economy.

As for the external market linkages, the contract with McCain provides access to the national market, while the rest of the produce is sold locally. Nevertheless, all processing is done in local or provincial facilities, since McCain is based in Springs and AFGRI in Bronkhorstspruit. In addition, the vegetable production is sold in local formal markets, offering fresh vegetables to the local population.

In addition, it is important to mention the link of Mphiwe Siyalima to African Blessings and its participation in food aid programmes by giving milled maize to schools and orphanages.

The overall inclusivity of Mphiwe Siyalima in the markets is good, but can be improved as the company remains a price taker, which can be an issue in some cases. In addition, the project is well linked to input markets, as many partners have joined the venture providing input finance and as the input suppliers remain geographically close by.

In sum, the objectives of Mr Mafuleka of creating a successful enterprise that would allow him to generate economic growth in the area, and independent management of the farming activities, have been achieved to a large extent. The growing success of the venture enables him to establish expanding objectives in relation to financial, operational, and market aspects of the business, as well as towards higher inclusivity of the workers. With much effort and important support from the partners and the mentor, Mphiwe Siyalima started growing into what is now a relatively large and diversified farming venture. The enthusiasm and knowledge of Mr Mafuleka, who knew the farm and its possibilities, were key factors in explaining the farm's growth.

Issues

Despite the success of this venture and the overall satisfaction of the actors involved, some issues have been experienced and must be considered and contrasted with other, similar, experiences in order to gain a better understanding of this project.

Common issues

All instruments described in existing literature have their own challenges, opportunities and degrees of inclusivity. In reality, what we see in the field is a mixture of different tools that adapt to the specific characteristics of the project, the actors involved and the political environment.

Mphiwe Siyalima can be considered as a hybrid business model that combines contract farming and mentorship. By mixing these tools, this project shares some of the common issues of each of them, but most importantly, it also integrates their key advantages.

By adopting a farmer-owned business model, Mphiwe Siyalima has been able to own and manage most of the assets, eliminating the principal-agent problem common in pure strategic partnership models (Derman *et al.*, 2010). Nevertheless, common issues of a farmer-owned business remain, such as the partial exclusion of the actors, a higher risk taken by the farmer and capital limitations.

Through integrating contract farming into the project's business model, Mphiwe Siyalima was able to ensure access to the market and inputs. However, some of the disadvantages of contractual farming also affected the project, such as having a dependent position, as the off-taker remained in a powerful position as price setter and input provider.

Due to the lack of financial resources, the beneficiary was unable to secure land ownership. Whereas a short-term land lease under the PLAS programme was the best solution for Mphiwe Siyalima to gain access to land, it does not allow for long-term security. This inherently poses a burden to expansion, and to accessing financial services due to lack of collateral.

Overall, it can be noted that most of the disadvantages and common issues linked to one model are tackled by the inclusion of other business models.

The main concrete issue regarding this project is the inability of the PLAS initiative to enable ownership of the land. Under this programme, Mr Mafuleka was only able to apply for a five-year lease agreement, which is not sufficient to create the necessary stable environment for investment. At the time of writing, a 30-year lease, in essence covering his active farming life, was under negotiation to overcome this issue. This long-term agreement would allow him to engage in further investments without fear of a sudden lack of land to work on, or the uncertainty driven by short-term agreements.

The short-term lease currently in place brings uncertainty and makes it difficult for Mr Mafuleka to make production decisions that affect the long-term, to obtain financing for machinery, or to invest in infrastructure. Besides, this issue affects other aspects, such as training and development of employees and long-term commitment to his workers, which in turn affects the long-term sustainability of the rewards for the community.

The DRDLR is considering the implementation of a policy to expand lease agreements to 30 years, renewable for another 20 years (DRDLR, 2013c). Although this could present an opportunity for Mphiwe Siyalima to secure the land, it still is – at the moment of writing this report – an ongoing process.

In addition to the land ownership issue, the high overhead expenses (especially the salaries) are a common problem for the business that affect this incipient project strongly. The fact that the project is overcapitalised, and that profit has not yet been made, places Mphiwe Siyalima in a difficult situation in which there is only a small margin for error.

Other issues related to the RECAP funding process are: late delivery of the funds, poor understanding of the project by the government, lack of effective planning, and high transaction costs derived from the application process. Even though the RECAP funds have been instrumental to the business, they came at considerable cost.

The infrastructure surrounding the farm is also considered an issue by Mr Mafuleka, since the road leading to the property is poorly maintained by the responsible department. Although the distance from the main road to the farm is not very long, deterioration might become a problem with time and could lead to extra costs for the project. Whereas this issue is not specific to Mphiwe Siyalima, it does pose a potential risk to the operation.

Finally, there is the important issue of water availability, the main reason why the pea production cannot be expanded beyond 30 ha. The irrigation infrastructure in place has been updated, but due to poor law enforcement, opportunistic behaviour by upstream water users, and misuse of water resources by surrounding farmers, the allocated water quantity does not reach the Mphiwa Siyalima farm. Thus, whereas water in theory is available, in practice the farm cannot fully benefit from the allocated volume.

In conclusion, it can be stated that there are no issues related to the outgrower scheme with McCain, or any of the other partnerships between Mphiwe Siyalima and its other commercial partners. Rather, most of them involve the government, either through the land ownership, grants, or water user management.

Actions undertaken by Mphiwe Siyalima

Considering these issues, some actions have been implemented in the short period of time since the establishment of Mphiwe Siyalima.

Regarding the land ownership issue, Mr Mafuleka is negotiating the extension of the lease to a 30-year agreement. The lease agreement held at the time of writing is in its final year. Although Mr Mafuleka does not think there will be a problem in extending the agreement, he takes time to decide and consider all available options.

As for the water issue, investments have been made in cleaning the existing dam, which has partially restored its capacity. Moreover, plans have been made to prepare the necessary infrastructure to start using the existing reservoir (which includes sealing, and installing pumps and pipelines), for which the necessary permits have already been obtained.

In addition, Mphiwe Siyalima is working on improving the production process, customer relations, financial management, and food safety issues through Business Analysis and Management Support Services. This strategy includes obtaining ISO 90001 and ISO 22000 certificates.

Finally, as for the certifications, LocalG.A.P. certification is expected to be implemented in the near future under the McCain umbrella.

Unaddressed issues

The main issue that remains unaddressed in the view of Mr Mafuleka, is lack of inclusivity for the workers involved in the project. When starting the project, his aim was to create a business model that would spread empowerment, skills and income throughout the community. It is his goal to extend the inclusivity, for example by delegating some of his

current responsibilities and authority in the decision-making process to the workers. This would generate a more motivated environment in which the employees are accountable for their actions. Yet, it is a long process and the enterprise is still in the initial stages of development, which can be one of the reasons for giving priority to the other production and financial issues.

Success factors

In sum, we can consider Mphiwe Siyalima as a success story, especially in terms of the growth and expansion possibilities of the venture. This success has been the result of a series of strategic decisions made by Mr Mafuleka and his mentor which are reflected in the configuration of the project. This configuration enables Mphiwe Siyalima to benefit from partnerships with large agribusiness companies, co-management and mentorship with one of the partners (McCain), while at the same time maintaining ownership and decision-making power in other parts of the business.

The most important success factor has been, the ownership by Mr Mafuleka of his company. This ensured that authority and decision-making power largely remained with the founder, and that the management strategies, as well as the manager's view, have been able to push through without too many limitations from outside parties such as government as funder, or McCain as off-taker.

Another success factor is the way in which the partnership agreements have been implemented. In contrast with other agreements, Mphiwe Siyalima has been able to establish equal and transparent relationships with the enterprises involved. This can be attributed to the existence of the previous relationships between the manager and owner (Mr Mafuleka), and the main company involved (McCain). The outgrower relationship is based on trust and respect, and not only granted Mphiwe Siyalima financial support, but also the necessary networks to include all other partners in the venture. In addition, it has lowered the barrier for Mr Mafuleka to contact McCain in case of issues or questions.

In this sense, we can consider another success factor to be the establishment of co-management and mentorship with McCain. Rather than being assigned a mentor by government under the PLAS policy, Mr Mafuleka proposed his own mentor with whom he had a long-term working relation already. The mentor and mentee respected each other and knew the other's way of working and experience. The mentorship has thus been able to bring the intended outcome of skills transfer, market access and financing. The mentorship and co-management gave the venture a solid reputation and reliability in the eyes of the other partners.

Finally, key to the operation, is Mr Mafuleka's drive and passion, knowledge (acquired through years of formal education and access to university) and ability to plan, manage, and establish a successful business that will enable him to generate income in the region and fulfil his dream of becoming a commercial farmer on his own.

Sustainability and scalability

Looking at the future, Mphiwe Siyalima can be seen as a venture with great possibilities for success. The main growth limitation – the continued access to the land – is likely to be

solved in the short term, while positive production results from past years will enhance the credibility of the enterprise, enabling possible new partnerships and contracts.

Up to now, the business has been sustainable in the sense that it has made sufficient income to cover the production expenses and allocate overhead costs. Moreover, the manager expects the farm to be profitable in the short term as a result of the improvement of the management systems.

As for the partners, there is no reason for them to withdraw from the relationship and this will allow the project to continue growing. In addition, new activities are being planned, and if these solve the main issues, the expansion possibilities of the business are considerable.

Finally, we can infer that the continuity and expansion of the project will also benefit the community. With the venture's growth, the aim of further including the workers in the decision-making process might be realised, and more contribution towards skills development and food security of the workers and their families could be implemented.

As for the replicability of the project, we must take into consideration the specific characteristics of the property and previous owner, the skills and contacts of the main driver (Mr Mafuleka), as well as the mentor, and the specificity of the business models, all of which together have brought this project to success.

It is very likely that in the absence of this context, or even one of its components, the project would have failed, thus it is difficult to determine whether there is a possibility for this model to be replicated in a different environment. Nevertheless, McCain and Omnia have numerous agreements – similar to the one with Mphiwe Siyalima – with other farmers, and will be able to engage more farms in these kinds of contracts.

Conclusion

This case illustrates how the combination of mentorship and contracts has enabled Mphiwe Siyalima to establish itself as a self-sustaining farming operation. Whereas the contract provided market access and stability to the company, the impartial mentor was able to integrate multiple commercial parties into the business. The farmer thus has been able to avoid the principal-agent issue often observed in classic outgrower schemes through diversion of the production base. The education, experience and drive of the emerging farmer have all been critical for executing the business plan, and will ensure the independent growth of the farmer in the long-term. Whereas this has led to the success of this particular farmer, it does not guarantee the equally successful roll-out of this particular set-up with other emerging farmers.

4

Collective and loose contracting, reinforced by equity, to consolidate diversified production models – Winterveld United Farmers Association

Wytske Chamberlain, Killian Banda and Ward Anseeuw

The increased liberalisation of global markets and the rise of supermarkets in the marketing and distribution of food products have contributed to the exclusion of smallholder farmers (Berdegué, Biénabe & Peppelenbos, 2008; Reardon & Timmer, 2005; Sartorius, 2003). To counter this development, contractual agreements have been proposed, for example by the FAO, to offer smallholder farmers access to the commercial value chain (FAO, 2013). Contractual agreements are expected to lead to secured markets and stable income for the farmers and more control over production for the off-taker, among other things (Eaton & Shepherd, 2001). However, contractual arrangements alone are not a panacea for enabling smallholder market access. It is to this end that IBs have gained momentum in providing alternatives for the active participation of smallholder farmers in agricultural supply chains.

Heterogeneous produce by smallholder farmers, and these farmers' spatial distribution, contribute to their exclusion in active participation in agricultural supply chains. This arises mainly as a result of the increased transaction costs for contractors, processors or commercial marketing companies (Kirsten & Sartorius, 2002). It is against this background that contractors prefer to transact with a few, but well-organised, farmers. To date, researchers have shown that collective action plays an important role in accessing agricultural supply chains (Berdegué *et al.*, 2008). As such, farmers have improved access to both input and output markets through aggregation and bulking (Markelova, Meinzen-Dick, Hellin & Dohm, 2009).

This chapter presents a case which goes beyond contract farming and collective action and shows how the combination of contract farming and collective organisation is reinforced by ownership through equity. The Winterveld United Farmers Association (WUFA) is a fairly loose organisation of individually operating farmers, which also has established its own collective anchor farm. WUFA has engaged in a number of contracts, both formal and informal, for different markets. The formal contract of the farmers' collective includes a collective equity share in the off-taker company.

Information for this case was collected from three sources: smallholder farmers in the Winterveld area, agribusinesses engaged in a contractual arrangement with Winterveld farmers, and key stakeholders and informants. Data collection was done through personal interviews, using both structured and semi-structured questionnaires, in 2009 and 2010. A further visit was made in 2015 to verify a more current status of the project.

Project description

The Winterveld region, an extensive dispersed peri-urban settlement on approximately 9 500 ha, is located in the Gauteng province, approximately 50 km north-west of Pretoria, near the urban townships of Mabopane, Ga-Rankuwa and Soshanguve. The Winterveld area was uniquely subdivided into plots of between five and ten morgens[1] and sold to black farmers on a freehold basis in the 1940s when the area was part of the Bophuthatswana homeland (Anseeuw *et al.*, 2011), which makes it a clearly distinguished region. Land was either inherited or farmers bought their own land, with most WUFA members having title deeds to their land. Most land, however, is not used for agricultural production but lies fallow, with cattle grazing and roaming freely over it. Where there is crop production being carried out, the production systems on the farms are generally diversified, ranging from irrigated citrus and vegetables to rain-fed cereals.

The WUFA is a membership-based association with 74 farmer members in 2015. The average land holding per member is just over 6.5 ha and is used for (irrigated) citrus farming, often combined with vegetable production, and poultry or piggery activities. The members pay an annual membership fee of R350 which gives them access to the services of WUFA that are provided by the collective organisation. These services include the provision of technical advice, especially regarding citrus production, the collective purchasing of inputs (the members do have to pay for these inputs), and membership permits participation in the central citrus farm. WUFA also provides marketing support in the form of bulk produce collection and contract negotiations. Members are also entitled to use equipment owned by the association. WUFA does not solely depend on production by individual farmers. The association, through a non-profit organisation controlled by WUFA, also owns a 34 ha anchor farm fitted with a drip irrigation system and equipped with a packhouse which was constructed in 2007 for the cleaning, waxing, sorting and packaging of oranges (produced by the anchor farm and individual farmers). This anchor farm, purchased in 2004, was established under the Winterveld Citrus Programme (WCP) which aims at establishing citrus production in the Winterveld area and is the cornerstone of the WUFA activities. To accommodate the citrus programme, WUFA established WCP as a non-profit organisation, offering opportunities to access donor funding.

Under the WCP, the organisation is involved in two orange production and marketing systems. The first operation is centralised and organised around the WCP farm. On this anchor farm, the WCP grows navel oranges, making up 80 % of production, and Valencia oranges, making up the remaining 20 % of production. A full-time farm manager, employed by WCP, runs this WUFA-owned farm. The second operation is based on the individual orange orchards of the 74 member farmers, who mostly grow Valencia types. All orange production falls under the Winterveld Citrus Programme and is routed through the WCP packhouse.

The anchor farm is managed by a farm manager, the son of one of the WUFA members. WCP further employs a management team, quality controllers, general workers and security guards. All employees of the WCP farm are employed by WCP and are members of WUFA, or related to WUFA members. Farm management is assisted by WUFA leadership who frequently visits the farm and has nearly daily interaction with management. The actual roles and responsibilities of WCP management and WUFA leadership are therefore rather blurred.

1 Five (5) morgens are approximately equal to 4.3 ha.

At the centre of the citrus programme is a non-fixed, formal contract between WCP and Magaliesberg Citrus Company (MCC) for the supply of mostly Valencia oranges, but also other citrus fruit, with a target quantity of 300 tonnes, which was signed in 2004. Based on the expected quantity which might be supplied by the anchor farm and the individual member farmers, this contract is renewed annually. MCC technical staff members use an agronomic business model, taking into account parameters such as expected sunlight hours, rainfall and soil quality, in order to determine the expected quantity a few months before harvesting. As the orchards mature, the produce quantity should gradually build up to the 300 tonnes target. The majority of the Valencia oranges are produced by the individual members, with the anchor farm further contributing to the overall MCC supply. Whereas all Valencia production on the WCP farm is delivered on the MCC contract, individual farmers are free to sell their crop on alternative markets, provided the oranges are routed through the WCP packhouse for registration. All deliveries to MCC take place from the WCP farm where produce undergoes a quality check and is graded and packed. WCP charges a 5% fee (based on sales price) which is deducted from individual farmers' payments and which is then paid to WUFA to cover operational expenses of the association. Operating costs of the WCP farm and packhouse are funded by donations as well as operating income.

MCC has its roots in a cooperative organisation. This is still visible in the set-up where only shareholding farmers can supply the (now public) company. Therefore, the supply agreement between MCC and WUFA includes a clause stating that WUFA is entitled to 300 shares, or 0.5%, in MCC, based on the targeted supply quantity of 300 tonnes.[2] As such, WUFA became a shareholder in the processing company in 2004 when the first delivery took place.

Besides this core WUFA-WCP-MCC set-up, several other productions and contractual set-ups exist.

Firstly, aside from Valencia oranges for MCC, the WCP farm produces navel oranges for fresh consumption. Most smallholder Valencia growers are also engaged in navel orange production, although at a smaller scale. Navel oranges from the WCP farm, as well as from individual member farmers, are graded, packed and marketed by the packhouse under the 'Bosele' brand. Marketing of navels is done collectively, coordinated by the WUFA marketing director. One of the main market channels is an informal contract with the local Pick n Pay (PnP) supermarket. At the time of harvest, PnP and WCP agree on the price, a delivery schedule is drawn up, and packing instructions are given to the farmers. Payments are channelled via WCP which retains 5% of the sales price to serve the WUFA operating costs. Significant volumes from the WCP farm are sold on a spot market basis to the Tshwane Fresh Produce Market (TFPM). A small number of navels and other citrus fruits are occasionally sold to MCC. Figure 4.1 illustrates the overall supply chain of oranges produced under the WCP.

2 One ordinary share is equivalent to one tonne of fruit (Banda, 2012).

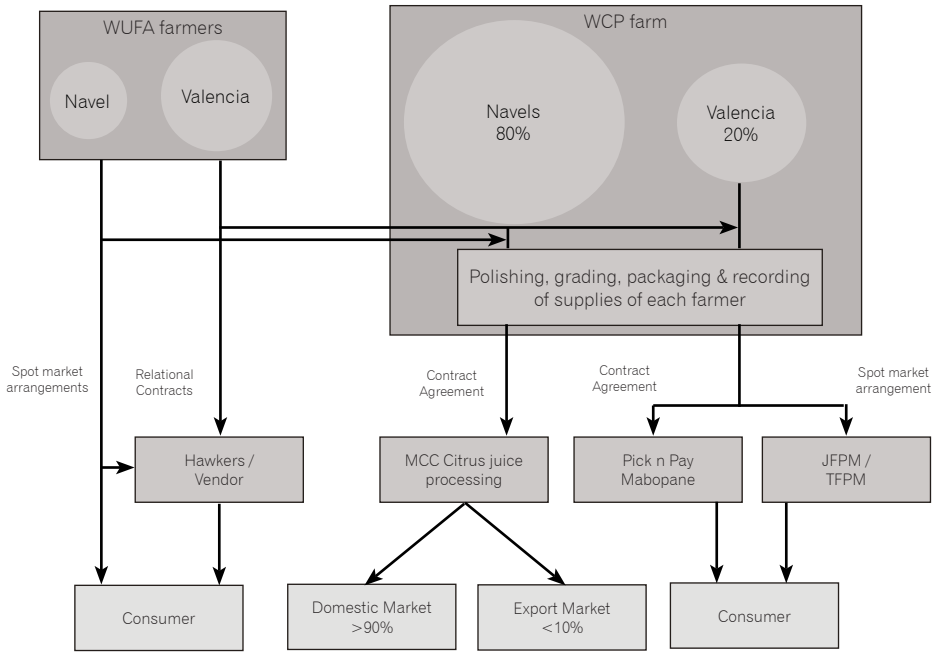

Figure 4.1 Supply chain WUFA orange production

Source: Authors

Secondly, WUFA farmers also grow a range of vegetables, including spinach, lettuce and onions (see Figure 4.2). This is done solely by individual member farmers in search of production diversification and risk aversion. Vegetable farming also provided immediate cash flow during the three year period which the orange saplings needed to reach first harvest. These farmers receive support, although limited, related to these productions from WUFA, mainly in the areas of marketing support and access to farm equipment. Thirty-three WUFA members are engaged in vegetable production; five of them have succeeded in bidding for the supply of fresh vegetables to hospitals coordinated by the Gauteng Shared Service Centre (GSSC). The initial supply contract with the GSSC was for three years, from 2009 to 2012, with renewal subject to farmers' performance. Although these five farmers are members of the WUFA, the association did not have any involvement with this contract.

Thirdly, WUFA farmers deliver vegetables to the local Pick n Pay franchise supermarket. This is an informal relationship where price negotiations take place in spot market arrangements. WUFA vegetable farmers collectively lobby for a benchmark price, after which individual farmers finalise the negotiations at the time of harvest, based on the quality of their produce. Pick n Pay pays one week after delivery, directly into the member's bank account, bypassing WUFA. The activities related to vegetable farming are implemented independently, without interference from the cooperative. The farmers purchase their own seeds and find their own market channels, although some collective bargaining with the local Pick n Pay supermarket does take place.

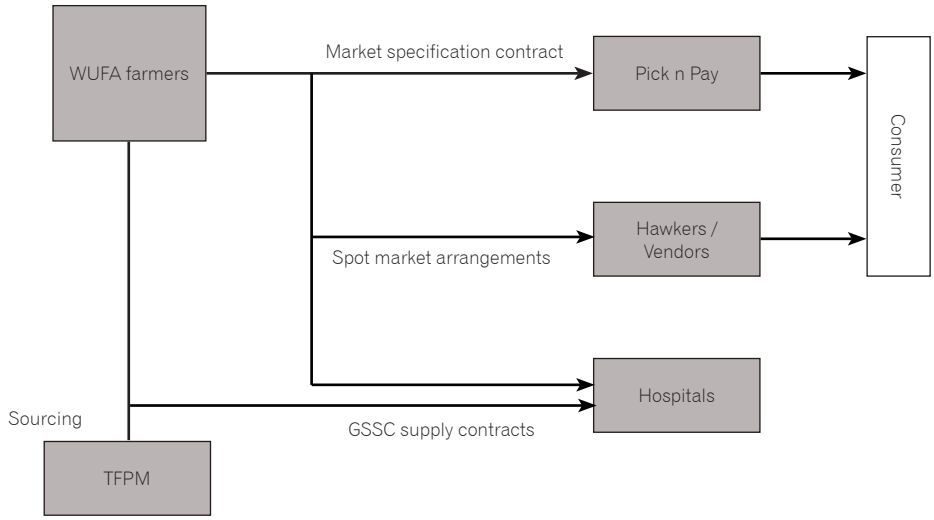

Figure 4.2 Supply chain vegetables

Source: Authors

Overall, the member farmers and the anchor farm are engaged in three contractual agreements, as illustrated in Table 4.1.

Table 4.1 Contractual arrangements WUFA member farmers

Contract type	Coordination mechanism	Contracting firm	Product	Role of WUFA
Marketing specification – contract	Formal contractual arrangement	Magaliesberg Citrus Company	Valencia oranges	Contract partner, coordinator with member farmers.
Marketing specification – contract	Informal contractual arrangement	Pick n Pay supermarket	Vegetables and navel oranges	Price + quantity negotiations for oranges. No support for vegetable deliveries.
Marketing specification – public tender	Formal contractual arrangement	Gauteng Shared Service Centre	Vegetables	Support with tender preparation.

Source: based on Banda, 2012:42

Lastly, as illustrated by Figures 4.1 and 4.2, WUFA farmers also sell their produce at the farm gate to the community and hawkers at spot market prices. These transactions usually take place through cash payments without any written or long-term agreement, although relationships between farmers and hawkers do develop over time. The existing market structure, notably the Tshwane Fresh Produce Market, is hard to access for small farmers due to high market and agent fees and prohibitively high transport costs. Whereas WUFA is able to overcome these issues by produce bundling of navel oranges, the association is

not involved with these informal transactions covering vegetable production, and hence the barriers for individual members remain.

Table 4.2 illustrates the importance of each of the marketing channels for the produce grown by the WCP farm and the WUFA member farmers.

Table 4.2 Average quantity of produce sold per market channel (2009/10)

	MCC	Pick n Pay	GSSC	TFPM	Hawkers	Farm Gate
Valencia (7 kg bag)	20 188					
Navels (7 kg bag)		11 551		2 000	455	182
Cabbage (head)		5 100	26 800		3 000	4 100
Onions (bundle of 6)		190	5 260		2 580	2 080
Spinach (bundle of 30 leaves)		9 180	10 000		6 960	9 562
Lettuce (head)			2 910			60

Source: Banda, 2012:69

Inception

Although the citrus production was initiated in 2002, WUFA was first established in the 1960s. Whereas WUFA is the driver behind the orange production and supports a number of member farmers in their vegetables production, other actors are involved as will be described in this section.

Actors and drivers

WUFA founder and members

Dr Motsuenyane, a conservation agriculturalist who had been involved in conservation agriculture and was the country's first black extension officer, together with a local Reverend, was the driving force behind the establishment of the WUFA in 1967. Their aim was to develop the agricultural sector in the area, which was earmarked for black farmers each owning four to eight ha of land (Farmer's Weekly, 2011). WUFA first implemented a poultry project which collapsed after three years due to the outbreak of the Newcastle disease (Anseeuw *et al.*, 2011). Agricultural production further suffered as a result of population pressure, nearby mining activities which absorbed a large part of the community into its labour force, and a lack of technical and financial support. As a result, farming activities in the area, and with it WUFA activities, declined. Dr Motsuenyane, who had been employed elsewhere in the country and even abroad since the inception, retired in 2002. Together with other retired members from the community, he decided to revitalise the WUFA and they identified citrus as a suitable crop for Winterveld (Farmer's Weekly, 2011). For this purpose, the WCP was founded by WUFA in July 2002 as a non-profit organisation (NPO). The intention was to establish a large-scale citrus, and more particularly orange, project, based on an anchor farm combined with individual farmers' orchards.

Dr Motsuenyane personally knew the MCC chairperson and was able to convince the company to source from WCP. Through this partnership, the project could reach a scale

with potentially significant impacts on poverty, unemployment and under-development in the area, and could generate entrepreneurial opportunities. The objective of WCP was that through WUFA activities, members could improve their income and food security.

The WUFA leadership decided on the establishment of an anchor farm, not only to produce part of the commercial citrus production and serve as central handling facility for the member farmers, but that could also serve as an example for the individual member farmers who were not familiar with orange production. Production techniques could be demonstrated on this central farm to train the member farmers. Through WCP, the organisation could also purchase equipment for use, not only on the anchor farm, but also by the members on their individual orchards. As such, a kind of nucleus-outgrower scheme was envisaged by the organisation. Funding was to be done through a network of potential financiers known by the WUFA leadership, and enabled by the non-profit character of the WCP.

MCC – B-BBEE status

Magaliesberg Citrus Company, a producer of fruit juices, concentrates, and oils, was transformed from a cooperative into a public company in 2005. All farmers supplying MCC (mostly white commercial farmers) are part of the shareholding structure with their share corresponding to the agreed quantity of produce supplied. A farmer who is not an MCC shareholder cannot supply the company. As shareholders, the supplying farmers can partake in general meetings and have voting and nomination rights for board membership or directorship. The company entered into a contractual agreement with WCP to work towards Agri-BEE compliancy and improve its public image as it was heavily dependent on large-scale white farmers for the supply of its produce. The contract between MCC and WCP is for an annual supply of 300 tonnes of Valencia oranges, which entitles WCP, as collective, to 300 shares in MCC. The company has a processing capacity of 60 000 tonnes, which translates into a total of 60 000 shares. The equity of WCP thus equals 0.5 %. Whereas this small engagement with WCP does not allow the company to score BEE points, it is a tentative first step with regard to ownership, management control, preferential procurement and development. Increasing the volumes sourced from WCP as well as other suppliers classified as black will enable MCC to move towards BEE accreditation.[3]

The role of MCC is threefold. Firstly, MCC provides a guaranteed market for the Valencia production. In this framework, the company also provides technical assistance to the WCP farm, ensuring the quality of the produce. Thus, MCC reduces the risks related to both production and marketing for the farmers, enabling them to engage in the production of an unfamiliar crop. Secondly, through its involvement and the guaranteed market, it provides a basis to potential funders for investing in the project. Thirdly, it is a stabiliser through its shareholding structure, as it motivates WUFA farmers for long-term engagement.

GSSC and Pick n Pay – as contractors

The implementation of the citrus project among smallholder members was enabled through other actors and contracts, representing alternative markets for the member farmers, which then provided the immediate cash flow required to establish the citrus orchards. This created a stable environment for the smallholder farmers from which to diversify into citrus growing.

3 The B-BBEE policy has been adjusted in 2015, in order to increase transformation. This will make it harder for MCC to achieve a high level of B-BBEE rating.

Firstly, the contract with GSSC: in an endeavour to improve market access for smallholder farmers in the region, the Provincial Government of Gauteng issued tenders for the supply of fresh vegetables to hospitals within the province through the GSSC.[4] To facilitate this process, the Department of Agriculture, Forestry and Fisheries (DAFF) identified farmers with the potential to meet the requirements specified in the tender. The identification process was based on whether a farmer had greenhouses, reliable transport and an irrigation system to maximise the consistency in both quality and quantities to be supplied. Some farmers in the area had received this infrastructure as part of previous, unrelated, initiatives by DAFF, but were not using it to full capacity. DAFF supported the identified smallholders with writing business plans which were subsequently submitted for the GSSC tender (Banda, 2012). Five farmers, all WUFA members, succeeded in their bids.

Secondly, the contract with Pick n Pay: Pick n Pay is one of the leading food retailers in South Africa. To service the growing population in the area, it opened a franchise store in Mabopane in 2005, which was the first black-owned franchise for the company. Whereas the majority of the fresh produce is centrally sourced before distribution to the individual stores, franchises are free to procure produce from local farmers as part of their corporate responsibility programme (Pick n Pay, 2013). As such, the Pick n Pay store in Mabopane sources both navel oranges and fresh vegetables from local farmers. This includes both WUFA members and non-members. Food and safety standards, such as traceability, are less stringent for locally produced crops than those for centrally procured crops to offer smallholder farmers access to Pick n Pay stores. Nevertheless, quantity and quality requirements stipulated by the individual stores are still prohibitive for many of the Winterveld vegetable farmers. A small plot of land combined with limited financial resources for inputs results in most smallholders facing difficulties in consistently complying with certain quality standards. The majority of the oranges (navels) sold through the Pick n Pay Mabopane store is procured from local smallholder farmers.

Support

Through the extensive network of Dr Motsuenyane and other WUFA leaders, the association was able to generate financial support from many parties, especially for the establishment of the WCP farm. The project started by using donations from the Muslim community of nearby Laudium. Individuals from the private sector, motivated by the developmental potential of the project, raised over R400 000. This was used to purchase the first 50 tree saplings for each member. Subsequent planting was funded by other sources of donations, including the Kellogg Foundation and others (see Figure 4.3). In March 2007, the Board of the National Development Agency (NDA) provided a grant of R1.5 million (NDA, nd). The NDA is a government-funded organisation with the "primary mandate … to eradicate poverty by granting funds to Civil Society Organisations that implement developmental projects of poor communities" (NDA, nd). As such, it was motivated by the potential of the WCP to provide jobs (through the project directly and through additional employment creation), ensure food security, and generate income for members and other beneficiaries, in a poor peri-urban settlement. The funding was used for the development of the anchor farm (land preparation, fencing, and irrigation infrastructure) and acquisition of farm equipment, including a tractor and ploughs, as well as the packhouse. Capacity building activities were also organised using this fund, benefiting not only the WCP farm, but the wider community of WUFA member orange farmers (NDA, nd).

4 This activity of the GSSC has since been discontinued.

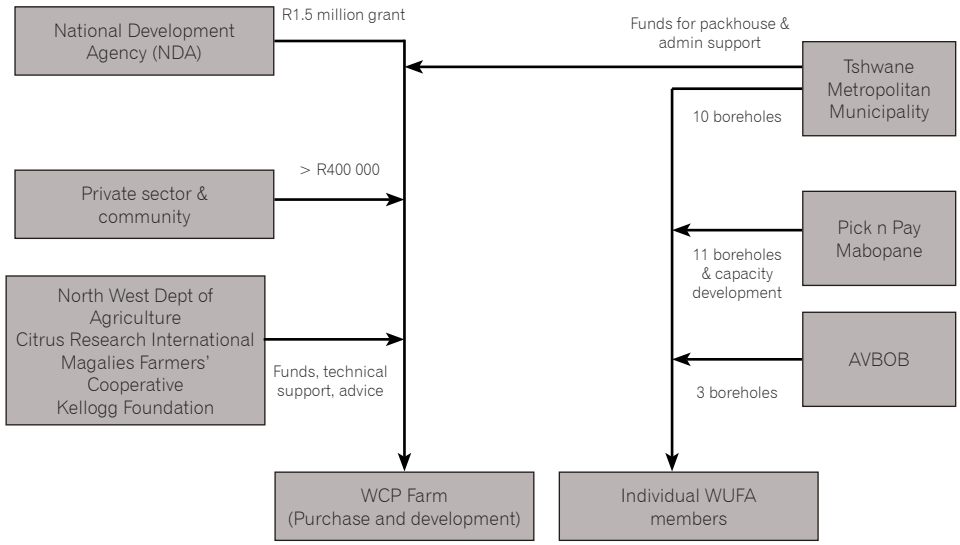

Figure 4.3 WUFA financial support

Source: Authors

In line with its partnership ethos, WUFA has liaised with a number of other key players in its support for the WCP. Once again, the extensive network and connections of the WUFA leadership helped with accessing additional funding. To increase access to fresh produce at a relatively low price, the local Pick n Pay store contributed funds for the construction of 11 boreholes and capacity development workshops. Receiving farmers were selected by WUFA leadership based on a needs basis and consisted mostly of the poorest members who were unable to drill their own boreholes. In this way, the retailer ensured that farmers have access to water year-round, enabling them to produce sufficient quantities throughout the year (Banda, 2012). Thus, this support was targeted at individual farmer members engaged in vegetable production, and not the WCP per se.

The Tshwane Metropolitan Municipality, driven by its mandate to stimulate economic development in the municipal area, provided funds for another ten boreholes for individual member farmers. The Tshwane municipality also contributed towards the construction of the packhouse and administrative support structures at WCP, as well as the acquisition of tree saplings. Once again, the political connections of the WUFA leadership have enabled the organisation to gain access to these funds. Funeral insurance company AVBOB sponsored a further three boreholes as part of the company's Corporate Social Responsibility programme. The North West Department of Agriculture, the Citrus Research International body, the Magalies Farmers' Cooperative and the Kellogg Foundation have all contributed funds for new trees, technical support and advice to the WCP.

Implementation

The WUFA's citrus project started in 2002 with small orchards established by individual farmer members planting orange saplings donated by the WCP. Whereas the budget

allowed for 50 trees per member, some members did not collect their trees. Possible reasons were the lack of financing required by the individual member for irrigation infrastructure, labour and inputs, or a general lack of interest in orange farming. Thus, some members planted more than the initial 50 trees if they had the capacity to do so. A further 50 trees per member were distributed in 2003, once again with the more motivated and financially better off members being able to plant the saplings not collected by other members. The project gained momentum with the establishment of the WCP–owned anchor farm in 2004 where 20 000 trees were planted. The participating farmers were then able to receive training on orchard establishment and management from WUFA leadership, with the anchor farm serving as a demonstration farm. Planting, tending of the citrus trees, and harvesting are fully in the hands of the farmers, although they do receive technical support from WUFA. Member farmers are able to use equipment owned by the WCP on their own farms, provided the machinery (tractor and slasher) is not required on the WCP anchor farm, and the farmer has to pay for consumables such as fuel and driver's wages. In practice, member use of WCP owned equipment is minimal due to high levels of usage on the anchor farm and occurs mostly by those members with larger farming activities.

As specified in the contract, the individual WUFA member farmers, as well as the anchor farm, have to adhere to MCC standards for growing, fertilisation and pest control. The management of the standards is done by extension officers employed by MCC. Visits by the MCC extension officers, as well as those from the Citrus Growers Association, only reach the anchor farm. Additional citrus training for some of the WUFA leadership was arranged independently of the MCC. WUFA management then passes on these skills and knowledge to its member farmers through centralised training sessions on the WCP farm, from which the WCP farm manager also benefits. Part of the knowledge sharing activities involved the MCC temporarily taking over the management of part of the orchards on the WCP farm.

Together with WUFA leadership, MCC determines the harvest period for the year. This is a short period of a few weeks in which both the anchor farm's and the individual farmers' orchards need to be harvested. Picking is done by seasonal labour, consisting of local workers, as well as workers from outside the Winterveld area. During the harvesting period, MCC coordinates transport and sends large trucks to the WCP farm to collect produce. Individual farmers deliver their Valencia oranges to the WCP farm during this period, where their delivery is recorded, graded and made ready for collection by MCC. Thus, a record is kept per member farmer on the quantity delivered. This record forms the basis for payment at a later stage, but has no impact on MCC equity which is held in the name of the WCP collective. Oranges not harvested during the predetermined harvest period can still be delivered to MCC. Consolidation of the produce harvested late is organised by WCP and the company will arrange transport to the client. The transport-related costs are subtracted from the farmer's payment. Thus, although the member farmers are supported in the actual delivery of their late harvests by WCP, they have to shoulder the additional costs.

The price for the oranges is determined by MCC, firstly based on the sucrose levels sampled from the fruit delivered by WCP to its factory, and secondly from the expected price MCC is likely to receive from its customers. It then initiates the first payment, in November, calculated at 50 % of the expected final price MCC receives from its clients. Thus the price is not directly related to the market price for oranges, but rather for the processed product. A subsequent 25 % is paid in March, before the balance is settled in June. Thus, it can take up to a year for the farmers, who are fully price-takers in this contract, to receive full payment. This long payment period is related to the dependency of MCC to receive

payment from its customers before it is able to pay its suppliers. All MCC payments are first deposited in the WCP account, and after a 5% deduction to cover WUFA's operating expenses, the individual farmer is paid based on the quantity of produce supplied.

The first harvest of oranges by individual farmers took place in 2005 and amounted to three tonnes of fruit. This increased to 11 tonnes in 2006, 15 tonnes in 2007 and 72 tonnes in 2008 (Kemm, 2008). The WCP project had planted 75 000 trees by 2010, producing around 100 tonnes of fruit. This illustrates that, although production is increasing, the association faces challenges in the implementation of the orange contract. The contract with MCC included the provision for WUFA to become a shareholder of the processing company, aligned to the 300 tonnes agreed to be supplied by the association. Since the implementation of the citrus project, not even half of this target quantity has been reached, with the member farmers supplying over 70% of Valencia oranges out of the total WUFA supply to the MCC juice company.

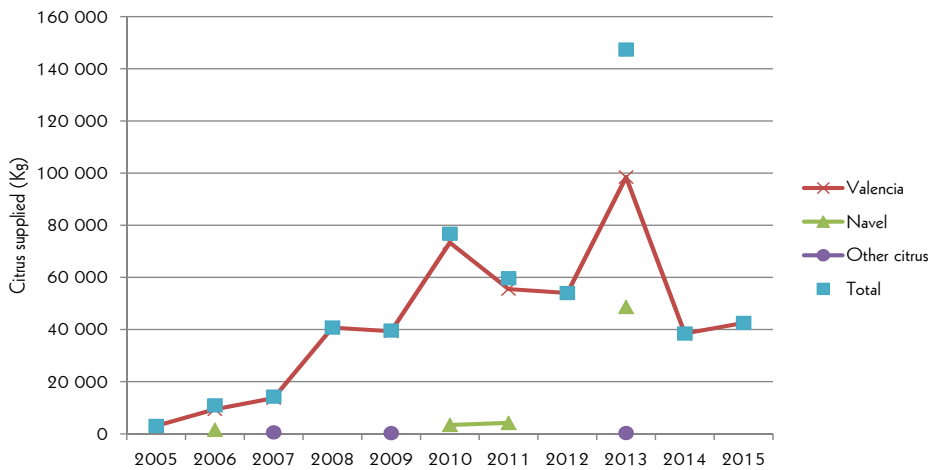

Figure 4.4 WCP deliveries to MCC including rejects, 2005-2015 (Kg)

Source: MCC producer totals, 2005-2015, Internal documents

The farmers' association also engages in collective price and delivery talks with the Pick n Pay supermarket for the supply of navel oranges, which it then communicates to its members. Similar to Valencia oranges for MCC, individual farmers deliver their navel oranges to the WCP farm where the produce is washed, graded and packed. Payment also goes through WCP, which again deducts 5% for WUFA management.

The GSSC selected farmers receive a monthly delivery schedule from the GSSC stating the vegetable volumes and quality. Prices are re-negotiated, collectively between GSSC and farmers, every six months, benchmarked against the TFPM prices, although contracts are signed with the individual farmers. In most cases, GSSC prices are better than those obtained through other market channels. Payment takes place within one month after delivery and is paid into the individual farmer's account. Value-adding activities by the farmers, such as cutting and peeling done directly on the farm, offer extra income to the farmer. In cases where contracted farmers are not able to meet the full demand with their own produce, remaining contractual quantities are purchased from TFPM.

The remainder of the vegetables produced by the member farmers outside the GSSC contract are harvested when ready and a market (the local Pick n Pay, the Fresh Produce Market, or hawkers) is found by the individual farmer once the produce is harvested. Although WUFA is initially involved in price negotiations with Pick n Pay for a benchmark price and delivery schedules for this non-contractual produce, the actual price determination is done with the individual farmers upon delivery, based on the quality of the produce supplied. Pick n Pay pays the individual farmers a week after delivery by deposit to the individual's bank account.

Inclusivity

Ownership

WUFA membership has had a positive impact on the individual farmers from an ownership perspective. The anchor farm is registered in the name of WCP, which in turn is owned by WUFA. Hence, through their WUFA membership, the farmers are now collective owners of an anchor farm with irrigation infrastructure, orchards, equipment and implements. All members, regardless of the volume of their orange production, share equally in the collective ownership of this farm, the packhouse and the produce produced on the farm. Nevertheless, the WCP's assets can only be distributed upon disbanding of WUFA to those smallholders who are a paying WUFA member at that time. Therefore, if smallholders decide to terminate their WUFA membership, they have no right to receive a payout resulting from the collectively owned asset. Nevertheless, they have been able to gain ownership over facilities beyond the production stage, while at the same time maintaining full ownership over their land.

This ownership extends further into the processing stage, attributable to the equity obtained by WCP in the processing company MCC. As with the WCP farm, the equity is collectively held in the name of the WCP and is independent of the supply of the individual smallholder to MCC. Smallholders thus cannot claim shares for themselves and will thus not be able to claim payment in case of termination of their WUFA membership.

Overall, it can be stated that the collective organisation, in association with the contract agreement, has enabled individual smallholder farmers to gain a foothold in the orange value chain. Interviews with smallholders illustrated though that most of the members are not familiar with their equity share in MCC. This might be related to the multi-levelled, complex structure of the IB.

Under all the contractual arrangements in which the WUFA farmers are engaged, the farmers do have ownership over their produce, as well as their orchards. They are not contractually bound to deliver any of their produce to a specific off-taker. All production is done on their own land, with their own inputs and (collectively owned) equipment. As such, the member farmers have a high degree of individual ownership, which, through the WCP project, is enhanced with collective ownership beyond their own activities.

The case of the GSSC contract illustrates the importance of individual, rather than collective, ownership of assets as a prerequisite for gaining market access. The contracting partner indicated in the tender that irrigation infrastructure, greenhouses and transport were imperative to qualify for the lucrative contract. As such, both the MCC and the GSSC

contracts exemplify the importance of ownership of (land or non-land) assets for entering into the commercial value chain, thus excluding the most marginalised of smallholders.

Voice

Within the Winterveld structure, farmers have retained all decision-making power regarding the production and marketing on their own farms. Farmers can decide themselves on what crops to plant on their land and on what channels to sell their produce through. Nevertheless, orange farmers are expected to deliver their produce to the WCP packhouse for registration and marketing on their behalf, although farm gate selling does occur. For all vegetables, the farmer is free to choose the marketing channel, and the smallholder also has complete decision-making power over the production techniques, seeds and other inputs applied. Strict regulations are maintained by MCC pertaining to fertilisers and chemicals used on their produce in order to meet overall food and safety regulations applied throughout the value chain. Whereas MCC offers technical guidance, it is up to the farmer, both the WCP farm and the individual smallholders, to follow the advice. In essence, they are independent farmers with a full say in how their own farms are managed.

The leadership of WUFA is democratically elected by its members. This gives the individual farmers an indirect say in the activities managed by WUFA, including the WCP programme and the anchor farm. Communication between leadership and members takes place on a monthly basis, but tends to focus on issues directly affecting individual smallholders, with only a small number of members attending meetings. Issues and performance of the WCP farm and the overall project are mostly shared during the annual general meeting where leadership presents to the members, rather than engage them in discussion. The decision-making power of individual farmers in the association is thus severely compromised, partly due to a lack of interest and understanding by the smallholders. The strong position of the leadership within the organisation is underlined by the re-election of the leaders, without significant change, after the five-year period which the executive is elected for. Not only does the WUFA leadership have a strong say in the management of the farmers' association, it has an equally strong influence on the management of the WCP farm, where responsibilities are blurred between WUFA leadership and the WCP management team.

The WCP is managed by a board of directors. A number of these directors are WUFA members, with the remainder being external people with skills and networks relevant to the project. The WCP Board appoints new directors without engaging the WUFA membership. The WCP Board is responsible for the overall performance of the WCP, and includes fundraising activities required to operate the anchor farm. The WUFA executive, elected by its members, controls the WCP Board and is responsible for the internal operation and well-being of its members. Despite this lack of direct control over the WCP, members are engaged when funding is available from the WCP. For example, although they can indicate what type of trees they would like to plant when funds are released for orchard expansion, the final decision is made by the WUFA leadership.

The WUFA executive also plays a vital role in the relationship with MCC. Price negotiations with MCC are done by WCP executives; the individual members do not contribute to these discussions. As a collective, WCP had one director on the MCC board, and thus the opportunity to influence the decision-making process in the processing company. This directorship was terminated after 2012, negatively impacting the decision-making abilities in the off-taker. The reason for this termination is not provided by the stakeholders but might be related to the small supply quantities of the organisation which have only

grown marginally since the start of the relationship. This being said, again here, individual member farmers have little insight into the pricing structure, their shareholding, and how they can make effective use of their equity. This lack of transparency effectively nullifies their collective empowerment down the value chain. Hence, the collective ownership in the processing company does not impact their individual negotiating power with the contract partner.

Risks

Production and financing risks are fully borne by the farmers. They obtain their own inputs and are responsible for all activities on their farm. None of the contract arrangements (with MCC, GSSC or the informal supply of oranges to Pick n Pay) include insurance for loss of harvest or other production-associated risks. Nor does any of the contracts include the provision of inputs that is characteristic for many outgrower contracts, and which relieves the farmer of direct financial exposure. All produce sales, either Valencia oranges to MCC, or any of the other produce to other market channels, are registered on an individual basis. As such, the farmers are not protected by being part of a collective where income is shared by all member farmers based on collective production. Although this puts the farmer in a vulnerable position, it evades the free-rider problem where members can reap full benefits without active participation.

Having said this, a farmer is able to compromise on the quality of the oranges delivered to MCC. The off-taker determines its price based on the quality of a sample taken from the total batch(es) delivered to its processing plant. This sample contains oranges from individual members, as well as from the WCP farm. Since WCP does not maintain a quality record per individual farmer, this theoretically gives a farmer an opportunity to deliver sub-standard produce without suffering a negative price impact. To prevent sub-standard deliveries from the individual farmers, as well as from the WCP farm, WCP employs quality control staff at the anchor farm which handles all produce. As is illustrated later, the internal quality control system does not function effectively, allowing individual farmers the opportunity for sub-standard production in practice.

The different contract agreements in which WUFA farmers are engaged contain different price risk profiles for the participating farmers. The GSSC contract provides for inflation-adjusted prices, reducing the exposure of the farmer due to increases in input costs. The MCC and Pick n Pay contracts do not include inflation adjustments during the year, but rather base the prices paid to farmers on the prevailing market price, leaving the farmers (either the collective WCP farm, or the individual smallholders) exposed to the market price risk.

The efforts of WUFA to gain access to multiple market channels for multiple crops, do offer member farmers alternatives in the marketing of their crops. None of the contractual agreements are exclusive, enabling the member farmers/WCP to seek the highest paying off-taker for their produce. Whereas production risks remain with the farmers, they are much less exposed to market risks due to the market channel development activities of the farmers' association. WUFA has succeeded in facilitating multiple markets for fresh produce, but Valencia orange farmers remain dependent on MCC as the sole buyer of large volumes close to the Winterveld region.

Rewards

Market access has developed greatly through the collective contract agreements, enabled both through the scale of the project as well as the personal network of the WUFA founder. This is most obvious in the MCC contract, but to a lesser extent also holds for the Pick n Pay supply. Smallholders indicate that the TFPM is inaccessible because of the high fees, both of the market and the agents operating on the market, as well as the prohibitive transportation costs. This inaccessibility was aggravated by the lack of consistent and sufficiently high quality produce, especially compared with that of commercial farmers (Banda, 2012). The WCP has been able to overcome this issue for navel oranges through the aggregation of fruit, but issues remain for other crops. The technical support received by the GSSC contracted farmers has overcome the quality issue, which does however continue for the smallholders not included in the GSSC agreement.

In addition to market access for large volumes of their produce, although generally at a lower price, farmers benefit in a number of other ways. The members also gain access to the packing facilities and equipment on the WCP farm. Orange farmers are able to enhance their farming skills, and consequently, the quantity and quality of their produce, through the free technical assistance from MCC and other institutions. They also have access to free orange tree saplings which are purchased collectively through the farmers' association, as well as free boreholes arranged through WCP donations.

Financial rewards flow from the operation of the WCP farm and MCC. If the WCP is able to operate at a profit, the WCP Board can decide to distribute these profits to its members, either in cash or by supplying other forms of assistance. Similarly, WCP, as shareholder in MCC, can receive dividend payments, should the MCC board declare dividends. These dividends accrue to the WCP as a collective, rather than to the individual WUFA members, and thus it is once again the WCP Board which determines the allocation of these funds. In the ten years since the establishment of the anchor farm and the MCC contract, neither of these means of financial rewards have been achieved.

The benefits for the clients (MCC, Pick n Pay and the GSSC) in liaising with WCP, lie in lower transaction costs. Rather than establishing contacts with the individual farmers and negotiating with them, they now have a partnership with WCP. This is particularly the case for MCC, which only deals with WCP regarding all activities, including technical assistance, price negotiations and payment flows. In addition, supply from Historically Disadvantaged People (HDP) smallholders qualifies MCC for Agri-BEE points, since WCP is considered a previously disadvantaged shareholder. Agri-BEE qualification is required for receiving lucrative government contracts and subsidies. Pick n Pay is motivated by similar drivers, aiming to improve its public image and enhance its corporate social investment record. It can be speculated that the retailer was also able to obtain produce at a cheaper price, together with building a relationship with the farmers who would then show loyalty to the store when purchasing seeds, as well as groceries.

Outcomes

Through membership of the WUFA collective organisation, individual farmers have been introduced to citrus farming. Firstly, the association created market access. Through the relationship between the WUFA founder and the MCC chairperson, a potential commercial partner in the project was identified and a contract was subsequently signed. The personal network, however, was not sufficient to secure the contract. The WCP had to ensure that a

sufficient quantity and quality could be supplied to this large partner. The WCP farm which was established for this purpose needed funding to which WUFA was also instrumental. MCC, as off-taker for the bulk of the orange production, might not have agreed to source from the individual farmers directly, or from them as a collective, had they not been able to supply a minimum amount.

WUFA further provided technical expertise to the farmers to start orange farming. It organised capacity building events and established the WCP farm as an example for member farmers. It has also secured the services of MCC extension officers, the Citrus Research International body, and the Perishable Produce Export Control Body for further knowledge development. This has enabled the smallholder farmers to successfully engage in the growth of a new crop with potential for export.

Lastly, through the personal networks of the WUFA leadership, significant capital was accessed from a range of funders. The experience and networks of the WUFA founder and other senior WUFA members have played a significant role in securing the finances required for establishing the anchor farm. Member farmers benefited through the free saplings which were centrally procured using donor funding. As such, it can be said that the collective organisation has enabled smallholder farmers to gain access to the commercial orange value chain, together with technical and financial support.

WUFA was also instrumental in opening up the vegetable supply chain where it conducts collective price negotiations with the local Pick n Pay franchise store. It was observed that the price negotiations were conducted between equal partners, which can be attributed to the multiple marketing channels available to the farmers (see Table 4.2) (Anseeuw *et al.*, 2011). On the other hand, the farmers' association was not directly involved in the GSSC tender processes or the subsequent contract negotiations. Overall, from a situation where only a few farmers were engaged in small-scale commercial farming activities, the association has been able to increase the land under agricultural production, resulting in an increase in produce volumes which farmers can deliver to market.

This market access does not necessarily bring the best economic benefits to the farmers. As can be seen from Table 4.3, GSSC, the informal sales to hawkers and direct sales from the farm gate, return higher prices to the farmers. Despite their lower prices, MCC and Pick n Pay serve as bulk off-takers who are able to absorb large quantities of produce. The majority of the member farmers do not have storage facilities and thus are not in a position to wait for market prices to become more favourable. The contract arrangements thus give these farmers the option to increase their production with ensured off-take.

Overall, although contracts do give farmers a source of income, it is found that there is no significant impact on the income of farmers (Banda, 2012). Many of the Winterveld farmers, including WUFA members, gain a significant part of their income from pensions, wage labour, remittances and government grants, such as old age grants and child grants. Furthermore, financial gains from both the collectively owned farm and the MCC equity, have not materialised in the ten years since inception. Rather, the WCP farm is not self-sustaining and instead operates on personal financial contributions from WUFA leadership to make up the financial shortfall and the lack of further donations. Employment numbers on the farm have been reduced from 21 in 2010 to 10 in 2015 in an attempt to save on operating costs.

Table 4.3 Average produce price per market channel, 2009/10 season (rounded to nearest Rand)

	MCC	Pick n Pay	GSSC	TFPM	Hawkers	Farm Gate
Valencia (7 kg bag)	3.00					
Navels (7 kg bag)		11.00		8.00	10.00	11.00
Cabbage (head)		3.00	5.00		4.00	4.00
Onions (bundle of 6)		3.00	11.00		5.00	5.00
Spinach (bundle of 30 leaves)		2.00	7.00		5.00	5.00
Lettuce (head)			9.00			5.00

Source: Banda, 2012:68

Ten years into the project, WCP activities seem to be declining, rather than growing. The membership has fallen from 145 members in 2002 to 74 in 2014. While this reduction is partly caused by the increasing age of members, leaving them unable to continue their farming activities, other smallholders have dropped out because of a lack of financing (see also the next section on Issues). Whereas the members receive tree saplings from WUFA, and in some cases also free boreholes, they have to provide their own funds for the irrigation infrastructure, labour and inputs such as fertiliser and electricity. This still proves to be an insurmountable barrier for Winterveld farmers trying to engage in commercial crop production. Due to the unequal distribution of the tree saplings, caused by the differences in financial resources and personal motivation and capacity, a few members are responsible for the bulk of the orange production, with a large number of members only being able to supply a small quantity from their orchards.

Not only is membership declining, the contractual arrangements are also under strain. As such, MCC decided in 2014 that it will no longer provide extension services and that WCP should arrange its own transport, rather than MCC collecting the harvests from the WCP farm. Together with the loss of the directorship of the company, this indicates a severe reduction of commitment towards the smallholder production by the commercial partner. Despite this reduction in support, and the fact that the WCP has been unable, up to now, to supply the targeted 300 tonnes of produce, the 300 equity shares are not under discussion, possibly because MCC requires the black ownership for its B-BBEE accreditation. Equally, the gentlemen's agreement with Pick n Pay has not been renewed, mostly due to low prices. Nevertheless, the member farmers continue to supply the retailer, but on a spot market basis.

Issues

Numerous issues exist regarding the citrus project. The first one relates to the lack of traceability. Oranges from different farmers are mixed and graded at the WCP packhouse. This implies that farmers are able to free ride on produce quality. Quality control staff members are employed by the WCP in an attempt to limit this risk. Nevertheless, these workers are mostly relatives of WUFA farmers. As such, they are not always impartial and member farmers have hinted that these workers misuse their position when it comes to deliveries from members in their own family. In the worst case scenario of a major break in food safety, all farmers, including the WCP farm, will suffer collateral damage.

The ineffective implementation of an internal quality system is an issue that needs to be addressed if the WCP wishes to gain access to the larger domestic or export markets.

Overall concerns relate to the lack of understanding by WUFA members of the agreement between MCC and the farmers' association. The lack of transparency and the long delays in receiving payment have especially discouraged the smallholders. It can take up to a year for the farmers to receive full payment, which negatively impacts their cash flow. This has crippled many farm operations, overstretching the already strained financial resources of the smallholder farmers. The area dedicated to Valencia production for MCC excludes farmers' land from alternative profitable enterprises. In addition, farmers have to find means to recover the sunk costs for orchards and related loan financing (Banda, 2012). Members have started to neglect their orchards, resulting in deterioration in both quantity and quality.

Aside from the pricing structure, should the association not be able to supply the target quantity, this might have a negative implication for their 0.5% shareholding in MCC as the supply quantity does not equal their equity share. Because MCC engages WCP as a supplier in order to qualify for B-BBEE certification, the company has not reconsidered the WCP shareholding, despite the lower quantities delivered by the organisation. However, this might change in the future, especially if alternative black suppliers develop in the area.

Farmer development was mentioned as being central to the citrus project. The individual member farmers growing Valencia oranges depend on WCP staff to disseminate to them the knowledge which is shared by the MCC extension officers. Whereas centralised training events have taken place, including by DoA extension officers, most orange farmers have indicated this as not being sufficient. Thus, the effectual development of the individual farmers engaged in the contract arrangement has lagged behind.

Additional issues are related to the contractual arrangements with Pick n Pay and the GSSC. With regard to the relationship with Pick n Pay, the lack of written standards that specify quality levels, leaves farmers interpreting some dealings with the supermarket as favouritism where some farmers receive different prices for the same type of produce. Also, the farmers can see the price for which their produce is retailed, which is much higher than the price they receive. The farmers perceive the large price gap as unfair to them. In addition, the erratic and often insufficient heterogeneous volumes sent by farmers to the Pick n Pay store usually act against them, as the well-established retail store requires a consistent supply to replenish their stock.

The GSSC contract has, to some extent, turned farmers into *pseudo* middlemen. The quantity and variety of produce to be delivered by the contracted smallholders is beyond their individual production capacity. Although non-contracted member smallholders could potentially have filled the shortcomings, WUFA was not involved in this activity. As a result, contracted farmers have resorted to supplying hospitals with produce sourced by them from fresh produce markets. The objective of smallholder development is hence not fully achieved.

Overall, it can be said that incompleteness of contract arrangements, combined with high financial risks, have resulted in poor performance because the farmers did not understand the requirements, and pricing and payment mechanisms. As a result, they have lost motivation to produce for the clients, both MCC and Pick n Pay. Some members have even opted out of the farmers' association altogether.

Success factors

The first success factor regarding the set-up implemented by the Winterveld smallholders is the presence, motivation and engagement of a well-connected businessman with agricultural experience, as well as other well-connected leaders. Through their network, funding was secured from many different sources, which enabled the smallholders to receive free citrus saplings, and the establishment of the anchor farm. The involvement of Dr Motsuenyane also enabled the conclusion of the contract with MCC, and to a lesser degree with Pick n Pay and GSSC. His personal engagement and drive was thus critical to the establishment and growth of both the collective organisation, and the contractual arrangements, including the equity share obtained in the processing company. Personal donations from the WUFA leader presently keep the WCP farm afloat.

The Winterveld area has easy access to a large market, being a peri-urban area only 40 km away from Pretoria. Farmers can thus supply a diversity of clients with relative ease. They do not have to overcome challenges regarding transport, which small-scale farmers in more rural areas face, although transport costs can still be prohibitive. Participating farmers also have easy access to non-farming sources of income which can fund required investments in their farming activities, such as seeds and fertiliser. Diversification of markets and sources of income enable a farmer to engage in the most profitable activity. The non-binding character of the contracts has left open the option for accessing alternative marketing channels. As such, the principal-agent issue often observed in contracting agreements has been evaded in the case of the Winterveld smallholders. The availability of non-farming related activities, however, must not keep the smallholders from using their land productively.

A major strength of WCP lies in its anchor farm. This farm firstly ensures a stable production, which makes it attractive for commercial off-takers to engage with the association. Supply does not depend on a high number of smallholder farmers, although these add to the total volume. Secondly, the anchor farm is a central contact point, simplifying the communication process between commercial partner and farmers, the logistical process, and the funding distribution. It ensures that the commercial partner does not have to engage with numerous individual members, and it minimises the commercial partner's exposure to internal association issues. Thirdly, the anchor farm serves as an example for the individual members, enabling them to learn and familiarise themselves with a new crop. It needs to be noted, though, that whereas this anchor farm renders the project attractive to commercial partners, it does reduce the actual empowerment of the individual members who are not directly engaged with managing the project. In practice, this farm has also not been able to generate a profit, but rather is a financial burden on the project.

From a farmer's perspective, the non-binding nature of all the contracts engaged in provides not only the security of market access, but also the flexibility to diversify, both in crop and in market channel. The farmers are thus able to combine the benefits of a collective organisation with those of their own independent production systems.

Sustainability and scalability

Despite the critical role played by one particular individual in the establishment of WUFA in general, and the citrus programme in particular, the model of a collective of farmers with both formal and informal supply agreements seems relatively easy to implement for

a wide range of crops, as can be witnessed from the large number of cooperatives in the agricultural sector across the world. The global trend regarding cooperatives is negative, with many collectives adapting their organisational structure to new organisational models (Chaddad & Cook, 2004; Chaddad & Iliopoulos, 2013). WUFA faces similar issues to those leading to this global trend (see Cook, 1995), putting potential strain on the collective structure in the future.

Having said this, the contract between WCP and MCC offers significant expansion as WCP is not able to supply the targeted 300 tonnes. Member farmers can thus engage in relatively low risk Valencia production, where technical assistance is widely available and the market is guaranteed. The issues regarding delayed payment, as well as overall transparency, need to be overcome before individuals will decide to dedicate their resources to a long-term crop such as oranges. The lack of engagement of the individual members threatens their commitment, and thus the sustained involvement of the smallholders in the project. This is already visible in the reduction in member farmers from 142 in 2010 to 74 in 2015. An alternative to increase overall supply is for WCP to obtain a second anchor farm. Considering the experience with the first anchor farm, this is not a likely option.

The collective itself does not seem to be able to provide meaningful support to its members beyond orange farming. WCP does not offer support in activities such as financing and market development for produce other than citrus. Hence, the members lack an incentive to join or remain with the collective organisation. Although many members are active in poultry and vegetable production, this is done on an individual basis by the farmer without contribution from WUFA. Hence, a misalignment seems to exist between the priorities of the WUFA executive and its members, which needs to be addressed in order for WUFA to continue as a true farmer member association.

In general, agricultural production in Winterveld can be increased, as little land in the region is used for crop farming. Large areas of land can still be brought under production, either as orchards, or for vegetable farming. Sufficient water resources are available for the smallholders, either through boreholes or using (expensive) municipal water. Nevertheless, bringing additional land into production does require additional financing. A lack of access to finance is stated by many smallholders as one of the main constraints to maintaining or increasing their production. It is in this area that the cooperative could possibly assist the farmers, such as through further contract agreements with commercial partners that do include financial assistance and centre on the empowerment of the smallholders.

The farmers' association itself is largely dependent on highly experienced leaders, but these are mostly retired men of advanced age. A new generation of leaders has to be identified to secure the sustainability of WUFA. So far, little effort has been put into engaging the youth or other possible new leaders. In the absence of highly engaged and long-term commercial partners who are committed for the long-term, strong internal leadership is essential to the long-term survival and success of the association.

Conclusion

WUFA is a rather loose organisation of smallholder farmers involved in the production of diverse crops for diverse market channels. Whereas this diversity gives member farmers alternatives for reducing their risk exposure to one crop or one contracting arrangement, it also waters down the cohesion and the potential benefits of collective association for its members.

Key to WUFA activities is the citrus project, largely built around the contract with MCC and the resulting 0.5 % equity in the processing company. Whereas the bulk of the supply on this contract comes from smallholders, the contract proves to be non-supportive of smallholder development, especially financially. Those smallholders engaged with this contract receive a low price for their produce, have little insight and negotiation power in the value chain, and thus are not truly empowered. The commercial contract partner is motivated by economic drivers rather than by smallholder development, and hence will not prioritise instruments that would develop the individual farmers. As a result of the particular structure in which WUFA and MCC work together, it leaves the question open as to whether the smallholders gain from their inclusion.

Similar questions can be posed for the other contractual arrangements in which the smallholders are engaged. These seem to be entered into mostly on the basis of personal title and responsibility, without active involvement from the farmers' collective. Farmers are thus still exposed to operational risks, rather than finding support from the association. Motivated individuals who were already fairly successful, were able to reap further benefits through the GSSC contract. WUFA was unable to include the less well-endowed members in this opportunity. Similarly, better-off members have been able to gain considerably more from the citrus project, as they can finance the establishment of new orchards.

WUFA has contributed to the establishment of the citrus production, exposing individual members to technical assistance, subsidised saplings and grant funding. Overall, though, neither the collective organisation nor the contract agreements have had a great impact on improved access to inputs, financing, or technical support. Thus, although the organisation has been able to develop the agricultural sector in the Winterveld area, and has facilitated the contractual agreements – giving its members access to commercial value chains – its members seem to have benefited little from either the collective organisation or the contracts, let alone the equity in the off-taker. The collective organisation seems to concentrate on its citrus project, and in particular the anchor farm, rather than on the wider development of its member farmers. The contract partners on the other hand, are motivated by political and economic decisions. Without true commitment from the collective leadership and from commercial partners, smallholders will gain little from their inclusion in the association or the agricultural value chain.

5

Emerging farmers with ownership over packaging facilities mentored to produce for retail sponsor – TechnoServe and Massmart[1]

Wytske Chamberlain and Simon Dugué[2]

Large numbers of the IBs in South Africa have been implemented in the framework of the country's land reform programme, which includes land restitution and redistribution cases. However, several IBs have not resulted from state initiatives. Indeed, recent years have witnessed an interest regarding agricultural investment by private investors and other parties, including NGOs. The IB involving TechnoServe is an example of this trend.

TechnoServe – short for "technology in the service of mankind" – is an NGO created in 1968 by businessman Ed Bullard to help small-scale farmers in developing countries (TechnoServe, 2016). The organisation has worked in more than 30 countries throughout Africa, Latin America and Asia (*ibid*). TechnoServe has been active in South Africa since 2003, where seven programmes have been implemented, focusing on agricultural value chain development, enterprise development, and local economic development. Approximately 300 farmers were involved in 2013 and this number is set to increase with the roll-out of more projects. In South Africa, TechnoServe has been supporting the national agenda of Black Economic Empowerment (BEE) by helping disadvantaged smallholders through providing skills development, information and resources in order to create new economic opportunities for previously disadvantaged farmers.

As an NGO, TechnoServe depends on sponsors to implement its projects. TechnoServe is contracted by private investors interested in supporting emerging farmers to implement and manage a project. TechnoServe's staff is paid out of the Jobs Fund, a public fund made available by the South African government. Thus, despite its central role, TechnoServe relies on different actors for the actual implementation of its projects. This chapter will look into the collaboration between TechnoServe and Massmart as financial sponsor and off-taker of the vegetables produced under the programme.

Project description

The TechnoServe–Massmart project is located in the Limpopo province and is centred on the town of Ofcolaco, about 45 km west from Tzaneen. This project is sponsored by Massmart's local Supplier Development Programme (SDP). Massmart is among the

1 The authors wish to acknowledge the contribution by Sherry-Lee Singh, Supplier Development Lead for Massmart

2 l'Institut d'Etudes Politiques d'Aix-en-Provence

largest distributors of consumer goods in Africa. Over a time span of three years (from March 2012 to March 2015), a total of 87 farmers, many belonging to umbrella cooperatives spread over 24 farming units, were mentored by TechnoServe in the production of fresh vegetables for Massmart. TechnoServe provided technical assistance to these farmers to grow a wide range of vegetables, primarily sold to Massmart; it managed recoverable grant facilities to obtain inputs – the farmers did not receive any inputs for free, though the SDP used its discretion on an annual basis to support un-recovered losses due to poor yields, price slumps, and the like. TechnoServe also trained the farmers in financial and marketing-related topics. Although the project started with 87 farmers on 24 farms in 2012, this number had reduced slightly to 80 farmers, organised in 12 farm units/cooperatives in 2014.

Massmart refurbished an old building into a packhouse with a 2 000 tonne capacity to service the participating farmers (and non-participating farmers). This packhouse, located in Ofcolaco, supplies fresh produce to the Massmart food businesses, which include Cambridge Food, Makro and other Masscash brands, for distribution throughout South Africa. This produce is marketed via the Makro-owned (and thus a Massmart subsidiary) central produce facility Fruitspot, a wholesaler, processor, and distributor of fresh fruits and vegetables. Produce that does not meet the Fruitspot quality requirements is sold locally by the packhouse, including to the municipal fresh produce markets. The packhouse is owned by a non-profit company Vexogenix, in which Massmart, TechnoServe, and the farmers all have an interest. After the three-year mentorship programme, the packhouse is to be transferred to the full ownership of the farmers. In 2013 the packhouse had a turnover of 750 tonnes of vegetables, including peppers, green beans and butternut.

Massmart sets an annual target with its wholesale fruit distributor Fruitspot, stipulating the quantities it has to purchase from the Ofcolaco packhouse. The packhouse management, together with the TechnoServe staff, work out an annual production plan to meet these targets. This annual production plan is then worked out further by TechnoServe into farm unit plans per farm unit. As such, TechnoServe determines which farm grows which produce and when, in order to be able to satisfy the agreed demand.

Prices paid by the packhouse to the farmer are determined by the 'FNB price', which is based on the average price on the Johannesburg Fresh Produce market in City Deep; the price is published daily. However, if the FNB average price is below the floor price (or cost price), Fruitspot pays the floor price so that the farmer does not sell at a loss. Where prices have been below floor price, Massmart has attempted to support the cost of production.

Several training programmes coordinated by TechnoServe enable the transfer of financial, managerial and technical knowledge to the participating farmers. The aim is to give the farmers a strong basis for establishing a sustainable business. Marketing is seen as crucial in ensuring that a farming enterprise remains sustainable. Finding the highest paying market channel is often a challenge for small-scale farmers. Therefore, in most of their projects, TechnoServe develops strong relationships between the participating farmers and a packhouse that serves as an intermediary between the farmers and the market. In the Massmart case subject of this study, the packhouse forms an integral part of the project. This packhouse has been established specifically for this project by Massmart to fill the infrastructure and marketing gap in the area.

Inception

The project was initiated in 2011 after American Walmart purchased a 51% share in Massmart. Walmart has run Direct Farm Sourcing Programmes globally and it introduced this programme to South Africa after its acquisition of Massmart. The Massmart SDP, which works to link small-, medium-, and micro-enterprises into Massmart's supply chain, contacted TechnoServe, an NGO well established in South Africa, to pilot the Direct Farm model and to implement and manage its project in Limpopo. A second project site, also managed by TechnoServe and implementing a similar model, was established in Ndumo and Jozini in KwaZulu-Natal.

The early farmer selection was done by TechnoServe based on a Bill of Specifications with several criteria which the farmers needed to meet. They then met selected farmers to explain the project and to assess their farms. The most important selection criterion was the avaliable infastructure, including suitable land and water. In several cases, the farmers contacted TechnoServe requesting to take part in the project.

Actors and drivers

Massmart is the initiator and financier of this project. Driven by global programmes maintained by its majority shareholder, Walmart, it has started to implement the Ezemvelo Direct Farm Project, which is aimed at including small-scale farmers in its supply chain. Overall, Walmart prefers to procure directly from suppliers, including its fresh produce. Whereas this is cheaper to implement with large, commercial farmers, the company believes that working with small-scale farmers is a strategy that will prepare them for a changing agricultural sector in which small-scale, emerging farmers need to be integrated into the broader agricultural landscape. Massmart volunteered a R100 million SDP for integrating small businesses into its supply chain as part of its merger with Walmart. This voluntary condition was made mandatory when the government specified conditions for the inclusion of local, previously disadvantaged suppliers, in order to approve the Massmart acquisition, and the company subsequently increased the sum of the SDP to R200 million. The Ezemvelo Direct Farm Programme is part of this fund. It signed a contract with TechnoServe to implement part of this programme, which in 2013 was operating in four different provinces (Sherry, 2013). The Limpopo project is part of this wider programme. Massmart does not limit itself to financial support, but takes an active role in the management of the packhouse by supplying a skilled operations manager on secondment to ensure the proper set-up and implementation of the enterprise. In addition, the company regularly meets with representatives of TechnoServe to monitor and assess the project.

Central to the roll-out and operation of the project is TechnoServe. The organisation takes on several responsibilities. Firstly, it is an intermediary between the private sector and the smallholder farmers providing financing and technical assistance to the smallholders so these farmers can supply the private sector. Secondly, TechnoServe acts as a manager responsible for running, monitoring, and assessing the project through its staff. Their role changes according to the agreement with the sponsor, but management is always their responsibility. Central to the projects implemented by TechnoServe, is the empowerment of the small-scale farmers. To achieve this, each project has a timeframe during which the work responsibilities change over time. The idea is to gradually reduce TechnoServe's involvement and support so as to progressively empower the farmers. In this way, the

farmers become increasingly independent. This strategy is intended to prevent failures after the project's end.

For the Massmart project, TechnoServe employs one senior business adviser responsible for managing the projects in the wider geographical area, for farmer selection and fund management; two business advisers and two junior business advisers who both implement the projects in the field, meeting regularly with the participating farmers; one business analyst, and one staff member for administrative tasks. The business advisers work together with the technical specialist on country-wide cropping programmes which define the complete production process, including specifications such as when the farmers should plant, and what fertiliser to use and when.

The selected farmers are the main beneficiaries of this project. At inception, 87 farmers on 24 farming units were involved in the project in Limpopo. Most of them gained access to land through land reform policies, such as LRAD and PLAS. They are motivated to take part in this project in order to enhance their farming and personal skills to create sustainable businesses. In addition, they look for access to the domestic retail market as well as favourable financing for their crop related costs. The farmers do not receive inputs or training for free. Rather, they take out recoverable grants from a revolving fund which is funded by Massmart and managed by TechnoServe.

Financial support

Massmart

To implement the project, the Massmart SDP committed a total of R6.5 million in two funds: a R3 million trust account for the set-up and daily operation of the packhouse, and a R3.5 million recoverable grant account to specifically support the participating farmers. The remaining balance of both funds will be made available to the non-profit company that will continue to manage the packhouse after the project period ends. By 2014, R2 million from the trust account had been disbursed and used for the establishment of the packhouse (R800 000), the approximate running costs of the packhouse, and the costs related to salaries and administration incurred by TechnoServe in managing the project. The recoverable grants fund is managed by TechnoServe and is used to purchase inputs. In essence, these services constitute interest-free finance to the farmers. At the moment of produce sale, the organisation recoups these costs from the farmer. The fund is thus a revolving fund which remains in place if the recovery rate is 100 %. The idea is that after the initial establishment, the available funds will remain over time, owing to the recovery process. Thus, the first investment resembled a grant, from which the individual farmers take out short-term, interest-free loans. Due to the high-risk nature of farming (there are no affordable crop insurance products in place for emerging farmers), and to the time it takes to reach commercial quality and scale, the Massmart SDP has needed to make top-up payments into the fund in order to continue production. The sustainability in the longer term will come from the fund management and the farmers' ability to repay their loans. The financial performance of the farmers is crucial: if one farmer defaults, the overall fund available to all other farmers decreases.

In addition to these two funds, Massmart provided R15 million for technical assistance support (i.e. the payment to TechnoServe for its staff, transport, and general administration costs over the term of the three-year agreement).

Government

By supporting both TechnoServe and a number of participating farmers, government supports the project in an indirect way. The Jobs Fund, a public fund with the objective to "co-finance projects by public, private, and non-governmental organisations that will significantly contribute to job creation" (Jobs Fund, 2014), contributes towards the remuneration of the TechnoServe staff. A number of participating farmers have been able to gain access to their lands through several government policies. These include farmers renting government-owned farms under the PLAS policy, or through land redistribution programmes such as LRAD. Nevertheless, the project does not depend directly on government funding.

Figure 5.1 summarises the stakeholders, their contributions and responsibilities, and the relationships between them.

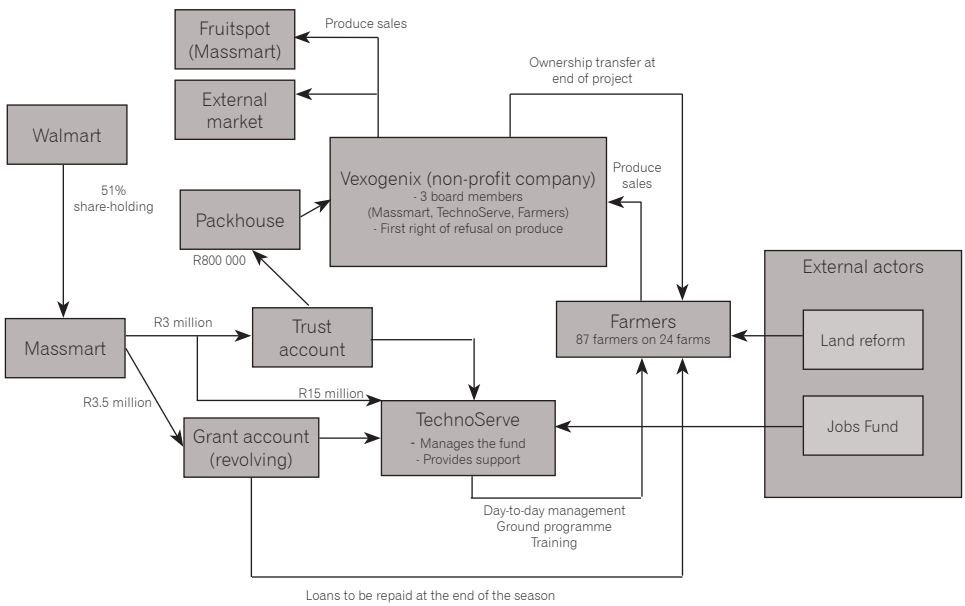

Figure 5.1 Institutional set-up and financial support TechnoServe–Massmart

Source: Authors

Implementation

The project started in 2012 with the first deliveries of fresh produce. By that time, the packhouse was not yet up and running. Instead, packing was done by a commercial farmer. This caused some mistrust among the small-scale farmers who perceived the costs charged to them as unfairly high. Massmart decided to pick up the full packing and handling fees for that particular season. By 2013, the packhouse received its first supplies and started selling produce in August of that year.

To set up the packhouse, a non-profit company, Vexogenix, was established. The packhouse non-profit company will be the ultimate owner of the equipment provided. Massmart pays for the lease of the packhouse until the point of transfer to the non-profit company and has seconded a senior manager to manage the packhouse establishment.

TechnoServe supports the farmers in increasing the quantity and quality of their produce and in developing them into becoming self-sustainable farmers. The organisation determines the requirements for inputs, such as fertiliser and pesticides, and is responsible for the purchase and distribution of these inputs. The end goal is to distribute these inputs through the packhouse company.

Functioning: committees and meetings

Three contracts define the framework in which the stakeholders operate:

1. Massmart–TechnoServe: This contract is based on a three-year timeframe. It defines the overall functioning of the project, the role of both actors, and their relations. It also details Massmart's investment and the management of the two funds. It defines the operational structure of the packhouse.

2. Massmart–TechnoServe–Farmers: This is a recoverable grant agreement which determines the support for the farmers and the loan process.

3. Farmers–packhouse: This contract defines the conditions of sale from farmers to packhouse, including the price determination and quality requirements.

The farmers operate independently and are visited by TechnoServe staff on a regular basis to assess their performance. In addition, they receive formalised training on technical, financial and management topics. TechnoServe also has regular meetings with Massmart to monitor the project.

The packhouse is managed by a board of directors. Each of the three stakeholders (the farmers, TechnoServe and Massmart) has one representative on the board. The Massmart seconded manager manages the packhouse on a day-to-day level. The TechnoServe representative manages the financial side of the packhouse, and the farmers' representative, who represents all the participating farmers, is responsible for communication between the farmers and the packhouse, both on the decisions taken by the board, and the requests and concerns of the farmers.

Recoverable grants facility functioning

Central to the TechnoServe–Massmart project in Limpopo is the revolving grants facility fund. Massmart put R3.5 million towards a management fund specifically for the farmers in the Ofcolaco project. The main goal of this fund is to make financing available to the participating farmers, mostly for the purchase of inputs. To acquire inputs, there are seven steps, which are illustrated in Figure 5.2:

1. TechnoServe provides a cropping programme to the farmer for each different crop, according to the crops the farmer produces.

2. Through the cropping programme, the farmer can establish all the inputs needed. After discussion with the junior business adviser, the farmer submits a request for financing.

3. The junior business adviser assesses the situation and the farmer's request. If the junior business adviser approves the request, (s)he makes an official application to the senior business adviser and the business analyst.

4. The business analyst is responsible for finding the best inputs. With the agreement of the senior business adviser, (s)he submits the request to acquire the funds from the head office.

5. The sum requested is released and sent to the field staff.

6. The field staff purchases the inputs and provides them to the farmer. The total sum owed is added to the farmer's seasonal recoverable grant.

7. At the season's end, the farmers have to repay their loan to the Recoverable Grants Fund.

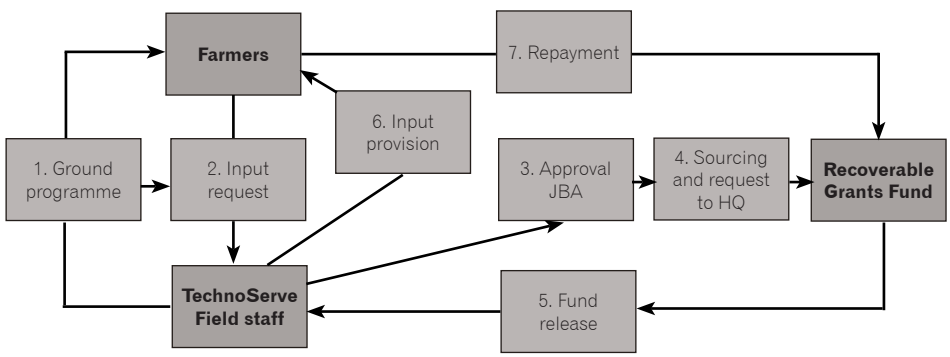

Figure 5.2 Recoverable grants fund functioning

Source: Authors

All the support – except the day-to-day management support – is provided in the form of recoverable grants. These instruments provide soft financing, no interest is payable. Each time a farmer receives support from the fund, the amount of this support is transferred to his personal account. At the end of the season, the farmer has to repay it after his production sales. Several limits to the maximum amount available for a recoverable grant are specified in accordance with the kind of crop and the size of the farm. At the season's end, if a farmer cannot repay his loan entirely, the remainder is transferred to the next year. However, if a farmer defaults, the revolving fund decreases and the sum available for the next year will be smaller.

The recoverable grants fund was very successful in the first year. Overall, 92% of the loans taken out by the farmers were repaid. The second year (2013) was a challenging year, owing to a suppressed market, a drop in yields and increased side-selling. As a result, the recovery rate decreased to around 70%. While recovery has been encouraged, at the end of the project in 2015, no farmers will have carry-over debt due to a decision by the

corporate sponsor to remit outstanding debts. The revolving grants facility is a crucial tool for farmers participating in the mentorship programme to initiate their production.

Farmer development

Farmer development is at the heart of the mentorship programme implemented by TechnoServe. The aim is to build the skills of emerging farmers to allow them to become successful, independent operators. The support programme is designed to reduce the activities performed by TechnoServe over time, and thus gradually transfer more responsibilities to the individual farmers. The NGO provides support on a temporary basis, so that the participating farmers do not become dependent on the organisation. Training is provided in both technical and marketing activities and is supported by access to favourable financing.

In practice, whereas training has taken place, overall development is limited. TechnoServe determines the individual production schedules, which need to be aligned to the supply schedule provided by Fruitspot. In addition, the NGO takes care of all the financial administration related to payments from the packhouse, as well as the grant facility. The farmers are thus not exposed to these activities and can be considered mere executors of a centrally drawn up plan.

Inclusivity

Vermeulen and Cotula (2010) have defined a method of analysis to evaluate the inclusivity of projects such as those assessed in this research. This method is based on four criteria: ownership, voice, risk and reward. This section aims to evaluate these criteria for the TechnoServe–Massmart case.

There are three types of farmers who represent three land ownership situations: 1) Farmers who own their land. Most of them received their land through the government's land reform policy. 2) Farmers who lease their land from the government under the PLAS policy. 3) Farmers who have permission to use land from Tribal authorities. In the TechnoServe–Massmart project, the majority of the farmers belong to the first group and hold title deeds to the land. A few farmers own some machinery. In addition to their own farming assets, the farmers as a collective have an equity share in the newly established packhouse. Whereas this ownership is shared with both TechnoServe and Massmart during the mentorship agreement, full ownership of the non-profit company is to be transferred to the farmers after the three-year agreement comes to an end. As such, the farmers extend their ownership beyond the production process into downstream packaging activities.

The negotiation and decision-making power is different for the two main processes in this model – the production process and the selling process. TechnoServe is responsible for managing and assisting the farmers in the production process. It defines the production process through the cropping programme. The farmers are assessed by TechnoServe and they have to follow its recommendations. The farmers become more integrated in the decision-making process towards the end of the mentorship agreement. Nevertheless, the farmers have limited say in day-to-day operations on their farms. The packhouse manages and assists in the price-setting and selling process. It defines prices and evaluates the quality of the produce. The corporate sponsor, also the main off-taker of the produce, controls the price determination and sets the quality standards. In essence, it fully

controls the marketing decisions of the packhouse. Although the NPO's board of directors is made up of one representative from each of the partners (farmers, TechnoServe, and Massmart), equal decision-making power does not occur due to the lack of experience of the farmers' representative. In fact, the goal of his inclusion on the board is to provide him with experience during the three-year mentorship agreement. Whereas in theory, the farmers' representative should enable the farmers to have better access to information on the marketing aspect of the project, individual farmers seem to have limited insight in the marketing aspect of their produce.

The risks for the farmers are considerable, being exposed to both the operational and the financial calamities. The financial risk is related to the recoverable grants the farmers take out of the revolving fund. Since they take out a recoverable grant to finance inputs and training, they, in theory, have to repay this sum. There is clearly a risk of loss in this situation, even though so far the Massmart SDP has stepped in on behalf of the farmers to support their losses. The farmers are also subjected to price risks arising from the fact that pricing is primarily set on the open market, and that this market is dominated by established large-scale producers. Overall, Massmart's risk is connected to funding commitments. It has invested R6.5 million without having the security of achieving lasting results. If the project fails, Massmart will have lost (part of) this investment. It is the role of the TechnoServe mentorship programme to reduce these risks; firstly, by enabling farmers to produce sufficient crops to repay their loans, and secondly by ensuring produce of sufficient quality and quantity for delivery to the packhouse.

Because of the improved growing techniques and access to input funding implemented with the support of TechnoServe, farmers were enabled to produce more, and better quality produce. Thanks to the packhouse, the farmers have a regular and reliable customer able to absorb large quantities. One of the main rewards for the farmers is that they can avoid cash flow issues at the start of a season. The revolving fund enables farmers to get the necessary funds to run their farms, whereas access to banks is usually limited for these small-scale farmers. The last benefit for farmers is that the packhouse will be transferred to them at the end of the project. Massmart, on the other hand, can guarantee a reliable supply of produce for their downstream retail outlets. Through the implementation of the Ezemvelo Direct Farm Programme, the company satisfied the local content requirement set by the South African government for the takeover by Walmart.

The off-take agreement with Fruitspot channels the majority of the produce to the domestic market. Nevertheless, a portion of the vegetables, mostly of inferior quality, is sold on the local market. Because the farmers previously sold their produce locally, the effect of TechnoServe's engagement on local food security is limited, and can even be negative. Indeed, the mentorship of the farmers enables them to increase the quality of their produce, thus reducing the produce available on the local market. Local developmental effects of the project are further reduced by the loss of local input purchases. TechnoServe is responsible for centrally obtaining items such as seeds and fertiliser at the most favourable prices. The organisation purchases the inputs itself before providing them to the requesting farmer. Hence, local input providers generally do not benefit from this demand. Once the agreement between TechnoServe and the farmers has ended, local agribusiness suppliers might see an increase in demand, and hence in turnover.

Most of the farmers mentored by TechnoServe operate small farms, employing only a few farm workers, if any, other than during peak season. The consumption effect through an increase in income is thus limited to the additional earnings the farmers are able to generate through the improved farming practices and better access to better-paid

marketing channels. The packhouse, on the other hand, does generate a small number of job opportunities for low-skilled workers in an area characterised by a high level of unemployment.

Outcomes

The financial sponsor has taken a dominant role in this project, controlling the production, pricing and marketing activities. This dominance is effectively executed by the mentor organisation, TechnoServe, which has lost its independent position due to the remuneration of its staff by the off-taker. As a result, the participating farmers merely become producers following instructions, rather than becoming farmers able to supply the commercial value chain independently.

Despite their subordinate position, in which they have little say in the operation on their farm, the smallholders are nevertheless fully exposed to the operational risks, but now at a much higher level of debt than before they entered the project. Smallholders are unfamiliar with the contractual nature of the debt, and the debt level they were required to take on in order to adhere to the TechnoServe dictated production guidelines. The results of this situation became obvious in the second year of operation. The farmers were faced, on the one hand, by low yields due to climatic circumstances, and on the other hand by depressed pricing. The loans taken from the revolving grant fund put severe financial pressure on the farmers. Since the prices on the local market were higher than those offered by the packhouse, most farmers engaged in side-selling. This in turn prevents TechnoServe recovering the loans due to the farmers' financial income stream not flowing through the packhouse. The recoverable grant fund is thus depleted, threatening the availability of financing for the next season. Overall, whereas the smallholders now have cheap access to loan funding, the high level of debt has proven to stifle their commitment.

Non-performing farmers, including those who have not repaid the loans taken out of the revolving grant, do not receive the full support of TechnoServe in the next season. This flexibility of farmer selection is possible due to the lack of a collective organisation by the farmers. Rather, they operate as individual farming units. The number of participating farmers has also reduced due to the complexity of the project where farmers have little insight in the operation of the packhouse, including the price-setting. Whereas the equity in the packhouse was designed to reduce side-selling activities, the lack of transparency and the applied pricing mechanism, have increased the incentives for the farmers to find alternative markets.

Side-selling undermines the operation of the packhouse which operates far below its break-even point. It thus has to recover its costs through the Massmart fund. The result is a contradicting situation; on the one hand, Massmart puts price pressure on the farmers, offering prices below those on the local market, while on the other hand, it has to finance the packhouse due to under-productivity. For the farmer it means a loss in potential income through the activities in the packhouse, and an even greater loss when they become the full owners of the facility. To increase its activities, the packhouse also processes produce from non-participating farmers.

After nearly three years, the results are behind the planning. The packhouse is operating far below capacity and also below its break-even point. A reduction in participating farmer numbers (non-performing farmers were expelled from the programme), side-selling part of the produce, and overall challenging natural climate and price conditions, are all part of the

reasons for low supply levels to the packhouse. From the farmers' point of view, the results are disappointing – with most of them having a negative balance in the revolving grants facility, mostly due to the unfavourable floor prices and challenging natural conditions under which they had to operate. The handover of the non-profit company to the farmers has commenced. As part of this process, all farmers' recoverable grants were to be reset to zero at the end of February 2015. From March 2015, the project is directly managed by the non-profit company which will be the recipient of the remaining inputs funds and the packhouse establishment funds. Continuing farmers will still be able to access planting funds through the non-profit company, although they will no longer have the extensive capacity-building support, and they will be required to work more independently. Some services, such as plant bed preparation, will be centralised via the packhouse in order to support productivity.

Issues[3]

Even though this project is a success according to each of the partners, there are still several issues in the execution of the model. The first one concerns the farmers' commitment. The first two years were difficult owing to several reasons, including climate conditions, low market prices, and an increase in the minimum wage for farm workers. As a result, a number of farmers could not repay their entire recoverable grants facility, which was required to grow their farm for them to be able to supply the commercial market. The coinciding of a challenging overall farming climate, and unprecedented levels of debt means that their exposure to farming for commercial supply chains has not been perceived as positive. The junior business adviser noted a decline in their commitment, which is essential to run the project. Without the farmers' production, the project will fail.

The second issue concerns the infrastructure such as machinery and irrigation equipment. Many farmers do not own their own equipment but rely on private contractors, which are expensive and not always reliable. As a result, the farmers are not able to obtain the maximum possible yield from their land. The project does not provide support for infrastructure, although some farmers would like to invest in it. However, it is difficult for them to get access to loan facilities outside the project's revolving fund. The increase in the minimum wage level for farm workers in 2013 brought about further financial challenges for the farmers, as the initial financial planning did not allow for this increase in costs.

Finally, the biggest issue is related to the contract the farmers have with the packhouse. Massmart–Fruitspot insisted on a price related to the market price. This price turned out to be lower at times than the price farmers could obtain by selling through other channels, including the local market and other retailers, as well as nearby privately owned packhouses. Class I produce, which Fruitspot requires, does not usually go through the market, but is mostly tied up in pre-arranged supply contracts between (commercial) farmers and retailers, at prices higher than that of the Johannesburg Fresh Produce market. Hence the commercial packhouses who work on these contracts are able to offer a higher price to the farmers. Yields per hectare were also low and quality was an issue.

Fruitspot has the first right of refusal of produce supplied to the Ofcolaco packhouse. Produce purchased by the packhouse is then delivered to the retailer. The packhouse, after

3 This section partly draws from a SWOT analysis done by TechnoServe's Monitoring & Evaluation department.

receiving payment from the retailer (remitted within seven days of receipt of statement), then transfers the money to TechnoServe which is responsible for the distribution to the individual farmers. This gives the NGO the opportunity to first deduct costs for inputs and loan repayments. As a result of the administrative processes, there is a time gap of about one month between the farmer delivering the produce to the warehouse and receiving money for it, while the quality requirements on the local market are lower, and the farmer is paid immediately. Although the agreement the farmer signed with the packhouse does not allow side-selling, in practice this does happen, equal to the corporations' Direct Farmer programme in Nicaragua (Elder & Dauvergne, 2015). The money earned this way cannot be used to repay their recoverable grants, as it does not go via TechnoServe. To the packhouse, side-selling means that it does not receive sufficient supply to operate in a cost-effective way.

The issue of delayed payment was aggravated by the required repayment of the recoverable grants taken out by a farmer. The first deliveries to the packhouse were used by TechnoServe, as fund administrator, for grant resettlement payments, and only the later deliveries were then paid out to the farmer, resulting in cash flow issues for the farmer. In a new system to be operated by the non-profit company, the farmer will be paid after the first delivery, but only at a certain percentage based on the estimated future deliveries and the total loan amount outstanding. TechnoServe calculates this percentage so as to recover the full loan amount without negatively impacting the farmers' cash flows.

To tackle these issues, the packhouse has endeavoured to pay higher prices in order to match those offered by competing buyers. In general, the packhouse will strive to ensure that a farmer never receives a price below cost price. In addition, if the packhouse manager has a better price offer than that from Fruitspot, the farmer will be allowed to sell to that client on an assessed-and-agreed basis. Lastly, the packhouse has facilitated market outlets for all quality grades, returning only the waste produce to the farmers. From 2015, a new price structure will be implemented. Any price structure agreed to though, will still be referenced according to the Johannesburg Fresh Produce market, which is the main benchmark for market pricing.

Aside from the pricing adjustments, the project has decided to focus only on produce with high profit margins, including sweet corn, green beans and coloured peppers, rather than on low-margin produce, such as butternut. The packhouse will also engage in value-added packaging activities so that produce can be moved straight to the shelves of the retailers. One of the options available for the future is to integrate the packhouse with TechnoServe's 'E-fresh market model', where fresh produce is sold locally rather than through the produce markets in Gauteng. Nevertheless, it will always be challenging to combine the profit drive from discounter Fruitspot–Massmart, with the development needs of the farmers.

Going forward, a number of questions regarding the handover of the packhouse will need to be resolved. These include the legal structure which could take the shape of a shareholding entity or a cooperative. A clear understanding needs to be established among the farmers on their individual ownership, considering that some farmers have been part of this project longer than others, and that they all supply different quantities to the packhouse. Then, it needs to be ensured that the farmers have the capability to operate and manage the packhouse independently. Lastly, the farmers are heavily dependent on the one representative that has been a member of the board so far. No other members have been exposed to the packhouse operation, for example, as shadow board member or as part of a farmers' commission that engages with issues pertaining to the packhouse,

which renders their situation vulnerable. Since the last interviews for this study took place, a new board for the NPO has been established and the handover to this board is in process. Vexogenix, the packhouse operating company, will continue to operate and serve farmers with full disclosure of costs, etc., via meetings with the farmers and via the representative on the board. Training for the board and the farmers will take place in 2015.

In general, the farmers have been operating independently so far. However, they depend on each other to make the project a success. If some members cannot repay their loans, it impacts on the funds available for other members of the project. They will also have to manage the packhouse together. Nevertheless, no structure exists where these farmers meet and discuss their issues. If the project is to survive with the envisaged arrangement, such a structure needs to be established.

An overall issue inherent in this mentorship model is that it leaves out the neediest farmers (Baumann, 2000). Those in far-off rural areas do not have access to the facilities required by TechnoServe, such as water and good roads. The NGO is also not able to support farmers who are difficult to reach, as they impact negatively on the number of farmers supported by a TechnoServe field staff member. As such, only those farmers with potential are included in the TechnoServe projects.

Success factors

So far, the project seems to be fairly successful. According to the TechnoServe staff, the farmers have greatly improved in their operations. The key to success is flexibility in membership. The organisation is able to add or take off farmers, depending on their performance. This enables TechnoServe to ensure that the participating farmers have the ability to live up to their commitments. For the farmers, access to finance, know-how and marketing is crucial in growing their harvests and their incomes.

The integration of a packhouse into the project ensures that there is guaranteed off-take within the programme through the agreement with Fruitspot. Fruitspot determines the annual quantity it aims to purchase from the Ofcolaco packhouse. Through continuous monitoring of prices, the stakeholders are able to identify high-value crops and communicate this to the participating farmers. Because they are able to pool products, it is easier for farmers to obtain better deals for their produce. It also allows the farmers to apply for GFSI (global food safety initiative) accreditation. Rather than having to arrange individual accreditation, they can now obtain compliance status through the central facility. Massmart's SDP plans to support the accreditation process for the facility and the continuing farm sites. Tracking and monitoring activities take place through the packhouse, rather than on an individual basis. As such, administration costs can be shared.

The commitment and active participation of Massmart as corporate sponsor of the model is crucial. Through the secondment of an expert to the packhouse, this operation is able to establish itself with markets for all produce delivered by the farmers. Massmart has committed a large amount of money and is thus motivated to make it work.

The project was established with a long-term view. Rather than support a project for a few years, after which it might fall apart through lack of funding, this project is centred on the transfer of ownership. After the initial three years, the farmers will not only have skills enabling them to be better farmers, they will also have control over the next step in the chain, i.e. the packhouse. It thus looks beyond short-term funding.

Sustainability and scalability

A number of components threaten the sustainability of the project, particularly the packhouse. Whereas the farmers are individually trained to operate independently after a number of years, they will have to organise themselves to take collective ownership of the packhouse. Skills development guidance for managing this packhouse has included only one farmer, which leaves this operation vulnerable. An organisation with a large numbers of farmers, who all share in the packhouse ownership, is likely to hinder the efficient management of the facility due to elaborate internal decision-making processes. Hence, the number of farmers that can be included efficiently remains relatively low. It will be a serious challenge to organise the participating farmers to manage the packhouse. More farmers can be added to the training programme, provided TechnoServe has sufficient support staff, but those farmers might have to be excluded from ownership of the packhouse.

The mentorship model, where a corporate sponsor provides financial support, and an NGO is responsible for training and mentoring individual farmers, is a model which can easily be replicated. For the roll-out of the Massmart Ezemvelo Direct Farm Programme, TechnoServe already manages multiple projects across South Africa similar to the Ofcolaco one. Besides the Massmart partnership, TechnoServe runs a number of other projects organised along similar principles. In some of these projects, the corporate sponsor itself is not active in the agricultural sector, and only provides financial support as part of their corporate social investment responsibilities without further interests. Furthermore, packhouse construction, which is central to the Massmart–Limpopo project, often remains outside the TechnoServe project scope. Instead, the NGO establishes contacts on behalf of the farmers with external packhouses or other marketing channels.

Due to the focus on emerging farmers' skills development, the impartiality of the implementing agent, and an independence from government support, this mentorship model has the potential to establish a new class of farmers in South Africa.

Conclusion

The TechnoServe–Massmart case illustrates the limitations for short-term programmes aimed at the development of smallholder farmers. True empowerment requires a longer time period than three years. This is specifically the case with the inclusion of the packhouse, an activity with which the farmers are unfamiliar. In addition, it illustrates the importance of transparency and impartiality. Issues related to the project, such as side-selling and limited farmer development, could have been prevented had TechnoServe been able to operate more independently. Whereas in theory the active involvement and interest of the financial sponsor seems essential to drive the success, this case illustrates that these interests can dominate the project, and in such manner, limit the envisaged empowerment which in practice was no longer central to the project.

Similarly, the idea of the farmers' ownership of the packhouse, in theory, is designed for these smallholders to benefit from further participation across the value chain. Nevertheless, a lack of transparency effectively nullifies the engagement and hence the potential rewards from this asset. It adds complexity to a point where the farmers who are supposed to benefit from inclusion are essentially excluded.

Overall, it can be stated that access to the commercial value chain has come at a high price for the farmers. Whereas the project was designed to manage risks through mentorship and ownership, the risks directly related to the farming operations remained with the beneficiaries, but at levels of debt previously unknown. This forces them to seek short-term income rather than long-term equity, undermining the essence of the project.

All stakeholders have acknowledged the shortcomings of the initial set-up and have committed for a longer period to ensure the farmers will be able to truly grasp the complexities of the project and the wider commercial value chain it is part of, and benefit from it.

6

Employee equity share scheme – Blue Mountain Berries[1]

Farm equity schemes are part of the land redistribution policy of the South African government (MALA, 2001). Although land is not directly transferred to HDP, farm workers belonging to this group are given the opportunity to become shareholders in a farming operation. Generally, the equity obtained is (partly) financed by government grants, with investors warehousing loans on behalf of the workers. As shareholders, the workers benefit from dividends and capital gains on the farm. They also have representation in decision-taking bodies. Equity is usually held by a workers trust, rather than individual employees.

Equity share schemes can be implemented on existing farms or can be used to set up a new company, which is the case with Blue Mountain Berries (BMB). With existing farms, ownership transformation can take place without breaking up the operation. As such, the workers can take advantage of existing contracts and infrastructure, while the farming operation receives a cash injection. For new farming operations, an equity share scheme can give access to favourable financing required for the establishment of the farm. Three forms of equity have been identified in South Africa: 'on-farm' where employees obtain a share in the commercial farming operation; 'off-farm' where a new farm is established with the support of the commercial farmer for whom the employees work, and where commercial farmer and workers take shared ownership in the new operation; or 'non-farm' where equity is shared between farmer and worker in infrastructure such as a packhouse (Sopov, Saavedra, Sertse, Vellema & Verjans, 2014).

This chapter will look into BMB, a newly established farm on land previously used for vegetable farming. It is based on fieldwork done in December 2013 during which interviews were conducted with the managing director and several workers' representatives. The IDC was interviewed in 2014.

Project description

Blue Mountain Berries (Pty) Ltd. was established and incorporated in 2006 and is situated 20 km west of George in the Western Cape. The business is organised as a farm equity scheme with shareholding divided between the Bessieplaas Werkers Trust (BWT) with 33 %, the Industrial Development Corporation (IDC) holding 33 % and the Sinksa Trust – a family trust of the Botha family who were farming the land before the establishment of BMB and whose director, Mr Botha, is now managing director of BMB — with 34 %.

The workers are organised in the BWT. In order to become a beneficiary, a worker needs to score a total of ten points: one point for every year of service; points according to the seniority of the position held; one to three points based on lack of absenteeism; and points based on individual performance. General requirements are that a worker is employed

1 The author wishes to thank Mr Botha, managing director BMB, for his contribution.

by BMB and is non-white.[2] Once a worker has reached the threshold of ten points, the worker becomes a beneficiary of the BWT, and thus a shareholder in the company. Once a worker is a beneficiary, he or she remains a beneficiary, even though in the following year their score might be less than ten points. The number of beneficiaries is capped at 70. The ownership of an individual worker is based on this maximum number with an individual beneficiary owning 1/70th of the 33 % BWT share. It is, therefore, independent of the number of trust members. BMB can be envisaged as three 'buildings' – one occupied by the Sinksa Trust, one occupied by the IDC, and one by the BWT. The BWT building has 70 rooms, of which 60 were occupied as at the end of 2013, up from the initial 25 in 2006.

Blue Mountain Berries produces blueberries, 90 % of which is exported, with the main destination being the United Kingdom. The remaining 10 % is supplied to domestic retailers, such as Woolworths and Pick n Pay. Since the first harvests in 2008, the company has grown significantly. The initial 95 ha have increased by 25 ha, and in 2013 the company purchased a second farm covering 137 ha. Blueberries have been planted on 61 ha of the initial farm, and 80 ha on the second farm is planned for blueberry planting. Harvests have grown from 75 tonnes in 2010 to 494 tonnes in 2013, and the harvest was expected to reach 600 tonnes in 2014. If both farms are in full production, a total harvest of 2 100 tonnes of berries is projected to be achieved by the year 2022. In 2013 the company employed 107 permanent workers, up from 25 in 2006, plus an additional 600 seasonal workers.

The company started operations on a 95 ha farm with a small packhouse in 2006. At year-end 2013, it had audited assets to the value of over R44 million (just over R2.5 million in 2007), mainly in land and buildings, and in plant and equipment. Most of the planted area is covered, either under shade cloth or under tunnelling. The farm is fully irrigated, for which the existing dam capacity was increased. The packhouse, which has seen a number of upgrades since the start of the blueberry farming, is fully refrigerated to ensure the good quality of the produce post harvesting.

Inception

The managing director of both BMB and Sinksa Trust, Mr Botha, grew up in the area but subsequently left to pursue further education and a corporate career. As such, he worked for the IDC in the 1990s. In 1996, he decided to return to the Sinksaburg area to start hydroponic vegetable farming. Over a ten-year period, he made this venture into a relative success and provided fresh vegetables to several retailers in the area. Mr Botha is a driven manager who wanted to give back to the community where he grew up.

In 2005, the IDC approached Mr Botha with the proposal to start a blueberry farm in the George area. He had just purchased the farm neighbouring his vegetable farm and decided to use this farm to partner with the IDC. BMB is thus a newly established farm, which started operations with workers previously employed by the vegetable farm, Sinksa Farm, and the related transport operation, Sinksa Transport, both owned by Mr Botha. Since there were no land restitution claims pending on the land, it was not part of a land restitution programme. However, affirmative action was important to the IDC and in order to (partly) fund the project, the organisation set out to shape the company as an employee equity scheme. Active engagement and ownership by the workers was equally important

2 The IDC set the criteria. A recent proposal to allow 15% of the trust members to be non-white was rejected by the BMB board.

to Mr Botha. An inclusive development project had already been aimed for when Mr Botha established the vegetable farm, but this collapsed because not enough workers were willing and able to take the risk of farming on their own parcel of land.

Actors and drivers

The initiator of the project was the IDC, a state-owned organisation that provides finance for development projects with the aim to promote economic growth and job creation. The corporation identified berry production, especially blueberries, as a viable business in South Africa offering a high number of employment opportunities and high added value. Furthermore South Africa was considered to be well placed, both in terms of climate and soil conditions, and as a supplier of out-of-season produce to the northern hemisphere markets. The IDC decided to support two new blueberry projects:[3] Amathole Berries in the Eastern Cape, in cooperation with the Eastern Cape government, and BMB in partnership with the Sinksa Trust. The IDC has acquired shares in both of these projects: 40 % in the case of Amathole Berries, and 33 % in the case of BMB. Aside from a shareholder's stake, the IDC has also provided loans to BMB.

The role of the IDC is not limited to financial support. When the IDC initiated the berry project, its target was the export market, as the South African market is too small. It had introduced Eurafruit as the marketing company for the project. Eurafruit markets around 90 % of all blueberries produced in South Africa to the UK market (Erasmus, 2012). Eurafruit also has product licensing agreements covering the intellectual property rights to the imported plant varieties. Hence, it assists the industry in the selection of suitable cultivars and the development of plants to better suit South African growing conditions, in cooperation with research organisations such as the University of Florida.

Sinksa Trust is a small family trust established by Managing Director Botha for his immediate family members. The fact that the IDC became more engaged with affirmative action appealed to him. Provided he had a significant share in the operation, he was willing to sell his farm and assets to the 'to be' established company, BMB. The trust's total contribution added up to 34 % of capitalisation of the new company, making Sinksa Trust the largest shareholder. Mr Botha was the driving force behind the actual establishment of the company. In cooperation with the IDC, he prepared the business plan that needed to be approved by the IDC's board. Although the IDC provided the initial contacts for both the marketing and the research, it was Mr Botha who set up the actual systems and made the farm ready for operation.

The BWT, who represents the employees, was established in 2006. At the start, this trust had 25 beneficiaries, selected based on the number of years' service (in the Sinksa vegetable farm and its associated company Sinksa Transport), seniority, absenteeism, and performance. These 25 beneficiaries elected six trustees from their members, plus Mr Botha. The cap on the number of beneficiaries was set at 70, which at the time of establishment was in line with the expected employment provisions. The main aim of the workers trust is to create a vehicle for social and economic empowerment of the beneficiaries and their families (Bessieplaas Werkerstrust, 2006). This is to be achieved through its 33 % equity share in BMB.

3 The IDC has also taken an interest in Lushof, an existing berry farm in the Western Cape.

Support

IDC

The IDC is the main funder of BMB. An investment of R10.2 million was made by the corporation to obtain its 33% equity share. A further R15 million was provided as a loan to the new company, later increased by a further R3.5 million. These funds were essential to the establishment and quick expansion of the business. IDC has signed a put option with Sinksa Trust that will allow Sinksa Trust to purchase the IDC shares between 2018 and 2023.

The IDC is also guarantor for a R10.2 million loan through the Risk Capital Facility (RCF) Programme. This programme aims "to provide risk financing to companies owned by HDP" (IDC, 2013). The RCF is financed by the European Union and co-managed by the European Investment Bank and the IDC (*ibid*). The RCF loan financed 33% of shareholding of the BWT. This amount has since been reduced to R7.5 million, as the BWT used government grant funding to acquire a direct 8% share in BMB, leaving RCF to finance the remaining 25%. Once BMB starts to make a profit, this loan will need to be repaid before dividends are allocated to any of the BWT shareholders.

Government

At the time of the creation of BMB, the Department of Land Affairs ran a sub-programme called Land Redistribution for Agricultural Development (LRAD) as a key programme to achieve land redistribution. One of the project types for which funding could be obtained under this programme comprised share equity schemes (MALA, 2001). In this situation, the LRAD grant is used to purchase shares in an agricultural enterprise, making the grant beneficiaries both employees and co-owners of the company. LRAD grants are based on an individual basis. In the case of BMB, the initial 25 beneficiaries of the workers trust qualified for this grant, amounting to R1.05 million, which was used to fund 4% of the shareholding. An additional amount of R20 000 per beneficiary was paid out for housing and building alterations to the beneficiaries' own dwellings. The 'own' contribution required under the LRAD grant was guaranteed through the RCF loan.

In 2009, additional funding was secured from the Department of Agriculture through its Comprehensive Agricultural Support Programme (CASP). This programme was initiated to provide farmer support, which was found to be insufficient during an inter-governmental fiscal review process. CASP was built on six pillars: on-farm and off-farm infrastructure; advisory and regulatory services; capacity building; information and training; market development; and financial services (DoA, 2005). The BWT obtained a CASP grant of R1.6 million. The trust invested this capital into the company as contribution towards its equity.

The Western Cape Department of Agriculture provided a R2.5 million Commodity Project Allocation Committee (CPAC) loan to the BWT in 2012. Management proposed the Trust use this money to invest in tunnels. Rather than growing the blueberry plants under shade netting, it is expected that growing in tunnels will result in earlier harvests. This will enable the company to sell blueberries before its competitors at a time when farm gate prices are higher. The trust has decided to accept this proposal. The R2.5 million is recorded as a long-term loan in favour of the BWT in the BMB financial statements. As such, government funding has enabled the group of workers to directly obtain equity in the commercial farming operation where they are employed. As a collective, they are now

part owners of land, water use rights, equipment, and fixed assets such as a packhouse and shade netting.

Sinksa Trust

The Sinksa Trust, the family trust of the Botha family, has contributed over R10 million to acquire a 34% shareholding. Capital was obtained mainly through the sale of their vegetable farm and assets to the BMB company. Their large financial exposure led the trust to request a 34% share in order to have a decisive say in the running of the company. The financial contribution of each of the shareholders was one of the main topics of discussion when establishing the business. The IDC initially approached the National Empowerment Fund (NEF) as an equity partner. However, the NEF requested that a 51% share of the business should go to the workers trust. This was not acceptable to the Sinksa Trust as it would give the workers trust a majority vote, leaving the Sinksa Trust largely exposed to the decisions made by the, at that stage, inexperienced workers trust.

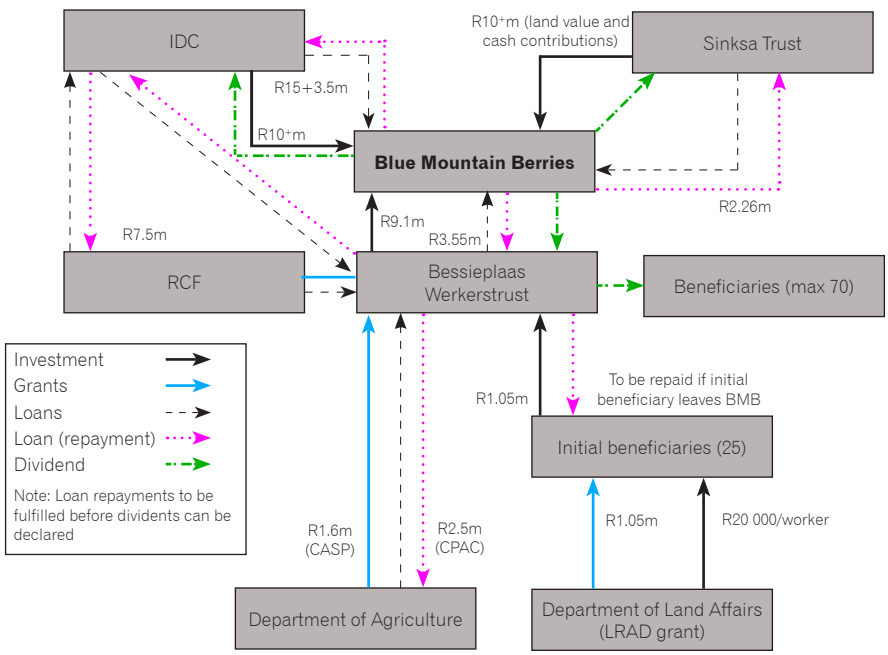

Figure 6.1 Financial set-up BMB

Source: Authors

The Sinksa Trust has also provided loans to the amount of R2.26 million to the company at various stages when BMB encountered cash shortages. With the expansions that have taken place, these short-term loans have been converted into long-term loans, with some of them being changed to subordinated loans.

Figure 6.1 summarises the financial structure of BMB.

Implementation

The initial phase of the project was challenging. Surrounding farmers were negative in their attitudes towards the berry project. They expected that the project would fail and that they would be left with a squatter camp of workers after the project had collapsed (Hofstätter, 2008). They were hostile to the 'outsider', Mr Botha, who had limited farming experience. Labour issues also played a crucial role, with neighbouring farmers soon complaining about the difficulty of recruiting good seasonal labour because of the competition from the berry operation. These sentiments were also reflected by some of the workers of the vegetable farm who did not stay on to join the berry project.

The implementation was further hampered by a staff member at the regional office of the Department of Land Affairs who was not supportive of the LRAD application and made the administrative process of obtaining the grant cumbersome and difficult. Furthermore, the BMB employee who was asked to explain the LRAD grant to the beneficiaries told them that Mr Botha was using them to access money for his own benefit. This led to mistrust among some of the workers.

Nevertheless, the employees who stayed on were well satisfied with the communication from the board to the workers trust. They were made to understand that they would become part owners of the business, but that this would not be expressed in financial payments until a later stage when the company would generate profits. It became easier for the workers to understand this, as they had seen the Botha family working hard for many years while living in modest accommodation on the farm. They also understood that they would have a voice in the new business through the trustees and the trustee director. Communication was perceived as open, clear, and understandable, with sufficient opportunities for questions. As a result, the company started operating with a well-motivated team of workers who all had a common understanding, focused on the long-term survival of the project.

Functioning: committees and meetings

A beneficiary can sell shares after a period of five years, but only to the BWT. The trust is obliged to buy back the shares, provided it has the financial means to do so. It has up to 60 months in which to pay the beneficiary back in full. During this period, a beneficiary who sells his or her shares will not receive any dividends, should they be paid out, despite the fact that not the whole share value would have been paid to him or her. If beneficiaries leave the company, they have to forfeit their shareholding, for which they will be compensated to the value of their shareholding. Only in the case of dismissal will no payment be made. On retirement or death, the value of a beneficiary's rights will be disbursed. Regardless of these options, the idea behind the shareholding structure is not to acquire equity to sell, but rather to participate in the venture and to share in the profits of the business.

Out of the 25 initial beneficiaries, eight have since given up their shares. Some of them were employees of Sinksa Transport which was sold by BMB shortly after the establishment of BMB, thus disqualifying them from being beneficiaries of the BWT. Others have passed away or can no longer work owing to medical reasons. Because the company is still not liquid (no profits have been made as yet), and the trust does not have its own financial means, these affected beneficiaries have not received any financial compensation for their shares. They do, however, have a right to the LRAD grant that was issued in 2009 and which was allocated on behalf of the 25 initial beneficiaries. Due to the fact that the grant

money has been invested in the company, this situation has created a difficult position for the trust, as capital is not available.

According to the Trust Deed, the beneficiaries of the workers trust must elect a minimum of six trustees to run the trust, including a minimum of two women. Sinksa Trust has the right to appoint an independent trustee, which is Mr Botha himself. Currently, there are nine trustees, with Mr Botha being the 10th trustee and also the chairman of the trust. The IDC has requested that Mr Botha be the chairman to guide the trust, to secure the good running of the overall business, and thus reduce the risk to its capital investment. The BWT decided to increase the number of trustees to better reflect the growing number of black beneficiaries, as the original trustees were all coloured people. The current board of trustees is thus more representative of the racial backgrounds of the beneficiaries.

The trustees meet at least every three months to discuss a range of issues, including the financial statements of the trust and the performance of the business, as well as workers' issues such as requests for rain clothes, transport, and the like. After each meeting, all the beneficiaries are briefed on the decisions taken by the trustees who are then in a position to accept or reject them. All beneficiaries meet once a year in an annual general meeting. It is during the annual general meeting that all BWT members elect their trustees. The rights and responsibilities of the trust and the trustees are provided for in the Bessieplaas Werkerstrust Trust Deed.

As is illustrated in Figure 6.2, the board of directors comprises of three directors. As a shareholder, the BWT has the right to appoint one board member. One of the BWT trustees has been elected as director, and hence sits on the board of directors, together with Mr Botha as representative of the Sinksa Trust, and a representative of the IDC. The BWT beneficiaries elect their director during the annual general meeting. Alternate directors have recently been appointed to provide a 'fall-back option' if one of the directors becomes unavailable. The alternate BWT director has also been elected by all the beneficiaries. The board meets three times a year to review financial performance and to discuss company strategy. Decisions regarding large investments, such as the purchase of a second farm, are made at these meetings. The board also decides if, and in what amounts, dividends are to be declared or if bonuses are to be paid out. It is the responsibility of the BWT representative to bring labour-specific issues that need to be addressed to board meetings. The BWT director reports back to the BWT trustees on the decisions taken by the board.

Day-to-day management is the responsibility of the management team, consisting of Mr Botha as managing director, and other members such as the packhouse, technical, and financial managers. The chairperson of BWT is the production manager and thus also a member of the management team. No other executive managers are members of the BWT – as white people they do not have the right to become beneficiaries. The production manager reports back to the trustees on the weekly management meetings.

Mr Botha is not a BMB employee, but has a management contract with the company. He considers this a bigger incentive to perform. Whereas an employee is protected by the labour law, Mr Botha, as an independent contractor, can be dismissed as soon as his performance is damaging to the business. It is in the hands of the other shareholders, the IDC and the BWT, to decide on whether he executes his job sufficiently. The board of directors is tasked with Mr Botha's performance appraisal, and thus has the right to dismiss him should it be necessary. His remuneration is also determined annually by the board of directors, excluding Mr Botha himself. It consists of an annual management fee

with increases being determined by the CPI. In addition, he shares in the annual incentive bonus pool, together with all BMB employees.

The Social Development Trust (SDT), consisting of six trustees elected by all employees and mentored by Mr Botha, proposes how to allocate the funds accrued through the sale of produce under the Fair Trade label, and for projects under the Waitrose Foundation (see next section). Both Fair Trade and Waitrose aim to generate funds for farm workers in order to better their social circumstances. All employees, BWT members and non-members, benefit from these funds. Although in theory it is possible for BWT to argue in the board meetings for higher sales volumes under the Fair Trade label, and thus increase the financial flow into the SDT, in practice it is the Eurafruit marketing company, and not BMB, which decides on the allocation of produce to final customers. Even if Fair Trade labelled produce does result in accumulation of rewards for the SDT, other customers tend to pay a higher farm gate price, which leads to a higher bottom line, and hence growth in the company and in the value of the employees' shares.

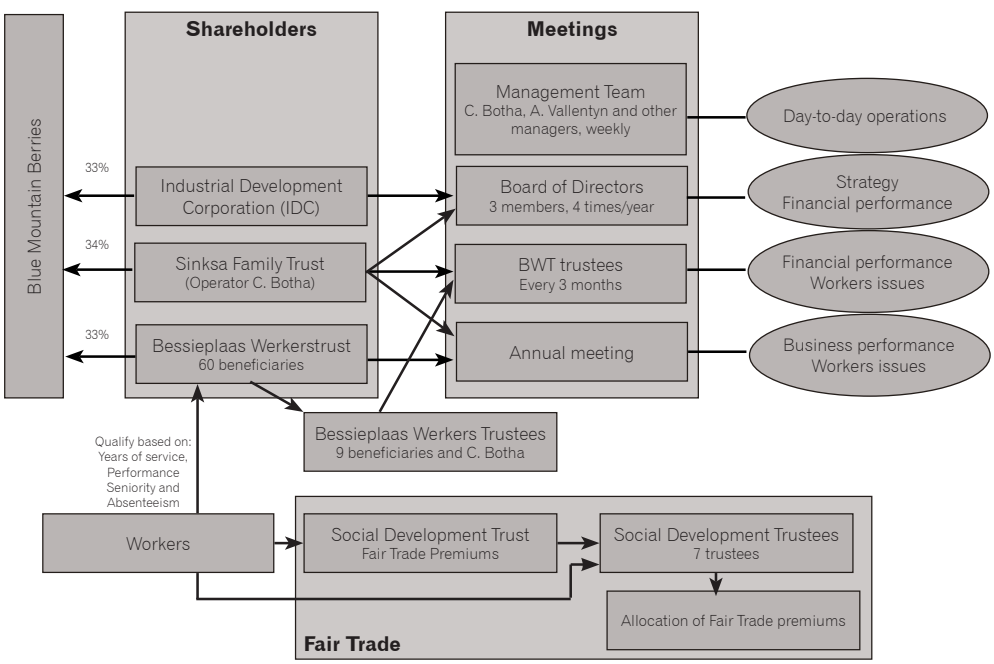

Figure 6.2 Institutional set-up BMB

Source: Authors

Certification

To pursue a higher price for the produce, BMB aimed for the high-value UK export market. This was in line with the initial plan of the IDC that envisaged a berry industry producing mainly for exports. Retailers such as Tesco and Marks & Spencer, have designed their own programmes to ensure that their fresh produce is produced in an environmentally responsible way with high standards of food safety. BMB has managed to achieve both the Tesco "Nature's Choice" and the Marks & Spencer "Field to Fork" certifications. This

enables the company to receive a premium price for their blueberries with a positive impact on their bottom line.

Waitrose is another retailer that has implemented its own system to ensure that their produce is sourced from responsible suppliers. It has established the Waitrose Foundation South Africa "with the aim of improving the lives of farm workers and their families in the communities that supply fruit to the Waitrose Supermarket in the UK" (Waitrose Foundation, 2013). Part of the profit from the sale of the produce is paid into a workers trust to fund projects for the improvement of the lives of farm workers. The workers trust needs to present a project proposal to the Waitrose Foundation in order to access these funds. BMB has achieved Waitrose Foundation accreditation for its blueberries.

Other retailers, including the Switzerland-based COOP, have chosen to implement global standards such as Fairtrade. Under the Fairtrade system, not only does the producer receive a Fairtrade minimum price, they also receive a Fairtrade Premium, which "goes into a communal fund for workers and farmers to use to improve their social, economic, and environmental conditions" (Fairtrade International, 2011). Payments are made directly into the fund over which the workers trust has full control. Through the equity of the workers trust, BMB has been able to qualify for Fairtrade certification.

BMB has also achieved a number of food safety standards such as BRC for the packhouse, GLOBALG.A.P. certification, LEAF environmental audit, and the ethical SEDEX certification. BMB is a level-2 accredited Broad-Based BEE company.

Employee development

Aside from the aim of securing worker ownership in the blueberry farm, employee development is equally important to each of the stakeholders. An elaborate employee hierarchy was set up consisting of seven post levels, each with three sub-levels. Posts range from seasonal labour through block leader up to senior management. Salaries increase by 10% with every sub-level. This structure enables workers to climb up the ranks as they gain more experience. Continuous growth of the business is crucial for maintaining the many levels. Numerous employees who started as general labourers (some of whom were already on the vegetable farm), have moved up to senior leader positions, and even block leader positions. The chairperson of the BWT, who has worked with the company (and its predecessor) for 13 years, was promoted to senior manager in 2014.

A number of staff members have received formal training to enhance their knowledge and skill levels. Two courses have been selected by the company: NQF level one plant training for the level of block leader and up – to give them a better understanding of the horticultural sector; and basic computer training for general employees. Although the computer training was perceived as difficult by a number of workers, they have gained better understanding in how to work with computers, which enables them in activities such as label printing.

The IDC insisted on the inclusion of two HDP in middle management. Whereas one has since performed very well, the other employee has repeatedly run into problems which impacted on his performance at work. Rather than being dismissed, the company gave him another chance, provided he worked on his issues. This was the start of the life-skills training programme that nearly every employee has since gone through, or is going through at the time of writing. It is a 52-week course consisting of two hours of training every week, and is accompanied by a consultant for one-on-one sessions if required. During the life-

skills course, employees learn about a wide range of issues, including the benefits of a healthy diet, how to deal with HIV/AIDS, and conflict management. This course is widely regarded by the employees as very beneficial for them, as they learn how to cope with many issues, both on the work floor and in their private lives.

Business-related training mostly takes place on the job. Whereas beneficiaries and trustees did not understand much of the financial side to a farm such as BMB or the running of a trust, their knowledge has greatly improved over the years under the guidance of Mr Botha during the many trustee, board, and annual meetings.

Inclusivity

The BWT has enabled the employees of BMB to gain a third ownership in the farming operation, comprising of land and assets, as well as the produce. The growth of the farm activities has enabled an increase in the number of employees who share in the ownership, without the individual worker's share diminishing. Additionally, the assets have greatly increased with several improvements to the packhouse and the purchase of a second farm. Aside from the BWT ownership, the workers now fully own a community facility on the farm.

The BWT has representation on the board of directors, alongside the other shareholders. In theory, this means having an equal voice alongside the Sinksa Trust and the IDC, and is in line with the ownership structure, although the effective implementation takes time. The BWT director, through the trustees, is the bridge between the beneficiaries and management. Internally, the annual BWT meeting is an opportunity for the workers to raise any issues and to elect their representatives. Because there is one person who represents the workers, both on the board of directors and on the management team, much depends on his performance, and on the trust and respect he gains among the beneficiaries. At the start of the project, due to the BWT representative's lack of experiences when compared with the other board and management team members, the risk was that the voice of the beneficiaries would not be heard. Over the years, this risk has reduced significantly.

The shareholding of the BWT has been financed through loans, for which the IDC stands guarantee, and through grants from the government. No direct financial input from the beneficiaries has been required. Hence, the beneficiaries do not run any personal financial risk. In the case of the business failing, both the IDC and Sinksa Trust will lose the financial resources they have dedicated to this project, and the beneficiaries would lose their source of income. In addition, if they do not perform, and thus the business does not perform, the company will not be in a position to pay out dividend, and the BWT will not be able to buy back their shares, should they wish to sell these. Overall, the BWT is exposed to financial risk through its responsibilities towards its individual members, whereas the workers themselves are exposed to collective risk of non-performance.

Rewards for the workers have mostly come in the form of asset accumulation, salaries, and training, rather than financial payments to BWT members. The workers have also expressed their pride in observing the business grow. They now hold a (potential) 33% share in 11 tractors, rather than only two, for example. Over the years, the initial packhouse has been extended, financed through a loan, but also by using over R2 million from the cash flow of the business operation. Future dividends will be paid to the BWT, not directly to the beneficiaries. The trust decides how to allocate this money. The general advice given by the IDC is to split the funds; 30% cash-in-hand for the beneficiaries, 30% towards

pension funds and death benefits, 30% for education and healthcare, and the remaining 10% for the administration of the trust. The IDC and Mr Botha can advise and inform the trust on alternative ways to allocate funds, but it is the trust itself that makes the final decisions. The trust also needs funds to buy back shares if these are offered for sale by the beneficiaries, and for repayment of the LRAD grant for the initial beneficiaries.

Aside from the rewards related to equity in the farm operations, all workers benefit from the Fairtrade and Waitrose funds. As such, Fairtrade money has been used to distribute vouchers to purchase children's and toddlers' clothing. A community hall containing a dining room, entertainment facilities, and a training room is under construction on the farm premises at the time of writing. This will greatly benefit the employees who all live off the farm and currently have no facility where they can spend their breaks.

The BWT beneficiaries are aware of future rewards in the form of dividends and perceive their shareholding as a financial resource for the future, one that will benefit their children, if not themselves. This is motivation for them to continue working for BMB and to perform as well as they can.

Not only has BMB had a positive impact through the inclusion of employees as shareholders, through the increase in activities, the company was able to provide work for 107 permanent employees and around 600 seasonal workers in 2013, mostly based in the nearby city of George. Salaries and wages paid in that year amounted to over R7 million. It is likely that most of this income would have been spent in the area, thus boosting the local economy. Nevertheless, most of the wages earned at BMB will not generate rural growth, but rather will contribute to an established urban-based economy.

BMB exports around 90% of its produce through the activities of the marketing partners introduced by the IDC. The remaining 10% is distributed to national retailers. The bulk packaging of the berries takes place on the BMB farm, generating a considerable number of jobs. No further processing of the berries, for example juicing, takes place, either on or off the farm. BMB produces a consistently high quality of produce and can thus obtain the highest farm gate prices by selling fresh produce to the export market. As a result, linkages to non-agricultural or processing sectors are non-existent, nor does the company have a direct impact on food availability for the community in which it operates.

One positive impact on the community, directly related to the establishment of BMB, is the 1.6 kilometres of road that will be tarred from the turnoff from the R102 road to the entrance of the farm. This infrastructure development had been sought for a considerable time by the two local schools, BMB, and other stakeholders. Government, which carries the financial burden of this project, has signed the required contracts and operations are to start soon. The tarring will have a positive impact on both the transport of produce to Cape Town and the workers' transport from the township. It is in the area of transport that BMB generates most of its non-employment linkages in the local area.

Overall, the company has been able to include a growing number of workers as owners in its operation, to increase the value related to this ownership, and to develop equality in decision-making power. Whereas growth in employment opportunities has generated income for households in the vicinity, the company's in- and output links with the community are limited.

Outcomes

From its inception in 2006, and the first on-farm activities in 2008, the BMB company has grown considerably, in terms of revenue, assets, and employment opportunities. Is has generated income for an increasing number of workers and has given them a chance for development. It has established itself as a reliable supplier of blueberries to the UK market and shares its experiences with other producers through the Berry Growers Association of South Africa.

Despite the positive cash flow of the operation, no dividends have been declared yet. Any profits made have been used to pay off debts, and to establish and grow the farm, such as the invesment in packhouse expansion. Although beneficiaries of the BWT are reminded regularly that they own a share in a growing investment, a sense of urgency regarding individual rewards started to show. Instead of dividend payments, the company decided to pay out a bonus to each of the employees, based on the performance of the business. In this manner, employees do feel rewarded for their work. Through the SDT, they have also obtained clothing vouchers for their children, and are in the process of constructing a community building. Overall, workers have seen an improvement in their financial situation, through both their salaries and bonuses: a general bonus, a bonus for low level of absenteeism[4] and, in 2014, a bonus for company performance.

Workers are satisfied with their employer and with the current set-up. They feel empowered and valued. They appreciate the communication between management and the workers, and feel privileged to own part of the company. Although a direct link between the ownership of the employees and their on-the-job performance cannot be made, there are indicators that the model has a positive impact on the workers. Other than with seasonal workers, the company experiences low staff turnover. During the farm workers strike of 2013, which was concentrated mostly in the Western Cape, the small protest by some seasonal employees was quickly silenced when it was made clear that any destruction of farm assets, in effect was destruction of property belonging to their 'neighbours', the BWT member employees in the township. Essentially, the workers trust offers an alternative to unionisation, hence limiting the influence of an external union on labour rights (Tom, 2006). The collective organisation with democratic elections of its leadership gives aspiring workers a platform to display their qualities and gain skills in trust management.

The IDC considers blueberry farming as one of the success sectors in which they are involved (Van Rooyen, 2013). The performance of BMB has contributed to this positive perception. The financial outlook of the company is that dividends will be paid out to the IDC by 2019, and that loan repayments on the RCF will start in 2017. Overall, BMB appears to be a rather low-risk investment for the IDC.

Thus, the aim of creating a high-value, labour-intensive business that would allow for the empowerment, development, and upliftment of HDP has been achieved so far. The extension with a second farm will bring more opportunities, although this will not be without its challenges.

4 The Fairtrade organisation opposes this bonus, stating it discriminates against sick people.

Issues

Farm equity schemes across the country have experienced a number of issues (Sopov *et al.*, 2014). These have prevented them from achieving the empowerment they aim for. Among the challenges faced are lack of financial rewards for the workers, unequal power relations between the commercial manager and the workers, and a continued insecurity regarding land tenure for those workers residing on the farm (Fast, 1999; Sopov *et al.*, 2014; Tom, 2006).

Blue Mountain Berries has faced similar experiences as those documented in previous studies into similar schemes. Rather than an existing operation, the farm was a new venture. Although the process of implementing an employee equity scheme was initiated by the farm owner, the employees were informed about the plan and were asked explicitly for their approval before the actual proposal was submitted. This communication has continued since the inception of the project through the operation of the workers trust. Despite the open communication, BMB came across some hostility, both from surrounding farmers, and internally from workers from the original vegetable farm. Through building trust among the remaining workers, in which the elected trustees played a key role, and through the good performance and growth of the business, this distrust has been largely averted.

Blue Mountain Berries started from a previous farming enterprise. This enabled the workers trust to be established with an accepted leader from the start. Most BWT members entered employment under Mr Botha after the inception of the scheme, bypassing the entrenched employer–employee relationship observed in equity schemes on existing farms. Nevertheless, an unequal power relationship still exists considering the differences in education and experience. All senior management positions but one, have been filled with white people from outside, as there were no suitable candidates from within the workers group. This gap in knowledge and experience at the initiation of the project still exists, although it has been reduced. A considerable number of workers have been promoted, with the most senior BWT member becoming a senior manager, as well as a director on the board. Training, mentoring, and experience have increased the expertise of many workers. The trustees were given the responsibility by the managing director to solve certain issues, such as with 'lifters' climbing onto the transport truck. Their responsibility was called upon and it was no longer the norm that 'the boss' would solve every problem.

Although the relationship between workers and management is still highly unequal, it does not imply that the power inequality has not reduced. Workers have familiarised themselves with the shareholding agreement and the decision-making opportunities that accompany it. They have become more confident and more vocal, while at the same time becoming more responsible in their work and their communication with management. This has been enabled by the open leadership and mentoring of Mr Botha who is both the managing director of BMB and the chairman of the BWT. He has earned the respect and trust of the beneficiaries, and has set an example for the workers showing them what they can also achieve.

An often-mentioned challenge for a farm equity scheme is the lack of financial rewards for the workers in the short term. Firstly, there is the need for continuous investment in the company to ascertain future growth. Secondly, the equity of the workers is generally financed, at least in part, through loans. These loans need to be paid off before dividends can be declared. As a result, employees do not experience an immediate positive change in their livelihoods, despite their ownership. Considering the low wages of the average

farm worker, the needs of the workers trust members is difficult to align with the wider economic framework in which the farm operates. BMB experiences a like situation in which dividends have not been declared in the six years of operation. Nevertheless, the workers who have joined BMB from the vegetable farm have been able to achieve higher ranking positions than would have been possible on the much smaller vegetable farm, and have thus been able to increase their salaries. BMB has increased the bonuses from two weeks' salary to four weeks' salary. In addition, it introduced a bonus for 2014 based on the performance of the company. Even though no dividends have been issued, this has been compensated for by the several bonuses. The company needs to evaluate what the net income effect is for beneficiaries which arises from either a bonus or dividend, which are taxed in different ways. The advantage of a bonus is that it gives employees cash flow in December when they need additional cash, whereas a dividend would normally be issued midway through the year, after the financial accounts have been written up.

A number of issues more specific to BMB need to be addressed by the shareholders. The most pressing is the payment of the LRAD grant to the eight beneficiaries who were members of the workers trust at inception, but have since left BMB. Although the grant was used to finance shareholding for the BWT, the official at the Department of Land Affairs insists that the fund was intended for the individual beneficiaries. The grant has since been used to fund the running and expansion of the business. Hence, no capital is available, either from the company, or from the workers trust, to pay these former beneficiaries. The same situation will arise if any of the remaining 17 original beneficiaries leave the company or pass away.

Several questions around the valuation and sale of shares still need to be answered. No formula to establish the value of shares has been defined. Since the company is theoretically still not liquid, the share price has been kept at the original value of around R300 000 for 1 % of the company. The company needs to formulate some way of share valuation to enable the sale of shares when beneficiaries want to sell. The beneficiaries who have left BMB employment have not received any financial compensation as yet. The valuation of the shares is under discussion with the board of directors. No beneficiaries currently working for BMB have indicated that they want to sell their shares.

If beneficiaries do want to sell, and a share price calculation has been established, other issues arise. The most immediate is the financial resources of the BWT to purchase the shares. As stipulated in the Trust Deed, the BWT will have to buy the shares offered by the beneficiaries (Bessieplaas Werkerstrust, 2006). They cannot be sold to any other party. This is to guarantee the 33 % ownership of the trust, rather than ownership by individual beneficiaries which would fluctuate the overall employee ownership in the company. Currently, the BWT is in debt through the RCF loan. It lacks any funds to purchase back shares until this loan has been repaid and the first dividends start to accrue.

Related to the set-up where the BWT has to purchase the shares offered for sale by the beneficiaries, is what to do in the case where a large number of beneficiaries want to sell their shares. In this scenario, the BWT still owns a 33 % share of the business, but it is only carried by a small number of beneficiaries. This undermines the goal of employee empowerment and potentially puts a serious burden on the remaining beneficiaries.

In the short term, before the first dividends are declared, the workers trust together with the board of directors need to decide on how dividends to the beneficiaries are going to be divided. To use the analogy of the three different buildings that make up the company (Sinksa Trust, IDC and BWT), the BWT building has the capacity for 70 members, but with

only 60 rooms currently occupied. The workers trust as a total owns 33% of the company, with each individual beneficiary holding 1/70th of this share. Therefore, they are only entitled to 1/70th of the dividends allocated to the BWT. The company, with the trust, needs to determine what to do with the dividends allocated to the 'empty rooms'.

Whereas the collective organisation is instrumental to cluster the workers in their ownership of the farming operation, the detailed implementation on a fair basis turns out to raise difficult questions that need to be answered by all the shareholders together. Complicating the ownership structure further is the future of the IDC as shareholder. According to the Shareholders Agreement, Sinksa Trust has the right to buy out the 33% IDC share in BMB, if the IDC decides to exercise its put option at a predetermined price stipulated in the shareholders' agreement. Sinksa Trust can decide if it will maintain the full share of the IDC, giving it a 67% total ownership of the company, or if it will sell part of the IDC share to the workers trust, giving it a more equal partnership with Sinksa trust. Although the IDC will remain part owner for at least the medium term, this issue will need to be addressed in time by all three shareholders.

Lastly, aside from the internal equity related challenges, the single largest issue experienced by BMB is created by the Western Cape Department of Environmental Affairs and the Department of Water Affairs. These departments have rejected the basic environmental impact assessment (EIA) submitted by BMB for the newly purchased second farm. Instead, they have requested a full EIA to be done.[5] They requested BMB attach with their submission the approvals from all the farmers over whose land the pipeline, required to transport water to the farm, will run. In addition, BMB has to submit proof that applications were made to the Department of Water Affairs, for the issuing of a water use licence, and to the Department of Agriculture to bring unproductive land under production. It will take the company over a year to complete these government related processes and will cost well over R1 million. In the meantime, the company cannot remove the alien vegetation currently on the farm, prepare the land, or start building dams. It does however, have to service the loans taken out to finance the purchase of the farm; this puts the planting materials already ordered at risk, as it cannot be properly looked after if the farm has not been prepared. The financial implications for the business will be significant if the farm were to start production two years later than planned. Similar issues were encountered with the expansion of the first farm, where government departments hampered the process of enlarging the dams on the property.

Inefficient and uncoordinated government processes have been mentioned as the single most important factor that negatively affects the company. This is the case for all departments involved, including the Department of Agriculture, the Department of Land Affairs, the Department of Water Affairs and the Department of Environmental Affairs. No holistic approach was put forward, resulting in a fragmented, departmentalised situation, which does not support the smooth running, expansion, or implementation of a farm. Although the government-owned IDC is a partner in the business, it has not been able to make any of the government procedures smoother. On the contrary, because the organisation is government-owned, BMB needs to 'play by the book'.

5 After meetings with the Department of Environmental Affairs, which took place after the field trip, the Department has reverted to the Basic Environmental Impact Assessment, which will take 6–8 months. At the same time, the Department of Water Affairs has declared the earth canal, specified in the title deed, as an illegal water use, threatening the water licence for the new farm, once again putting this development at risk.

Success factors

Blue Mountain Berries performed well in the six years since it started operating. A number of factors contributed to this success.

First and foremost, the contribution of Mr Botha and his wife (who manages the packhouse and is the company's accountant) has been crucial to the performance of the business. The family is exposed financially, and thus depends on the success of the business. Firstly, through the construction of a management, rather than an employment contract. Secondly, the family is financially heavily committed to the business, with most of their assets tied up in BMB. As such, both Mr Botha and his wife are well motivated to ensure the farm's success. Together, they have the experience and the personalities to run the operation. The couple is driven in their activities and they have a genuine drive to uplift the company's workers. As Mr Botha says, "we are the ones who open up in the morning and close the doors in the evening".

Most of the workers who were part of the workforce when the berry farm started, had confidence in Mr Botha, with whom they had worked on the vegetable farm. In addition, they have had a good leader and example in the chairman of the workers trust, whom they respect and trust, and with whom they have worked for a number of years already. Aside from a few employees who did not believe in the venture, and who left upon inception, all beneficiaries and employees were motivated and involved in the transition every step of the way. Everybody was committed to make it work, and this team effort took the business to where it is today. The equity share instrument has strengthened the involvement and commitment of the workers, who are proud to see 'their' farm grow, and who feel engaged in the management of the farm.

Transparency has been essential throughout the entire process, and will continue to be. This includes communication on objectives, which were clear to all from the beginning. It also includes business performance and plans for the future to ensure that all stakeholders work towards commonly shared goals. The 'jockey', Mr Botha, has managed to keep all parties on the same track, communicating with each and everyone involved.

Aside from the set-up and internal working of the farm, the proximity to George has meant that the demand for labour, especially seasonal labour, has not presented itself as a bottleneck. The city has a large pool of unemployed adults who are close enough to the farm to commute on a daily basis. Without this nearby labour pool, workers for the labour-intensive blueberry farming would have been hard to find, or would have come at a higher cost and effort. In the case of BMB, there is no need for hostel dwellings on the farm itself. All the employees and labourers stay off the farm, reducing the need for the various kinds of social infrastructure to be situated on the farm and be provided for as part of the company's operations.

The blueberry industry has proven successful, with BMB gaining a foothold in the lucrative UK market, thus ensuring high farm gate prices and Fairtrade premiums. The climatic conditions and the set-up of the farm have resulted in the supply of consistently high quality produce. Nevertheless, entry barriers into this sector and market are high, due to food safety regulations, intense marketing activities, and the need for a highly crucial cold chain to transport produce. Therefore, an outgrowers scheme would be difficult to establish and manage, and is not seen as viable by BMB. It would not have been possible to uplift as many people by catering for the lower-value, domestic vegetable market according to Mr Botha.

Sustainability and scalability

Blue Mountain Berries seems to have established itself as a financially healthy business operation. It no longer depends on grants or subsidies from the government. Provided operations on the second farm are allowed to start without delay, and the market for blueberries remains strong, the company should be able to continue operating and show healthy growth. The largest threat to the continuation of the company is the need to retain input from Mr Botha. However, the financial commitment which he made, and the contractual clause that another external person can be recruited in case of his departure, have cushioned this concern. The IDC, as third partner, will also be able to assist in the management of the project. The triangular construction will provide support if one of the parties decides to pull out prematurely; it also serves to balance the power, especially between managing director and employees.

With the purchase of the second farm, the growth prospects of the company are secured. This second farm might represent the ceiling for the company, as it is very dependent on a strong leader/manager. Because of the centralised structure, including the workers trust, too much growth might become unmanageable, unless capable and committed farm managers are identified. The BWT chairperson will become the farm manager of the initial farm, another important step in his development, and this presents an opportunity for other people to move up the ranks, as internal staff will be promoted to assist him in his extended position.

Although there might be limits to the internal growth of this business, it is a straightforward model that can be replicated in other geographical areas and with other crops, as has been the case across the Western Cape province (e.g. Fast, 1999; Knight & Lyne, 2002). It is of the essence to have a committed operator, a person with not only farming skills, but also management and people skills, who can drive the project, and who is able to "dance with many partners", as one of the employees described Mr Botha. Financial commitment by the operator represents extra motivation to make a success of the business.

Conclusion

Blue Mountain Berries has been able to establish itself as a successful farming operation, taking advantage of the instruments used. Employee equity has provided favourable financing to develop the farming infrastructure. In turn, the equity has committed the workers and motivated them to make 'their' new farm into a success. Besides, the shared ownership of the employees has enabled the company to qualify for Fairtrade and similar accreditation, generating additional rewards for the workers. The involvement of a third partner, the IDC, ensures a certain balance of power between the managing director shareholder and the workers, and a continued focus on worker empowerment. Lastly, the financial and social commitment of the managing director incentivises him to make the farm perform.

Nevertheless, the question of whether this model offers true empowerment still needs to be answered. This model incorporates the inherent misalignment of demands between collective organisation and individual. As such, the beneficiaries have seen little personal financial impact. Rather, their 'rewards' are tied up in non-liquid assets, whereas they might prefer 'their' money to be paid to them directly. They are also limited in selling their shares, thus further reducing their individual options to gain from their ownership. On the

other hand, they have gained skills, including those not related to their work, and career opportunities exist through the continual growth of the business. This is however, more the result of the individual management of the business than the fact that the workers have a say in the company. As such, it illustrates findings that employee development in farm equity shares only work with considerable investments in interventions beyond those required by the actual farming operation (Hall, 2014).

7

Employee-owned investment company taking equity in employer's farm – Katmakoep Boerdery

Louis Fourie[1] and Wytske Chamberlain

The South African government has set out to redistribute 30% of agricultural land to previously disadvantaged people. Equity share schemes are one of the structures utilised to achieve this goal. An equity share scheme entails that farm workers obtain shareholding in a farm operation, in the nature of a joint venture. Usually, the strategic operator owns a share of the company, while numerous other stakeholders/beneficiaries can also have a shareholding.

Especially in sectors where entry barriers are high due to the capital intensive nature and economies of scale required for economic viability, such as the fruit and wine sectors, equity share schemes are seen as a way to include historically disadvantaged workers in the operation and include them as beneficiaries of the businesses. Equity share schemes are perceived to have less risk when compared to the purchase of a farm (de Lange, 2004). HDP often lack the means and skills to purchase land and equipment and manage their own farms.

This chapter will look with more detail into Katmakoep Boerdery. This company is a unique employee equity share scheme in the sense that the employees are not organised into a workers trust, but are shareholders in an investment company on a personal title. As such, they are able to freely trade their shares in the investment company, and thus, indirectly, in Katmakoep Boerdery. Another distinguishing feature of this case is that it was established without government funding, and as such, is fully driven by commercial stakeholders. It is, therefore, free from issues related to government grants, such as delays in grant payment. However, it might imply an extrapolation of the power inequalities between a commercial partner with both financial means and farming experience, and a group of less skilled and experienced employees.

Project description

Katmakoep Boerdery (Pty) Ltd. was established and incorporated in 2009 and is situated 15 km north of Vredendal on the West Coast in the Western Cape. The business is structured as an equity share scheme with a joint venture between Business Venture Investment (Pty) Ltd (BVI) and Melkboom Investment Company (Pty) Ltd. Melkboom Investment is owned by five employees of BVI. Thus, the beneficiaries of Katmakoep Boerdery are employees who

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also have equity shareholding in Katmakoep. As such, they benefit through employment, although it is the employee's equity that makes this project inclusive. Melkboom Investment Company owns 51 % shareholding in Katmakoep Boerdery (Pty) Ltd, with the remaining 49 % shareholding owned by BVI (Pty) Ltd.

The main activity of Katmakoep Boerdery is the production of dried grapes (raisins). Since BVI produced dried grapes at the time of engagement, it identified dried grape production as a viable commodity with limited risks and managerial constraints. Climatically, raisin production is ideal in Vredendal, and many farmers in the area already produced high volumes of the crop. Aside from the favourable climate and water availability, it is a commodity that the direct beneficiaries have worked with for a long time, and thus have a high familiarity with. Katmakoep has a supply contract with Pioneer Foods for the complete production. This structure will be explained in-depth throughout the chapter. BVI is responsible for the day-to-day activities of Katmakoep.

The farm Melkboomsdrift, owned by BVI at the time of project initiation, was subdivided into different portions, of which one piece of land, measuring 103.6 ha, was allocated to Katmakoep Boerdery. The 103 ha include water use rights for 30 ha. The 103 ha consisted of vacant land, some suitable for vineyards. At the time of writing, the operation utilised 18 ha for the production of dried grapes. The idea is to expand this hectarage in future. The remainder of the land is not used, as it has little to no benefit for livestock or other activities. The first official harvest was in the 2014 season.

The total capital expenditure of R3 884 071 is shared between BVI and off-taker Pioneer Foods. The physical asset/farm, valued at R1.8 million at the time, was supplied by BVI. This included the land and water use rights. Pioneer Foods provided the remaining R2 084 071 as an interest-free loan, which was allocated to the planting of vineyards, and the required irrigation infrastructure. A bond was registered against the land as security in the case of the entity defaulting on the loan repayment to Pioneer Foods. BVI was also required to sign surety for all requirements and commitments of Katmakoep Boerdery to Pioneer Foods. To secure payment, Pioneer Foods entered into a 15-year supply agreement with Katmakoep Boerdery, covering the full production quantity. The R2 million financed by Pioneer Foods needs to be repaid over the duration of this supply contract.

Through the supply agreement, this case study, in many ways, has aspects of a contract growing scheme. According to FAO (2014), contract growing is the agricultural production implemented according to an agreement between a financier/buyer/marketing agent and the actual farmer, where the terms and conditions for production and marketing of products are clearly defined. The financier/buyer/marketing agent commits to purchase the product and, in some cases, to finance the production input costs and land preparation. The farmer agrees to provide quantities of a specific product which meet the quality and standards as required by the buyer. Because in the case of Katmakoep Boerdery and Pioneer Foods the loan was financed through a bond registered over the asset (land), Pioneer Foods did not take the associated risks related to contract growing. There are, however, different opinions on this concept.

Inception

In 2009, the managing director of BVI was approached by his own farm labourers with the request to be empowered and included into their own business venture, which he agreed to. In response, BVI agreed to subdivide one of its own farm assets and contribute land and

water use rights to the value of R1.8 million to Katmakoep Boerdery. The farm management company also entered into negotiations with corporate banks and other funding partners to assist in the financing of this project. Eventually, it engaged with the Black Empowerment Initiative within Pioneer Foods who agreed to provide additional funding for the project. Historically, BVI had built up a relationship with Pioneer Foods which it supplied with dried grapes under its own supply contracts. Pioneer Foods provided an interest-free loan, and Katmakoep Boerdery acquired a fixed off-take for the produce from the farm.

Actors and drivers

Overall, there are four actors involved in the successful implementation of the venture: BVI, Melkboom Investment Company (the beneficiaries), Pioneer Foods, and Tristan Vineyards.

The managing director of BVI grew up in the Vredendal area and has been farming in the area his entire life. With vineyards under production in excess of 130 ha, BVI ranks as the second-biggest producer of grapes in the Vredendal area. The company has supply contacts for table grapes, wine grapes, and fresh produce with different cooperatives and retailers. BVI, the farm management company, holds a 49% equity share in Katmakoep Boerdery. It was responsible for the initial infrastructure development and is currently responsible for the day-to-day activities of the business.

Melkboomsdrift farm was owned by BVI, but the company lacked the financial resources to develop the land and establish vineyards. It needed a partner to contribute the required funds to bring this farm into production. The construction of an equity share scheme for part of the farm allowed the company to offer the project for BEE classification, making it attractive for Pioneer Foods to become a partner in Katmakoep.

Pioneer Foods, an agricultural value-adding company which is listed on the Johannesburg Stock Exchange (JSE), provides financial and marketing assistance to Katmakoep Boerdery through their internal Black Empowerment Initiative. This includes a financial contribution through debt funding and an off-take agreement/supply contract for all raisins produced by the entity for a period of 15 years. The main driver for Pioneer Foods was the need to obtain BEE procurement points, while at the same time securing product supply. The supply contract enables Pioneer Foods to acquire more marketable produce without having the associated risks. Katmakoep Boerdery believes that the supply contract will continue beyond the currently agreed upon term, and that it will take on a longer-term commitment.

Melkboom Investment Company is the majority shareholder in Katmakoep, owning a 51% share in the company. Melkboom was established by BVI in a drive to achieve empowerment for its employees, specifically through ownership of Katmakoep. BVI determined criteria for its employees to qualify for ownership/shareholding in this venture: a minimum of 10 years' service with BVI, and a positive opinion by BVI as to whether the individual has managerial capacity. Out of 40 individuals, only five were selected as suitable and were given shareholding in the new company. The employees are represented individually, and directly benefit from profits generated by Katmakoep Boerdery. Each individual has an equal share of 20% in Melkboom Investment Company (Pty) Ltd. According to the Shareholders Agreement of Melkboom Investment Company, 20% ownership allows one to nominate one director to the company. The shares of Melkboom Investment Company are valued at a fair market value and are regarded as a tradable asset.

The last actor in Katmakoep Boerdery is Tristan Vineyards. This company is the new owner of the remaining portion of the farm Melkboomsdrift, from which Katmakoep was subdivided. The privately owned dam from which Katmakoep sources its water, is located on this remaining portion. As such, Katmakoep depends on the owner of the Melkboomsdrift farm to release water for its orchards. Tristan Vineyards honours the agreement made by BVI with Katmakoep for securing water usage for 30 ha of irrigation for the remainder of the project. In return, Tristan Vineyards received a discount on the purchase price of Melkboomsdrift farm. Melkboomsdrift dam has 60 ha of irrigation remaining for its own use. Tristan Vineyards, using the Katmakoep Boerdery set-up as a model, is duplicating the same principle of an equity share scheme for different members of the community in the greater areas surrounding Vredendal.

Support

BVI

Business Venture Investment allocated the 103 ha of land, together with 30 ha water use rights, to Katmakoep Boerdery for the purpose of establishing a commercial, dried grapes operation. One hectare in Vredendal, with its associated water use rights, is valued at around R200 000 per hectare. Currently, 18 ha of dried grapes is in production which entails an initial investment of R3.6 million. The 49 % contribution from BVI is in the form of the land and water use rights, and the company provided surety for the remaining R2 million cash needed for the establishment of the vineyards and irrigation infrastructure. This means that, aside from the asset contribution, BVI bears all the financial risk related to the project for all the commitments made by Katmakoep Boerdery to Pioneer Foods, the funder of the remaining R2 million. In addition, BVI committed to co-finance the future expansions of the vineyards which are scheduled for 2016. The future expansion potential, at this stage, is set at 30 ha, indicating that additional funding will be required in the medium term.

Pioneer Foods (Pty) Ltd

Pioneer Foods provided a loan to the value of R2 084 071 to Katmakoep Boerdery for the establishment of 18 ha of irrigated orchards (Figure 7.1). This loan bears zero-interest and needs to be repaid over a period of 15 years. Vineyards, in general, come into full production after year four; therefore, the agreement between Pioneer Foods and Katmakoep Boerdery states that the repayment of the loan commences only after year five, giving Katmakoep Boerdery 10 years to service the entire loan amount. During this time, Pioneer Foods has an exclusive right to acquire the produce from Katmakoep. It was agreed that the land would be tendered as surety against default of the supply contract. As a result of Katmakoep Boerdery holding the title deed to the land, gearing on the land was a possibility, and without it, the supply contract and loan would have been rejected by Pioneer Foods.

Tristan Vineyards

Tristan Vineyards, a Private Equity Fund based in Vredendal, and the new owner of the remaining portion of Melkboomsdrift farm, has allowed access to its dam. Tristan Vineyards provided a zero-cost lease to Katmakoep Boerdery for water use for 30 ha of irrigation (Figure 7.1). Tristan Vineyards honours the water use rights commitment made by BVI to Katmakoep Boerdery at the inception of the project. These water use rights for

30 ha of irrigation were discounted in the purchase price of the farm Melkboomsdrift from BVI to Tristan Vineyards.

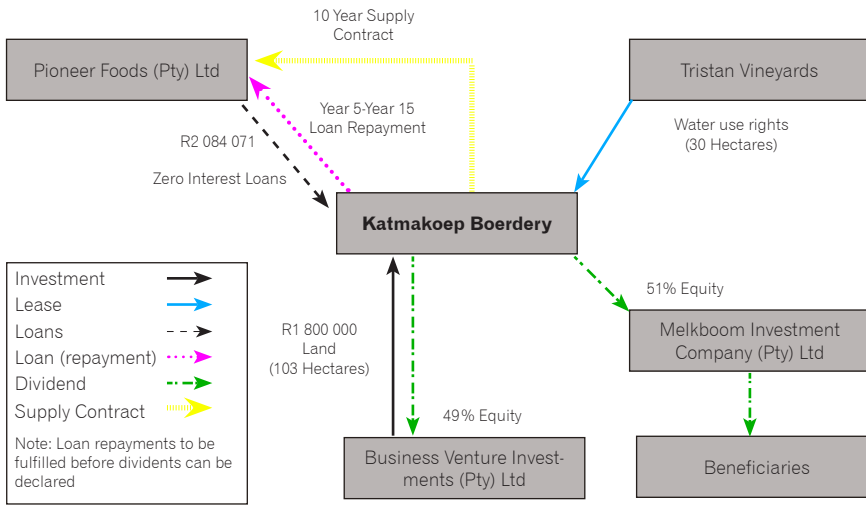

Figure 7.1 Institutional and financial structure Katmakoep Boerdery

Source: Authors

Implementation

The five beneficiaries identified by BVI were informed during the implementation phase, and agreed with BVI and Pioneer Foods on the proposed structure. It was the recommendation of Pioneer Foods that the beneficiating company, Melkboom Investment Company, be registered as a privately owned company rather than a workers trust, since they saw this as a purely commercial venture. Currently, all shareholders are partly employed on Katmakoep Boerdery, since all employees are responsible for activities on all BVI-managed farms.

At the time of carrying out the field work for this case, the first grapes had not been harvested. The farm had been developed and has since been growing grapes towards maturity. Not many activities have taken place which might have required the stakeholders to convene regularly. This will change once the farm becomes productive. This section will nevertheless describe some of the elements of the implementation of the structure.

Functioning: committees and meetings

There are currently two directors on the board of Katmakoep Boerdery; one representing BVI and the other representing Melkboom Investment Company. Shareholders meetings are to be held once every month after the farm becomes operational. During these meetings, the strategy and financial performance of Katmakoep will be discussed.

Melkboom Investment Company is managed by each of the five shareholders, who each own a 20% share in the company. According to the Shareholders Agreement, 20% ownership allows the shareholder to nominate one director to the company. Each

shareholder has currently nominated him- or herself as director to Melkboom Investment Company. Meetings are scheduled for a minimum of four times per year, as indicated in the Shareholders Agreement. During these meetings, the shareholders discuss financial performance and available strategies on how to apply their incomes from Katmakoep, as well as any other investments they might engage with. The Melkboom Investment shareholders have not met this regularly yet, due to the lack of activity on Katmakoep Boerdery.

The day-to-day management of Katmakoep Boerdery is carried out by BVI as part of its wider portfolio of grape farms. It has expertise in operating these kinds of businesses, and as part-shareholder, has an interest in the successful functioning of the farm. The management team meets monthly to discuss operational issues and planning for the coming months. Given that the day-to-day activities of Katmakoep Boerdery are managed by BVI as the strategic operator, decision-making remains with the 49% shareholder. This implies that decision-making from Melkboom Investment, the majority shareholder, is relatively limited, which is a shortfall of this enterprise.

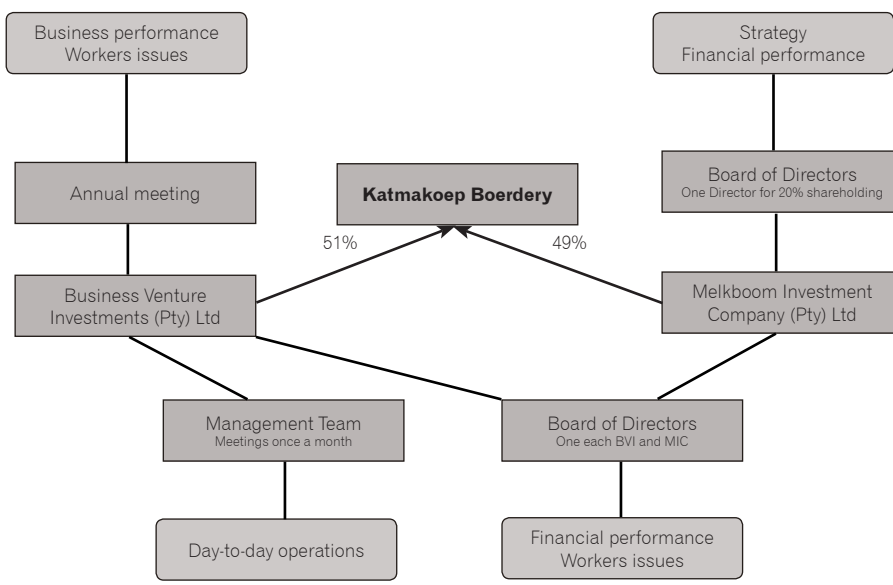

Figure 7.2 Functional framework Katmakoep Boerdery

Source: Authors

At the annual meeting for all its staff members, BVI presents the performance of the overall business. During this meeting, the workers have the opportunity to raise any issues regarding their employment. Figure 7.2 illustrates the functioning of Katmakoep and of its two shareholders.

Employee development

Little to no skills development of the five beneficiaries has taken place since 2010.The lack of skills, including financial, managerial and business skills, should be addressed, given that the project is expected to be cash-flow positive in the near future. Hence, Melkboom

Investment could receive dividends as soon as 2015, adverse natural occurrences aside. Regardless of the exact time when Katmakoep will generate its first profits, the shareholders of Melkboom Investment need to be made aware of how funds accrued to their company should be applied. Management has identified the point that other stakeholders will become more actively involved in the day-to-day activities and decision-making of Katmakoep Boerdery once the farm becomes productive.

Water availability

In Vredendal, land ownership gives the opportunity to access water use rights which have a monetary value, and can also be seen as an asset. Through providing the land to Katmakoep Boerdery, BVI also facilitated the transfer of water use rights to Katmakoep Boerdery. However, the land provided to Katmakoep Boerdery has no independent water use rights since there are no further water use rights left for allocation on the Lower Olifants River Irrigation Scheme. It was important for Katmakoep Boerdery to access sources of water in order to irrigate their own vineyards, and it secured this through the supply from the private dam on the remaining portion of Melkboomsdrift farm.

The accessibility of additional water sources in this region, especially to emerging farmers, which includes Katmakoep, was addressed by government who decided to increase Clanwilliam Dam's capacity by 40% by 2016. The Clanwilliam Dam, which is the primary water source supplying the Lower Olifants River Irrigation Scheme, was completed in 1923. The dam accommodates 8500 ha of irrigation. These have all been allocated to existing farms. Nevertheless, agricultural activities in the area are increasing, but no additional water resources are available to these new farmers along the scheme. As mentioned above, this was also a limitation for Katmakoep Boerdery since they did not have the required water supply for irrigating their own vineyards. Owing to the government's commitment to increase the capacity of the Clanwilliam Dam, and specifically to assist emerging agriculture along the scheme, Katmakoep Boerdery as a 51% black-owned company, will be able to access some of these additional hectares of irrigation in future.

Inclusivity

In this case study, the four criteria to measure value sharing of a project are ownership, voice, risk and reward (Vermeulen & Cotula, 2010). In addition, it will assess the linkages of the project with the local economy as an indication of potential impact on rural development.

The majority ownership of 51% is held by Melkboom Investment Company (Pty) Ltd, and thus the five BVI employed shareholders. As such, the beneficiaries have part ownership of land with vineyards and infrastructure. Each of the five beneficiaries own an equal share of 20% in Melkboom Investment. Shareholding in Melkboom Investment can be sold to any willing buyer at any given time. There are no conditions regulating the shareholder in this regard, even if he or she decides to exit his or her employment with BVI. The equipment needed on Katmakoep is used under contract from BVI against payment of a contractor's fee. Ownership of the beneficiaries is further reduced by the supply contract with Pioneer Foods, which effectively hands ownership of the produce to the off-taker for the 15-year duration of the supply contract.

The voice and participation of the beneficiaries is currently limited, since up to 2014 the vineyards were still coming into full production, with very little, to no business-related issues arising. Operational decisions are made by BVI as farm manager and equity partner. Marketing-related decisions are tied to the supply agreement with Pioneer Foods, leaving no alternative channels, or price negotiations to be influenced by the beneficiaries for the first 15 years of operation. It is expected that the voice and participation of the beneficiaries will increase in the years to come. Expansion of the existing business is planned for 2016, and the consideration and financing of this expansion, either through debtor-finance or commercial loans, must be evaluated and decided on by all the stakeholders involved, since it has future income benefits, but also implies reduction in disposable income in the short term.

Because Katmakoep Boerdery is heavily dependent on the strategic operator, it implies that if BVI were to withdraw its commitment, the project would run a high risk of failure. This dependence is demonstrated in multiple areas: BVI has committed itself to carrying all the financial risk associated with Katmakoep Boerdery; BVI has signed surety for all expenses or defaulting in contracts on the behalf of Katmakoep Boerdery, and the company is responsible for the management of the farm. Melkboom Investment on the other hand, merely serves as an instrument to favourable funding, and as such, is less critical to the partnership. The five employees with shareholding in Melkboom Investment are not exposed to financial risks related to Katmakoep Boerdery since no capital outlay was required from them. Lastly, the risk related to the zero-interest loan provided by Katmakoep Boerdery is covered by the land which was tendered as surety for the settling of the debt at zero-interest to Pioneer Foods.

Katmakoep Boerdery has different forms of rewards; firstly, the beneficiaries received an indirect beneficial share in the title deed of the farm. This farm was valued at R1.8 million in terms of the market estimates at the time, which has increased at an average of 8% per year, being a rate linked to inflation. Secondly, 18 ha of vineyards were planted on the land with irrigation, which increased the value of the land by more than R2 million. Thirdly, Tristan Vineyards has leased out water use rights for 30 ha of irrigation for 30 years. This allows for Katmakoep Boerdery to expand on current production without needing to acquire additional water use rights from the Lower Orange River Water User Association (LORWUA). Fourthly, the income potential for the 18 ha under production is estimated at R750 000 per year (the expected viability of the enterprise is summarised in Table 7.1). Beneficiaries can potentially expect dividends as soon as the vineyards come into full production. Some of this income will be used to pay debt, some will be retained within the business, and a share will be paid to the shareholders in the form of dividends. Finally, the beneficiaries acquired a supply contract which resolves the issue of market access. This supply contract addresses the issue of market access and guarantees off-take for all produce (raisins) from Katmakoep Boerdery, provided that the produce complies with the predefined quality. The shareholding within Katmakoep Boerdery is a tradable asset and can be quantified and valued at any given moment. This provides the opportunity for beneficiaries to freely enter into, and exit from, agreements, allowing them to be truly empowered.

The dried grape sector is not renowned for its primary agricultural labour intensity. Katmakoep Boerdery employs the equivalent of seven permanent employees, and will have a seasonal labour component from 2014, depending on the harvest. Aside from the expected seasonal workers, all workers are existing BVI employees. No processing activities take place on Katmakoep Boerdery. Salaries and wages paid in 2014 amounted to over R210 000 and were in line with the minimum wage levels determined by government.

It is likely that most of this income was spent within the area, boosting the local economy. Overall, the establishment of Katmakoep Boerdery does not contribute significantly to rural development.

Table 7.1 Expected viability Katmakoep Boerdery (per annum)

Average Yield	24.73 Tonnes/ha
Average Income per ton	R3 495.00
Expected Income per ha	R86 432.00
Average cost per ha	R33 139.00
Provision for replacement	R11 632.00
Net Profit per ha	R41 674.00
Project Profit at 18 ha	**R750 132.00**

Source: Authors

Katmakoep Boerdery mainly taps into a well-established industry in the local area. The development of a new farm is likely to have a positive, albeit small, impact on suppliers located in and around Vredendal. Most of the requirements for the establishment of the farm, such as vines and irrigation infrastructure, are not available in a small town, as Vredendal is. All the produce is delivered to Pioneer Foods for further processing and distribution which takes place outside the area. Overall, Katmakoep Boerdery has limited linkages to local and regional markets.

Nevertheless, the joint venture with BVI gives Melkboom Investments access to equipment and financing. It limits the capital requirement for the purchase of equipment, such as tractors. The financial guarantee of BVI has opened up the financial market. As such, the equity instrument enables the beneficiaries to gain access to several inputs. It has also facilitated the supply agreement with Pioneer Foods, one of the leading food processors in the country. On the other hand, Pioneer Foods would not have given an interest-free loan to Katmakoep had they not received points under the Agri-BEE scheme. The instruments of equity and contract are hence interlinked in this particular case.

Outcomes

This project is first and foremost commercially driven: BVI was looking for financing to develop fallow land, as well as access to additional water from an irrigation scheme under construction; Pioneer Foods needed a guaranteed produce supply and BEE points. The employee equity construction allowed both parties to obtain their goals.

Empowerment of the beneficiaries was not a core objective despite this being the initial driver of the project. This is visible in the beneficiaries selected from its employees by BVI; two of the employees are not actively involved in farming activities, but rather are engaged in general non-farm work and two other employees are over 70 years of age. This deviates from the initial criteria drawn up by BVI, which included that the selected employees demonstrate managerial capacities. These beneficiaries have not received any training from either of the commercial partners, nor from an external organisation on their roles and responsibilities as Melkboom Investment Company shareholders and Katmakoep Boerdery equity partners. They have also not been capacitated to engage in the management of

Katmakoep Boerdery. This questions the actual role of the five beneficiaries in the overall project and their ability to engage in decision-making processes. It also questions their ability to manage their finances once the farm becomes cash-flow positive.

Despite this lack of engagement and empowerment, on paper these beneficiaries are now incorporated in the commercial supply chain beyond a mere employment contract. As such, they have gained financially from their equity in Katmakoep, an asset that increases in value over time. However, this financial gain is tied up in their shareholding in the company, rather than available as disposable cash income. Thus, this has not directly benefited them in their income so far, although dividend payments will address the short-term cash requirements from the Melkboom Investment Company shareholders in the future, once the farm becomes productive. Considering the marginal position of the beneficiaries who are treated by BVI as ordinary BVI employees, rather than shareholders, it can be argued that in fact, these beneficiaries are not truly included in the project.

Issues

This section outlines issues encountered by Katmakoep Boerdery which are similar to those in other equity share schemes across the country. As a result of these issues, many schemes have not achieved the goals they set out to do, most importantly the upliftment of rural farm workers.

Katmakoep Boerdery cannot operate independently at this stage since it does not have the financial or technical means to manage the asset. Thus, Katmakoep Boerdery is dependent on Business Venture Investments (BVI) to operate the asset on the beneficiaries' behalf. Without the financial assistance of BVI and the day-to-day management of the asset, the entity will not succeed. The sustainability of the entity is dependent on the commercial partner remaining actively involved. Beneficiary empowerment can potentially overcome this issue, but might be threatened by the existing employer–employee relationship. The beneficiaries have to overcome this long-established relationship to become equal partners in the company. Yet, the commercial partner has no direct interest in empowering the beneficiaries, as this would undermine the current dominant position of BVI. Future disputes between stakeholders might lead to conflict that could potentially harm the viability of the farm. On the other hand, the effects of incomplete employee involvement might lead to the establishment of structures that give employees decision-making authority that only exists on paper, and can lead to dissatisfaction among the beneficiaries. It is thus important to empower and prepare the beneficiaries for future management and day-to-day activities of the farming asset.

A second issue relates to the BEE accreditation for Pioneer Foods, one of the driving factors behind the participation of the company. At inception, Melkboom Investment Company was fully owned by HDP. Through their 51 % shareholding in Katmakoep Boerdery, Pioneer Foods can claim supplier points under the Agri-BEE scheme. The shareholders are, however, free to sell their shares in Melkboom Investment to any willing buyer, whether he or she is a historically disadvantaged person or not. This can thus threaten the BEE supplier points for Pioneer Foods. However, it will not have an impact on the performance of Katmakoep Boerdery or threaten the loan agreement between Pioneer Foods and Katmakoep Boerdery, which does not include a BEE related clause.

Similarly, if Melkboom Investment Company would lose (part of) its ownership to non-historically disadvantage shareholders, Katmakoep will lose its status as emerging

farmer. Since the additional water supply due to the expansion of the Clanwilliam Dam gives preference to emerging farmers, a change in shareholding in Melkboom Investment Company can threaten the long-term expansion of Katmakoep Boerdery which depends on additional water resources.

Lastly, conflicts might arise once Katmakoep Boerdery generates its first dividends. The five BVI employees who are part shareholders in the farm will then receive financial rewards which do not accrue to their colleagues. This, despite the fact that they have not been involved in the activities on the farm that would justify this extra income. As such, jealousy might come into play among the BVI workforce, undermining the loyalty to BVI as employer.

Success factors

For any emerging agricultural project, access to finance and access to markets are extremely important. Although BVI contributed the land needed for the venture, additional capital was needed. Pioneer Foods, through their internal Black Empowerment Initiative, endorsed this venture and provided the required funding to the project. Aside from the financial contribution, Pioneer Foods offered a supply contract for the raisins, resolving the issue of market access. Katmakoep Boerdery, in this instance, did not need to search for markets, and does not have to pay commission to marketing agents.

Using BVI's existing dried fruit operation, the viability of the industry was known from the inception. Taking the operational risks into consideration, dried grapes was accepted as a highly viable crop, given the climatic and geographical characteristics of Vredendal. The initiative was driven by a purely commercial incentive to maximise profits for its beneficiaries.

The title deed to the land was allocated directly to the beneficiating company, which meant that a bond could be registered on the land for purposes of accessing financial assistance from a commercial bank or similar financing entity. Generally, commercial loans carry a high monetary cost and need to be repaid from year one. Since Katmakoep is only expected to be cash-flow positive from year five, it rendered the ability to repay such a loan for the operation undesirable, and probably unachievable. Instead, financing was acquired through an interest-free loan with repayments only being required once the farm becomes operational. At no stage was government involved: no subsidies or grants were needed to start this enterprise.

Overall, it can be stated that the several instruments applied in establishing this project are mutually conditional. Pioneer Foods required both a majority shareholding by previously disadvantaged people to free up capital under its Black Empowerment Initiative, as well as a well-established commercial partner to limit the risk to the investment. Further risk limitation for both Pioneer Foods and Katmakoep Boerdery was established through the implementation of the supply contract.

Sustainability and scalability

Katmakoep Boerdery was, from inception, scaled to an economically viable size. The 18 ha of vineyards for dried grapes is estimated to generate approximately R750 000 profit

annually once in full production. As such, the company is economically sustainable. However, due to the limited involvement of the Melkboom Investment beneficiaries so far, and the ability of these beneficiaries to sell their shareholding, the inclusivity of this company is not guaranteed for the future.

Given the current access to water, the farming activities can be scaled up to 30 ha. In the future, on the completion of the expansion of the Clanwilliam Dam, additional water use rights can be acquired from LORWUA in order to expand on the remaining 73 ha of the total 103 ha. Given the ownership of the land and vineyards, Katmakoep can acquire new land in future, either through the purchase of an asset out of retained income, or through engaging with commercial banks to finance the acquisition. As mentioned earlier, the expansion of the Clanwilliam Dam by government is specifically aimed at assisting emerging farmers, and it should be possible for Katmakoep Boerdery to access additional water use rights from LORWUA in future. The company thus has sufficient possibilities for scaling up its operations.

The replicability of this model is evident, as it has already been implemented by Tristan Vineyards. The investor is assisting beneficiaries from the nearby Lutzville Community, starting with five hectares of dried grapes, which is to be increased to 10 ha after the first year. It is a straightforward model that can be replicated in other geographical areas, and with other crops. Of the essence though, is to have a committed operator, a person with farming, management, and people skills, who can drive the project, and gradually facilitate skills transfer and empower the targeted beneficiaries. Nevertheless, the model is first and foremost established as a commercial venture, with empowerment being of less importance. It can be argued that economic viability is required before empowerment can take place, but this is certainly not the only driver if a project is to offer true beneficiation.

Conclusion

Katmakoep Boerdery demonstrates a model that has the potential to benefit both the commercial partner and the farm workers. Equity and board representation by the employees qualifies Katmakoep as a farm owned by HDP. As a result, the corporate partners benefit from the policy framework that ensures preferential access to water and B-BBEE accreditation. The additional supply contract ensures security of supply to offset against a loan, as well as secured access to markets. The farm workers on the other hand, gain equity, negotiation power, and additional income streams through their shareholding.

However, this case also illustrates how the corporate sector can take advantage of an IB structure without truly empowering its beneficiaries. The five employees selected by the commercial partner, in this case, do not demonstrate long-term potential to engage meaningfully in the management of the farm, which questions the motivation behind the selection of these particular workers. A lack of engagement and training further undermines the ability of the workers to fulfil their responsibility as majority shareholders and strategic partners in the business. As a result, the beneficiaries remain mere employees in a dependent position. It can thus be argued that this IB is fully driven by commercial motives and has little intention of bringing about meaningful transformation in the agricultural sector, which is the objective of the policy framework supporting this case.

The beneficiating employees have however gained through their ownership in the newly developed farm. The liquidity of their ownership (their shares are freely tradable) theoretically enables them to access financing for their own use at any time, whether as

long-term investment or short-term cash payment. As such, they have already benefited financially. Once the farm becomes productive, additional cash flow will address their more immediate cash requirements and is likely to have considerable impact on their livelihoods.

8

Lease/management and corporate control over fragmented smallholders' cooperative land – Tongaat Hulett Sugar[1]

Wytse Vellema[2] and Wytske Chamberlain

Introduction

This case study report focuses on two models implemented by sugar producer Tongaat Hulett Sugar (THS), a division of Tongaat Hulett, in the province of KwaZulu-Natal (KZN). The company has a number of mills in this province located along the east coast between Tongaat in the south, and Richards Bay in the north. The models described in this report are both based on a cooperative of small landholders, predominantly on land administered by the Ingonyama Trust Board.

Tongaat Hulett is an integrated agribusiness in sugar and starch products refined from sugarcane and maize. It employs over 40 000 people in its operations in South Africa, Botswana, Namibia, Swaziland, Mozambique and Zimbabwe. Revenues over the financial year of 2014 were close to R16 billion[3] (THS, 2014). It is the 14th largest employer of companies listed on the JSE, and the single largest private employer in Zimbabwe and Mozambique. In 1994, at the end of apartheid, its South African operations sold half of their land holdings to previously disadvantaged individuals,[4] comprising of 11 871 ha under cane.

Tongaat Hulett Sugar produces sugarcane on its own plantations, and purchases sugarcane at arm's length from three main sources: large-scale commercial growers, land reform growers, and small-scale growers. A large-scale commercial grower typically dedicates over 100 ha of land to cane production, the larger farms managing several thousand hectares of land. Land reform growers are medium-scale, typically farming lands between 50-80 ha in size. These farmers purchased land and received training from the company as part of the Land Reform initiative implemented after 1994. They now own the land. Small-scale farmers usually have only a few hectares of land, with the largest of them farming around 30 ha. This land is not privately owned, but communal. Well over

1 The authors wish to acknowledge the contributions by Garreth Sparks, (Manager: Cane Development Projects)

2 Centre for Development Innovation, Wageningen UR

3 Equal to slightly less than 1.3 billion USD at the exchange rate on 24 Apr 2015.

4 These 99 individuals had to be black. Most new farm owners had been working as senior employees on these lands and thus had considerable experience. Government provided funds for the purchase of the land, combined with savings from the new farmers.

half of the purchased sugarcane comes from large commercial farms (around 65%); the rest is presently supplied in about equal shares from land reform farmers and small-scale growers. It remains an explicit company objective, however, to ensure that the majority of the current crop deficit be supplied by previously disadvantaged individuals and, in particular, from rural communities on communal land.

Internationally, sugar is a complex commodity and is heavily regulated. Similarly, because of its importance to South Africa, the local industry is heavily regulated. Furthermore, sugarcane is a unique crop, in that it is perennial, requires large inputs, and has a very low value-to-bulk ratio. It also requires substantial processing before being ready for market. To understand the structure of the IB variants described in this study, it is paramount to have some insight in the industry and the production system. This information is provided below.

Industry structure

Sugar is one of the largest agricultural industries in South Africa. It provides around 79 000 jobs in direct employment in cane production and processing, and 350 000 jobs in indirect employment in support industries. Approximately one million people, more than 2% of South Africa's population, depend on sugarcane for a living (SASA, nd). Sugarcane is grown and processed in the provinces of KwaZulu-Natal, Mpumalanga and the Eastern Cape, which are among the poorest in the country. The industry produces an average of 2.2 million tonnes of sugar per season. Over half this sugar is marketed in South Africa and in other member states of the Southern African Custom Union, which include Botswana, Lesotho, Namibia and Swaziland. The remainder is exported to the world market (SASA, nd).

According to the South African Sugar Association (SASA, 2013), in the 2012/13 season, sugar was grown by 27 036 registered sugarcane growers, of which 1 730 were large-scale commercial farmers and 25 200 were small-scale growers. Around 16.8 million tonnes of sugarcane were produced; 83.21% by large-scale growers, and 9.31% by small-scale growers. The remaining 7.48% was grown on sugar estates owned by milling companies.

Sugarcane milling is highly concentrated. There are six milling companies operating a total of 14 mills and five refineries. The two largest companies, ILLOVO and Tongaat Hulett, each own four of these mills, and TSB Sugar owns another three. Gledhow Sugar Company, UCL Company, and Umfolozi Sugar Mill, own one mill each. In addition to sugar, some of these mills also produce ethyl alcohol, furfural and its derivatives, and animal feeds. In order to curb power relationships in the chain, the SASA was created to ensure adherence to the Sugar Act of 1978 and the Sugar Industry Agreement. SASA is an industry body with equal representation by the Sugar Miller Association Ltd (SASMAL) and CANEGROWERS.

The sugar industry benefits from government support in three ways. First, through a tariff levied on sugar imports when the world price is below a certain level. Second, by the Sugar Cooperation Agreement between members of the Southern African Development Community, which contains a set of policies stimulating sugar production and consumption in all member countries. And third, through a risk sharing provision between millers and growers formalised through the Sugar Act and the Sugar Industry Agreement. This provision enforces a predetermined distribution of proceeds, such that the consequences of fluctuations in world sugar prices are shared between growers and millers. As a direct consequence of these agreements, the domestic sugar price in South Africa consistently exceeds world prices.

The risk sharing arrangement provides for the calculation of a price by SASA which is equal for all growers, the 'Recoverable Value' (RV)[5] price. This price is based on the sales of local sugar, exported sugar, and molasses. After deducting levies, the remaining proceeds are distributed between millers (36 %) and growers (64 %). The final price received by the grower depends on the quality of the cane delivered to the sugar mill and is determined by the sucrose, non-sucrose, and fibre content of each batch of cane. Out of each batch, a sample is taken at the mill which determines the component composition of each batch, and hence its value. The fixed components of the RV are calculated and published monthly by SASA.

Sugar production

Sugarcane is a unique crop because of its high bulk-to-value ratio and the limited possibility for producers to side-sell. The only way to generate value out of sugarcane is to crush it at a mill, and given the distances between mills, there is usually only one viable buyer in any area. The immense bulk creates high transport costs, meaning farms need to be located close to a mill in order for supply to be profitable. Tongaat Hulett uses a 40-kilometre radius around the mills as a rule-of-thumb. These factors give mills monopsony power, which is curbed by the central price-setting done by SASA. The availability of only one cane buyer means that growers depend on millers.

To set up a sugar mill requires a substantial capital investment. Therefore, mills should always operate near, or at full capacity for the eight to nine months during which cane can be harvested. After cane is harvested, it should be at the mill within 72 hours, otherwise the cane becomes harder to crush and the sucrose level falls (the base for the RV). However, because prices are fixed, no price incentives can be used to encourage timely supply. In order to ensure stable supply to the mill, millers provide the growers with an annual supply programme which is updated weekly. The restriction to a limited delivery zone to reach the utilisation rate required for a mill to be profitable means that millers depend on growers.

Sugarcane develops from a perennial rootstock. If well maintained, replanting only has to take place once every ten years. In the first months after planting, the sugarcane requires intensive maintenance, including fertiliser and herbicide applications until it reaches canopy stage at six to seven months after planting. At canopy stage, the foliage is so thick that no more weeds can develop. There is also no more need for fertiliser applications. The cane is left in the field until the plant is 12–15 months old, at which time it can be harvested. Before the cane is cut, the field is usually burned to remove excess plant material. Cutting needs to take place within three days after burning and is done manually. In communal areas, bundles are generally collected in central 'staging areas', where the bundle is weighed before transport to the mill.

Project description

This report covers two models, both based on small landholder cooperatives. The first model is called "Vuselela", the second "Simamisa". Both models exist side by side, although the Vuselela project has been rolled out more around the Maidstone mill in the

5 The recoverable value, RV, is a measure of the value of sugar and molasses that will be recovered from the sugarcane delivered by the individual grower and is determined by a SASA specialist under contract to individual Mill Group Boards (Source: www.sasa.org.za/divisions/CaneTestingService.aspx).

south, and the Simamisa model is more focused on the Amatikulu and Felixton mill areas to the north. THS established the Vuselela model in 2009, followed by the Simamisa model in 2012. These models will be described separately in this section (see Figure 8.1 for a graphical overview).

Vuselela

Project Vuselela was started to provide families with small landholdings under a Permission-to-Occupy (PtO) structure, with a means of generating income through growing sugarcane. Most of these families had grown sugarcane before, but could not sustain this on their small plots (mostly one to two hectares) and as a result, their land had been largely unused since the early 2000s. To overcome the transaction costs associated with small-scale production, THS supported the establishment of cooperatives that lease land from these small landholders. The landholders sign a 10-year lease agreement[6] with the cooperative. The cooperative in turn, has a 10-year supply agreement with THS. The sugarcane roots, an asset for a period of 10 years, are owned by the cooperative and are partially paid for by the KZN government (see next section). The KZN government tenders for contractors to manage the crop for the first six months after planting, although under supervision of THS, until the cane reaches canopy stage. Then, management responsibility is transferred to the cooperative's management. The cooperative, assisted by THS, outsources the execution of the actual farming activities to contractors, who provide labour and equipment throughout the growing cycle. As such, all work - planting, ratoon maintenance, harvesting and transport - is done by external contractors rather than the cooperative or THS. Contractors are required to recruit their labour force locally, with preference given to cooperative members. There are different contracts for field preparation and planting, and ratoon maintenance, which entails applying herbicides and fertiliser. Harvesting is done through contractors selected by THS and the cooperatives. The harvesting contractor is responsible for cutting and bringing the cane to the loading areas. Here it is loaded onto trucks owned by a transport contractor, who is then responsible for delivering the cane to the crushing mill. THS draws up the work schedule for the contractors. In consultation with the cooperative management, a programme is drawn up detailing which plots the contractors will work on. THS has extension officers in the area to check that the contractors perform their activities adequately. In order for the contractors to be paid out by the THS project office, the Vuselela cooperatives and THS need to sign off on the work performed. This does give the cooperative a means of control over the contractors.

The cooperative receives rental income which is calculated as 10% of gross proceeds[7] from cane delivered to the mill. This income is divided between all the members, proportional to the area leased to the cooperative. A member who has twice the amount of land under sugarcane production will thus receive double the amount of rent as would a member with only half that area planted. In the Vuselela project, each cooperative has a savings account at SASA under the Umthombo structure. Out of the gross proceeds of every harvest, the THS project office pays a 10% replanting fee, and a predetermined amount per tonne

6 Due to legal regulations, the actual lease period is 9 years and 11 months. For simplicity reasons, this is referred to as 10 years throughout this chapter.

7 Gross proceeds are calculated as RV * price * RV tonnes. The RV is dependent on the level of sucrose in the cane delivered, and the price is set by SASA.

for ratoon maintenance, directly into this savings account.[8] Through these savings, the cooperative will be able to maintain the crop for the next season using the ratoon fund for crop maintenance, and to replant the crop after 10 years when the current rootstock will be exhausted. If the cooperative manages to maintain their fields for less than the amount reserved for ratoon maintenance, the remainder of this money is available for the cooperative to allocate according to their choice. Funds could be used to pay dividends to the members or to save for investment in equipment. THS administers the financial transactions, both rental payments to individual members, and the management of the savings accounts.

Cooperatives are paid their savings at the end of the month following the month in which the cane was delivered, meaning that, for example, income from cane harvested in July is transferred into the cooperative's savings account at the end of August. The harvest season is spread over eight months, from mid-March to mid-November. Cooperative accounts are managed by a project office at Tongaat Hulett, which was put in place especially for project Vuselela. Harvesting contractors and transport companies submit a claim for payment each month, which needs to be signed by at least half of the members of the cooperative board. Their payment is directly deducted from payments to the cooperative accounts by the Project Office.

Due to the uncertainty of the sugar price for the year, and the spread of harvesting cooperative members' fields over the year on an anonymous basis (the cane is registered under the name of the cooperative, not those of the individual members), payment to individual cooperative members is only made in December, after all fields have been harvested. The initial payment is set at 95 % of the expected price. If the final sugar price determined by SASA for that year is higher, a further retention payment to make up the difference is paid out in March. The landholders have indicated that they also prefer receiving a lump sum payment before the holiday season, rather than receiving smaller amounts over the year. All payments are made by THS. Rental payments to individuals are made directly to the beneficiaries, rather than through the cooperative. In addition, beneficiaries have access to the SASA-operated Supplementary Payment Fund (SPF) which provides financial assistance to smallholders. Again, THS manages this fund on behalf of the cooperative and its members. Although THS and the cooperative executive decide together when and how much to pay out from the available funds, it is THS that authorises the payment.

Simamisa

Similar to the Vuselela model, the Simamisa model is also based on a cooperative of members with a PtO. The individual members sign a power of attorney, allowing the cooperative to lease their land on their behalf to THS. As such, the lease is between THS and the cooperative, rather than between the landholder and the cooperative. THS supplies the roots and maintains ownership over this asset for the 10-year lease period. Due to this construction where the lease is between THS and the cooperative, and THS being the owner of the roots, the options available to individuals who wish to join after the initial setting up of the cooperative are limited. Once the lease is signed, the cane is planted and after 10 years, the contract expires. Members who would sign up after the initial planting would have their land planted at a later stage. Since the end date of their contract would

8 In 2013 the amount set aside for ratoon maintenance was R130/tonne and included costs for fertiliser and herbicides as well as labour.

be aligned to the other cooperative members, and thus span less than 10 years, the cane on their land would still be in the harvestable life cycle at the end of the lease. This implies a loss of valuable years of harvest to THS. Nevertheless, new members have been admitted in the initial three years of the lease.

When setting up activities in a new area, Simamisa, an independent company specialising in the farming of sugarcane, first organises a road show in the targeted area, informing the community on the working of the model and the role of the cooperatives. After the road show, the organisation then talks to the local chief (Nkosi) to discuss the size of the area (s)he would like to put under sugarcane. It is then up to the chief, and the individual community members interested, to try to find the land and organise themselves in a collective. THS then signs the lease agreement with the cooperative, as well as a management agreement with Simamisa. Simamisa provides all the labour and equipment for the entire process, from planting to harvesting, or enlists contractors. It also provides support to the cooperatives, such as opening bank accounts for individual members. As such, it combines the roles of the THS extension officer and the contractors. In this model, no government financing is received.

The income for the cooperative members is calculated as 10 % of the gross value delivered from the cooperative's land holdings and is allocated to individual members according to the area planted with sugarcane. Funds required for ratoon maintenance are paid by THS to Simamisa, and THS keeps savings in reserve for replanting after the first roots are exhausted. As with the Vuselela model, the cooperative, together with Simamisa, must sign off on the activities performed by external contractors before the contractor can be paid.

Besides administering the financial flows, THS is only involved on the side lines with the operational side of the business. Simamisa is the company responsible for most of the activities, including the organisation of cooperative meetings. The members of the cooperative are not involved in the sugarcane production at all, unless they are employed by Simamisa as labourers. Similar to the Vuselela project, this allows them to reap income from their land without any input.

The Simamisa model operates on a larger scale than the Vuselela model does. Rather than managing many small plots scattered over a wide area, the company aims to create larger blocks within a cooperative area. This offers the company certain economies of scale through which it can operate more efficiently. It chooses to operate in less densely populated areas where individual members have larger plots (five ha and larger). As a result of this strategy, some members willing to participate might be disappointed if their land is too difficult to access.

Partly due to the Vuselela and Simamisa projects, as well as other THS initiatives, tonnage from Ingonyama Trust Board (ITB) land delivered to THS mills doubled from 400 000 tonnes in 2010 to 800 000 tonnes in 2014. In addition, the project aims to create a total of 726 permanent, and over 6 000 seasonal, jobs. When fully up and running, the land within the project has the potential to produce 167 000 tonnes of sugarcane per year. At the current rate of marginal milling profit of R190 per tonne of cane, this equals R31.73 million of potential profits for THS.

Figure 8.1 compares the set-up of the two models.

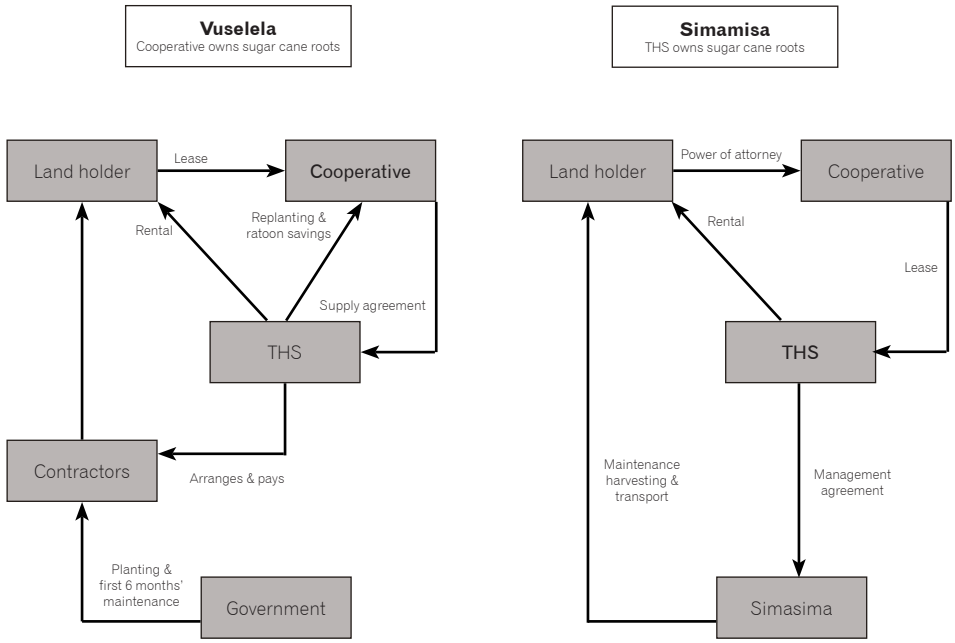

Figure 8.1 Institutional comparison Vuselela and Simamisa model

Source: Authors

Inception

Tongaat Hulett Sugar has been sourcing sugarcane from small-scale growers for several decades. In the traditional model, farmers were completely independent and had a straightforward off-take agreement. This model however, suffered from limited and low-quality cane production, originating from limited use of inputs and insufficient coordination. Shortly after harvest, the cane fields need to be weeded and fertilised to make sure the roots still in the ground can outgrow weeds. Many smallholders had insufficient knowledge to properly manage their cane and did not have the funds to invest in such maintenance, which reduced cane harvests over time, aggravating the problem. Furthermore, when cane is not well maintained, it needs to be replanted more frequently, which is costly. While a well-maintained field only requires replanting every ten years, badly maintained fields might require replanting after as little as six years. In addition, insufficient coordination frequently led to cane not arriving at the mill within 72 hours of harvesting, reducing the quality, and thus the price received by the smallholder. Low-quality cane can even cause hold-ups in the cane crushing process. Because of a too-high fibre content, the milling process might sometimes grind to a halt – a costly business.

In the 1990s, SASA developed a loan scheme called Financial Aid Fund to help farmers who did not have access to traditional financing. These access problems existed because farmers had small landholdings under a PtO, rather than a title deed to their land, because they farm on communal lands provided through Tribal authorities residing under the ITB. Although this scheme did help farmers to overcome their liquidity problems, the knowledge

gap and coordination problems persisted. Therefore, after almost 10 years in operation, the scheme was abandoned and replaced by the Umthombo scheme.[9] Over time, productivity continued to decline and more and more farmers left cane farming altogether because they were unable to finance replanting, causing a steady fall in overall production. In addition, production from land redistributed from large commercial farmer operations under the Land Reform of 1994 was also dwindling. The fall in production put tremendous pressure on the profitability of sugar millers, who were now operating far below full capacity, which, in an industry as capital intensive as sugar milling, is an outright disaster.

Actors and drivers

Tongaat Hulett Sugar

To get up to full capacity, the supply to the sugar mills needed to increase. In case of short-term supply shortages, millers sometimes buy from producers slightly outside their normal delivery zone. Although transport costs are higher, a non-working mill is often even more costly. However, because of the way the mills are distributed geographically, the opportunities to buy from farmers outside the zone are limited. In other words, THS had to increase production within their delivery zone. Within this zone, there was almost no unused private land available. Although THS put measures in place to increase production on its own estates and from existing suppliers, it was not sufficient to fully meet the magnitude of the supply deficit. The additional source of supply was to come from small-scale farmers on the communal lands that had gone out of production during the early 2000s.

From previous experience, THS had learned that increasing production and quality required more intense coordination than before, which is costly – economies of scale were needed. In order to reach this scale, land units would need to be grouped together into larger farming units, which could be managed more effectively by using machinery and could benefit from economies of scale in input purchases. In addition, extension services could be more effective by making group training sessions possible. During a discussion of the supply problems with the management team, consisting of the leader of the Small-Scale Grower unit and the area managers who led the extension staff, cooperatives were suggested as a possible solution. This way, part of the ownership and decision-making power could remain within the community and its members, and there would be a production unit large enough to benefit from economies of scale. Internal support for the project was strong, including from top management.

The company then approached the provincial government for financial support for the revival of land previously under sugarcane. This part of the cooperative model was called Vuselela, the IsiZulu word for revival. The total target area to be replanted was 3 700 ha, mainly located around the Maidstone mill in Tongaat. For the second cooperative model, Simamisa, THS engaged the support of the ITB to set up cooperatives on land administered by this trust. Through the agreement[10] with the ITB, the company has assurance from ITB, which should overcome issues generally encountered when commercial organisations engage landowners with a PtO. It then partnered with Simamisa to actually implement and manage these new cooperatives.

9 For the Vuselela project, the Umthombo financing structure was re-established within SASA and is now used by the cooperatives.

10 The agreement with the Ingonyama Trust Board, signed in 2013, has identified four pillars for development, of which sugarcane is one.

Small landholders

In the coastal areas of KZN where the THS mills are located, land ownership is largely in the hands of the ITB. This trust administers large areas of Tribal land through a structure of chiefs (Nkosi) and headmen (Ndoda). People living on the land have a PtO which allows them full authority over the land. These PtOs in general are small, varying from one to 30 ha. Due to the small size and lack of title deeds, the owners of these lands have struggled as independent sugarcane farmers. Most smallholders abandoned cane production in the early 2000s. Since then, their land has mostly been lying idle, not contributing to the income of the families owning these lands. With the establishment of the cooperative-based system, under either the Vuselela banner or Simamisa, these landholders have the opportunity to bring their fields back into production. They can sign over all their land or only part of it. Without their physical involvement, they are still able to generate income through rental payment. Especially for those households headed by elderly women who lack physical strength to work on the land, becoming a cooperative member offers a way to once again become part of the sugar production chain. In addition to income from land rental, the re-establishment of sugarcane also offers employment opportunities to the people in this area.

Government

In 2008, THS sent a proposal for funding to the KwaZulu-Natal Department of Economic Development and Tourism (DEDT), which has an ongoing call for proposals that encourage inclusive regional development. As such, it was supportive of the THS proposal to offer small landholders the opportunity to again become involved in sugarcane production. After a period of discussion between THS and the DEDT, the partners agreed on a plan. THS and DEDT signed a contract on 12 October 2009 outlining financial support from the KZN government for the establishment of this project. The DEDT funds are only available to the cooperatives in the Vuselela model, not to the Simamisa cooperatives.

Simamisa

Simamisa is a commercial organisation which specialises in the management of sugarcane farms. Before the establishment of the cooperatives, it was involved in the resuscitation of collapsed sugarcane farms and the running of its own farms. The company works solely for THS, but is independent in its ownership. Simamisa was approached by communities with the request to start sugarcane production on their fields. Together with the ITB and THS, it established a cooperative model similar to the Vuselela one. Simamisa already had strong ties with several chiefs and other Tribal leaders throughout the region, and through this network it was in a good position to set up and manage the cooperatives on behalf of THS. Simamisa gained access to large areas of land, most of which had not been used for sugarcane production before. It could thus greatly increase the land under its management, and with it, its revenue flows.

Support

Under the Vuselela project, sugarcane planting and the first six months of ratoon maintenance are jointly financed by THS and a DEDT grant. For the entire project, which targets 3700 ha, these planting costs amount to R64 million, which are financed for R52 million by the government and for R12.37 million by THS. Planting and the first six months of maintenance are done by contractors through a tender process in line with government funding requirements. Contractors for the harvesting, transport, and ratoon

activities after the first six months are selected by THS and the cooperative. All contractors are coordinated by the Small-Scale Growers unit at THS. The SSG is financed by THS, and costs roughly R20 million annually. The administration of funds to the cooperatives is carried out by a project office which was established by THS for the Vuselela project and runs at a cost of R2 million annually (see Figure 8.2).

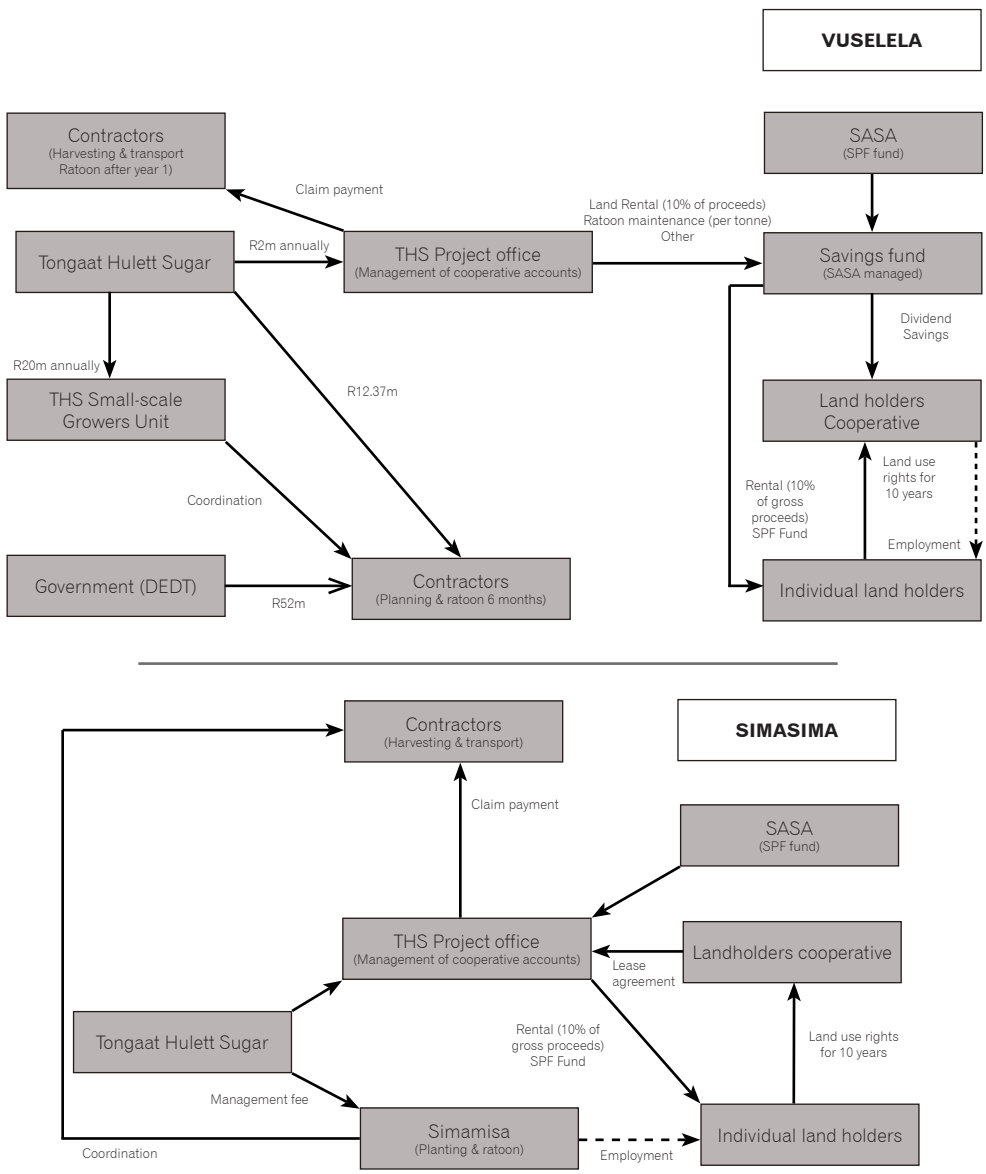

Figure 8.2 Financial structure Vuselela and Simamisa model

Source: Authors

Smallholder farmers in the sugar industry are supported by SASA. This industry body has established the SPF to give financial assistance to smallholder sugarcane producers. Members of both the Vuselela and Simamisa cooperatives have the right to access this fund.

Implementation and outcome

Vuselela

This project started with the first plantings in 2009-2010, targeting a total of 3 700 ha to be planted in a period of three years. In order to comply with government regulations, a tender process was opened by THS for local contractors, as specified by DEDT. Because sugarcane production from small-scale growers had been declining in most parts of the region, there were few local contractors available. Landholders in the Vuselela scheme, as well as local independent sugarcane growers, established contracting businesses to fill this gap. Nevertheless, the requirements which contractors needed to meet in order to qualify for entry to the process proved to be prohibitive. Another problem was presented by the high investments required from contractors to qualify to apply. Most contractors had no background in agriculture, and the contractors that did, had insufficient equipment to be considered eligible. The next hurdle the contractors had to overcome was finding suitable staff. Although selected contractors were introduced to the community, only a few employees were found. Few cooperative members decided to work for contractors, as most members were retired and too old for hard physical labour, reducing the potential income for landholders. In the end, workers were found through visiting the THS extension officers who recommended people.

Initially, contractors were offered 30 ha to work on. They were encouraged to visit THS extension staff to show them around the fields where they were expected to do their work. Each contract had the clause that within two weeks of signing, the first two hectares needed to be planted. These two weeks served as a trial period. If the contractor did not meet the target, THS could terminate the contract unilaterally.

Due to the shortage of qualified contractors for planting, the roll-out of the programme has been slower than envisaged. After the planned three years, 2 361 ha were planted, against the target of 3 700 ha. Both the DEDT and THS have pledged to continue support for the project until the full 3 700 ha have been put under sugarcane. The revised finishing year is 2014-2015. This delay has a positive consequence as well: it reduces the pressure on saving funds. Instead of having to replant the entire acreage of the cooperative over a three-year period, it can now be staggered over six years. Over time, each cooperative should work towards replanting 10 % of their total acreage each year, funding the replanting out of the accumulated replanting savings.

At the time of writing, there are 31 Vuselela cooperatives in the project, with a total of 2 555 members contributing 3 534 ha. The project is supported by 71 extension officers from the THS Small-Scale Growers unit and the specially created project office.

Simamisa

Through the Vuselela project, THS experienced that cooperative management, which is not their core activity, requires a lot of their time and effort. It is possibly due to this experience that for the second project the company outsourced the field activities to a management company, Simamisa, after which the second model is named. Although both projects work with local contractors, Simamisa mainly employs its own staff, which it endeavours to recruit from within the cooperative membership and the wider local community. This closer control over the activities on the ground reduces the issues experienced by the Simamisa cooperatives and might be a contributor to the higher yields experienced by the Simamisa cooperatives.

The use of an external management company for all the field related activities might be a reason why Simamisa has been able to roll out planting at a considerably faster pace than the Vuselela project. Since the inception in 2012, 18 cooperatives have been established with over 6 600 members. These cooperatives, supported in their establishment by the Tribal authorities, are much larger in size than the Vuselela collectives. The company does not have to go through a government tendering process, nor does it rely on local contractors for the planting activities. Both the scale and the lack of government intervention seem to make the roll-out of the planting more efficient.

Productivity of the small-scale farmers in the project is quickly approaching the productivity obtained by independent medium-scale farmers. Although still slightly behind, participants in the project are confident that small-scale farmer productivity will soon be comparable.

Through both the projects, beneficiaries enjoy economies of scale at production level, increasing their income per hectare of land, when compared with independent farming. Furthermore, by leaving management of the land to the cooperative/THS and Simamisa, individual landholders also increase their return to labour, as the total labour input per hectare falls sharply. Most of these benefits are attained through centralising input procurement and communication with the sugar mill, harvesting contractors, and transport agents. Furthermore, farmers are no longer required to work a fixed number of hours to attain a certain output. They can either work less than they used to, or work more than they used to, depending primarily on their own preferences.[11]

Functioning: committees and meetings

Due to the different project partners engaged in the two models, specifically the degree of government influence in project design, the models are coordinated differently.

The Vuselela project steering committee consists of THS, SASA, CANEGROWERS, and the KZN DEDT; this body meets quarterly. THS and the DEDT also have monthly meetings to discuss Vuselela project progress. The finances are discussed and there is a check made to see how many hectares have been planted by how many cooperatives. More specific organisational problems are discussed according to the cooperative concerned. If there are problems with management election, dissatisfied members, or whatever other problem, they are discussed at this meeting and a plan of action is formed to tackle them.

11 In October 2013 and August 2014, when fieldwork for the case study was conducted, all cooperatives were forced to hire most workers from outside the cooperative, as members did not want to work sufficient hours to meet production schedules.

Day-to-day monitoring takes place by the THS extension staff. They consult with the cooperative committee and contractors on planting, fertilising, and weeding schedules. These meetings take place weekly. Perhaps most importantly, harvesting schedules are discussed. Harvesting is particularly crucial, as it needs to take place evenly throughout the season to keep the mill running continuously. Cane contains the most sucrose, and thus has a higher value, at the end of the season, which is why it is important to distribute harvesting evenly over cooperatives to ensure a fair average price. Planning is complicated by fires as burnt cane needs to be harvested and delivered to the mill within three days before sucrose levels drop and the cane becomes too dry to process. The required changes to the harvesting schedule are discussed at these meetings.

Extension staff members visit fields where contractors are working to ensure that they perform according to THS standards and to provide advice, wherever needed. Whereas before the project, the extension staff were responsible for supervising 10 000 individual small-scale growers, they are now able to work far more efficiently through making use of the cooperatives. The THS support to contractors in the Vuselela model is crucial to the success of the project, as many contractors have little or no experience in ratoon maintenance, or cane harvesting. The cooperatives also lack the knowledge and skills to oversee the contractors.

Although the Simamisa model is also based on cooperatives, the absence of government results in fewer meetings. Simamisa is responsible for, and executes the day-to-day management on the land of the cooperatives under their care, informing the cooperative on planned activities. Simamisa and THS also meet regularly to discuss progress, budgets, and issues.

The THS project office was created specifically for the small-scale grower projects and is staffed by three people: the manager cum project coordinator, and two people who are primarily responsible for finances and other administration. They are responsible for managing the finances of the cooperatives. The project office authorises releases of payment from SASA to the cooperatives and their individual members.

The cooperatives organise regular meetings with their members. Some cooperatives meet more often than others do, but all meet more than once a year. The THS extension officer attends these meetings in the case of Vuselela cooperatives, whereas the Simamisa staff organises and attends the meeting with the cooperatives under their management.

Inclusivity

When assessing the inclusivity of a model, it is important to look at both the way the smallholders are included in the commercial value chain through market access (linkages), as well as the empowerment of the smallholders within the partnership. In the case of both the THS projects, the most important linkage is the concrete and urgent demand for contracting services. Although contractors were active in the area, they could not deal with the increase in activities related to the newly planted area. Due to the government's demand for contractors to be local, through substantial investment and patience, several contracting companies are now active, generating substantial regional employment. Nevertheless, the limited economic activity in the region hampers opportunities to expand production linkages.

Simamisa prefers to use local workers for its activities, rather than contractors. This has seen a sharp increase in job opportunities, especially for cooperative members. The company now employs over 6 000 people to manage all the cane under its care. The downside of the employment of local workers is the crowding out of local contractors. Simamisa has started to assess these contractors with the aim to integrate them in their activities. The local contractors, however, do have to meet the stringent quality requirements set by the company.

The output market for sugar cane on the other hand, has never been an obstacle for the farmers with the THS mills always needing inputs. Uncoordinated harvesting and transportation, however, made it challenging for these smallholders to get their cane to the mill before sucrose levels dropped too much, posing a severe risk in their income. In theory, the overall coordination by THS, including the management of the contractors, overcomes this hurdle.

A secondary effect of the increased activity in the region is increased access to financial services. Banking is very limited in the region; most people do not have their own bank account. This forces contractors to pay their employees in cash, a risk, given the structural insecurity in the region. Therefore, contractors are actively encouraging their employees to open bank accounts, causing increased activity by several banks in the region. Simamisa has partnered with Nedbank and assists cooperative members in opening bank accounts. These are needed to receive the rental payments.

To assess the degree of inclusivity of the smallholders in the Vuselela and the Simamisa projects, and thus their empowerment, we use the four criteria suggested by Vermeulen and Cotula (2010): ownership, voice, risk and reward. The focus is on the inclusivity of the main beneficiaries – the small landholders. Contractors, an important group of secondary beneficiaries, are not taken into account.

Beneficiaries' ownership is limited to land and cooperative ownership. In both projects, the beneficiaries have land rights through a PtO, rather than a land title. In both projects, the smallholders effectively sign over the rights to their land to the cooperative, and consequently to THS, for a period of 10 years. Vuselela cooperatives have ownership of the sugarcane roots, an asset which lasts up to 10 years. This is financed by means of the government grant. Simamisa cooperatives do not have this ownership; the roots are financed and owned by THS. None of the cooperatives own any equipment. Through the lease construction, THS has full ownership of the sugar cane produced on the cooperative's land.

Whereas the ownership of the land remains with the landholders, the centralised lease agreement entails that landholders lose a say over their own land. During initial information meetings, landholders are informed what the project entails, and a number of community members are invited to help organise the cooperatives. Most landholders have a simple opt-in or opt-out decision to make – although the opt-in decision can be postponed. Once a landholder signs up for the project, he or she is locked in for the duration of the agreement with the cooperative, which is ten years. As members, the smallholders have the right to vote for their choice of representative while also having the right to be elected to the executive committee; they also have the right to share in the profits of the cooperative. The management rights over the land lie exclusively with the cooperative, implemented by the elected committee. The contract agreement between the cooperative and THS transfers these rights to the sugar processor, thus further limiting the impact the individual

landholder can exert over his/her land. The landholder's influence on the project is merely indirect, through the cooperative.

However, because the cooperatives together represent a substantial part of the THS sugar supply, general landholders' concerns are heard within the new system. In both cases, either THS, or Simamisa staff, meet on a very regular basis with the cooperatives to ensure a channel to raise issues, even though they might not necessarily be followed up on. Simamisa and THS are responsible for scheduling activities and the overall production process; these commercial organisations also manage the financial payments. In practice, this leaves the cooperatives in a subordinate position. The collective organisation of a large number of smallholders, thus, does not guarantee them a voice in what happens on their land. The cooperative does, however, have better access to the commercial organisation than the individual smallholders had when they were independent sugar growers. Nevertheless, the overall involvement of the individual landholders has been reduced.

Risks are shared at the cooperative level, reducing the risks for the individual landowners compared to the independent smallholder system in place before the cooperatives started. Nevertheless, rental income for the beneficiaries is fully determined based on cane production by the cooperative, rather than a fixed amount per hectare. This exposes the members to operational risks, such as weather conditions, but also harvest loss due to fires and grazing. One of the largest risks in sugarcane growing is presented by cane fires, which can be caused by lightning or human activity. To prevent loss of sucrose and drying out of the stalks to render them unsuitable for processing, cane needs to be cut and crushed within 72 hours after the fire. The risk can now be partly absorbed by the cooperative by moving harvesting teams to fields where accidental cane fires happened. Even when the harvesting teams cannot be re-allocated in time, or fires happen outside the crushing season, causing the loss of the entire field of the farmer, the landowner runs less risk than in an individual-based production system. As a cooperative member, his/her income is reduced only by the share of the harvest of the entire cooperative that was lost.

Another major operational risk is that of cattle grazing in the cane fields. As with fires, the responsibility to prevent this from happening lies with the cooperative, and more particularly the individual smallholder. Simamisa has further reduced this risk by deploying cattle guards in the fields. The costs for these guards are absorbed into the payment of proceeds to the cooperative. If the smallholder does lose cane to cattle, once again, the income is reduced only by the loss in harvest to the total cooperative, and is thus shared by all members.

On the other hand, the lease agreement entered into by the landholders with THS has overcome their previous financial risks, mainly related to the purchase of inputs. The individuals are no longer required to finance cane roots, fertilisers, herbicides and the like. Whereas previously THS provided financing to the farmers to purchase the needed inputs, most of the farmers were unable to repay these loans from their meagre harvest. Under the cooperative lease construction, all inputs are financed by the commercial partner with initial grants from government in the case of the Vuselela project.

Inherent to a community organisation is the chance of misuse of power by those people in executive positions. As such, THS considered it too risky to make payments to the cooperative, which would then be responsible for distribution to individual members. To avoid corruption and abuse of funds, THS pays the cooperative members directly, bypassing cooperative management, assuming the corporate partner is in a better position than the cooperative leadership to manage the financial payments to members (James Jr.

& Sulemana, 2014). To further reduce the possible misuse of executive positions, people who serve in any of these positions do so voluntarily, and thus cannot claim money for activities performed. In the case of conflicts within a cooperative, THS, in agreement with the cooperative, has the right to withhold payment.

The risk to THS lies mostly in the loss of supply to their mill attributable to bad maintenance of the cane. To manage this risk, the company's extension officers are heavily involved in the management of the Vuselela fields; the Simamisa fields are managed by a professional service provider. Through the involvement of Simamisa, THS aims to secure the management of their sugarcane roots for the maximum period of 10 years. The use of a professional company, rather than local contractors partly managed by inexperienced cooperatives, might be perceived as less risky to THS.

Each member's share of the cooperative income is equal to the share of the land he or she has brought in, ensuring that all landholders, regardless of the size of their land, can participate. Although rewards per hectare for the landholder are low, this comes at little effort to the landholder. The cooperative members might possibly be in a position to earn a higher income from other farming activities, but it would require the landholders actively farming the land themselves, and markets for alternative produce are limited. Most land brought into production by the project was lying fallow, an indication that independent sugarcane production on a very small scale was economically unviable. By allowing farmers to be passive cooperative members, the project, in effect, creates a rental market for land. Through the project, households are given an opportunity to earn an income from land that was previously unproductive.

Aside from the 'rental' income, landholders can make money by working for, or as, contractors. Remuneration for this work is based on the number of hours worked, using a fixed, predetermined wage rate. Remuneration levels are agreed on between the cooperative and the contractor, in line with legal regulations on minimum wage levels issued by the South African government. In several cases, the salaries paid by local contractors in the Vuselela project to workers are below the legally prescribed minimum wage in the agricultural sector. THS did not monitor the labour practices at the time of writing. The incentive to work thus remains low, and the potential rewards from the cane production are very limited. Despite the low wage level, salaries could still constitute a large part of an individual labourer's income. The labour intensity of sugarcane production also means that, overall, wages are the single largest cost component in a sugarcane production system.

Issues

Challenges

Tongaat Hulett Sugar first started with the implementation of the Vuselela project, during which it ran into numerous challenges. These will be listed first. The Simamisa model has been able to learn from some of the issues experienced in the Vuselela project, and thus, seems to run smoother. This is also attributable to the different aim of the scheme. Whereas Vuselela was focused more on reviving areas historically used for cane production, mostly located in the densely populated area around the Maidstone mill, Simamisa aims to bring new lands under sugarcane in areas where individual land holdings are larger, but were

not used for sugarcane production before. Nevertheless, both models still face a number of similar challenges.

Cooperatives

The initial planting of the sugar cane is spread out over a number of years. This poses the fundamental question of when a cooperative member becomes entitled to receive land rental income. Is this when the member signs up with the cooperative, when their land is being planted, when their land is harvested or some other time? Most cooperatives decided that members would be eligible for land rental income from the moment they sign up as a member. In this way, internal disputes over whose land is planted, a decision made by THS, are prevented. This solution was acceptable to the cooperative members in view of the initial planting schedule of three years. However, the delay in planting has pushed this issue to the forefront. Some cooperatives have only a quarter of their land planted with even less being productive. As a result, the income for the cooperative, and thus the individual members, is significantly lower than expected. Smallholders whose land is producing, receive an income that compares very unfavourably with the income they received as independent smallholders since they have to share this with the other members. These members especially feel entitled to higher payments from the sugar producer. Although this imbalance will be reduced over time as all the land is planted, and income for the cooperative subsequently increases, the current internal conflicts need to be managed by the cooperative management.

Not only do members with good sugarcane fields feel unfairly treated compared with members who do not have any cane planted, they also feel resentful towards those members who do not look after their fields and allow cattle to eat the cane, destroying the harvest for that year. As a result, the overall income for the cooperative reduces, while the specific impact on the individual member with the destroyed harvest is limited only to his/her share in the cooperative; while at the same time this member benefits from the good grazing consumed by his/her cattle. This behaviour is referred to as the 'free-rider' problem, where certain cooperative members reap the same rewards as other members, but do not put in the same investment, being cattle-monitoring effort in this case. Simamisa has, therefore, opted to employ 'guards', community members paid by the cooperative, to monitor the fields for grazing, as well as fire.

Active and inactive landholders in the cooperative react differently to the level of economic rewards from the project. The landholders who were active and productive before the project, but simply did not have the ability to save for replanting, and saw their production dwindle as a consequence, are most likely to indicate a desire to leave the scheme because the income levels under the cooperative are perceived to be lower, possibly due to the issues described above. They compare these with the gross income levels from the time when they were independent growers, without taking into account the costs made to produce cane, hence their unfavourable reaction to the cooperative system. Inactive landholders are satisfied that they get at least something from their land, although they would like to receive more money, if this were to be an option. The schemes were specifically designed to allow passive landholders to participate. This allowed the company to access more cane fields within a milling area, and reward the landholders by allowing for economies of scale.

Part of the landholders' dissatisfaction stems from a lack of understanding of the scheme. Land rental is paid per hectare, while proceeds and costs are calculated per tonne. Because finances are handled by the project office, and not directly by the cooperative, landholders are not motivated to understand the details of this process. This lack of understanding is

exacerbated by the unknown final price of sugar, even to THS, and the lack of knowledge regarding the savings fund and input cost deduction. Technical issues with the Umthombo system, accommodating payments to all the beneficiaries, considerably delayed income payments to the cooperative members, without a clear explanation being given to them. This lack of comprehension, in combination with returns that do not meet expectations, undermines the trust the cooperative management and members have in THS, and endangers the sustainability of the project.

The last factor contributing to issues within the Vuselela project, and which is also experienced by Simamisa, is that of inexperienced, weak management of the cooperatives. As a result, a number of cooperatives face social issues such as irregular elections, or character clashes between leaders. The schemes depend on member smallholders to take a leading role in managing the cooperative. If these landholders were to leave the project, they would endanger the long-term survival of the project. On the other hand, there is the potential threat of misappropriation of cooperative funds by these members in positions of power, especially considering the lack of control due to members' low levels of education and understanding. All these internal matters prevent the cooperative from focusing on its core activity, which is managing the cane fields and its members, which is, thus, still greatly executed by THS and Simamisa.

Contractors

A constant challenge for the contractors is staff control and management. Most people in the community receive a monthly grant from the government, such as pensions or child grants. Because smallholders are afraid to lose these stipends, very few of them are willing to sign a labour contract. Rather, they work whenever they need the extra money and receive their cash income every fortnight. This irregular staff presence complicates production planning. Furthermore, the regular delivery of large amounts of cash to the communal areas is a serious crime threat for the contractors. They regularly change payment locations and times to prevent robberies. A conscious effort is underway to give workers free bank accounts. Some contractors are considering making bank accounts mandatory.

Contractors are offered one-year contracts. The open bids received through the tender process determine which bidder receives the contract. Although price is not the only criterion, it is the most important one. The contracts only cover one year to keep the contract flexible. Contracts are hard to dissolve, often requiring legal interference, and THS does not wish to run the risk of being forced to work with a non-performing contractor. Because they run a risk of non-renewal, contractors have a strong incentive to meet performance targets. On the other hand, because contracts are only for one year, THS has little to no incentive to make substantial investments in the training of contractor management or field staff, nor does the contractor have the opportunity to invest in assets such as equipment. Discontent with contractors is higher among the Vuselela cooperatives, which tend to work with smaller, independent contractors who often do not fully respect the contract, or regulations, such as those pertaining to the environment or health and safety. Simamisa tends to have closer collaboration with the contractors whom they actively develop.

Despite the non-renewal risk, it is observed that contractors do not perform to their full potential, but rather choose to do a job quickly in order to move on to the next. As a result, the cooperative does not get the best yields possible. In addition, contractors steal inputs, such as fertiliser purchased for the cooperative, to use on their own cane fields. Potential yields for the cooperative are further reduced by harvesting contractors skimming off part

of the harvest, which they then deliver to the mill under their own quota number, rather than that of the cooperative. The cooperative thus misses out on tonnage delivered because these skimmed portions are registered as being supplied by the contractor. Neither THS nor the cooperatives themselves have been able to check the activities of the contractor to prevent this issue.

Actions undertaken

The cooperatives are closely managed by THS and Simamisa. These companies organise cooperative meetings and send representatives to inform all the beneficiaries on the status of the crop, planned activities, any issues, and expected payments. During these meetings, THS and Simamisa continually educate the members on their roles and responsibilities as cooperative members, and as to what they can expect for the near future. The companies also attend cooperative executive meetings, during which schedules are formulated for the following months. Through the presence of company representatives, in both the cooperative meetings and daily in the field, cooperative members have easy access to advice in case of issues and questions. On the other hand, it also enables the companies to keep tight control over the cooperatives.

Aside from the tight control over both activities and payments, Simamisa further reduces possible tensions within the cooperatives through a close relationship with the local headmen and chiefs. By ensuring their support, potential conflicts are kept outside of the cooperative, or can easily be referred to the Tribal court. Close relationships with chiefs also reduce conflicts between cooperative members and non-cooperative members. Whereas some chiefs in the areas of the Vuselela cooperative have implemented unreasonable taxes to the detriment of cooperative members, chiefs in the Simamisa areas seem more supportive by implementing fines for those cattle owners who allow their cattle entry into the sugarcane fields.

The issue in the Vuselela cooperatives relating to non-active members waiting for their land to be planted while concurrently benefiting from rental income, does not exist for Simamisa. In this model, the cooperative is established and all the land is planted in the same year. Because the 10-year lease contract is between the cooperative and THS, only a limited number of members can join later. The horizon problem, where beneficiaries join later but receive the same rewards as the older cooperative members, is thus limited.

Lastly, the challenge presented by fire is met through constant education during cooperative meetings. When accidental fires burn down cane fields in the months when the sugar mill is not crushing, the value of the lost sugarcane cannot be salvaged, and will therefore affect the income of the cooperative negatively. Within the sugar industry, there is specific insurance to cover this risk. Extension officers are actively encouraging cooperatives to take out this insurance.

Overall, it seems as if Simamisa has indeed been able to learn from the lessons learned in the Vuselela project, resulting in a smoother running operation, higher efficiency, and hence higher rewards for the smallholders, although with less involvement from the beneficiaries.

Unaddressed issues

Looking towards the future, it is not certain how either model will perform after the first 10-year cycle is finished. In the case of Vuselela, replanting money is set aside to overcome the financial hurdle of putting new roots into the ground. However, the cooperatives are not able, at this point in time, to take up the responsibility for replanting and managing another cycle. They rely on THS to coordinate activities and execute the financial planning and payments. Simamisa cooperatives have no savings for replanting, as the roots belong to THS. Accordingly, THS will have to plan for the next cycle, once again leaving the cooperatives in a dependent position.

Another question which needs to be answered in the next few years, is that of payment to members wanting to leave the Vuselela cooperative. As a member for a ten-year period, they could lay claim to their share of the cooperative savings which has been put aside for replanting activities or other purposes. This would leave the cooperative in a financially vulnerable position regarding its future survival. The current thinking at THS is, therefore, to not give any payment to a member leaving the cooperative in order to keep the funds available for continued sugarcane production. This is in the interests of the company, but not of the landholder. Both issues illustrate the lack of the cooperatives' empowerment, which needs to be addressed.

Other unaddressed issues are the extent of THS' responsibility regarding safety, health, and environmental (SHE) regulations and contractor wages for those contractors working for the Vuselela cooperatives. Whereas staff members working directly for THS have to adhere to very strict regulations, these conditions are less stringent for contractor staff working on cooperative fields. As such, contractors can pay workers less than the minimum wage, if this is agreed upon with the cooperative. This can lead to situations arising where workers who perform the same activities receive different rates of remuneration. There is no monitoring by THS on the wages paid to the contractors' workers at the moment, although this is checked by Simamisa. Regarding SHE, staff from THS visit the contractors in the field when they are working, and point out to the contractor where (s)he is not meeting requirements, and how (s)he can make changes to meet the requirements. However, whether the contractors follow this advice is completely up to them. This problem is especially serious when it comes to the application of chemicals, which can have severe negative health consequences. Although protective suits are required by regulations, they are burdensome to the worker, especially in the hot KwaZulu-Natal summer. At the moment, this issue does not pose a threat to the success of the project. However, it might be a source of future contention. Outsourcing the operational activities to Simamisa appears to lessen these issues as the management company has implemented tighter control and cooperation with the contractors. Owing to the lack of skills at the Vuselela cooperative level, they are not in a position to execute the same level of coordination.

Increasing inclusivity

The Vuselela scheme, on paper, is designed to be more inclusive than the Simamisa model. THS has a clear incentive to include as many landholders and farmlands in the project as possible, up to the point where their sugar mills are at full capacity. Their expectation is that even when all smallholder farmers in the catchment area are fully producing, the mill will still not be able to reach its full capacity. One of the main reasons for this is the high population growth, and subsequent subdivision of landholdings between family members. To make use of the remaining productive land as effective as possible, there is no lower

limit to the size of land contributed to a cooperative. Some members hold less than half a hectare of land, and anybody who has land in the delivery zone and wishes to plant cane on it, is welcomed. The grant provision for the planting enables this high inclusivity by taking away some of the financial pressure.

Simamisa is more driven by economies of scale and does not receive any grants to help overcome the higher costs related to fragmented farming. It is thus less able to include landholders whose lands are not easy to access. Landholders who cannot be incorporated into a small block with other landholders are less likely to be accepted as cooperative members. It therefore mainly operates in areas with lower population pressures than most of the Vuselela cooperatives. A possible explanation of the relative success of the Simamisa model lies in the efficiencies obtained, although it does this by excluding smaller, and more remote landholders.

While the Vuselela cooperatives have more responsibility through their ownership of the cane roots and the availability of the saving accounts, in practice, neither model has empowered the cooperatives to become self-standing bodies which are able to manage their internal affairs. THS and Simamisa, in effect, run the cooperatives and make most of the decisions. To give the cooperatives a bigger sense of ownership, members in general, and executive members specifically, need to be trained in fields such as financial management and conflict management, and also in the technical aspects of sugarcane production, beyond the limited training organised at inception. Although THS is aware of this issue, especially after the completion of first cycle of ten years, it has not implemented concrete steps for making the cooperatives truly independent.

For Simamisa, the first question to be answered is whether the cooperatives will continue to exist once the sugarcane roots are exhausted. The cooperative has limited savings to provide for the costs of replanting, as opposed to the Vuselela model which has made full provision. In addition, there is the concern of a possible fragmentation of the cooperative if some members should decide to exit, resulting in a more fragmented landholding. The last question to answer concerns the role of the cooperative, versus the role of Simamisa as the managing agent appointed by THS.

Because of the involvement of the government, more emphasis is given to the inclusion of women in sugarcane production. This is included in the tender process as one of the 'soft' requirements. Contractors who work with women are preferred over contractors that do not, provided they are identical on other fronts. Positive discrimination towards women for contracting work is easier than it might sound. Traditionally, men do not work the land: it is women's work. In addition, many of the men work and live in the city, but leave their children with their wives, meaning women bear the brunt of the responsibility for feeding the children, which includes earning an income to provide for the family. As a result, many of the contract workers are women. Some contractors even work exclusively with female staff. Because of this, Simamisa also employs a considerable number of women. Women are furthermore included as landholders; many of the landholders both in the Vuselela and the Simamisa model are women.

Scalability and replicability

The business model, in its current form, delivers both commercial and social returns to the stakeholders, and hence meets the crucial pre-condition required for scaling. By generating activity on previously unused lands, this income is additional, and does not

replace any other activity on a large scale. Some cooperative members might decide to lease land for sugarcane production that is used for domestic vegetable production, but these areas will be marginal. Because the project is one of the few activities generating employment in the region, it has an important social impact.

In order for the business model of small-scale landholders, organised in a cooperative, to reach scale, expansion is needed. Although there is some potential in improving productivity on fields already in the project, the largest increase has to come from creating new cooperatives in previously non-included areas. In the Vuselela project, these start-up costs were financed through a grant from the provincial government. The size of this model is, therefore, limited to the budget made available by DEDT. The partnership between THS and Simamisa has filled the demand for additional land and new cooperatives, although the model is less inclusive than the Vuselela scheme is. THS also believes that, because the project is profitable, it might be possible to finance start-up costs for new cooperatives through a loan-based system. Newly formed cooperatives would have to take loans from financial institutions, guaranteed by THS, which would be repaid from profits on the harvest. However, because such a model would generate lower returns for landholders than the grant-financed alternative, and requires more involvement than the Simamisa model, buy-in from landholders is expected to be substantially lower.

Vuselela cooperatives have the option to increase in size by adding new members in their area. In this model, the lease is with an individual landholder and planting can take place (within certain scale limits) on an individual basis. There is a limit to the number of members within a cooperative though. An organisation with too many members will challenge the democratic processes and its leadership qualities. In addition, the free-rider issue tends to become larger with the increase of members (McMillan, 1979). Simamisa cooperatives have limited options to grow within an area where they are already active – owing to the ownership of the established cane roots – other than through the establishment of a completely new cooperative. Scaling up this model largely depends on new catchment areas with a relatively large area suitable for cane production, but that is not yet in production.

Scaling up the project would likely run into fewer difficulties than the pilot projects did. Because of the ambitious scale of the Vuselela scheme, a robust management structure, with a dedicated project office, had to be put in place. Now, already up and running for several years, substantial know-how has been built up, and increasing the capacity of this office would be relatively straightforward.

One of the most difficult parts of the Vuselela project was selecting and training local contractors with sufficient capacity. Difficulties in this field caused substantial delays in the start-up of the project, and in the beginning, the delays were a major threat to its survival. By now, most of these contractors have several years of experience. Furthermore, a number of them have the explicit ambition to expand operations, with THS willing to support them. With experienced local contractors firmly established in the region, project expansion should not only be easier than the start-up, it is also likely to be at a lower cost, as the contractors can make use of economies of scale; also, less funds would be spent on searching for, and training staff. Simamisa also aims to include local contractors into their business to deal with the expansion of land under their management.

THS has a strong incentive to scale up the landholders' cooperative business model. Several of their sugar mills are far below capacity, and the only land available to provide the sugarcane are the Tribal lands under individual PtOs. Early successes of the project

ensured strong support throughout the organisation for the project, and the managers directly involved are enthusiastic and driven. Furthermore, since a corporate social responsibility attaché was added to the business unit, there has been growing involvement in, and support from, local communities.

The cooperative model in itself is easy to replicate, as can be seen from the large number of cooperatives active in the agricultural sector. Most of these cooperatives consist of farmers actively involved in the operational side of the business. The models described in this report have established cooperatives of passive landholders, with access to small plots of land, who lease out their land. As such, they differ from models such as cooperative outgrowers where landholders keep the ownership of their land. In areas where such outgrowers would rather become more passive, cooperative leases are easy to establish, provided economies of scale can be achieved to carry the administrative burden. Small-scale forestry is one sector that could implement this model.

9

Community-owned land with commercially-owned forestry plantations – Mondi in Kranskop[1]

Wytske Chamberlain

Mondi is an international paper and packaging group with operations in Western Europe, emerging Europe, Russia and South Africa. The South African division operates a pulp mill in Richards Bay and a paper-producing mill in Durban. In South Africa, around 350 000 ha of land is owned or leased by Mondi, of which 245 000 ha is commercially forested (Makhathini, 2010).

In 2008, Mondi established a land division in order to manage community land claims on land owned and operated by the company. Under the Land Restitutions Act, 22 of 1994, around 60 groups have claimed land totalling about 130 000 ha managed by Mondi. The land division was tasked to deal with the claimant communities, communities residing on the land, and those on neighbouring communities, ensuring their needs were listened to, and incorporated into the settlement agreements (Makhathini, 2010). This chapter will look into the first claim the division worked on, located in the area of Kranskop.

This chapter is based on a previous publication by Maurice Makhathini, Head of Land, Mondi South Africa Division, as published in Cotula and Leonard's *Alternatives to land acquisitions: Agricultural investment and collaborative business models* (Cotula & Leonard, 2010). Additional data was collected during field visits in July 2014 and May 2015.

Project description

The first land restitution deals were signed in October 2008 by Mondi and two communities based in the Kranskop area. Kranskop is located in KwaZulu-Natal, along the R74, about 40 km east of Greytown. The land concerned, totalling about 4 000 ha west of Kranskop, had been used for forestry for a long time, first by another forestry company, which was later bought by Mondi in the late 1990s. The land title was transferred from Mondi to the communities in early 2009. The project has a lifespan of 20 years, and involves timber growing, forest management, and harvesting. The Kranskop forests comprise of gum-, wattle- and pine trees of various ages.

In essence, this project is shaped around a sale-and-leaseback set-up. The sale-and-leaseback agreement model has been adapted from a generic leaseback agreement,

1 The author wishes to express gratitude for the contributions to this chapter made by Maurice Makhathini, Head of Land, Mondi South Africa.

developed by stakeholders in the forestry industry, to provide a model which deals with land claim settlements overall. In the Kranskop case, the land ownership of over 4 000 ha of historically well-managed land, was transferred to the community trusts set up by the two claimant communities, the AmaHlongwa and the AmaBomvu (Mondi, 2008). As stipulated in the sale agreement, the Regional Land Claims Commission (RLCC) paid Mondi approximately R20.5 million, a price equivalent to the market value (*ibid*). In return, Mondi has signed two similar lease agreements, with each of the community trusts (Siyathokoza Trust for 1 500 ha and Eyethu Trust for 2 500 ha[2]) to lease back the land for a period of 20 years. Included in the lease is a five-year notice period. The lease agreement covers a rental fee, to be paid up front annually, and a stumpage fee based on production output. The annual rental was agreed at 7 % of the value of afforestable land, and 2 % of the value of non-afforestable land (SA Forestry Magazine, 2009). The land is revalued every five years by an independent evaluator, and rentals are adjusted accordingly and retrospectively. The rental is paid into the community trust account of the claimant communities, who then decide on distribution. The stumpage fee was set at R10 per tonne of wood as passed over the weighbridge (SA Forestry Magazine, 2009). This stumpage is paid quarterly and depends on the production in the previous three months (Makhathini, 2010). As with the rental fee, stumpage fees are adjusted annually according to the Consumer Price Index + 2 %, and re-assessed every five years, and adjusted accordingly. The stumpage fee is also paid into the claimants' community trust account, giving the communities the power to decide how the funds are used (Makhathini, 2010).

Table 9.1 summarises the annual payments received from both rental and stumpage fees since the commencement in April 2009.

Table 9.1 Rental and stumpage fees received by community trusts, 2009-14

	Rental (R)		Stumpage fee (R per tonne)	Timber Yielded (tonnes)	Stump. total (R)	Timber Yielded (tonnes)	Stump. total (R)	Total received (R)	
	Eyethu	Siyathok.		Eyethu		Siyathokoza		Eyethu	Siyathok.
2009	397 631	302 804	10.00	24 927	249 271	8 058	80 577	646 902	383 380
2010	428 646	326 422	10.78	12 450	134 212	12 764	137 597	562 859	326 560
2011	444 078	338 173	11.17	10 330	115 361	15 453	172 576	559 438	510 749
2012	480 048	365 565	12.07	3 392	40 946	8 372	101 073	520 994	466 638
2013	516 531	393 348	12.99	129	1 679	5 014	65 126	518 211	458 475
2014	554 231	422 063	13.94					554 231	422 063
TOTAL	2 821 165	2 148 376			541 469		419 489	3 362 634	2 567 865

Source: Mondi internal documents

Not only do the communities benefit through rental and stumpage fees, they are also actively involved in the work on the forest plantations. Each of the community trusts have established a business entity, which is contracted by Mondi for activities on the plantations. The trusts are the sole owners of these businesses and have representation

2 Not all the land under the land claim is forested. Some land is used for sugar cane, which prior to the land claim, was leased by Mondi to a sugar producer. The communities now manage this land themselves, or lease it out to the same sugar producer. This land is not included in the lease agreement between Mondi and the communities.

on their board of directors. As such, the trust is accountable for the management of all the land under its control, including the lease agreement with Mondi, whereas the community business is accountable for the implementation of the forestry activities on the ground. This two-level structure of community organisation allows the community to divide their focus: in the interests of the community, beyond forestry, through the trust, on the one hand; and on forestry-related skills and activities, on the other hand. It also enables the commercial partner to engage with the community business without interfering with internal community matters.

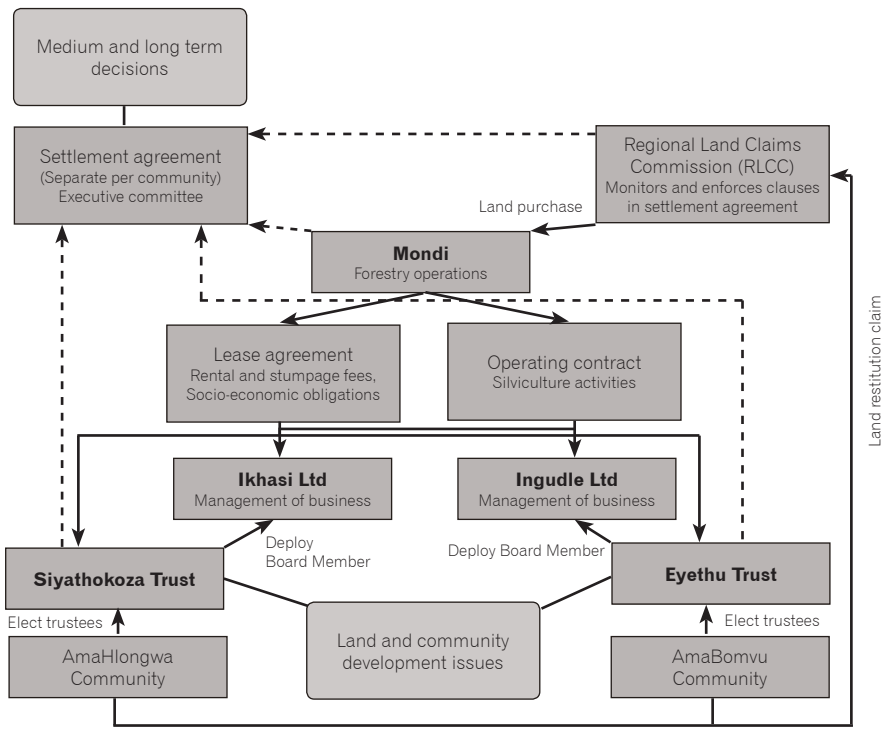

Figure 9.1 Institutional set-up Mondi and Kranskop communities

Mondi has taken on a mentoring role to enable the community businesses to acquire the necessary skills through the company's enterprise development arm, Mondi Zimele. The company assisted in the establishment of the community businesses, Ikhasi Ltd and Ingudle Ltd (previously Inzombane CC). It applied a phased approach in which Ikhasi and Ingudle were first contracted to perform basic maintenance of unplanted conservation areas. This activity started immediately after the lease agreement came into force in April 2009. Subsequently, the companies became involved in land preparation, alien weed clearing on forested land, plantation re-establishment, and most recently, fire prevention and fire-fighting. By 2014, the communities were engaged in all silviculture activities, but still needed to progress to harvesting and transportation. The contract between Ikhasi and Mondi has created 48 permanent jobs, and Ingudle employs 56 staff. Although permanent jobs are reserved for claimant community members, there has been a proliferation of non-claimant employees. These non-claimant employees reside in the same area as where the claimant community members live. As such, they are still considered community

members, even if they are not members of the trusts. Figure 9.1 illustrates the stakeholders and the institutional structure of the Kranskop project.

Due to the increase in activities in which the company businesses engage, their turnover has increased over the years. Mondi's payment to Ikhasi in 2013 of over R1.7 million, increased to R2.6 million in 2014. A similar development was registered by Ingudle where turnover rose from nearly R2.6 million in 2013 to over R3 million in 2014. The Eyethu Trust leases a larger area to Mondi, hence the higher figures for Ingudle, as compared with Ikhasi. Nevertheless, Mondi contracts the businesses to work on each other's plantations in case the workload between the community companies is unbalanced.

The settlement agreement between Mondi, the communities, and the RLCC includes a set of 'empowerment clauses' which define the socio-economic obligations Mondi owes to the communities. These include:

- For each community, Mondi will fund two tertiary education bursaries and internships for community-selected students. After graduation, these community members have to work for the community companies, after which Mondi has the right of first refusal to hire them.
- Depending on the community trading companies' capabilities, Mondi will offer contracting opportunities throughout the chain to the community-owned businesses.
- Providing support for the community trusts regarding the operation of the trust, including legal and administrative matters.
- Mondi will provide assistance to community business operations not related to forestry, such as bee-keeping or charcoal manufacturing, through the provision of loans, market establishment, and capacity building.
- Mondi will provide advisory support for community initiatives.
- The Community Trust can approach Mondi for advice regarding their responsibilities towards community development.

Source: Makhathini, 2010

Since the inception in 2009, limited financial rewards to individual families have flowed through to the members. The Siyathokoza Trust indicated that the roughly half million rand received per annum for rental and stumpage is used for operational costs of the trust and remuneration of trustees, supplementing funds for bursary students who fail certain subjects,[3] and to support Ikhasi Ltd. Ikhasi is not making profits, possibly attributable to the limited financial resources of the company. The situation is similar for the Eyethu Trust. A large share of the trust income is required for the running of the trust and for the operation of the sugar cane farm under its control, particularly for the maintenance of the old equipment used, as the trust is not financially able to acquire new machinery. The forestry activities also require considerable investments from the trust. Although projects such as a burial scheme, vegetable gardens, and community bursary schemes are mentioned in the business plans (Makhathini, 2010) limited progress in these community activities has been made.

3 The Mondi bursary scheme does not allow for resitting of terms.

Inception

The RLCC organised the first meeting between representatives of the two claimant communities and Mondi in April 2007, followed later that year by needs analysis workshops with the separate communities (SA Forestry Magazine, 2009). The company, through its newly established land division, then focused on potential models to work with the community. It considered community wishes - such as resettlement - but also the continuation of the forestry plantation (Makhathini, 2010).

Several models were assessed, including selling both the land and trees, underpinned by a supply agreement and a joint venture on the trees. However, this was rejected by the community representatives who wished to be organised independently. The sale-and-leaseback model, which was ultimately chosen, was developed by Mondi, although both the government and the community were able to make inputs before it was finalised. As such, community input resulted in a number of changes to the model as initially proposed by Mondi. For example, Mondi initially proposed to work together with one community company representing both communities in order to reduce the administrative efforts involved with running the forestry operations. The communities wished to operate separately, and thus, each of the trusts established their own community business. Other modifications concerned the lease period and payment of stumpage fee. Generally, the company and the community representatives meet numerous times before reaching a final agreement (Makhathini, 2010).

Kranskop was the first sale-and-leaseback agreement signed between Mondi and the claimant communities. Both the AmaBomvu and the AmaHlongwa had expressed their wish for the forestry plantations on their land to continue, which was enabled through the lease construction (SA Forestry Magazine, 2009). Since then, Mondi Zimele, the enterprise development arm of Mondi, has mentored the community forest operations team, and assisted both communities in preparing their business plans (SA Forestry Magazine, 2009).

Actors and drivers

Mondi

Mondi was faced with two communities reclaiming land that had previously belonged to them. After being contacted by the RLCC, Mondi suggested the negotiations and proposed the model to the community. As such, the company was the driver of the project, but this was instigated by the need to deal with the land claim on land it forested. The company needed to ensure a continuation in forest supply to meet the demand from its paper mill. Besides this commercial driver, the company also saw an opportunity to engage with the communities and build their forestry skills (Makhathini, 2010).

Mondi sold the land to the RLCC and is a signatory to the lease agreement, which obliges them to pay rental and stumpage fees to the claimant communities. In addition, Mondi is the sole off-taker of the logged trees. The company negotiates the price of the logs with the Richards Bay mill (Makhathini, 2010). It gives support and guidance to the community companies.

Communities

The claimant communities[4] started the process by putting in their land claims. After their forced eviction in the 1950s, community members from the two communities, the AmaHlongwa and the AmaBomvu, found new places to live, depending on where nearby chiefs allocated land to them. As a result, the community members are scattered across the area outside the forestry land identified in their claim, and even further afield. The communities experience high levels of unemployment and poverty, and have limited access to physical or socio-economic infrastructure. The total number of households in the two communities is 450 (Makhathini, 2010). Not all households in the Kranskop area are claimant beneficiaries. For example, in the Hlongwa village, both beneficiaries and non-beneficiaries live side by side. In general, claimant and non-claimant families live intermingled, side by side, without distinction whether a family belongs to the claimant group. A number of beneficiaries, including the manager of the Ikhasi community business, have moved to urban areas, but still maintain their rural bases.

The communities are organised in separate community trusts, called the Siyathokoza and Eyethu Trusts. These trusts were present in the negotiations with Mondi and the government, and were responsible for putting the communities' wishes and requirements on the table. The title deeds are held in the names of the community trusts.[5]

Regional Land Claims Commission

The government was involved in the negotiations and is a signatory to the settlement agreement, which covers the roles and responsibilities of all signatories. Through the RLCC, it financed the purchase of the land in the name of the two community trusts. In addition, the RLCC assisted the claimant communities to set up trusts, which serve as the legal entities for the purposes of owning land and coordinating development initiatives on behalf of the respective communities (SA Forestry Magazine, 2009). In general, the RLCC is responsible for ensuring that the land is transferred successfully, that the price is equitable, that communities are satisfied, and that sustainable outcomes for communities and the industry arise (Mondi, 2011). For this purpose, the RLCC is a member of the executive committee responsible for the implementation of the settlement agreement. The RLCC does not sit on either the board of the community trust or the community business.

Support

Most financial support came from the government through the payment of around R20.5 million to Mondi for the land (Mondi, 2008). In this way, the RLCC funded the purchase of the land, and transfer of the title deeds to the two community trusts. Mondi, in its turn, pays annual rental and quarterly stumpage fees to the community trusts, and it pays the community businesses for services rendered. The financial streams for rental, stumpage, and contracting services together, amounted to nearly R3 million for the Eyethu Trust and R2.2 million for the Siyathokoza Trust in 2013 (Mondi internal documents). The annual income fluctuates, based on the amount of work contracted by the community business and the area harvested from the community-owned land.

4 The government has finalised lists of the beneficiaries per claimant community and has gazetted these.

5 The KZN provincial government registers title deeds in the name of community trusts, whereas other South African provinces require the registration of a Communal Property Association (CPA).

Mondi has provided training and community capacity building to both communities to the value of R1.5 million (Mondi, 2011). The company also funded community projects in both communities, such as the AmaHlongwa community-based organisation (CBO) which provides services to disadvantaged community members (Mondi, 2011).

To enable the communities to start up their businesses and maintain their newly acquired assets, the RLCC has provided a discretionary grant of 25% of the value of the land, plus a grant per household, to the community trusts (SA Forestry Magazine, 2009). As these grants are slow to materialise, Mondi has provided bridging capital for which the discretionary grants have been used as a security. This enabled the registration of the community businesses and the purchase of equipment for these businesses.

The Forestry Industry Education and Training Authority (FIETA, now called FP&M Seta) has provided additional support to the communities to prepare them for the increase in silviculture activities on their land. The organisation has spent close to R2.8 million on community development (Makhathini, 2010). Mondi is seeking further training support for the communities through FIETA, to which body it contributes annually.

Figure 9.2 summarises the financial structure of the Kranskop agreement.

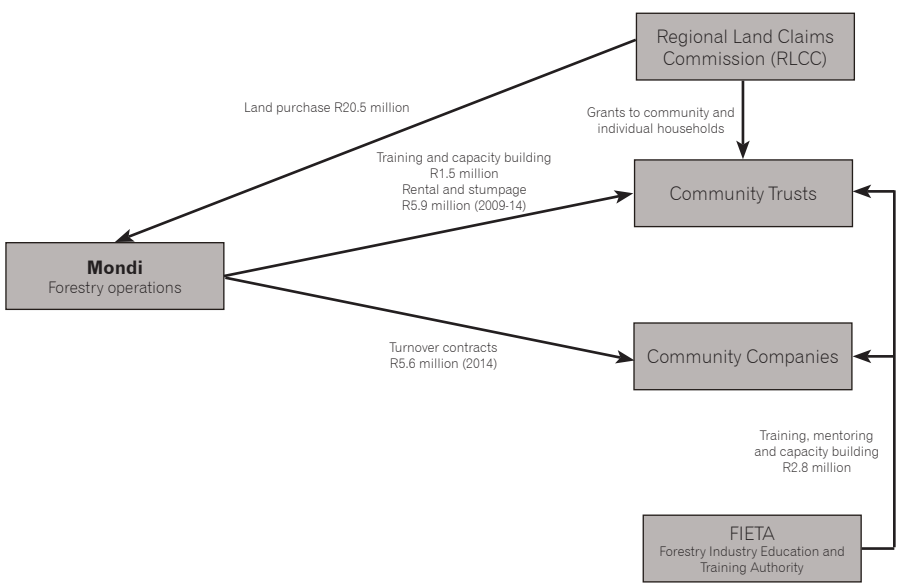

Figure 9.2 Financial structure Mondi and Kranskop communities

Implementation

Functioning: committees and meetings

Mondi, the government (through the RLCC), and both community trusts, participate in the executive committee enshrined in the settlement agreement, which describes the roles and responsibilities of the signatory parties. Mondi is represented by one staff member from their Land Unit and a forester, the RLCC has one representative, and the

communities each have two seats on the committee. The executive committee meets quarterly. This committee is responsible for implementing the settlement agreement and takes medium- and long-term decisions. Operational progress is reported at this meeting. Mondi chairs the meetings, draws up the agenda, writes the meeting minutes, and as such, is the main driver of these meetings. The executive committee also advises the trusts on activities to be undertaken and programmes to be implemented (Mondi, 2011). The RLCC representative is mostly absent during these meetings, leaving the commercial partner and the community without a third party to independently observe whether the other signatories meet their obligations.

The community trusts are governed by a group of trustees: eight in the case of Siyathokoza, seven for Eyethu. These trustees meet regularly – monthly for Siyathokoza and quarterly for Eyethu – and as and when necessary. Both community trusts organise an annual general meeting for all members to attend. The Siyathokoza members elected their trustees in 2008, to represent them in the negotiations and during the first years after the settlement agreement was signed. The AmaBomvu elected their own representatives in 2013 after they were first represented by their chief and members appointed by him.

The community companies are managed by a board of directors, three in the case of Ikhasi, and four for Ingudle. The board of directors reports to the community trust on a quarterly basis. For the daily management, this board employs an operations manager who reports directly to them. The manager is responsible for the daily operation of the community company. The community companies are assisted in the business management by Mondi Zimele. The community companies participate in monthly safety and area meetings, which are organised by Mondi, for all the contractors and foresters in the surrounding area.

Functioning: day-to-day

The operation of the plantations is managed by Mondi through its Area Office, a Community Engagement Facilitator and a Silviculture forester (SA Forestry Magazine, 2009). The forestry operations team deals with the community contractors on a purely business level, and manages the plantations as they would any other Mondi plantation.

Mondi provides the community businesses with a work order at the start of every month. This work order contains information on the activities to be performed per forest block, and specifies how many people are required for these activities. It also sets out the expected payment for the work. At the end of the month, the Mondi forester inspects whether the activities have been performed according to the company's standards, where after payment to the community businesses is authorised. Mondi provides all the equipment needed for activities, as well as other inputs required, such as pesticides, hydrogel, and saplings for replanting. Not only does Mondi dictate the number of workers required per activity per month, it also stipulates the wages to be paid to these workers, which is set at not less than the legal minimum wage. It calculates the payment to the community businesses on these regulations. Payment takes place at the end of the month for those activities that were performed and approved by the Mondi forester.

Employee/community development

Training and empowerment of the local communities is a key element in the settlement agreement. As part of this programme, Mondi funds two bursaries per community, per year, for youth members to obtain a tertiary education. The education sub-committees of the

trusts shortlist possible candidates from the community, after which the selected scholars need to complete a test set by Mondi. The best performers then qualify for the bursary. Costs covered include registration fees, tuition fees, and accommodation. Payments to the students take place upon successful completion of a term. If students fail a subject, payment is withheld until the subject is passed. As such, the bursary only covers the minimum time required to complete the degree/diploma, and a student will need to obtain supplementary funding to finance any extra time required because of delays in completing a subject. The community trust, though, is too small and does not have sufficient funds to employ the graduates who complete their studies. Thus, these students are free to choose their employers. The results of the bursary programme have been disappointing, with numerous students not completing their studies, despite the trust meeting regularly with the selected students.

The community business and trusts have received training and mentoring to build their capacities in areas such as land and environmental planning, and institutional governance. FIETA funded most of these community orientated programmes (SA Forestry Magazine, 2009), with the remainder being paid for by Mondi. Training is carried out by private service providers.

Training courses have focused on the forestry-related side of the community activities. Although the communities have been assisted in drawing up business plans to determine how income accrued by the trusts is deployed, little support has been given to the management of the trust for capacitation of the trustees responsible for the trust funds and community development. It is difficult to pinpoint the party responsible for the community trust empowerment. According to the settlement agreement, Mondi has a responsibility, mostly towards the development of forestry-related skills, but also to the establishment of the trusts. However, this does not extend to activities outside the lease agreement, such as the sugar cane activities on trust-owned land. Government, another stakeholder in the agreement, does not seem to be capable of supporting the communities after the settlement agreement has taken place. The trusts are thus left with large responsibilities (and high expectations from the members) without being able to execute their activities on a well-educated basis.

Additional to the silviculture activities, the communities have also ventured into catering services for the plantation workers. Compass, the catering company contracted by Mondi for this activity, subcontracted part of the service to Iphini catering company, jointly established by the two community trusts. Similar to the wider community development programmes, the Iphini directors were also mentored to ensure they would succeed in this new business. To further increase the catering capability of the community, four claimant beneficiaries have received training (Mondi, 2011). Even though the trusts recommended the beneficiaries, the final selection was still done by Compass, the catering company contracted by Mondi. Due to the considerable reduction in catering requirements from Mondi, this activity by the community is no longer operational.

Inclusivity

The claimant communities have ownership over the land. The community trusts are the holders of the land title deeds. The fixed assets on the land also belong to the community trusts. The trees on the land, however, are owned by Mondi. Access to the land is through a 20-year land lease between the individual community trust and Mondi. Since the

plantations are owned by the commercial partner, the community is not able to use this land for its own purposes, such as grazing or the collection of firewood. Not all the land claimed by the community was previously owned by Mondi. Those lands not under forestry are leased to other companies, for example for the growth of sugar cane, managed by the trust itself, or used for grazing. The community business which contracts services to Mondi belongs fully to the community trust.

The community trusts have a say in the medium- to long-term decisions regarding the plantation through their seats on the executive committee, whose main task is to ensure that the settlement agreement is implemented as agreed by the three parties (Makhathini, 2010). The 20-year duration does limit the available options and the community, thus, has to manoeuvre within the boundaries agreed on during the settlement negotiations. The operational activities on the land under lease are the full responsibility of Mondi, as the owner of the trees. The community trusts decide on how the income from the land lease, the stumpage fees, and the business activities is used. Overall, it can be stated that the community-owned organisation has rendered the responsibilities for the land under its ownership to the commercial partner, and only has full decision-taking power over the application of the income from this partnership. The voice of the individual beneficiary is hardly heard beyond the five-year election process of the executive trustees.

Risks related to the forestry operation lie with Mondi as owner of the trees. The commercial partner is responsible for the financing of the plantation, and is thus exposed to the financial risks. Nevertheless, risks related to fire and disease are shared between Mondi and the community, as these impact on the production of the plantation, and hence the income to the community through the stumpage fee (Makhathini, 2010). Despite this risk sharing, there seems to be little understanding among the claimant beneficiaries regarding the impact of their actions, such as grazing their cattle, on the income of the community trust, and hence indirectly on the potential dividends accruing to them as individual members. The community companies do carry the operational risks of their own activities, such as non-performance of employees, or lack of skills among the workers. These risks are reduced through the training and mentoring programmes funded by FIETA, Mondi, and the government. The government has funded the purchase of the land and equipment for the community businesses. Thus the community, and the individual members, are not financially exposed to any financial risk. The community trusts do have to manage the risk of non-performance overall, and importantly, the expectations and engagement of the claimant beneficiaries in order to ensure a successful plantation on their land.

The communities firstly receive income: both through land rental and the stumpage fee. As such, they share in the rewards from the forest plantation. These rewards accrue to the community trusts and not to the individual beneficiaries who depend on the decision by the trustees on how to distribute the funds available to the trust. Secondly, the community businesses generate income through silviculture activities contracted by Mondi, with the profits being directed to the community trusts. The contracting businesses generate job opportunities, and thus income, for the community members. In practice, most of the community members employed by the community businesses are not claimant beneficiaries. To correct this situation, vacant positions will be communicated to the trust who will actively look for members of beneficiary households to apply for these jobs. Lastly, the community is empowered through mentorship, training, and bursaries. For community members from both the Siyathokoza and the Eyethu communities, who are not actively involved with the plantation, actual rewards have been limited to a once-off cash payment of R2 000 per member household in the first six years of the lease agreement.

The project has limited external linkages. Mondi engaged with the claimant communities to ensure a continued supply from the Kranskop plantations to its paper mill in Richards Bay. Since the company is the owner of the trees and of the mill, price determination is fully in the hands of the company. Another product from the plantation is bark from wattle trees, which is sold by the commercial partner, as owner of the trees, to the NTE wattle extraction factory in nearby Hermannsburg (SA Forestry Magazine, 2009). The partnership with Mondi has, however, enabled the community to establish these linkages. Independent operation of the forestry plantation by the claimant communities might have resulted in unfavourable pricing of both inputs, and timber output, owing to the lack of experience by the community and the small scale of the forestry plantation. Financing of the high-risk forestry activities might have been an additional obstacle, if Mondi had not been a partner.

The community provides a number of silvicultural services to the plantations, creating employment opportunities for the community members. The settlement agreement specifies preferred status for claimant members when new job opportunities arise. As a result of the settlement, the employment opportunities for local residents have increased, replacing workers from contractors outside the area who were previously contracted by Mondi. These community members are employed by the trust-owned community businesses, not by Mondi. To ensure good management practices on the leased land, Mondi contributes its extension services by providing a qualified forester. Mondi also provides all the inputs required for the silviculture activities such as saplings and fertiliser. Harvesting and transport, which require heavy equipment, is done by external contractors, as the communities have neither the skills nor the financial means for carrying out these activities.

Issues

Key lessons learned

Mondi has experienced a number of factors that need to be discussed between the two parties in order for a partnership between a commercial partner and a community to succeed, as listed in Makhathini (2010:31-32). These include an upfront understanding of how income to the community can be used, an open and honest relationship, and an involvement of the community to reap economic rewards beyond land ownership. On the other hand, the commercial partner needs to have a clear understanding of the community with which it enters into an agreement in order to gauge what that community's needs and expectations are. Both partners can then work together in good faith to empower the community; the community will gain an understanding of the management and operation of a commercially orientated forestry plantation and the rewards accrued, as well as the investments required to maintain economic viability. Through the Kranskop settlement, and similar agreements with other claimant communities, Mondi has been able to turn "a threat into an opportunity" (Makhathini, 2010:32) and has been able to roll out its sale-and-leaseback model to different land claim projects.

Unaddressed issues

The first issue related to the model is its complexity. Community members own land, but only through the trust. As such, it is the trust who decides how the land is managed, and in this case, it results in the claimants not being able to access 'their' land. Economic

rewards, through land rental or job opportunities, with either the community business or the commercial partner, have been limited. It is thus difficult for the land claimants to understand what the advantage of their successful land claim is for them.

The newly established community trusts do not necessarily have the required skills to operate effectively. The trustees could benefit from external, impartial mentorship to become able to serve their full objectives (Makhathini, 2010). This issue is aggravated by the change of trustees after a period of five years, when new trustees are elected by the beneficiary members. Capacitation then needs to start anew without there being a clear responsible party for this renewed capacitation – the outgoing trustees, government, or even Mondi. Besides skills, the trusts also lack the significant funds required for the establishment of independent business activities. Promised government grants for this purpose have not been paid, even six years after the settlement agreement.

Although the traditional leader is not allowed to chair the trust, the trustees must respect the chief. This creates friction between the community trust, and the Tribal Authority who might have opposing ideas on how to use and manage the land. Both the trust and the community businesses are powerful organisations with financial potential, making them attractive to the local elites. This is visible in the case of Eyethu Trust. Despite stipulations in the Trust Deed, the chief of the AmaBomvu community was the chairperson of the first body of trustees, with the other trustees being selected by him. His first wife was appointed operations manager of the Inzombane business (now called Ingudle). Although this has not had a direct effect on the performance of the community business and the trust, it undermines the democratic character that the trust is intended to have. Beneficiaries, although fearful to speak out directly, have indicated that it has had a serious impact on the equal division of its rewards. In the trust's latest annual general meeting of 2013, the beneficiaries were able to directly elect their representatives and the chief is no longer an active trustee. In that same year, a new operations manager (a member of a claimant household) was also appointed.

A major issue is the lack of a sense of ownership and rewards for the community. Beneficiaries were promised annual income from the land, either from the forestry plantation, or any of the other activities on the community-owned land. Instead, they have only received one payment in six years. This payment also compares unfavourably with income earned by neighbouring claimant communities, who have received up to R15 000. Community meetings are held infrequently, contributing to the lack of understanding and insight by the individual members, of both the operational performance, and the financial situation of the trust. Due to the lack of communication and understanding, the expectations of the members are not properly managed. As a result, the beneficiaries demonstrate a high level of disappointment with the 'compensation' received for their historic removal.

Lastly, as common with community organisations, there is the question of transfer of membership. In the case of the Eyethu and Siyathokoza Trusts, membership is based on the historic removal from land which has been successfully reclaimed. Most of these people have since passed away, with their membership being transferred to their heirs. In the case of multiple children, only one child can represent the family. This person will be able to attend trust meetings, as well as lay claim to any financial rewards. The number of trust members will thus stay the same, but the number of indirect beneficiaries will increase exponentially over time. Internal family conflicts can be expected if siblings feel that their family representative member does not share the rewards from the land ownership with them.

Success factors

Despite the many issues and limited rewards to the community, the Kranskop settlement can still be considered a relative success, in the sense that the land is still economically productive. This relative success of the Mondi project in Kranskop can be attributed to a number of factors according to Makhathini (2010:29-30). Firstly, through a number of meetings held before the agreement was signed, the claimant community gained insight to the potential benefits of the commercial forestry operation. This persuaded them to keep the forestry operation on the land, rather than using it for their individual reward. Whereas the actual activities on the plantation might not be understood by the claimant beneficiaries, they do understand the economic potential of the forestry business. As such, the previously disadvantaged community now has ownership over the land and is integrated into a commercial value chain.

Secondly, Mondi is a financially strong partner. It is therefore in a position to support the community in the absence of government grants. It also has lengthy experience in forestry operations, enabling the company to identify and provide training to the community to engage them in the activities on the plantation and to prepare them to take over full management of the forestry operation after the lease agreement expires. In addition, the company has sufficient 'clout' with sector organisations, such as FIETA (now FP&M Seta), to persuade them to contribute to the empowerment of the communities. The communities needed these attributes in a commercial partner to ensure the continued productivity of the forest plantations.

Lastly, through the set-up of a democratically elected trust, beneficiaries have a say in who represents their interests. It allows community leaders to develop themselves and gain new skills (Makhathini, 2010). Through the trust, a balance is created, although a delicate one, between traditional authority, which might be driven by nepotism, and individual members' needs.

Sustainability and scalability

The Kranskop land initiative has been relatively successful over the first six years of operation. During this time, the community businesses became involved in an increasing number of the forestry operations. More activities (harvesting and transport) are still planned, depending on the skills development of the community members and the financial resources of the community. The limit of the operation will probably be reached at the end of the 20-year lease term. It might be envisaged that by that time, the community will be able to operate the forests independently, and that Mondi will become a customer, purchasing the wood produced.

The trees planted on the plantations take ten years to mature. The community and Mondi thus need to make arrangements for planting activities in year 11 of the lease agreement, as harvesting of these trees will occur after the lease agreement terminates. Three options are open: the community finances the new saplings and takes over the management of these parts of the plantation independently; the community and Mondi form a joint venture to operate the newly planted blocks; or the lease agreement is extended, with Mondi remaining in control beyond the initial 20-year lease. According to the stakeholders actively involved with the forestry activities, after six years of settlement agreement implementation, the community does not have either the financial resources, or the skills and capacity to start operating independently. Discussions on the way forward thus need to start in the very near future, to keep all options open once this question becomes pertinent.

In theory, the model is easy to replicate in the forestry sector, which is proven by Mondi itself. As stated by the company "11 Mondi land claims have been settled [per 2011]. Agreement was reached in 2011 for a further 33 claims in KwaZulu-Natal to be settled over the next three years. Thirty-nine land claims remain in Mpumalanga. Some 19,200 ha of Mondi land under forestry have been transferred to community beneficiaries" (Mondi, 2011:1). Adaptations of the sale-and-leaseback model have been implemented by other companies in the forestry sector dealing with land claim scenarios (Makhathini, 2010:29). Much, however, depends on the structure of the claimant community. And serious thought needs to be applied to the issues mentioned in the previous section.

One condition for the implementation of this model is strong support for the community, both financially and in capacity building. Community beneficiaries lack the financial means, or professional skills, to manage the land transferred to them through land restitution. As such, government needs to speedily transfer the post-settlement support grant, and the forestry partner needs to be prepared to provide financing in the interim, as well as providing continual mentoring of community activities. Without continuous post-settlement support and close monitoring of the community trust, success of the whole system cannot be guaranteed.

Concluding remarks

The partnership between Mondi and the two claimant communities can be considered both a success and a failure. Through the heavy involvement and high level of control, Mondi has been able to continue with forestry activities on the land. However, the individual claimant beneficiaries have received little for their land ownership. This sits particularly badly with the older generation who can still remember the forced removal from the land. They feel that they are not being properly compensated for their removal. Other beneficiaries question what happens to the money generated by the plantation, as they do not receive any financial payments.

With regard to employment opportunities, these can also be considered as either a positive or a negative outcome. Whereas jobs have been created for members from the surrounding communities, these jobs are relatively few in number, and only in a few cases have they been taken up by members of actual claimant households. Claimant households are scattered among non-claimant households and hence the definition of 'community' is not always clear.

One difficulty observed with this particular model, is the responsibility for trust capacitation, which is key to the long-term successful outcome of the settlement. Government does not seem to have the capacity to engage with post-settlement support. Mondi, on the other hand, has responsibilities towards capacitating the community in forestry-related activities. It does not, however, have the expertise to empower the trust in the overall management of their activities. Besides, only a portion of the trusts' responsibilities and activities relate to the land leased to Mondi. The company has adhered to the settlement agreement in the sense that it pays the fees due to the trusts, and has initiated numerous skills development activities. However, this is not sufficient for sustainable operation of the plantations without its direct involvement. Whereas the lease agreement has ensured the short-term productivity of the land, many difficult questions need to be answered to maintain this productivity, but with more tangible rewards accruing to the community.

10

Land restitution community's joint venture engagement with large exporters – The cases of New Dawn, Dinaledi and Batau[1]

Nerhene Davis[2] and Wytske Chamberlain

The Moletele community is a large group of mainly Sepedi (Northern Sotho) speaking people originating from the South African Lowveld, in what is today, the south-eastern portion of Limpopo province. Between the 1920s and the 1970s, the community was forcefully removed to make way for white farmers who settled in the area. Currently, the area, situated around the small town of Hoedspruit, is the centre of a large subtropical fruit economy, supplied with irrigation water from the Blyde River. Land that is not under cultivation is generally used for game farming, cattle ranching, hunting and wildlife tourism, including some upmarket ranches.

Leaders of the community made various efforts over the years to regain their land, culminating in the lodgement of numerous claims under the Restitution of Land Rights Act between 1995 and 1998. These were eventually merged into a single Moletele Community Land Claim in 2003. Claims were initially lodged on 28 farms, with 14 more added as part of the investigation process that followed, and amounts to 78 791 ha in total. Merely 10% of the claimed land has been returned to the community – a total of 7 142 ha, handed over between September 2006 and April 2010. Litigation for the claim is still ongoing and the Moletele community continued to receive small extensions of their land up until 2014.

The land transferred between 2006 and 2009 has been grouped into three blocks, comprising 42 distinct portions (i.e. with separate title deeds) and was purchased for a total price of R183.2 million (USD 26.5 million), making it one of the most expensive land restitution cases in South Africa to date. The community has developed a number of uses on the reclaimed land, implemented through several institutional arrangements; one of which – the strategic partnership – will be detailed in this chapter. For land transferred back to the community after 2009 (e.g. the Richmond Farm in 2010), the leadership of the Moletele have opted to negotiate a community–private partnership (CPP) arrangement, and findings from this type of an arrangement are discussed in Chapter 11 of this book.

The strategic partnerships of New Dawn, Dinaledi and Batau are partnerships, each managing different groupings of individual farms on the Moletele community-owned land. The partnerships are joint ventures based on the community, as collective landholder (represented by the Moletele Communal Property Association "MCPA"), engaging in a

1 The authors wish to thank Luis Amaya Ortiz, Setoki Mothle and Anel Jansen van Vuuren for their contributions to this chapter.

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strategic partnership with a commercial partner, with both parties taking equity in the newly established operating companies. In terms of this type of approach, it is anticipated that the community, through active involvement with the business, would be exposed to the management of a commercial operation with the aim to equip them with the necessary skills to become independent farm managers/owners.

This chapter summarises the main characteristics of the strategic partnerships/joint ventures implemented by the MCPA, and analyses the extent to which the various set-ups of the partnerships entail an IB opportunity for the Moletele claimants. The impacts of these models from the community's perspective and the challenges encountered, as well as the reasons for successes or failures, are also discussed. The chapter concludes with an assessment of key sustainability indicators of this particular IB arrangement and gives an overall conclusion. The information in this chapter is based on a number of field visits made between 2010 and 2014 in which key representatives of all stakeholders, as well as community members, were interviewed.

Project description

Strategic partnership arrangements have been facilitated by the South African government since the early 2000s with the goal of graduating previously dispossessed communities (now owners) into commercial farmers through assistance in farm production, skills development and access to markets, while simultaneously endeavouring to accommodate the interests of agribusiness to secure, and even expand, their operations (Lahiff *et al.*, 2012). In the case of the Moletele, the three strategic partnerships described in this chapter, New Dawn, Dinaledi and Batau, are operating companies created as joint ventures between the MCPA (the legal entity representing the Moletele community), and three different strategic partners. Overall, it was envisaged that the Moletele community would contribute through making available their land and the restitution-related grant payments they were meant to receive from the South African government. Given this extent of community contribution, it was anticipated that the community would be able to participate in ownership and management-related processes as majority shareholders in the operating companies. The strategic partners were expected to invest in the operational structure, management and development of the farms, ensuring the commercial viability of these newly transferred farming units. The institutional set-up and effective implementation of the partnership arrangements are, however, relatively complex.

All three enterprises mainly produce tropical fruit, including citrus and mango (Table 10.1). The majority of the produce is exported through the marketing operations of the strategic partners to the European Union, Russia and other overseas markets.

All the properties used to be family farms, or corporate-owned farms, with extensive orchards and irrigation systems. Both New Dawn and Dinaledi lands have their own packhouses. There are also two processing plants for the production of mango atchar on the New Dawn land. New Dawn has the largest landholding, comprising 1 050 ha, spread over 18 separate properties. The Batau partnership managed 821 ha over 11 properties, whereas Dinaledi holds four properties covering 746 ha of land.

Table 10.1 Overview key characteristics per partnership

	New Dawn	Dinaledi	Batau
Size (ha)	1 050	746	821
Initial farm structure	18 properties	4 properties	11 properties
Purchase price	R44 million	R31.7 million	R25 million
Joint venture equity structure	MCPA 51 % Strategic Farm Management 49 %,	MCPA 50 % Boyes Group 50 %	MCPA 52 % Chestnet group 48 %
Irrigated area (ha)	1000 ha	500 ha	I/L
Productions IB (ha)	600 ha mango, 126 ha citrus and a further 270 ha under development (160 ha is already planted with citrus).	355 ha citrus – lemons, grapefruit and Valencia oranges	157 ha – mango, litchi and vegetables
Uses non-IB	Grazing land has been allocated on newly transferred land parcels only (after 2010). For example, grazing takes place on parcels of land at Scotia and Eden farms. These uses fall outside of the IB arrangements (outside of the New Dawn, Batau and Dinaledi land). The IB land that is not under production is left fallow.		
Markets for IB produce	*Export:* 400 000 cartons of citrus exported to UK, Russia, Germany, Japan and France. *Domestic Market:* 20 % of produce (8-10 large truckloads) to the Free State Fresh Fruit Market, Spar and Pick n Pay	*Export:* 900 000 cartons of citrus shipped to UK, Europe, Russia, Japan and Middle East. *Domestic Market:* 10 % of produce earmarked for domestic retailers: Pick n Pay, Spar, etc.	SAFE export companies, until the collapse of the care taking agreement. Vegetables for local market
Marketing company	Alliance Fruit (100 % owned by SFM)	FruitOne (100 % owned by Boyes Group)	Chestnet partner
Markets for non-IB produce	All of the production on the land is IB model produce. The strategic partner has complete control. Non-IB produce would imply that some products are being produced by beneficiaries or other stakeholders on partnership land. This is not the case. Two initiatives are worth mentioning, though. Land was leased by McCain, but this contract ended at the end of 2011/12. In addition, a women's farming group operated on the Batau land, but the initiative collapsed within months of inception.		
Beneficiaries (HH)	1 615 The 1 615 beneficiary households are all represented by their legal entity, the MCPA. There is no breakdown per arrangement because the strategic partnership was set up on communal basis. It is impossible to do a beneficiary per arrangement ratio.		
People employed in IB	123 permanent 390 seasonal	650 permanent and seasonal	72 permanent

	New Dawn	Dinaledi	Batau
Infrastructure – on farm at transfer	Irrigation equipment Cold rooms Shade net houses and buildings Packhouse Processing plants (2) Farm houses (5)	Irrigation equipment Cold rooms Shade net houses Packhouse Farm houses (5)	Irrigation equipment Cold rooms Shade net houses Packhouse Farm houses (4)
Infrastructure – developed since transfer	Land and water use rights (R33.5 million spread over the three partnerships) New packhouse (R5 million) New upgraded irrigation system. Some of the parcels of land still had older 'ineffective' systems in place. New community-run citrus nursery (2 500 seedlings capacity). Atchar processing factory.	Land and water use rights (R33.5 million spread over the three partnerships) New packhouse valued at (R3.5 million).	Land and water use rights (R33.5 million spread over the three partnerships)

Legend: I/L Information lacking

Source: Authors

The restored land has been transferred in freehold title to the MCPA, a legal entity formed specifically to take transfer of, and manage the land on behalf of the claimant community. According to the Restitution Commission Acceptance Report, the claim involves 1 615 claimant families, plus dependents as secondary beneficiaries. The MCPA distinguishes 'land claimants' as the originally dispossessed people, and 'beneficiaries' as next-of-kin, in the case where a member of the originally dispossessed community has since passed away. In this chapter, both these groups are included when mentioning 'land claimant community', 'beneficiaries', and any other terms to indicate the current group of landholders, unless explicitly specified otherwise. During the field work conducted in 2012 for previous research, one of the MCPA committee members estimated that the claim could involve between 16 000 and 30 000 individuals.

The MCPA and SFM, a Hoedspruit-based agribusiness company, signed a shareholder agreement to establish the New Dawn operating company in which the MCPA holds a majority 51 % of the shares, and the agribusiness company holds 49 %. New Dawn then signed a 10-year lease agreement with the MCPA, which has subsequently been extended to a 15-year term. The 18 farms managed by the joint venture consist of over 600 ha of mango and 126 ha of citrus, with a further 270 ha under development (160 ha of the 270 ha is already planted with new citrus trees). The total area leased by the joint venture from the MCPA is 1 050 ha.

In the same year, 2007, the Batau partnership arrangement was signed between the MCPA and commercial partner, Chestnet. The MCPA also held a majority share in this joint venture, totalling 52 % of the operating company, with the Chestnet group holding 48 % of the shares. Besides tropical fruit produced for the export market, the farms under Batau management also grew maize and vegetables for the local market. Due to financial issues,

the partnership with Batau folded in 2010. The circumstances around this failure will be analysed further in this chapter.

In 2008, the MCPA signed another 15-year lease agreement with the Boyes Group to establish the operating company named Dinaledi. This joint venture is a partnership between the MCPA, holding 50% equity, and the Boyes Group owning the remaining 50%. At inception, Dinaledi had two farms, Southampton and Grovedale, which were fully developed but with only 500 ha of the 700 ha of land planted and irrigated. Between 80% and 90% of the citrus fruits produced is exported by FruitOne, one of largest citrus exporters in the country. The remaining 10% is sold to the local market.

All strategic partnerships are underpinned by three documents: the Shareholders Agreement which specifies, among other things, the equity of the partners in the joint venture, their roles and responsibilities; the lease agreement between the joint venture and the MCPA stipulating the rental agreement for the land and any other assets, as well as the water use rights; and the management agreement which covers the operational management of the farms.

Inception

The land owned by the MCPA is part of the larger land restitution claim brought forward by the Moletele community. The particular parcels of land that have been transferred to the community to date have largely been determined by the minority of affected white landowners who expressed a willingness to sell their land to the state for restitution purposes, and obtained the price they were asking. This explains the rather scattered pattern of Moletele landholdings at present, but this is set to change once more land is restored. According to community leaders, 40 000 ha of the claim is being contested by white landowners in the area, and some commentators feel that those resisting the claims are merely trying to drive up the level of compensation.

The original vision for joint ventures came from the DRDLR, which had concerns about the scale of the proposed land transfer, and the ability of the community to cope with its new responsibilities. The potential impact of newly restored land ownership on the local economy was also a concern. Shared equity with a partner with experience in commercial fruit farming was considered necessary to guide the community in the successful operation of the newly acquired farms. It was assumed that a joint venture arrangement would allow the commercial partner to directly benefit from the income of the farm, while at the same time reducing the risk of the community relating to the unfamiliar farming activities. Stakeholders involved in the Moletele claim were aware of this new drive from the state, and even before the claims were finalised, community leaders, landowners, and local public representatives were discussing possible collaboration through the local forum called the Moletele-Hoedspruit Land Initiative (MCPA, 2008). Negotiations with the previous owners of Moletele land started in 2005, and transfer of the first land parcels back to the community commenced in 2007.

To facilitate the implementation of the strategic partnerships, the Maruleng and Bushbuckridge Economic Development Initiative (MABEDI),[3] together with government institutions, promoted the creation of jointly owned operating companies for each partnership initiative. The intention was that the operating companies – New Dawn, Batau,

3 Since 2011, MABEDI has been re-instituted and is currently operating as the Vumelana Advisory Fund.

and Dinaledi – would be run jointly. Management boards with representatives from each stakeholder were set up for this purpose. It was decided that the interests of the MCPA would be represented by three board members on each one of the management boards of the operating companies. The strategic partners were to provide capital, know-how and marketing channels to the operation. The day-to-day operations and management of the company would be vested in the hands of the strategic partner, who would have full control over financial and operational matters.

Community leaders were adamant, from the outset, that they preferred a mix of business models and partners. During an interview conducted in 2010, one of the key decision makers in the process observed, "we did not want to put all our eggs in one basket". The interviewee stressed that the MCPA chose not to have just one strategic partner for all the newly transferred land. With the advice of MABEDI and the DRDLR, they therefore decided to group the portions of land transferred back to them, into three different partnership arrangements (New Dawn, Dinaledi and Batau, as depicted in Figure 10.1). The 'mixed business model' approach, which the MCPA favoured, was also evident when the community decided to set up a CPP with the Bosveld Citrus group on the newly transferred Richmond farm (discussed in Chapter 11), while they opted to use subsequent land transfers, such as the Scotia, Eden, and Liverpool farms, for grazing purposes.

The Moletele Communal Property Association (CPA) also had a strong preference for involving the previous owners as business partners, as they felt they knew them and could trust them. Community leaders said they had concerns, however, about the degree of transformation that would actually occur on the farms if the previous owners remained in charge. Persuading former owners to accept community members as part of a management team was also particularly challenging. The state agencies involved, which were then heavily promoting the concept of strategic partnerships, insisted that the previous landowners could not be the automatic choice for strategic partners at Moletele and called for expressions of interest from a range of prospective parties. The DRDLR, in collaboration with community representatives and MABEDI, was driving the tendering process.

The suitable partners were selected based on outcomes measured in terms of a scorecard, which assessed their proposed business plans, and on interviews with the prospective candidates. Ironically, all three of the strategic partners deemed feasible, were in fact, the previous owners of the land. During this selection process, it was assumed that the previous farm owners were the most suitable candidates as they would have better inside knowledge of the farms and their operations, and that this existing knowledge would ensure a smoother transition for the community. After a tender and screening process in which the MCPA was assisted by MABEDI, three groups of local farm owners (or former owners) emerged as strategic partners for the Moletele CPA: Strategic Farm Management (Pty) Ltd, Chestnet (Pty) Ltd, and the Boyes Group. A lengthy negotiation process ensued, supported by the Business Trust – MABEDI, and the European Union-funded Limpopo Local Economic Development programme, at the end of which shareholding and lease agreements, as well as management contracts, were signed between the MCPA and the respective strategic partners.

Actors and drivers

The MCPA was formed in September 2005, with 15 members on the committee representing different residential areas, plus two *ex-officio* members representing the Traditional Council.

An additional 14 community members were elected to form the Moletele CPA committee through a process of votes cast by those in attendance (MCPA, 2010). The election process was facilitated by representatives from MABEDI and officials from the DRDLR.

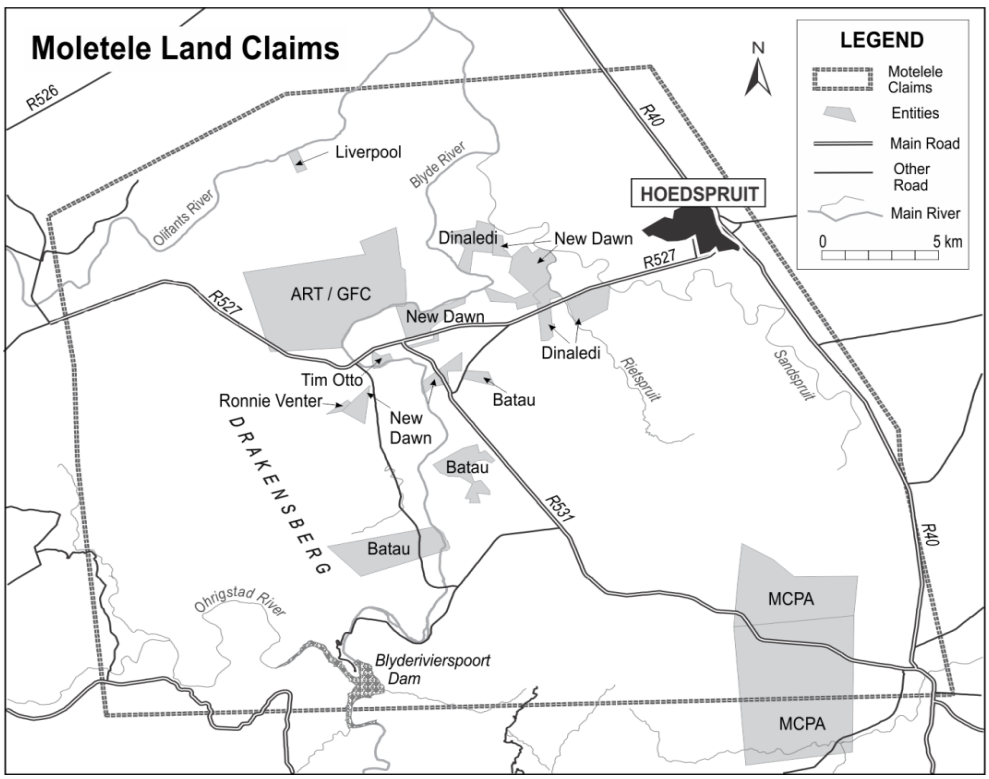


Figure 10.1 Map depicting consolidated farming units of the Moletele partnerships

Source: Map produced by Ingrid Booysen, Cartography Unit, University of Pretoria, 2011

At the time of transfer, the MCPA was prepared to take ownership of the land on behalf of the Moletele community and participate on the boards of the operating companies. Nevertheless, for the time being, the experience and knowledge of the strategic partners make them de facto decision makers in the partnership.

The strategic partners, SFM, Boyes Group and Chestnet, were faced with the loss of their land that produced fruits for their exporting businesses. Entering into joint ventures with the new landholder would ensure the strategic partners continued access to the produce, thus maintaining their export activities. As mentioned, their experience with citrus farming in the area made them suitable partners for the MCPA. Part of the settlement agreement with the government was a resettlement grant to be invested in the farms on behalf of the community association. As such, the strategic partner would benefit from funding put towards farm improvement and production expansion. Although the strategic partner would not have full ownership of the company, full decision-making power over how the farm was run would remain with this strategic partner. In exchange for providing the daily management, the strategic partners (should) receive a management fee. When combined with the salaries of key managers provided by the strategic partner, this fee should not

exceed 8% of the turnover of these operating companies. The strategic partners are also tasked with obtaining machinery and all the necessary equipment on behalf of the operating company.

Instrumental in driving these joint ventures was the Limpopo provincial government. It took into consideration that the MCPA, as new landholder, required the assistance of commercial parties to manage high-value citrus farms. The community took land ownership on the understanding that they had to manage the commercial farms transferred to them in shared ownership with another party. Together with MABEDI, both the RLCC and the Limpopo Department of Agriculture assisted the community organisation with the tender process, and subsequent discussions with the potential partners. The RLCC also assisted the MCPA with the legal process of establishing the community entity, as well as with verifying the legitimate beneficiaries (MCPA, 2008). The Department of Agriculture is represented on the board of directors to monitor the progress of the partnership.

Figure 10.2 summarises the institutional set-up of the three joint ventures before the Batau partnership folded.

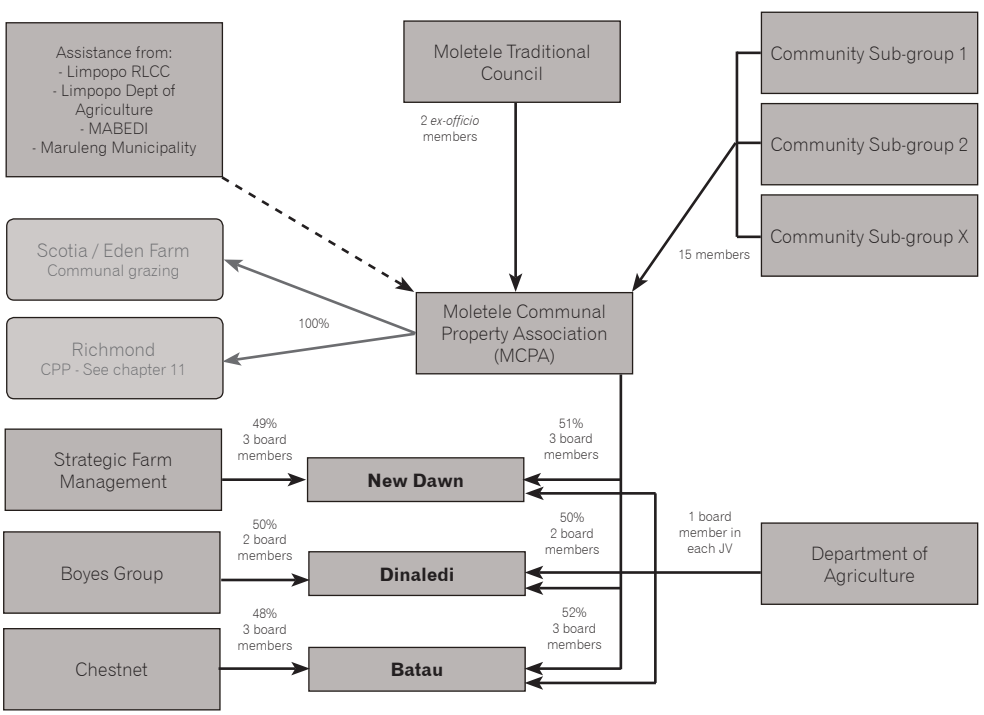


Figure 10.2 Organisational and management structure Moletele CPA joint ventures

Source: Authors

Support

The government has committed significant funds to the procurement of the land titles handed over to the MCPA. In fact, the Moletele land claim has been ranked among the most expensive land restitution cases in South Africa. For the New Dawn properties, the

government paid a total of R44 million to the previous owners. The land was valued at R26 million and the remaining R18 million covered the costs for the infrastructure: packhouses, houses and facilities such as the irrigation system. The Dinaledi land holdings were purchased for R31.7 million, while the Batau property was valued at R25 million.

To enable the claimant communities to operate the newly acquired farms, the government implemented a number of grants. In the case of the three strategic partnerships on Moletele land, the government committed to pay R35.2 million Development Assistance Grants, R4.8 million Restitution Development Grants, and R2.3 million Settlement Planning Grants (Interview with DRDLR Official, 2011). It was envisaged that the MCPA would use these grants to match the contributions of the strategic partners in terms of investing in the farm operating companies. The intention was that the money would be paid directly into the operating company's account (thus for the exclusive use on land under the operations of these partnerships). One of the strategic partners (a former owner of the land) explained that re-investment into these farming operations was needed to expand and update existing irrigation systems into a cohesive, centralised system, because different parcels of land were now clustered into a single operational unit. Some of the newly consolidated parcels also required new cultivars to be planted, especially in instances where land parcels were acquired from 'other exiting owners'.

The strategic partners were expected to match the grant-funded investment MCPA put into the partnership to obtain their shareholding. Hence, it was important to find partners with sufficient access to financial means. Beside financial assets, the partners needed farming skills, as they would be responsible for the daily operation of the partnerships. In return for this responsibility, the partner would receive a management fee from the partnership company. The strategic partner would also have sole ownership of selected farm assets.

The MCPA is the title deed holder of the farms. According to the signed lease agreement, the partnership company is contractually obligated to pay a land rental, as well as a water use fee, to the MCPA. The purchase price of the land, which was based on a fair market value, forms the basis of the amount of rent to be paid. Initially, the lease agreements for the New Dawn and Dinaledi partnerships indicated that the rent for the land should be set at 1.25% of the land purchase price (transfer value of the land), which is supposed to be paid on an annual, monthly or quarterly basis. In terms of the lease agreements currently in place, land rental for the Dinaledi partnership is indicated as being 2% of the value of the land at transfer, while the New Dawn lease agreement specifies 1% in the first five years, then 2.5% for the following five years (10 years duration only).

By 2010, New Dawn had made considerable effort to pay some of the rental income owed to the CPA, but not all of it has been paid (MCPA, 2013). The income statement for the MCPA (2011/12) reflects a rental income from New Dawn of R451 203, which is less than the anticipated R550 000 as stipulated in terms of the lease agreement. Dinaledi has also made intermittent payments (estimated at approximately R450 000 p/a), while the Batau partnership has since lapsed, with no rental payments being recorded. These fees (should) form a steady flow of income to the community, independent of the farm's performance or the harvesting season. As such, the MCPA had two sources of income from the partnership: one as shareholder through the operational activities of the farm, and the other as land and water use rights holder in fixed fees. Figure 10.3 presents an overview of the financial structure of the partnerships.

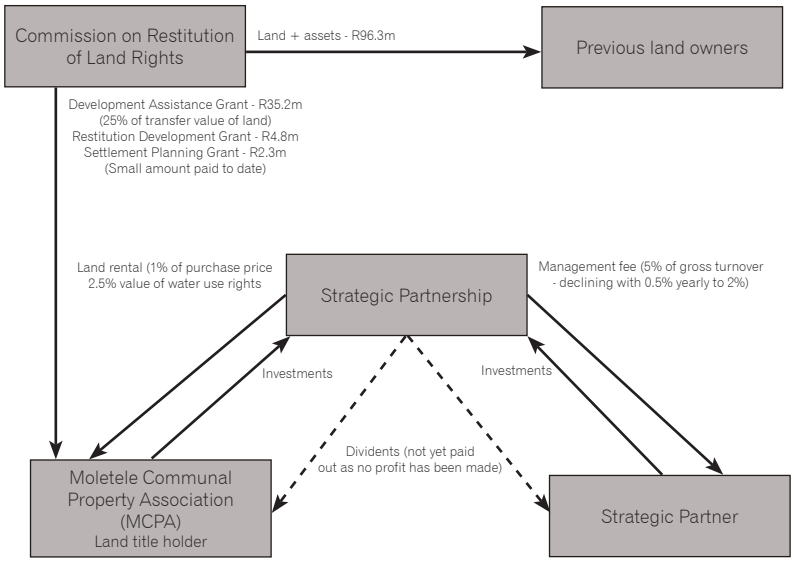


Figure 10.3 Financial structure MCPA joint ventures combined

Source: Authors

Implementation

The three strategic partnership agreements were signed in 2008 after a two-year period of negotiations between the commercial partners and the MCPA, supported by the Business Trust – MABEDI, and the European Union-funded Limpopo Economic Development programme. The agreements signed determined the lease, as well as the shareholder structures – as indicated earlier. It was originally intended that workers on the farms would be included as shareholders in the strategic partnerships. Indeed, at the official handover of title deeds in July 2007, the Minister of Land Affairs specifically stated that 2 % of shares would be allocated to 'the workers'. It would appear, however, that the MCPA and the commercial partners have opposed this, and no allocation was, in fact, made to workers. Instead, it was agreed that existing workers were to be retained and only replaced by Moletele community members on the basis of natural attrition. The MCPA representative stated that the workers trust arrangement would have added cumbersome and protracted processes with limited rewards for the workers. He asserted that a decision was made by the MCPA to rather give bonuses to workers as additional rewards, instead of collective equity. He said that the MCPA concurred that these workers were earning salaries, and therefore, they were already benefiting from the partnership arrangements. Considering the issues related to a workers trust (as noted in Fast (1999) and this publication), and the complexity a workers trust would have added in the overall set-up, this decision was seen as well informed.

Functioning: committees and meetings

The MCPA and strategic partners are each represented by two or three representatives on the boards of directors of the two operating companies, which are completed by a board member from the Department of Agriculture (Figure 10.2). Representatives from the DRDLR, or the RLCC, do not form part of these board structures. They do, however, attend board meetings from time-to-time to ensure that the meetings are conducted, and that due process is followed in order to safeguard the MCPA's interests. At the same time the association acquires sufficient capacity to engage on an equal basis with the strategic partner. The board of directors is responsible for setting out the strategic direction of the company. In the cases of New Dawn and Dinaledi management boards, quarterly meetings are conducted to review the companies' performance and adopt strategic decisions. The board members also discuss operations, budgets, and production issues of the upcoming and the previous seasons. During these meetings, representatives should provide insights and opinions regarding decisions about all commercial-, marketing-, and farming related operations on Moletele land. Issues pertaining to the types of crops, which markets to export to, transport, and subcontracting, are discussed at these meetings.

The community representatives who act as board members were trained by MABEDI to assist them in their decision-making about the administration and running of the farming operations. According to the strategic partners and representatives themselves, capacity limitations are, however, still evident among community representatives sitting in on these board meetings. The strategic partners (as the managers of the farms) explain that they, therefore, still need to make the day-to-day decisions pertaining to the farming operations, giving them full control over financial and operational matters with limited involvement from the MCPA. This scenario thus translates into one where all farming related decisions on land parcels under the management of the partnerships are made by the strategic partners. Attempts to ensure the collaboration of community representation on the board is made, but it is evident that meaningful engagement is still limited (Interview with the MCPA chairperson, 2011). In fact, the MCPA's involvement seems limited to advertising for, and sourcing of, labour for these farms.

In addition, the Dinaledi and New Dawn boards of directors meet once a year with the full MCPA committee to inform them of the performance of the partnerships and discuss issues related to farming activities of the joint ventures. MCPA representatives mentioned, however, that some of the issues discussed during these meetings were not always understood, and one interviewee hinted that community representatives sometimes had the sense that information was being withheld during these meetings (personal communication, November 2014). Informants also reported that this lack of clarity was equally evident in reports given to the broader Moletele community at the annual general meetings of the MCPA. Community members who attended these AGMs generally reported a lack of understanding of the issues being discussed, and a lack of detail regarding what is really happening on the land. Some of the more active community members also complained about the superficial nature of reports to the community, especially regarding issues relating to the actual financial management of the farms (Davis, 2014).

It should, however, be stressed that although the MCPA is not directly involved in negotiations relating to parts of the business, relevant information is easily accessible to the board members. The packhouse keeps strict records of all produce leaving for exports or local sales, and these can be viewed by the MCPA representatives.

Functioning: day-to-day

As already mentioned, due to the generally acknowledged capacity constraints of the MCPA representatives, the day-to-day running of the farms is effectively carried out by the strategic partners. Overall, this is done on an estate farming model, managed by the strategic partners and implemented through employees (Table 10.2). MCPA community members do have preferred access to these jobs, although the implementation varies according to each strategic partnership; due to the job retention agreement between the strategic partner and the MCPA, employees in place at the time of the joint venture establishment were retained, and consequently, the share of MCPA beneficiaries with permanent employment, at both the Dinaledi and New Dawn partnerships, is 15% lower than the overall employment in all MCPA partnerships. Aggravating the situation for the MCPA members, is that many of them live an hour's travel away from the farm, which limits their employment options and results in high transportation expenditures for these employees. Additionally, the Moletele members seemed far more inclined to work in the packhouses, preferring not to engage in 'dirty on-the-farm' jobs.

Table 10.2 Employment by MCPA membership (April 2014, all MCPA-owned farms)

Category	MCPA	Non-MCPA	Foreign/ From outside SA	Total
Farming				
Management level	2	17	0	9
Supervisor level	5	13	0	18
Permanent labour	55	213	0	268
Seasonal labour	87	233	60	380
Sub-total	**149**	**476**	**60**	**685**
Packhouse				
Management level	1	6	0	7
Administration	1	1	0	2
Supervisor level	1	14	0	15
Permanent labour	8	15	0	23
Seasonal labour	421	130	0	551
Sub-total	**432**	**166**	**0**	**598**
TOTAL	**581**	**642**	**0**	**1 283**

Source: MCPA, 2014

In the case of Dinaledi, the daily operations of the farms and packhouses are run by a farm manager. Dinaledi has a core management team (consisting of the farm manager and two to three assistants) in place to assist with the running of the farms, but ultimately, production-related decisions about the farms are made in collaboration with the official strategic partner. This strategic partner has a wide range of business interests and is only based in Hoedspruit on a part-time basis. The farm manager therefore needs to attend monthly/bi-monthly working group meetings arranged by the Boyes Group. These meetings are attended by managers and other personnel who are currently engaged in managerial positions on farms owned by the Boyes Group in the Limpopo and Mpumalanga provinces. At these working group meetings, decisions and planning about the production, exporting,

and marketing of produce from the Boyes Group owned farms, are negotiated and made. The production plans of the Dinaledi partnerships thus align with the broader scope of the Boyes Group's farming operations, and only once these agreements are made, does the farm manager go back to the Moletele shareholders' board meetings to discuss and fine-tune implementation plans. The decision-making process for the day-to-day running of the Dinaledi farms, is, therefore, fairly centralised and seemingly adheres to the Boyes Group farming model of a corporate, industrial-based organisational structure. The involvement and buy-in of the Moletele community representatives at the shareholders' meetings can thus be viewed as merely the final leg of implementation, and not the first step in deliberation and negotiation between equal partner representatives.

In the case of the New Dawn partnership, a fairly centralised decision-making network is also in place. The New Dawn partnership also has a core management unit running the daily operations of these farms. The director of the strategic partner - SFM - is involved in the running of the New Dawn farms on a full-time basis, and one does get the sense that his involvement is far more engaged and hands-on than in the case of the Dinaledi strategic partnership. The day-to-day decisions about the running of the New Dawn farms are, therefore, seemingly more localised, with a shorter turnaround time. But again, the shareholders' meetings for the New Dawn partnership are, seemingly, also just the final step in the implementation of decisions, as the New Dawn managing director also reports on the inability of Moletele representatives to make insightful decisions about the day-to-day running of these farms, despite their very best efforts.

An interesting aspect of decision-making on these farms is the choice of commodities for production expansion. The New Dawn strategic partner is committed to the continued production of a range of commodities on Moletele land. It is committed to a diversified commodities approach, because it maintains that this approach is less risky for the Moletele community. The reasoning is based on the assumption that, if a bad season is experienced for one specific commodity, income from the other commodities could potentially compensate for the loss of income on the other markets. In this regard, the New Dawn partner reported that a good mango season helped the farming operations survive when they experienced a bad citrus season at the end of 2009. In terms of production-related decision-making, the Dinaledi strategic partner is actively expanding citrus only. Their diversification is steered towards different varieties within the same commodity. The reasoning behind this drive towards mono-commodity expansion is seemingly driven by the extent of rewards that would be derived from even larger economies of scale.

All produce is marketed through the marketing division of the strategic partner and is not part of the joint venture agreement, which only extends to the farm gate, where full harvests are sold to the strategic partner.

Employee/partner development

A key aspect of the agreements is that strategic partners must devise, and embark on, a programme that will ensure the speedy transfer of skills to suitable candidates from the Moletele community, who will receive training to prepare them for the eventual takeover of the company. According to previous research (Davis, 2014), training activities do not feature highly on the strategic partners' agendas. A small number of training activities were reported, by employees and community members, to occur at New Dawn and Dinaledi farms, most of which are related to basic skills in crops management and food safety good practices.

In the technical and business areas, the achievements are equally limited. Both companies have trained farm supervisors, but most of them have not attended university or technical college. Some started as seasonal workers, were promoted to permanent workers, and then to farm supervisors. The MCPA representatives on the management boards have received training in human resources management, strategic planning and corporate governance (particularly at New Dawn) provided by KPMG.

Other initiatives, implemented by Dinaledi (Boyes Group), have been directed more towards community members and the creation of capacity among young people. Through the donation of 16 computers, basic computer literacy training has been provided for selected youth in the Moletele community who are in possession of a Grade 12 certificate. The training courses run over ten days, and trainees receive a certificate of attendance upon completion. Learners are also offered free transport to the training centre, situated at Scotia farm where the MCPA have based their offices. Additionally, the Boyes Group has invested money to improve the MCPA building, which is now very well equipped with offices, a reception area and a functional boardroom.

Overall, it has been reported that the few Moletele community members who have been selected to study, and have completed agricultural degrees, have, however, found employment elsewhere. This has resulted in the strategic partners becoming wary of these training endeavours. MABEDI was supposed to provide training in capacitating MCPA members to function on the boards, but the MCPA members still feel that they lack sufficient business skills when attending the board meetings. Outcomes measured in terms of skills development and training are, therefore, limited.

A major complaint by the strategic partners concerns the availability of community members for seasonal employment. They experience a lack of interest, especially in recruiting employees from the community to work on the farms, because community beneficiaries prefer to work in the packhouses. As a result, seasonal picking work is often outsourced to non-beneficiaries (Table 10.2).

Other implementation aspects

More than five years after the settlement agreement was signed, the MCPA finally received a letter from the Commission of Land Rights and Land Restitution's Office, stating that budgetary constraints would prevent further grant payments being made to the Moletele. This implied that 60% of the Development Assistance Grant (R35 Million), and the full payment of the Restitution Development Grant (R4.2 Million), as well as the Settlement Planning Grant (R2.3 Million), which were earmarked for the loan accounts of the operating companies, would not be paid out. The MCPA was thus not in a position to contribute to the operating companies according to the shareholding agreement, putting considerable pressure on the strategic partners, with serious consequences which will be detailed in following sections.

The citrus and mango grown on the New Dawn farms is processed on the farm and marketed through an export company called Alliance Fruit, owned by the strategic partner SFM. SFM offered to sell 15% shares of Alliance Fruit at a discounted rate to the New Dawn operating company, thus enabling the joint venture to acquire 15% equity in the marketing company. Shareholding of this nature would give the community some stake and control over the marketing and exporting processes of their produce. However, when the grants from government failed to materialise, the strategic partner decided to delay

the issuing of the 15% shares, resulting in the community having very little control over processes and rewards accrued beyond their farm gates.

Alliance Fruit has been the biggest supplier of mangoes to Marks & Spencer in the UK for a period of ten years. However, due to recent downturns in the business, especially following international price developments and stringent phytosanitary regulations being implemented by the EU, Alliance Fruit, and with it the New Dawn strategic partner SFM, was taken over by a company called Leonard Citrus, which has provided new resources for farming operations and more market opportunities. On the other hand, an even larger partner might present further limitations to the MCPA in becoming well acquainted with trade and marketing operations in the short term due to their lack of financial capacity to invest in farm activities.

A similar set-up exists in the other strategic partnerships (Dinaledi and previously Batau), where the strategic partner also owns a marketing and export company. These businesses enter into the partnership to ensure a stable supply for their marketing activities. The community is only integrated into the value chain as producers. They have no say in where the produce is exported to, nor in the price received for the produce. Neither do they have a stake in the export company. The potential rewards for the community are thus limited to only the production part of the chain.

Inclusivity

The first objective of these IBs is to establish working farm enterprises which empower and capacitate the new landowner, and to give them a fair share in the operations on their land. This internal inclusivity is assessed in terms of voice, ownership, risk and rewards. Secondly, the aim is to strengthen the inclusion of these new landowners in output and input markets, which can be called 'external inclusivity' or 'linkages'.

The external linkages to the local and regional output and input markets are being developed and acquired through the three strategic partnerships. This being said, the genuine character of this inclusivity for the beneficiaries and local development has to be nuanced. Indeed, New Dawn and Dinaledi have established relationships with major domestic retailers to supply grapefruit, mangoes, lemons and oranges. Nevertheless, the marketing focuses on the export markets in Europe, Russia, and other areas around the world where demand for tropical fruit is increasing. Leonard Citrus (which acquired Alliance Fruit/SFM in 2013) manages the marketing activities for SFM (the New Dawn private partner). In the case of Dinaledi farm, the Boyes Group directly manages all the marketing activities. Strategic partnerships provide the community with access to the lucrative export market. Independent operation of the farms would have meant that the community would have had to find its own output market. Due to the experience of the strategic partnerships, the community is able to grow export-quality produce and access a well-established marketing channel.

These companies mainly export raw fruit, which is packed in the facilities located on the farms, without processing (juice, pulp and other by-products). No processing takes place aside from the mango atchar production. Only the Batau venture produced vegetables, such as maize, cabbage, tomatoes and peppers, mainly for the local market. It is thus arguable whether the community benefits from this exclusive marketing partnership, or whether the commercial partner is able to reap unequal rewards through the joint venture with the community.

Indeed, the marketing of the produce (pricing, grading, trading, etc.) is mostly in the hands of the export companies owned by the strategic partners. The MCPA representatives on the management boards are informed about volumes produced and traded, but are not well acquainted with market conditions, contracts, or commercial agreements. Hence, they have limited authority regarding the marketing channels of the produce.

It is also important to note that, in regard to production inputs, these operations are located in the heart of the tropical fruit-growing region in South Africa. As such, the infrastructure in the area is geared towards supplying the fruit farms. The strategic partnerships will source a large portion of their inputs from these companies. Since the farms were already well established in this region, no additional spinoffs from their operation will have emerged, other than contributing to the already existing infrastructure. Nevertheless, as was pointed out by strategic partners' key informants (New Dawn) and MCPA board representatives to both companies (Dinaledi and New Dawn), the demand for produce is increasing in South Africa and also for exports; the companies have thus continued with the regeneration of existing orchards and the establishment of new ones in non-productive fields. This endeavour has required considerable investment in trees, inputs, irrigation facilities and labour.

The strategic partners determine which inputs to purchase and from whom. As such, the MCPA has been able to use the networks already established by their joint venture partners to obtain access to inputs. However, the contribution of the Moletele community to the redevelopment and expansion activities, has been limited to the provision of casual labour. The MCPA did not consider options to promote entrepreneurship among its members to take advantage of the farming activities, such as repair services and the provision of overalls, or transport services. The strategic partners are not obliged to stimulate community business development.

In addition to these two externally orientated inclusivity elements, 'internal inclusivity' aspects are also to be assessed, and key observations in this regard are detailed in terms of voice, ownership, risks and rewards (Vermeulen & Cotula, 2010).

Voice

One of the arguments in favour of a strategic partnership, is the participation in decision-making bodies the community has through the MCPA shareholding and board representation. In the case of the Moletele partnerships (New Dawn, Dinaledi, and previously Batau), the complicated technical design of the partnership model placed the community at a definite disadvantage. It was assumed that the MCPA (with the necessary training) should be able to engage as an equal partner with an exceedingly business-savvy strategic partner. The community's 'voice' was supposed to be represented by MCPA members forming part of the operating company's shareholder committee. Due to the nature of the commercially orientated farming activities, and the associated business discourse linked to these types of activities, it was particularly difficult for these representatives to find their 'voice' in terms of influencing decision-making, especially in an arena they did not understand well enough (Davis, 2014).

Undoubtedly, the involvement of MCPA representatives in the companies' discussions is evident, although it has been perceived as being superficial and limited to the general set-up of the business. Shareholder meetings were particularly difficult, and strategic partners felt that they simply did not have the resources to capacitate the community representatives and run the business at the same time. These meetings, which should

have been the platform that ensured the community 'voice' and influence in terms of decision-making, were therefore regarded as 'token', or frustrating, meetings (Davis, 2014). Likewise, due to the lack of financial capacity, the MCPA's influence in key management decisions has been restricted, despite efforts to comply with the investment plans agreed on at the beginning of each venture.

Internally, the governance mechanisms of the MCPA are still weak, hindering the flow of information to the community. The main information-sharing event is the MCPA annual meeting, at which around 2 000 community members come to the MCPA offices. The large number of attendees makes it difficult to share detailed information. Increased use of representatives of the residential areas might improve communication to the members, as this would be on a smaller scale, and could be tailored to their specific locations. The current issues regarding communication promote discomfort and mistrust among the original land claimants, the beneficiaries as next-of-kin of those land claimants who have passed away, and all their dependents.

Also, despite MABEDI's efforts to train MCPA members in administration and farming operations, both members of the MCPA executive committee and the strategic partners complained that far more capacity development was needed. Capacity limitations are, therefore, still evident, and these limit possibilities for effective participation of community representatives.

In summary, relevant and meaningful participation by the community in the farms' management is deemed crucial for the future takeover of the MCPA of the companies. Nevertheless, strategic partners have shown limited intentions to improve MCPA members' skills on management owing to time constraints. On the other hand, the strategic partners mentioned the lack of suitable candidates put forward for development by the MCPA. It is thus urgent to promote leadership with sufficient technical and managerial skills, and to invest in community members eager to acquire these capacities with full support from both parties. Currently, the gap in human resources is still an impediment to improving the influence of the community on business decisions.

Ownership

The Moletele community, through the MCPA, has a majority shareholding in the joint ventures, and in addition, holds the title deeds to the land, including the water use rights. The understanding of the partnership is clear to both partners, and the relationship does not represent a misunderstanding of the ownership of the land or water use rights. However, the way in which the management of companies has been settled and the lack of financial capacity to match the investments made by the strategic partners, pose challenges for MCPA ownership of the business.

The lack of financial capacity, together with the lack of voice (although the MCPA owns more than 50% of the shares in two of the three cases), leads to a lack of control with regard to production on the lands under the partnerships' management. In fact, neither the MCPA, nor the beneficiaries, seem to have the final say regarding the marketing of their produce. The exclusion from this process leads to the ownership of the marketing activities – and thus of the company, its activities, and profits – coming into question.

Furthermore, since the start of the partnerships, both New Dawn and Dinaledi have built new packhouses, which were fully financed by the strategic partners, SFM and the Boyes Group. There are, however, rumblings of discontent in this regard. These packhouses, which

both comply with HACCP and GLOBALG.A.P. standards, have been built at high costs (R3 million and R5 million respectively). In terms of the agreements (and legal regulations) in place, these packhouses now belong to the community. People in the community, however, contend that they are not necessarily benefiting from owning these packhouses. The general perception is that these packhouses only serve the interests of the strategic partners who use the facilities to pack the produce for their export companies, thus, only promoting the interests of the strategic partners, and not those of the community. On the other hand, the packhouses provide jobs with preferred status for members of the Moletele community.

Risk

The MCPA shareholding in both New Dawn and Dinaledi is fully financed through government grants, which greatly limits the financial risk exposure for the community. The strategic partners, on the other hand, are exposed to a considerable degree of risk, as became evident when the grant payments failed to materialise. The farms owned by the MCPA were clustered, and then separated into three partnerships to spread the risk between strategic partners. In light of the absence of government grants, this strategy seems to have been beneficial for the MCPA, as two of the partnerships have been able to accommodate this lack of finance, with only one partner folding. It was deemed by the Department of Agriculture that not all individual units were economically viable, and hence partnerships for each individual farm were not possible (MCPA, 2008).

In the case of New Dawn, the shortage of working capital provided by the MCPA forced the strategic partner (SFM) to negotiate a complicated loan agreement with the Development Bank of South Africa (DBSA), in order to acquire sufficient capital to finance daily operations and necessary maintenance of the orchards. After a lengthy and complicated process, the loan was approved in 2010. However, at the moment of disbursement, DBSA attached new requirements to granting the loan. These conditions related to the protection of the land and asset ownership of the Moletele community, and stipulated the extension of the current joint venture contract by an additional 15 years, from 2023 to 2038. By 2014, the R20 million loan had not yet been dispersed. In view of this situation, SFM and MCPA are looking for new alternatives of leverage, including commercial loans through the new SFM owner, Leonard Citrus.

The Dinaledi partnership seems equally shaky. Grant payments have not materialised and the Boyes Group is concerned that their partnership on Moletele land, with the level of investments they have already made to date, places considerable strain/risk on their other investments in Limpopo. The strategic partners have invested large sums in the respective farms, without these being matched by the community partner, thus exposing them financially. The MCPA has endeavoured to match small investments in the development and recovery of orange orchards, and has supported joint applications to several government programmes, such as those from the Department of Trade and Industry, to improve the packhouse, and renew parts of the irrigation and production infrastructure. Nevertheless, the position of the MCPA is still very weak as a capital provider, and hence, their risk of not receiving profits, or of even experiencing losses, remains high, despite the positive financial results reported by Dinaledi recently.

The failure of the promised grant funding to materialise, meant that the Batau joint venture faced problems from the outset. According to community representatives, the strategic partners were unable (or unwilling) to provide the necessary operating and development capital themselves, nor were they successful in obtaining capital from

the banks. As a result, by mid-2010, Batau was no longer able to pay its creditors and was facing liquidation. Production on the farms effectively ceased. Consequently, the community entered into a temporary caretaker agreement with a large agribusiness called Bono-SAFE, an empowerment wing of South African Fruit Exports. As a result of this, the Vumelana organisation (previously MABEDI) was entitled to help the MCPA in managing the farm. This resulted in the formation of the current CPP with Matuma under which the MCPA receives a rental fee and shares in the profits, but no longer owns equity. The previous strategic partner, Chestnet Farming Enterprises, has challenged the legitimacy of the new MCPA agreement.

In sum, the MCPA's position in the joint ventures seems to be risky, exposing them to difficult situations in which the community has to invest funds received from other ventures in order to match, at least in a small percentage, the investment of the strategic partners. The risk of bankruptcy remains high in both remaining joint ventures, as was the case in the Batau joint venture. The MCPA will not lose land if one of the agreements fails, although the loss of jobs and capital assets will affect the livelihoods of hundreds of community members in the region.

Rewards

As part of the land restitution process in 2007, grants were announced that would provide the community with funds to invest in the farming operations. However, the government did not disburse the funds, mainly due to lack of budget, and the MCPA had to divert the profits received from land leases and water use payments towards matching the strategic partners' investments in the operating companies' accounts. As a result, no payments could be made to land claimants and beneficiaries. This has led to a general perception among MCPA members that they own less of the farms than they should.

Firstly, with regard to financial rewards, several benefit modalities have been put forward, but few have delivered significant results. The community receives income from the partnership, through both land rental (including water use rights) and dividends. Rental income from the joint ventures has been neither consistent, nor have they occurred at the agreed terms, due to the grants from the state that did not materialise, leaving the joint venture company short of funds. The strategic partners are still waiting for the community's contribution (in the form of the grants from government) to be paid into the loan accounts of the operating companies. Strategic partners assert that the lack of grant payments from government has forced the commercial partners to increase their overall investments in the running of the farms, thus making it impossible for strategic partners to meet their rental payment obligations. Strategic partners maintain that in a conventional partnership, the majority shareholder (i.e. the community) would have been able to match the strategic partners' contributions to the loan accounts. Rental income in terms of these deals, has, therefore, been a major disappointment, and not as substantive as initially envisaged. Dividends have not been declared, as these partnerships have been underperforming, and so, evidently, no dividend payouts have taken place. Non-monetary rewards should come forward in the form of training and skills transfer, and employment for community members. Nevertheless, limited efforts have resulted in even more limited results with regard to training and skills development. The scope of training is more related to basic farming activities and food safety practices in the packhouses. Only a small group of people are being trained at technical and administrative levels.

At a project level, farms accumulate, and progress has been made on both the farms managed by New Dawn and Dinaledi. According the MCPA (2014), New Dawn has

increased the planting of citrus trees on two of its farms, and will soon be in need of additional land if it is to continue growing. Similarly, Dinaledi has also been planting new trees on two farms. The company has also been able to increase the rent paid to the MCPA. As such, the community has seen an increase in the value of the lands in their ownership. Land improvement is a condition stipulated in the shareholders' agreement.

In terms of the partnership approach, one of the envisaged core benefits for the community members is employment opportunities. Nevertheless, as is illustrated in Table 10.2, job creation is mostly in seasonal employment, with the majority of permanent employees not being members of the MCPA. As such, the strategy of job creation has not been as successful as initially envisaged, because of the very small rate of permanent job creation at MCPA farms. Six years after the establishment of the partnerships, there is still a lack of trained people who are able to fill supervisory or managerial roles, or administrative positions. With regard to capacitation of beneficiaries, it is noted that strategic partners have shown varying levels of commitment to improving MCPA members' skills on management. MABEDI has been instrumental in developing capacity and administrative skills of MCPA members, but the need for more extensive training and capacitation is still evident. Time and financial constraints are often cited as the reason for the lack of capacity development. On the other hand, the strategic partners indicate a lack of suitable candidates to train, and mention that even in instances where one or two Moletele members have been trained, they have subsequently left. It is, thus, urgent to promote leadership with sufficient technical and managerial skills, and to invest in community members who are eager to acquire these capacities and stay on, with full support from both parties. In sum, the outcome in terms of employment as a potential reward and benefit, is, therefore, very limited.

But, rewards for the strategic partners are also difficult to 'read'. So far, according to private partners, the profitability of farm activities is very limited, owing to their huge efforts to maintain the orchards and ensure a steady production. Whereas the private partners were quick to point out the risks these partnerships have imposed on them, they are reluctant to indicate the rewards. These might lie in favourable produce prices which the export business pays the joint venture. All produce from the joint venture is sold to the strategic partner, without price negotiations or checks against prevailing market prices. It is, thus, possible that the strategic partner can benefit from a low purchase price and subsequently high margins on its export activities, thereby fully internalising the profits without sharing these with the community. The proposed equity of the joint venture in the marketing activities would, at least, transfer part of the margins made in the marketing activities to the MCPA. None of the strategic partners elaborated on the pricing structure between the joint venture and the marketing company.

Outcomes

Strategic partnerships were an ambitious experiment, aiming to include communities across all facets of commercial agriculture (Lahiff *et al.*, 2012). Among the significant weaknesses identified in this study are: vast differences (in knowledge and experience) between communities and their commercial partners; lack of agreement around the precise responsibilities of the commercial partners, particularly with respect to provision of working capital; long delays on the part of the state in transferring the land and releasing grant funding; and a failure, particularly on the part of the Provincial Department of Agriculture, to monitor and regulate the contractual agreements between the parties

(Spierenburg, Cousins, Bos & Ntsholo, 2012; Lahiff *et al.*, 2012; Davis, 2014). These issues remain, even six years after the agreements were signed, putting the sustainability of this model into question.

The outcomes measured in terms of the strategic partnership arrangements on Moletele land have been somewhat disappointing for the claimant community. Observations made regarding these outcomes are summarised in Table 10.3.

Table 10.3 Strategic partnership observations per inclusivity dimension for New Dawn and Dinaledi

Inclusivity dimension	Strategic partnership model observations
Voice	• The community's 'voice' is fairly weak. Their interests should be represented by MCPA members forming part of the operating company's shareholder board meetings, but due to capacity constraints, the strategic partners remain in control of all of the production, marketing, and export-related decisions. • Shareholder meetings epitomise these difficulties. Strategic partners felt that they did not have the time to capacitate community members, and community representatives feel overwhelmed by the business discourse adopted in these meetings. • Board meetings, which should be the platform to ensure community 'voice' and influence in terms of decision-making, are regarded as 'token' meetings by key observers. • MABEDI has tried to train MCPA members but capacity constraints are still evident.
Risk	• From the strategic partner's perspective, a considerable degree of risk became evident when grant payments failed to materialise. • The Dinaledi partnership seems concerned about grant payments not materialising. The Boyes Group is concerned that its partnership on Moletele land, and the level of investments already made, place considerable strain and risk on its other investments in Limpopo. • The community is fairly well insulated from risk because the DRDLR has stipulated that any loan or agreements would not result in the alienation of any of their land, although the liquidation of the Batau partnership has resulted in moveable assets jointly owned by the Moletele and the strategic partner being attached.
Ownership	• A secure title is in place, but the issue of control/ownership of the produce (harvesting, marketing, and export) is considered questionable.
Rewards	• **Rental incomes** from the deals are not consistent, or at the agreed terms, because the grants from the state did not materialise. • In 2015, the MCPA had a bank balance of R7 million. According to the MCPA portfolio manager, rental income might not have been paid to the extent initially anticipated, but he estimates that 65% of the current bank balance could be assigned to rental and water use rights payments. The remaining income is assigned to rental and water use rights payments from other leaseholders (especially the 14 houses being leased on Moletele land). • **Dividends** have not been declared as these partnerships have been underperforming, so evidently no dividend payouts have taken place.

Inclusivity dimension	Strategic partnership model observations
Rewards (continued)	• **Training and skills transfer**: The strategic partners mentioned some attempts at skills development. The two individuals who were trained, however, found employment elsewhere, resulting in the strategic partners becoming very wary of these training endeavours. Outcomes in terms of skills development and training were, therefore, quite limited; the only mentionable highlight being the computer training centre for young people who completed Grade 12, sponsored by the Dinaledi partnership. • **Employment**: The outcome in terms of employment as a potential reward and benefit was somewhat constrained. But, estimates showing that 581 (full-time and seasonal) workers out of 1 283 on Moletele land are Moletele members signals a move in the right direction (Table 10.2). • **Rewards for the strategic partners**: despite some elements of risks which these partnerships have imposed on them, they are staying afloat and their export companies might be benefiting fairly well. • Citrus production is expanding on both New Dawn (160 ha) and Dinaledi (250 ha) land, hinting at production, and thus also export, expansion.

Source: Davis, 2014

Although more MCPA members have access to seasonal job opportunities in New Dawn and Dinaledi, salaries earned by workers are low, and transport costs to the farms are high. Skills transfer has been limited, reducing the opportunities of the community to make an equal contribution to the farm management as their strategic partners have, and jeopardising the chance of the MCPA being able to independently manage the farms. In addition, the MCPA has not been in a position to roll out a bursary scheme for promising community members.

Despite somewhat disappointing rewards for the land claimants, the MCPA has been one of the praised community management initiatives in South Africa. In 2014, the MCPA received the award of Good Governance in land restitution community management initiatives from the Vumelana Advisory Fund (previously MABEDI). This award recognised the capacity of the MCPA to manage the land received through the restitution process, and the good governance the group has with community and private partners.

As a result of the financial challenges, neither the MCPA nor the strategic partners have been able to receive their regular payments, i.e. land rental and management fees. Although the land rental was supposed to constitute a fixed income for the community, this has not fully materialised. As such, not only have the community members failed to benefit from operational income in the form of dividends, they also have not been able to fully benefit from their land ownership. It appears that being exposed to the high risk of the farming operations, and the dependence on government grants to develop these operations, has placed the community in a very vulnerable position.

The lack of financial rewards has created a negative feeling among the beneficiaries. Although they see trucks loaded with fruit leaving the farms, they do not see any financial income. They lack a business understanding of the costs related to the farming operation and its improvements. In general, the community has been challenged as an equal partner in the joint venture partnerships.

Yet, despite the funding constraints, the strategic partners look optimistically to the farms' performances, and, in fact, are looking for ways to increase the areas in production. This could lead to greater rewards for the community in the long run, but the resulting increase

in debt for the MCPA might mean that the lease and partnership agreements would require renewal, as the MCPA will not be in a position to buy out its joint venture partners.

Issues

Issues and challenges

Due to the delay or absence of government grant payments, the joint ventures have been put under severe financial strain. In the case of Batau, the commercial partner was unable or unwilling to compensate for the lack of funding, which was to be provided by the MCPA. As a result, Chestnet went into liquidation in 2010. Since then, the MCPA has entered into a CPP for the management of this farm in which the MCPA no longer has an equity share. As stated in the Treasury's report of 2013, "The CPP Model is favoured over the JV as it places the capital risk on our partners and ameliorates against fiscal shortfall; i.e. the availability of Government Grant Finance" (MCPA, 2013).

The strategic partner in the New Dawn joint venture has been engaged in prolonged negotiations with the DBSA which have not resulted in securing the required funding for the farms. SFM was recently taken over by Leonard Citrus, a large corporate player in the citrus sector. This new partner might be in a better position to gain access to the required loan financing.

The Dinaledi partner seems to have found sufficient finances to keep the farms fully operational. The Boyes Group has been able to make significant investments, such as in a new packhouse. Because the financing of this improvement was fully provided by the Boyes Group, it regards this packhouse as its sole property for the time being – the MCPA did not contribute anything to this improvement. This causes friction between the two partners, as the MCPA argues that the packhouse is built on community-owned land subject to the lease agreement, and hence should be seen as an improvement, of which the MCPA, as lessor, will become owner at the end of the lease period. The company acknowledges that in terms of the joint venture, the packhouse belongs to the community, but they hold the community liable to match the investment that it has made according to the 50/50 shareholding agreement. Dinaledi has also seemingly made a consistent effort to pay the rent. According to the MCPA chairperson, the Dinaledi partnership has also shown a better commitment to their skills development and training promises compared with the other two partnerships.

From the discussion so far, it is clear that one of the main issues, with all three strategic partnerships, has been the delayed payout of the government grants required to invest in the new joint ventures, resulting in budgetary constraints. Additionally, it is apparent that some misconceptions were held during the design of the models. The first misconception concerning the design of these models arises from the total dependence on government grants. These grants are supposed to represent the community's contribution to the loan account of the operating companies. In the case of the Moletele claim, the failure of the grant payments has given the strategic partners much room for manoeuvring, and a readily available scapegoat for failing to make the rental payments.

The lack of financing was exacerbated by the superficial valuation process. During the valuation, the state-appointed valuators failed to detect faulty irrigation systems and the less-economically viable orchard varieties on the newly restituted farms. Investments

were required to compensate for these factors to prevent a large loss of projected harvest, and thus, income from the operation. Due to the long negotiating process, there was a considerable period in which the previous farm owner no longer invested in maintenance activities. At the time the partnership started operating, most of the farms were in a neglected state, requiring immediate investments to get the farms operational again.

Additional costs were also incurred owing to the spatial dispersal of the farming units, which requires machinery to be transported between the separate farms within one operating company. Significant amounts of money were required to consolidate these previously individually run farms into competitive, commercially viable farms. Moreover, crop sales were excluded from the sales agreement with the implication that no cash flow was generated in the first year of the joint venture, putting an additional financial burden on the partnership.

Secondly, it was assumed that restitution communities would be able to function as equal counterparts to commercial partners within these business ventures. It was anticipated that capacity constraints would be manageable, and that the imperative to develop the skills capacity of the community would be 'outsourced' to the strategic partners who would be committed to helping the community 'catch up'. In the case of the Moletele ventures, it is clear that capacity constraints are still evident, and these limit the extent to which the community's 'voice' can be articulated. Strategic partners maintain that firstly, capacitation is a timeous investment that does not always produce rewards because trained individuals often end up leaving, and secondly, they do not have the time or resources to conduct extensive training sessions as they are already tasked with running the farms.

Overall, the sheer complexity, together with the challenge of involving relatively inexperienced community representatives in complex management issues, has proven to be a very large hurdle to overcome. This, coupled with the need to involve hundreds, or even thousands of community members in key decisions – particularly in the absence of tangible rewards – has, by all accounts, rendered the model virtually unworkable. Non-transparency in communication and practices by the MCPA has not eased these issues.

Thirdly, adding to the complexities of the joint venture business model itself, is the co-existence of the MCPA and the Moletele Tribal Council. Moletele community members fail to understand the difference between the two community organisations, which leads to a certain level of frustration in the community (MCPA, 2014). The land reform policy requires the land claimants to be organised in a democratically elected body, such as a CPA or trust. In the case of Moletele, the Tribal Authority is represented on the MCPA board by two *ex-officio* members to ensure that the activities of the MCPA are in line with that of the Tribal Authority. Nevertheless, the dual existence of two collective bodies managing land has caused friction in numerous areas in South Africa, leading the government to possibly reconsider the format of CPAs (CLS, 2013). Although the Tribal Authority and the MCPA seem to have a constructive relationship, the misunderstanding within the community is illustrative of the challenge of managing a body representing a large number of beneficiaries within an existing community.

Internally, the verification of the claimants is a challenging and time consuming exercise which, by 2014, had still not been finalised. Indeed, the MCPA observed that the re-opening of the lodgement of land claims in 2014 has created additional conflicts regarding the rightful claimants of the land in the Hoedspruit area (MCPA, 2014).

Finally, all of the commercial partners prioritise the need to develop the land and maintain a high level of productivity. Although these priorities are sensible to ensure the long-term viability of the farm, the beneficiaries are more concerned with their direct personal needs. The community members expected to improve their standards of living through their renewed landownership, but this has proven to be a major challenge. The MCPA has to find a balance between the opposing land uses, i.e. commercial fruit farming and family-based farming respectively. It is a challenging expectation to place on the commercial strategic partners; the expectation by the community that the strategic partners would directly improve their living conditions - through housing and access to jobs - seems too big a challenge for the commercial partner. In the long-term, maintaining and improving the productivity of the land, with the addition of infrastructure, remains the most viable and sustainable way to reap rewards for the community. Unfortunately, such a commitment requires intensive capital investment. Both New Dawn and Dinaledi perform adequately, but the lack of profitability of the farming enterprises remains a major concern, as community members see no financial rewards in the short run.

Actions undertaken

The different partnerships in the Moletele area have taken steps to counter issues, especially the financial issues, but in different ways. The Dinaledi strategic partner, with access to sufficient financial funds, has invested its own capital into the construction of a new packhouse, with the aim of increasing the operational income from the farm. Despite some moderate successes, the strategic partner is interested in converting the current strategic partnership contract into a CPP, thus taking full operational control over the farming activities.

The New Dawn partner, who has less access to financial resources, took steps to secure a loan from the DBSA in 2008. After a very lengthy, tedious and complicated negotiation process, the loan from the DBSA was finally approved in 2010, but had not yet been transferred by 2014. In the meantime, SFM has merged with Leonard Citrus, which might facilitate better access to commercial loan funding.

The Batau partnership folded in 2010. In October 2009, the MCPA decided to cancel the lease agreement with the Batau strategic partner, given that it was subject to a liquidation notice. The MCPA appointed Bono-SAFE as the caretaker of the Batau farms for a period of one year, with the prospect of signing a CPP agreement with them at the end of the one-year term. With the support of Vumelana Advisory Fund, these farms were leased under a CPP agreement with Matuma, which started in 2013.

To address the community's desire for access to the reclaimed land, the MCPA has assigned two farms which can be used by the claimant members for both resettling and grazing. Despite this intention, government appears to be slow in demarcating the farm lands to accommodate resettling, instead advising the community on the higher economic potential of beef farming (MCPA, 2014). It appears that the government still prefers commercial activities to be carried out on the restituted land, though not necessarily in a joint venture set-up, rather than that the claimant community uses the land for their own purposes.

Unaddressed issues

Many issues are still outstanding for both the surviving partnerships discussed in this case study. The payout of the government grants is still pending, and there is a great need for the financial input these grants would give the farms. Due to the operational challenges, little effort has been put into skills development of the community members to prepare them for more responsibility on the farms, and for their eventual takeover of the full operation. This leaves the community as unequal partners in the meantime, and they depend on expensive external advisers to guide them through the complex labyrinth of the strategic partnerships. The pressure on the MCPA to distribute dividends to its members is increasing. This situation could present significant constraints to the MCPA, limiting their investment in the farming operations and distribution of bursaries for technical and professional education, and might result in lack of resources to invest in other properties and lands under MCPA management.

Success factors

Only the Dinaledi partnership has some success to show, compared with the other two partnerships. Their success has been linked to their ability to source external funding, and the large area of land they currently have under citrus production. Their survival strategy has been to focus on diversifying in terms of only citrus varieties (one type of commodity). The perceived 'success' of the Dinaledi partnership has also been explained in terms of the physical configuration of the land that has been clustered together. A key informant explained that three farms, which form part of the cluster, already belonged to the Boyes Group, and the fourth farm was just an addition to the cluster. The strategic partner, therefore, knew exactly what existed on the farms prior to transfer and did not have to deal with faulty irrigation systems or poor quality hybrids before production could commence. The assumption is, therefore, that the transition for this partnership was much smoother because of the many positive elements that were already in place.

Sustainability and scalability

Considering the outcomes of these models to date, this type of project design does not seem to be sustainable. Despite production continuing relatively uninterrupted (and in some cases, even expanding) on the land in question, the outcomes from the community and strategic partners' perspectives are somewhat more questionable. The dominant perception is that very little rewards are being transmitted back to the restitution claimants. Rental income has been intermittent. In reality, the strategic partners have failed to comply fully with their rental obligations. The employment benefits turned out to be exaggerated. This reflects a poor understanding of the operational requirements for viable export-orientated commercial fresh fruit producing farms. At the same time, attempts at capacitation have been rather haphazard, while profit-sharing and dividend payments have not delivered the level of rewards for the community as was initially anticipated. A combination of these factors has left the community in a decidedly more disadvantageous position. The positions of the commercial partners are somewhat more difficult to 'read'. On the one hand, commercial partners might be capturing the lion's share of the rewards in their downstream marketing activities, but on the other hand, they have to commit considerable investments, with one of the stategic partners engaged in negotiation of a rather stifling loan to stay afloat.

While disagreements about the real extent of benefits derived from these partnerships are rife, the one aspect all participants seem to agree upon is the design flaws in the model. It is generally argued that the model renders both the community and the strategic partners completely reliant on the payment of government issued grants. When these grants fail to materialise, it imposes severe constraints on the functioning of the actors involved. There are also consistent complaints about the institutional complexity in the design of the model. As a result, during the field work conducted (2010–2014), a great deal of uncertainty regarding the exact roles and responsibilities of the various structures and stakeholders was evident, which translated into weak implementation of the stated objectives of these institutions. The potential of the model to meaningfully contribute towards an IB opportunity for the community, therefore, remains highly questionable.

More importantly, when given the choice, CPAs are increasingly opting to move away from these types of arrangements, choosing to introduce models along the line of CPPs or management contracts (the cases of Moletele and Levubu, cited by Lahiff *et al.*, 2012). Community representatives were in favour of moving away from strategic partnership models, citing numerous reasons. They complained that the model was just too complex in design, making it too difficult to 'manage' commercial partners effectively. Community leaders also argued that the model culminated in scenarios where, on the one hand, commercial partners became the *de facto* decision makers of the land, but, on the other hand, the community was expected to 'learn as they were going along'. The interviewed community leaders observed that their roles were effectively reduced to being landlords, with their land being managed by the commercial partners. It was, therefore, decided that they might as well become exactly what they were, in fact, already doing. For this reason, community structures started introducing models that removed them from the risks of direct involvement in the farming operations, i.e. CPPs.

Nevertheless, the strategic partnership model might be of interest, as it combines ownership with multiple levels of collective decision-making. The attempt to introduce and capacitate restitution communities in terms of commercial farming practices, through first hand encounters and experience sharing, should thus be applauded. But, the model is ultimately leaving rather ambiguous outcomes in its wake. The introduction of the model, as demonstrated in the Moletele case, has led to the consolidation of already large holdings in the area, under the new ownership, while the existing power dynamics between the commercial partners and restitution communities limit the scope for real collective decision-making. Increasing demands on commercial farmers operating in the context of UK-based, retail dominated, fresh fruit value chains, also clearly limit the benefit-sharing capacity of these models, bringing the long-term sustainability of the model further into question.

Conclusion

Although some strategic partnerships have seen (limited) success, such as the Dinaledi partnership in Moletele, the overall experience has been that of failure. Because of their sheer complexity, and the challenge of involving relatively inexperienced community representatives in complex management issues, strategic partnerships have been difficult to implement, let alone allowed to grow. Financial constraints have hindered the training and development of community members, further putting the long-term sustainability of the partnerships and the farming operations at risk.

Attempts were made to counter possible negative developments relating to the partnership. Rather than entering only into a lease agreement, which would not empower the community, a conscious choice was made to give the community association equity in the farm operations. A management agreement with the strategic partner was implemented to ensure the efficient management of the farm. In addition, the community would benefit from the lease agreement. The outcomes have been disappointing though.

The most obvious weakness is the lack of material rewards reaching the great majority of community members. Twelve years after the lodgement of their restitution claims, and six years after the return of the first lands, most households have yet to see any positive impact on their livelihoods. This is a source of great frustration for many, given the expectations that were raised by the restoration of the land and the establishment of commercial partnerships with private sector operators, the huge sums of public money consumed, and the extensive participation by community members over many years in discussions and planning exercises.

It is, therefore, understandable that the MCPA has changed its strategy. It states that the majority of the organisation's issues and risk exposure reside in the joint ventures it has entered into (MCPA, 2013). Rather, it now opts for the less complex CPPs, which constitute essentially a lease agreement with a commercial farm operator. This relieves the MCPA from the complex challenges of managing a commercial farm. Whereas these lease-based partnerships might pose smaller risks while returning a similar income to the CPA, they do not solve the issue of direct rewards for the claimant families. Neither do they capacitate the community to become independent farmers, but instead enlarge the gap between the community and the partner. Lastly, the sheer size of the claimant community makes any kind of IB a challenge due to the large number of conflicting interests that need to be managed by the community partner.

11

A community–private partnership centred on a lease agreement – Richmond Estate[1]

Wytske Chamberlain and Nerhene Davis

As described in Chapter 10, the Moletele is a community who have successfully claimed ownership of a large area of land in the Hoedspruit area, Mpumalanga province. Members of the community were forcefully removed during the time of apartheid. The claimant community, which consists of removed people and their descendants, are organised in the MCPA, which is tasked with the management of the land that has been restored to them. The MCPA has implemented two different models: the joint venture model, as discussed in Chapter 10, and the community-private partnership (CPP) model which will be analysed in this chapter.

The main focus is on the Richmond CPP which manages a citrus farm on MCPA land. Initially, Richmond was also a joint venture, similar to the ones of Batau, Dinaledi and New Dawn. In Richmond, it evolved into a CPP as a result of previous, negative experiences with the joint venture model. As such, it aims to overcome the issues faced by the earlier implemented joint ventures. Whereas the operating environment is similar (commercial citrus farming), the instruments used in the Richmond partnership differ significantly, resulting in shifts in terms of inclusivity for the beneficiaries, as well as in the outcomes of the project.

This chapter will start with an overall project description of the Richmond partnership, followed by that of the inception of the project, in which actors and their drivers will be analysed, together with the financial support system that enabled this project. The actual implementation is described, followed by an assessment of the inclusivity of the model, and the outcomes. The following section analyses the issues experienced in this project and is followed by an overview of the factors which can be considered a success. The chapter then surveys the sustainability and scalability of the project, as well as the ease of replicating the model. Information is based on a number of field visits made between 2010 and 2014 when all stakeholders were interviewed.

1 The authors wish to thank Luis Amaya Ortiz, Setoki Mothle and Anel Jansen van Vuuren for their contributions to this chapter.

Project description

Richmond Estate, situated about 40 km west of Hoedspruit, is a commercially operated farm that mainly produces tropical fruit, including mango, and citrus such as grapefruit and orange. Richmond Estate covers an area of 2 434 ha and was purchased by government in April 2009, on behalf of the claimant community, for R63.9 million from African Realty Trust (ART), a group of land owners willing to sell their farms after the successful land claim by the Moletele community. Unlike other farming operations in Moletele, Richmond comprises a single portion of land, held under one title deed by the MCPA. It is considered to be well equipped with its own packhouse on site and a large area (over 500 ha) under established fruit orchards.

At the centre of the CPP is a lease agreement between the MCPA, the lessor, and the lessee, Bosveld Sitrus (member of the Bosveld Group, which acquired the initial lessee Golden Frontier Citrus, 'GFC'). The lease period is 16 years, starting from 2009 and ending in 2025. The lease includes land, assets (including trees), fixed improvements and water use rights. The agreement gives the lessee the right to use the land for commercial production purposes. The day-to-day operations and management of the company are vested in the hands of the lessor, who has full control over financial and operational matters. In effect, the MCPA has ceded all decision-making power over the land to GFC and acts only as a landowner. However, the MCPA does not have ownership in the operation, as is the case in the strategic partnership model (see Chapter 10). Monthly rental is paid to the MCPA. In addition to the fixed lease amount, the agreement defines a profit share percentage which is to be paid to the MCPA. This percentage escalates during the lease period, starting from less than 1 % in the fourth year of the lease to approximately 9 % at the end in 2025. In 2014, the fifth year of the agreement, the profit share amount was close to R1 million, approximately 1 % of the gross profit of the estate.

The lease agreement stipulates that the lessee "at its sole expense shall expand, replant, plant, construct, rehabilitate, equip, operate and maintain the land, orchards (both existing and new) and all assets it has been granted access to" (Richmond Lease Agreement, 2010). The lessee should also be doing all this "according to good agricultural practice" (*ibid*). The lease agreement provides a detailed framework for ensuring the adequate rehabilitation and maintenance of the orchards on Richmond farm, including the obligation for the lessor to annually develop new areas for both citrus and mango orchards. At the end of the lease period, full control of the land, including improvements such as newly developed orchards, automatically reverts back to the MCPA, without compensation being payable to the lessee for the value of improvements made.

The majority of the produce is exported by Komati Fruit Company, which is fully owned by Bosveld Sitrus, the lessee of the farm. A small quantity of fruit, which does not comply with export standards, is juiced locally.

In 2014, the farm employed 107 permanent employees. During the harvesting season, between April and September, seasonal workers are employed on the farm and in the packhouse. The lease agreement makes provision for the preferential employment of Moletele people in production-related activities on Richmond land.

Effectively, 630 ha is under irrigation, although not all is under production yet. The lease agreement includes the payment by the lessee for the water use rights allocated to Richmond Estate. The rate paid by the lessee is set according to the rate determined by the water board. This water board has agreed on a discounted rate for the MCPA. In

effect, the water use rights thus form an income stream for the community association. The total water use rights on the farm are for 1 050 ha (sourced via a pipeline, directly from the Blyde River), offering considerable growth opportunities, although expansion is largely dependent on the capacity of the packhouse. The lessee is obliged by the lease agreement to replace old trees at the end of their lifespan with new trees, while incurring the full costs. Additionally, the lessee is required to rehabilitate neglected orchards, as well as develop new ones. Significant provisions are made in the lease agreement for the rehabilitation and maintenance of the existing orchards, with an agreed schedule for the replanting of orchards with distinctly specified varieties.

Certain portions of the land are sub-leased by Bosveld Sitrus to independent farmers who grow potatoes and other crops. This part of the farming operation is not within the scope of this study, as the MCPA as beneficiary is not directly involved in this activity.

Inception

The land on which Richmond Estate is situated is part of the larger land restitution claim brought forward by the Moletele community. The first parcels of land were transferred to the MCPA in 2007 and 2008, to be managed on a joint venture basis. At the time of transfer of the Richmond Estate, the MCPA, initially, also entered into a joint venture agreement with ART, reportedly at the behest of the Provincial Department of Agriculture. This joint venture only lasted six months (April–October, 2009). As with the other joint ventures in which the MCPA had equity, the joint venture company did not receive the expected development grants and, according to the community informants, the farm deteriorated to such an extent that the partnership was terminated. Production virtually collapsed, except for juicing of oranges (i.e. lower grade fruit). At this point, the farm then reportedly required an injection of R500 000 to restore its production.

After the collapse of the joint venture, the MCPA subsequently entered into a temporary caretaking agreement with GFC to manage the farm between October 2009 and June 2010, at which point a lease was signed with GFC. On the 22nd of June 2010, a lease agreement was signed with GFC based on a business model negotiated along the line of what has been dubbed a 'community–private partnership'. The required cash injection was factored into the lease agreement with GFC in order for them to proceed with production activities on the land. In terms of the agreements signed, a cash injection was required from GFC, which was seen as business start-up costs put into the initiative (i.e. could be seen as a sunk cost into the business operation).

The lease agreement includes a clear skills development plan, an exit strategy and an agreement for phasing in the preferential employment of Moletele community members. MCPA members were very excited when they successfully concluded the CPP deal for the Richmond farm. During an interview in 2011, the chairperson of the MCPA at the time, explained that "valuable lessons were learned from the failed implementation of the strategic partnership deals" and that "the CPP model would imply a massive improvement from the community's perspective". The chairperson's optimism for the CPP model was also echoed by other key informants. Their optimistic view of the new agreement intrinsically stemmed from the inclusion of a "guaranteed and incrementally increasing lease fee, in tandem with income from fruit production activities on the land" (Richmond Lease Agreement, Annexure A:41) in the agreement.

Actors and drivers

Figure 11.1 illustrates the institutional set-up of the Richmond CPP model, graphically representing the actors and their relationships.

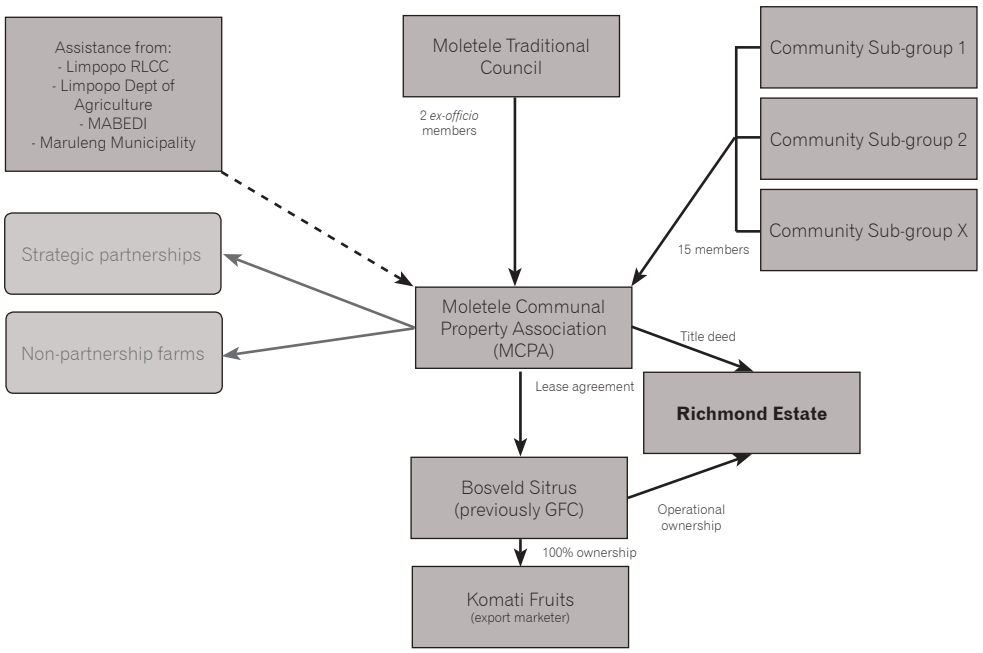


Figure 11.1 Institutional set-up Richmond CPP

Source: Authors

The MCPA was set up to take ownership of, and manage the land on behalf of the Moletele claimant community. The organisation represents around 1 615 households. The failure of two joint ventures (with ART on Richmond Estate, and with Chestnet on Batau – see Chapter 10) and the continued struggles with the remaining two joint ventures, New Dawn and Dinaledi (see Chapter 10), led the MCPA to opt for a lease agreement rather than shared equity. The association recognised that most of the issues it was dealing with, were related to the joint ventures operating on Moletele land (MCPA, 2013). As such, it envisaged a model in which it was less exposed to the risks related to the management of commercial farms. In the selection of, and negotiations with, commercial partners, the MCPA was assisted by officials from the DRDLR and MABEDI (now Vumelana Advisory Fund).

The initial lease partner, GFC, is a citrus production company, created as a black-empowerment venture by TSB Sugar and the state-owned IDC. According to the community representatives, GFC presented a comprehensive turnaround strategy for the neglected farm. GFC first entered the scheme on a short-term lease basis, which was later converted into a CPP with a 20-year lease. GFC also had the advantage of access to substantial capital of its own as part of a large conglomerate (and in contrast to the previous local landowners who were the strategic partners in the previous joint venture). GFC (later

acquired by Bosveld Sitrus), provides capital, know-how and marketing channels to the operation.

Marketing activities for the fruit are carried out through export marketer, Komati Fruits, which, at inception of the CPP agreement, was 50% owned by GFC. The CPP agreement gives GFC a source of supply for its marketing operation, and provides the Moletele community with a guaranteed off-take for the fruit produced on its land. The other shareholder in Komati Fruits is Bosveld Sitrus, a large citrus company based in Limpopo. In May 2011, Bosveld Sitrus bought GFC, acquiring both the 51% share from TSB and the 49% share from the IDC (Meintjes, 2011). Through this acquisition, Bosveld Sitrus not only became the sole owner of Komati Fruits, but also the lessee of Richmond Estate.

Support

The government has committed significant funds to the procurement of the land titles handed to the MCPA. Due to the large land holding, the RLCC paid R63.9 million to acquire the land and assets on the Richmond Estate, making it the most expensive land restitution claim for the Moletele community.

To enable the claimant communities to operate the newly acquired farm, the government implemented a number of grants. To this effect, the DRDLR has provided a Settlement Planning Grant of R2 779 756, which has been calculated at a given percentage of the value of the Richmond land at the time of transfer, in accordance with the DRDLR grant disbursement criteria. However, owing to the erratic release of grants earlier in the land restitution process of the Moletele case, the community opted to establish a CPP, which would not be dependent on these grants for survival. The MCPA instead decided to disburse this Settlement Planning Grant as once-off cash transfers to registered claimant households. In this regard, 1 505 households received a payment of R1 679, with 106 payments that still needed to be made by the end of 2013. It should be noted that these cash payments have been the only payments from the grants received by community members, to date.

The MCPA is the title deed holder of the farm. The lessee company pays a monthly land rental and water use rights fee to the MCPA. The contract stipulates a fixed and a variable lease fee, which both increase, according to the years of implementation. Together, these fees are expected to range from R1.6 million per annum in 2010, up to R10 million per annum in 2025. These fees (should) form a steady flow of income for the community, independent of the farm's performance or the harvesting season. In addition, at the end of each financial year, a negotiated percentage of the profits will be paid to the MCPA. Overall, the deal that has been concluded on the Richmond property is valued at R64 million, with a "leveraged investment of R27 million" (Newmarch & Business Trust, 2011:10). The lessee is expected to plant 115 ha of new orchards, make repairs to the bulk water supply, replace irrigation infrastructure, and commit a fixed investment of just over R10 million, as well as meeting annual operating costs of R7 million per annum (Vumelana, nd).

Figure 11.2 summarises the financial structure of the Richmond CPP.

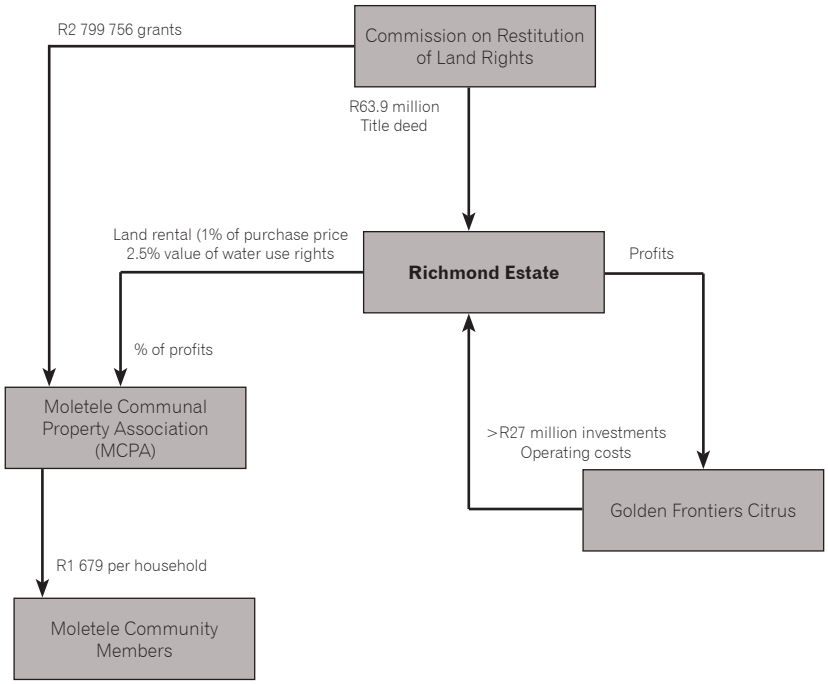


Figure 11.2 Financial structure of the Richmond CPP

Source: Authors

Implementation

The original agreement was signed for a 16-year term, but a clause has been added in the form of a 36-month 'probation' term. After this 36-month period, both parties have agreed to get together to re-assess the terms and conditions of the lease agreement, and to plan a way forward 'in good faith'. Fairly significant portions of the lease contract focus on the planned commissioning of a sugar cane project (seed cane, or cane for the production of ethanol) to cover approximately 240 ha of the estimated 2 434 ha of the Richmond land.

As this is a community lease and management case, the implementation is rather simple. It is based on an estate production model, centrally managed by the commercial partner, and where the labour is realised by employed permanent and seasonal farm workers.

Functioning: committees and meetings

In contrast to the strategic partnership model which required an operating company with an executive committee or a board consisting of shareholder representatives, the CPP model (similar to a lease/management agreement) only requires the leaseholder (Bosveld Sitrus) and the MCPA to liaise with each other when issues arise. In instances where matters need consideration/negotiation, the commercial partner would need to attend one of the bi-monthly MCPA meetings. During these meetings, which are conducted on Saturdays, issues pertaining to management of Moletele land are discussed and resolved.

In instances where broader community participation is required, a decision would be made at the Annual General Meeting of the MCPA, or a special community meeting convened for this purpose. These meetings would need to comply with certain requirements to ensure that the quorum stipulations are met.

Functioning: day-to-day

The day-to-day management and executive administration of the farm operations lies with the commercial partner. It has full control over financial and operational matters. This includes capital investments required for the operation of the farm, such as machinery, equipment, and inputs.

The effective work on the farm is done by a staff of 107 permanent employees, together with several hundred temporary workers during the harvesting season, between April and September. They are employed by the lessee, Bosveld Sitrus.

The involvement in the day-to-day management by the MCPA as the owner of the land is thus negligible. However, when new positions are available on the farm, the leaseholder is required to communicate these vacancies to the MCPA, who in turn sources and coordinates the appointment of employees from the Moletele community. The final appointment decision however, lies with the commercial partner as the employer.

Employee/partner development

Despite the fact that the lease agreement includes a skills development plan, and the lessee is required to give preferential treatment to Moletele community members if a position becomes available, little is known about the impact the lease/management construction has had on employee development. Bosveld Sitrus does assist two to three students from the community who are completing practical requirements for their studies.

Inclusivity

For the management of Richmond Estate, the MCPA has opted to enter into a lease agreement without direct participation of the community on the farm. As such, the role of the community, and hence the inclusivity of the beneficiaries, is minimal and changes significantly compared with the Moletele joint ventures. This section will analyse the inclusivity of this model in more detail.

Ownership

The ownership of the community is limited to the land and fixed assets, such as the packhouse, on the land. The individual members do not hold any private ownership, but are represented by the MCPA as a collective organisation. Moveable assets used on the farm all belong to the commercial partner. The commercial partner also has full ownership of the produce, the marketing of which is managed by a sister company. Any improvements to the land, such as orchard development, will revert to the MCPA at the end of the lease.

Voice

Due to the complete withdrawal from the farm operation, the community no longer has a say in how the farm is managed. This lack of decision-making power not only relates to the citrus farming activities, but also to any sub-leases the main lessee agrees on, such as with independent potato farmers. Theoretically, it can thus happen that individual MCPA members, with sufficient financial means to rent land from Bosveld Sitrus, might rent land which is essentially owned by them.

The commercial partner, Bosveld Sitrus, is a very large player in the South African fruit sector. The power disparities between the MCPA and Bosveld Sitrus are prominent, potentially reducing the voice of the MCPA in the partnership. Even a substantial contract – the lease agreement contains 53 pages – might still prove ineffective in terms of ensuring leverage for the MCPA to enforce contractual stipulations. The community's ability to influence decision-making might, therefore, be even more questionable than in the case of the strategic partnership model implemented on other farms within the Moletele land claim.

Risk

Where fixed rent has been negotiated in terms of the contract, risks are mostly carried by the commercial investor, while landholders only shoulder the opportunity costs of the land. The lessee should also raise funds required for the operation of the venture. The inclusion of the redevelopment and replanting responsibilities of the lessee does reduce the possibility of the farm needing major investments at the end of the lease period. Nevertheless, if contractual agreements are not honoured, the agribusiness might be allowed to consolidate and farm with very little regard for the long-term viability of the land, thus putting the community at risk. This is particularly relevant considering the above-mentioned power imbalance between the community organisation and the commercial partner. A major advantage of the CPP model for the MCPA is that the investment and production risks are carried by the commercial investor, not the community. Simultaneously, the commercial partner is not exposed to internal community issues, or a management partner lacking in skills and funds. Considering the slow payment, or even non-payment, of grants by the government, related to the other land restitution farms under the MCPA, this model reduces the risk of having insufficient financial resources which would negatively impact both the MCPA and its commercial partner.

Rewards

The contract specifies profit–sharing and fixed rental terms. Additionally, the community gains from the sale of the water use rights assigned to Richmond Estate, owing to the price difference between the rate paid by the lessee to the MCPA, and the discounted rate agreed on between the MCPA and the Water Board. Contractual provisions regarding training, land maintenance and preferential employment of community members, have also been included in the lease agreement. As such, the community stands to gain financially, from skills development and asset appreciation. Due to the clear financial obligation of the lessee, who is fully responsible for all investment and operating costs related to the farm, the commercial partner will have budgeted for rental payment, overcoming the non-payment experienced in the joint ventures in which the MCPA participates. Overall, the CPP model seemingly scores better than the strategic partnership model in terms of the envisaged rental and profit income from these deals. Actual revenue streams are a strong possibility, because in this case, the community should receive annually increasing lease

payments and an annually negotiated percentage of the profits from fruit production on their land.

On an individual level, however, the rewards from this model are limited. Job opportunities have not materialised owing to the fact that the people employed on the farm at the inception of the lease agreement had to be retained. Moletele community members thus have to wait for current staff to leave employment, or for new jobs to be created. Most community members that do find work on Richmond Estate are seasonal workers, receiving only minimum wages. The majority of the workers live in Bushbuckridge and have to travel to Hoedspruit, and as a result spend up to 20 % of their income on transport alone (Newmarch & Business Trust, 2011). Most of the workers make use of the private bus system currently operating between Hoedspruit and Bushbuckridge, although the MCPA has indicated that they have been providing some subsidised transport for the workers in the form of a mini-bus, travelling at regular intervals between Hoedspruit and Bushbuckridge.

Outcomes

With this model, the focus has shifted to a private partner with the ability to farm profitably, provide for the development of the farm, and train prospective MCPA members in farming. Needless to say, Richmond Estate also seems better geared structurally towards success, with a well-equipped packhouse (180 tonnes throughput annually) available on site, and a large area of land already under established citrus production (400 ha). Plans are also in place to extend the citrus production by another 115 ha (young citrus, already planted), and 240 ha of land has been earmarked for sugar cane plantations to be channelled towards ethanol production.

With CPPs, the MCPA signs agreements with agribusiness entities, and even large corporations in some instances. These agribusiness entities have sufficient funds and the necessary legal and technical skills to invest and manoeuvre as they see fit. Additionally, their motives are clear: they need access to land with water use rights in order to secure increased produce supply required to grow their export activities.

Since the signing of the lease in 2010, GFC has ceded the lease to Bosveld Sitrus, after they decided that it would be too costly for them to travel on a regular basis between the farm in Hoedspruit and their offices in Malelane. The lease agreement, as part of the overall CPP agreement on Richmond Estate, stipulated that the contract was to be signed between GFC and the MCPA. The lease agreement also clearly stipulated that the lessee is entitled to sub-let the property, or cede its contractual agreement with the community to a third party, without prior notice or negotiation with said community. The MCPA members seemed astonished at the speed with which the change of partners occurred, but decided to ‘go along’ with the new partner.

Despite the partnership change, the overall performance of Richmond Estate seems to be acceptable – the farm is well run and generates a stable source of finances for the Moletele community, in addition to a considerable number of (seasonal) jobs. It is considered by some, as being a more successful case of land restitution, albeit with limited input from the community.

Issues

The MCPA is dealing with a considerably larger, and more professional, partner in this CPP than it has in previous cases. Owing to the substantial financial commitment required from the agribusiness partner in the absence of government grants, only large companies are in a position to sign up with the MCPA. As such, this model leads to corporate control over the land, with full transfer of power to the commercial partner. Not only has the CPP resulted in low community benefits, it has also led to a complete power divide. To bridge this power divide, a comprehensive 53-page lease agreement has been signed. Although this may give equality on paper, it does not when it comes to the actual implementation. The MCPA's subordinate position was illustrated in the transfer of the lease to another lease partner by the lessee, only a short time after the signing of the agreement, without involvement from the MCPA.

The moment GFC took over management of the farm, it discovered that "government bought the farm in a very grey way" (Newmarch & Business Trust, 2011:12). According to a source, "there was never a valuation done, never any specifications stipulated". Furthermore, "Government bought the farm and agreed with the previous owner to plant an extra 100 ha of citrus, and would compensate them for it", says a representative of GFC. Six months later, 70% of these additional hectares were overgrown, and the negotiations took on greater complexity as GFC attempted to work out precisely what they were taking over, and what belonged to the previous owners (Newmarch & Business Trust, 2011).

The commercial partner considers a 16-year lease to be too short to justify the capital investment required for true development of the farm. Hence, it is unable to invest in irrigation infrastructure to bring additional land under production, or in the extension of the packhouse.

Success factors

The largest factor for success is the involvement of a very strong agribusiness partner with sufficient financial funds, as well as experience, to run the farm operations independently. No other partners are required to keep the farm producing at profitable levels, which has been an issue for the MCPA in their strategic partnership projects. The agribusiness is driven by its need for a stable supply of good quality produce for its export business, and hence, is willing to put in the investments required. Since they have full control over the operations, these investments pose a lower risk than if they were a (minority) partner in a joint venture. In addition, the community is not required to play the part of an equal partner, which they are not capable of owing to their lack of experience.

To establish the agreement and draw up the extensive lease agreement, the involvement of an impartial mediator (MABEDI) was valuable. The MCPA lacks the legal expertise and experience to engage in negotiations with a large, professional party such as GFC/Bosveld Sitrus. The mediator also played a large role in smoothing the transition between having ART as previous owner, and GFC as partner.

Lastly, Richmond Estate was a well-established farm with a single title deed. This makes running the farm much easier than having to operate on a physically dispersed number of farms, as was the case in some of the Moletele strategic partnerships. A longer lease period could thus result in a farm with more fixed improvements, from which the community, as

owner, would benefit. But, it also effectively excludes the community from any involvement in, and increased ownership over the produce from, this farm.

Sustainability and scalability

From a purely sustainability and scalability point of view, such community lease models are relatively easy to replicate, particularly when there is willingness from commercial partners to invest, and where communities are ready to cede control over their assets. This is certainly the case in the framework of South Africa, where the relationships between agriculture, and rural communities and land reform beneficiaries, have been destroyed (Cousins, 2000; Hall, 2004; Cochet *et al.*, 2015; besides others), and where agriculture is increasingly understood as being an emerging asset class (Ducastel & Anseeuw, 2016).

Indeed, since 2006 there has been much speculation about a large biofuel plant being built in the Hoedspruit area. The state-owned IDC and Central Energy Fund are reportedly interested in biofuel capacity in the area, and various feasibility studies have been undertaken. Opposition to this scale of industrial development has been expressed by tourism and conservation interests in the Hoedspruit area, but it appears that some compromise is likely to be reached in order to keep developments away from prime tourist attractions and lodges. The planned commissioning of a 'Sugar Cane Project' (seed cane or cane for the processing of ethanol) is to cover approximately 240 ha of the Richmond land. Since the start of the lease agreement, little has been heard about this project and it seems to have been taken out of the medium-term plan of the farm. However, even without the sugar cane project, sufficient opportunities for expansion on the farm exist.

It might be too soon to make any conclusive findings in terms of the long-term feasibility of community lease models, but it is clear that these models are not without challenges. It is also clear that the continued introduction of more of these models, in terms of the settlement of rural restitution claims, would have far-reaching implications for the South African agrarian structure. The perceived desirability of this CPP model might contribute towards an increase in the number of settled rural restitution cases. This would definitely effect a change in the racial profile of ownership of commercial farmland in the rural landscape of the Limpopo province, and perhaps even South Africa. Hall (2004) refers to this process as the "blackening of the land ownership structure". At the same time, however, the model signals a distinct move away from involvement in farming activities by rural restitution communities. By implication, the role of these restitution communities is reduced to them becoming landlords/rent collectors, with very little control over activities, or produce, on their own land. The community might, therefore, be able to call themselves landowners who have been 'incorporated' into value chains, but they might end up with no decision-making or orientation power based on the business model used. The 'voice' of the community in this context is, therefore, highly questionable. There is also some concern about the 'voices' of sub-groupings within communities which could be compromised, or drowned out, by 'rural-based elites' who promote large-scale commercial farming, and thus adopt the CPP model rhetoric.

12

Multilevel landholder cooperative in a produce-share agreement and shared operational control without shared equity – Seven Stars Trust

Wytske Chamberlain and Jeff Every[1]

In the 1970s, a number of irrigation schemes were established in the former homeland of the Ciskei, one of which was the Keiskamma Irrigation Scheme in an area historically used for dairy farming. Plots were demarcated and people were asked to come and farm. These farmers received a plot of approximately 12 ha with 12 cows. Under the guidance of the government, these farmers managed to earn a small living. They were organised in a trust, consisting of seven production units, which supplied a central dairy, owned by the Ciskei government, from which the milk was sold. The scheme relied heavily on government funding for its operation. With the end of apartheid and new policies being implemented, subsidies for the Keiskammahoek Dairy Scheme were abolished and the irrigation scheme fell into disrepair. By 2003 the various communities were encouraged by the Provincial Department of Agriculture to organise themselves into cooperatives along the lines of the old production units. These primary cooperatives together formed the Seven Stars[2] Central Agricultural Cooperative, covering the full dairy scheme. The idea was that it would be easier for the farmers to become profitable on a larger scale. However, after a number of years, they still struggled. Government then advised them to find a partner to assist them with the dairy farming activities.

Project description

Seven Stars Trust is the implementing agent of a sharemilk agreement between the Seven Stars Central Agricultural Cooperative (Seven Stars Co-op) and Amadlelo Agri Pty Ltd (Amadlelo). The trust operates a dairy farm on 731 ha of irrigated land situated just outside the town of Keiskammahoek. Six primary cooperatives, consisting of 36 members, contribute a total of 591 ha[3] of land. In addition, the trust leases 140 ha from the Amathole Municipality, with a 20-year lease which expires in 2030. At the end of 2014, the herd consisted of 3 500 cattle, of which 1 700 are milked. Three hundred are dry cows and the

1 Founder and CEO Amadlelo Agri

2 The name Seven Stars was based on the seven production units and thus the primary cooperatives that made up this secondary co-op. One cooperative has since left the Seven Stars Cooperative, leaving six primary cooperatives as its members.

3 One piece of land is owned by the Seven Stars Cooperative itself. A member of one of the primary co-ops decided to sell his land which was then bought by the secondary co-op.

remaining cattle are young heifers. Each cow produces around 17.5 litres of milk daily, giving the operation a daily production around 30 000 litres.

The Seven Stars Trust is a 50/50 partnership between Seven Stars Cooperative and Keiskammahoek Livestock (Pty) Ltd, a full subsidiary of Amadlelo Agri. The two parties have signed a five-year sharemilk agreement, to be extended for a further five years, to operate the dairy farm. Under this agreement, the Seven Stars Co-op provided the land and fixed assets, and Keiskammahoek Livestock (further referred to as Amadlelo as the sole shareholder) provides the cows, tractors and other moveable assets. The trust operates two milking parlours. Land is divided into seven production units: six units which belong to each of the primary cooperatives, and the central unit which is leased from the municipality. Five units are used for grazing for the milk cows. The two units furthest from the dairy parlours are used for grazing dry cows and heifers, and for silage production.

Seven Stars Trust sells fresh milk to the community. The remainder of the milk is collected by Coega Dairy, a local milk processor in the Eastern Cape. Currently, no processing of the milk is carried out by Seven Stars Trust, although this is planned for the future. Processing will enable the trust to enter into formal supply contracts with the local government institutions, such as schools and hospitals, which require pasteurised milk.

Inception

The Seven Stars Trust was established in 2009, after the Provincial Department of Agriculture put out a call for commercial dairy production partnerships to be established in the collapsed irrigation schemes in the Eastern Cape, which included the Keiskamma Irrigation Scheme. A previously proposed partnership between the Seven Stars Cooperative and a group of commercial farmers had fallen through, nearly causing the cooperative to break up. In 2009, Amadlelo Agri presented a proposal to the Seven Stars Cooperative and all the primary members. After internal discussions and legal advice from attorneys, the members of Seven Stars Cooperative decided to accept the proposal, and hence, the Seven Stars Trust was established. The trust serves as the agent for the implementation of a sharemilk agreement between Amadlelo Agri and the Seven Stars Cooperative.

The government required the formation of partnerships, rather than the conclusion of a lease agreement, between the commercial partner and the community. The reasoning is that lease agreements do not actively include the community in the operations on their land, and hence, will contribute little in the form of skills development and the long-term possibility of the community becoming able to independently run the operation. Therefore, Amadlelo proposed a sharemilk construction which was adapted by the company from a framework widely implemented in Australia and New Zealand.

The proposal was built around a trust, rather than a commercial joint venture with equity shares. A trust offers the opportunity to move profits-before-tax down to individual trust members. In the case of the Seven Stars Trust, this could be all the way down to the individual landholder members. These members each have a tax-free income set at R50 000, effectively allowing the organisation R1.8 million tax-free profit, annually.

Actors and drivers

The overall structure of the Seven Stars Trust has multiple levels, as illustrated in Figure 12.1. Seven Stars Cooperative is a secondary cooperative that consists of six primary cooperatives, each representing a unit/community of farmers. This organisation stems from the historical days of the Keiskamma Irrigation Scheme. The members of these primary cooperatives elect the board of trustees for the secondary Seven Stars Co-op. In addition, each primary cooperative elects one person to sit on the board of trustees of Seven Stars Trust. As such, each primary cooperative is represented on the Seven Stars Trust Board.

The establishment of primary and secondary cooperatives in the derelict irrigation schemes across the province was driven by the Provincial Department of Agriculture. Through the formation of cooperatives, the department hoped to achieve economies of scale, thus increasing the productivity of the dairy farmers, and hence their income. Nevertheless, milk production remained low and the farmers in the cooperative struggled to earn an income as dairy farmers. The main issues were the lack of capital and the lack of knowledge. The department thus advised the cooperative to look for commercial partners to assist them with the establishment of a profitable dairy operation.

Amadlelo Agri (Pty) Ltd is made up of three shareholders: The Amadlelo Milk Producers Investment Company (Pty) Ltd (AMPIC), which is a body representing 70 commercial dairy farmers from the Eastern Cape and KwaZulu-Natal; Vuwa Investment Company, a black-owned empowerment investor; and the Amadlelo Empowerment Trust, which is an umbrella organisation for the workers trusts on each of the 70 commercial farms in AMPIC. The commercial farmers are interested in becoming shareholders in AMPIC for a number of reasons. They understand that the future of South Africa lies in successful transformation, for which the inclusion of black workers and farmers is a prerequisite. Through joining AMPIC, they have the opportunity to achieve Amadlelo's mission "To transform latent community assets into profitable, self-sustaining businesses while also providing poverty relief, job creation and food security" (Amadlelo Agri, nd). Nevertheless, Amadlelo operates as a profit-driven business. As such, the shareholding farmers expect to earn returns on their investments. Through the establishment of a workers trust on their farm, the shareholder farmers can also include their labourers when sharing this profit. Lastly, Amadlelo Agri, through its experienced CEO and its wide network of shareholders, has considerable clout with policy makers, and is thus in a position to engage in policy discussion.

Since its establishment in 2004, Amadlelo Agri has entered into a number of community partnerships, including the Fort Hare Dairy Trust, Middledrift Dairy, Shiloh Dairy Farm, Ncora Dairy Farm and Makhoba Dairy Farm. Aside from the Fort Hare project, all other partnerships are based on a sharemilk agreement where the community, organised in a cooperative, provides land, and Amadlelo brings in the cows and equipment. Seven Stars Trust is the largest of its operations.

The Seven Stars Cooperative offered Amadlelo an investment opportunity to add to its portfolio. It expects this operation to be profitable over time, hence contributing to the return on investment for its shareholders. More importantly, it provided the opportunity to generate opportunities for the local community, and the landholders specifically, to earn an income from dairying. As such, the project suited the vision of Amadlelo Agri. The CEO, Mr Every, had been involved in the project in the past and thus he was familiar with the circumstances, which was an extra motivation to get involved.

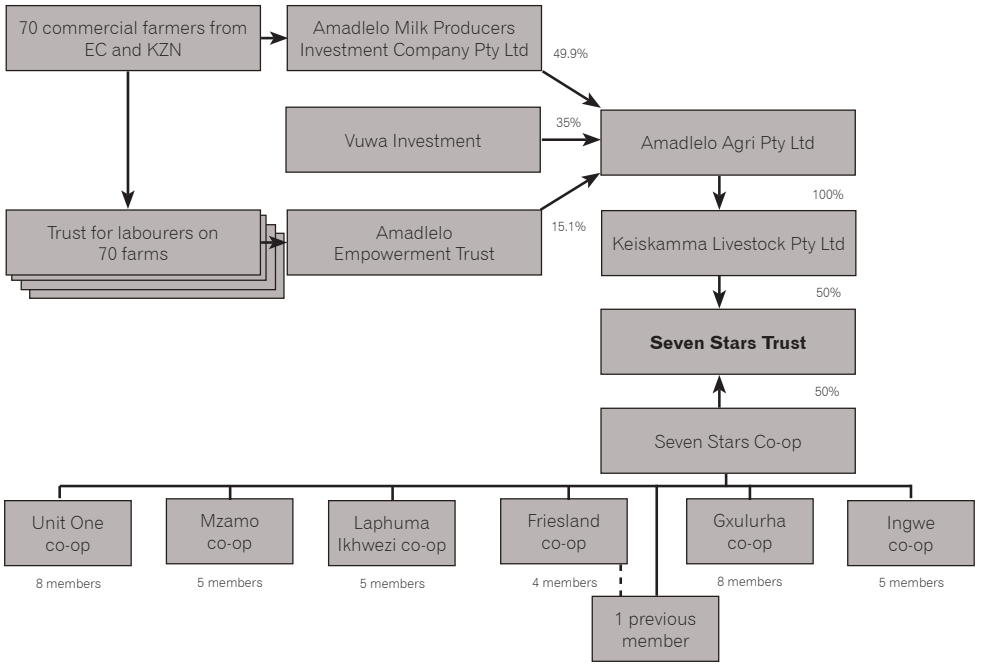


Figure 12.1 Institutional set-up Seven Stars Trust

Source: Authors

The above figure illustrates the institutional set-up of Seven Stars Trust, including all secondary, and even tertiary, stakeholders.

Financial support

Funding for the revitalisation of the farm and lands came through grants made available by a number of government bodies, whereas the capital required for the cattle, operating equipment and operational costs was provided by Amadlelo.

Eastern Cape Department of Agriculture

Upon inception of the partnership between Seven Stars Co-op and Amadlelo Agri, the Provincial Department of Agriculture put in R17 million, which was used to revitalise two of the farming units. Around R11 million of this fund was required to rebuild the irrigation infrastructure on the 150 ha owned by the members of these units. The remaining R6 million went to the construction of the milking parlour on the central unit, which is leased from the municipality. Together, these investments guaranteed that the dairy project could start operating.

Department of Rural Development and Land Reform

With the initial farm up and running, Amadlelo (through the Seven Stars Trust) put in a request for funding to the National DRDLR under the RECAP programme. This department granted R35 million in 2012, followed by a second tranche of R14 million in 2013. These

funds enabled the establishment of irrigation infrastructure on the remaining four units, land clearing on areas not previously used for farming, fencing, the construction of a second milking parlour for the two units furthest from the central milking parlour, and the relocation of three members who had to move from their plot to make way for central pivot irrigation. New houses were built on the central farm block to accommodate these members, or provision was made for them to move to Keiskammahoek village.

Amadlelo Agri

Amadlelo Agri provided R25 million worth of cows and equipment, such as tractors, a roller, a ripper and a number of other implements. The list of equipment and implements is specified in the sharemilk agreement between Keiskamma Livestock, Seven Stars Trust and Seven Stars Cooperative. The cows are mostly leased by Amadlelo from AMPIC shareholders. The remaining capital comes from the company's own funds, accumulated from the levy which it raises from its shareholding farmers. The AMPIC Shareholders Agreement dictates that each member contributes R12.00 per month per share for a minimum period of seven years, equalling a monthly capital injection of nearly R60 000. In reality, the farmers contributed close to R300 000 per month over the seven years. This contribution has now stopped, but the company will repay the levies to the farmers.

The company further paid the sum of R2.2 million to Seven Stars Cooperative. Through this payment, it essentially obtained the cattle owned by Seven Stars Cooperative prior to the project inception, and which were to be included in the herd managed by Amadlelo. The possibility for the co-op to retain its herd, although no longer in their ownership, was important to the members who did not want to simply sell their cattle. The cooperative used the R2.2 million to pay off a loan from Land Bank (valued at R1.6 million but settled for R1 million) and to purchase the farm of one of the members who wanted to sell his farm. As such, Seven Stars Cooperative has direct ownership of one of the plots of land.

Amadlelo Agri receives a 10 % management fee based on the trust's profit. This fee covers the time and effort the company puts into internal cooperative matters. The company is involved in equipping both the secondary and primary cooperatives to become well organised. Amadlelo offers support with activities such as business plans and the official registration. These activities are not directly related to the farming activities, although they do contribute indirectly. If cooperatives operate efficiently and effectively, the performance of the trust is positively impacted. Despite the Seven Stars Cooperative's majority in the Seven Stars Trust, the organisation cannot singlehandedly change this management fee structure, although this is not defined in the trust agreement.

Figure 12.2 depicts the financial structure between the Seven Stars Trust, the partners and funders.

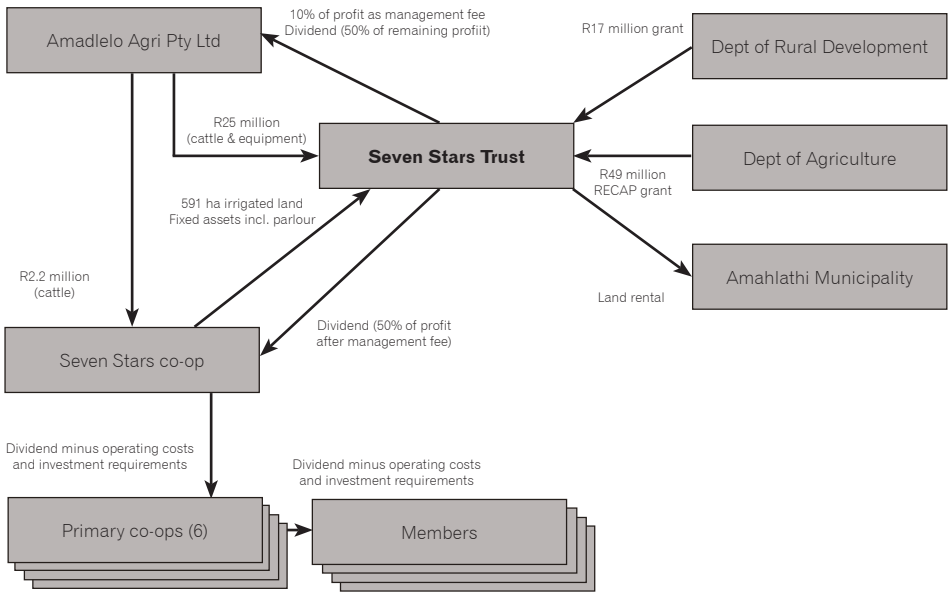


Figure 12.2 Financial flows for Seven Stars Trust

Source: Authors

Implementation

The multi-tier structure of the operation requires the organisation of a number of meetings to ensure that information is exchanged and distributed to all stakeholders.

Functioning: committees and meetings

The Seven Stars Trust operates as the implementing agent of the sharemilk agreement between Amadlelo and Seven Stars Cooperative. The trust is governed by a board of trustees consisting of nine members: one representative from each primary cooperative (elected directly by the members of the respective co-op), and three representatives of Amadlelo Agri. The trust is responsible for the implementation of the sharemilk agreement, the budget, and the financial planning of the farm. As such, it determines the amount paid to the members as advances of expected profit, and the capital retention required for the business.

The members of the primary cooperatives elect a board of directors for the secondary cooperative. They can elect members from other units and thus not every primary co-op is necessarily represented on the Seven Stars Cooperative Board. At the time of fieldwork, a newly elected board had only been in office for three months. It consisted of five members, both older community members who were among the original farmers in the irrigation scheme, and younger, educated members of the next generation. In addition, the six chairpersons of the primary co-ops are members *ex-officio*. The new board members have been meeting at least once a month since coming into office. In addition,

the secondary cooperative representatives and the trust members meet quarterly. The main responsibilities of the Seven Stars Cooperative are to serve the primary co-ops and capacitate them, and, as a partner, to ensure the sharemilk business generates income and opportunities for the community. The primary cooperatives are mainly dormant entities with small numbers of members.

The operation of the farm is in the hands of a farm manager employed by Seven Stars Trust. This farm manager is responsible for the day-to-day activities on the farm, including herd and pasture management. The farm manager is assisted by two medium managers, one in charge of the milking parlours (run by a junior manager) and cattle, and the other in charge of general farm activities. The farm manager meets with the trustees every second week to share operational matters and keep trustees informed of activities on the farm.

Amadlelo Agri is governed by a board of directors which meets four times per annum. AMPIC supplies five directors: two farmers from the Eastern Cape, one farmer from KwaZulu-Natal, one consultant from the Eastern Cape and one consultant from KZN. Vuwa Investment has two members on the board of Amadlelo Agri and the Employee Trust also holds two board positions.

Employee development

Training and skills development is one of the core activities of Amadlelo. Together with the University of Fort Hare (UFH), the company offers opportunities for aspiring dairy farmers to acquire practical training. As such, university students (not only from UFH) are offered training positions on the farms in which Amadlelo is a partner. Those graduates wanting to continue in dairy farming are integrated into the Amadlelo team and seconded to several farms (usually of AMPIC members) for a number of years in order to be fully exposed to all facets of a successful commercial dairy farm. This will prepare them for the position of farm manager on one of the farms with which Amadlelo has a sharemilk agreement. Through this set-up, Amadlelo facilitates the management of these farms by black management, while at the same time enabling the company to retreat from the investment. Two of its farms, Fort Hare Dairy Trust and Middledrift Dairy Farm, are currently managed by farmers who have graduated from this programme.

Employee development on the Seven Stars Trust farm has been limited. The first five years were characterised by the overall development of the farm to become a fully operational dairy operation. The second five-year period will focus more on employee development. Amadlelo is currently drafting a contract for one of the community members who has indicated his desire to become a dairy farm manager. This contract will cover a five-year period during which the prospective manager is likely to be employed by Amadlelo and Seven Stars Trust, but on other farms.

Inclusivity

This section will explore the inclusivity of the Seven Stars Trust to determine the extent to which the beneficiaries (the land-owning cooperative members) are integrated in the model. This is done by analysing the four aspects of inclusivity as proposed by Vermeulen and Cotula (2010): ownership, voice, risk and rewards. Aside from the internal inclusivity, an assessment of the external linkages will be made, and thus, the impact the operation has on its direct environment.

The individual members of the primary cooperatives (and indirectly the secondary cooperative) have ownership of the land. Three units, totalling 21 members, have title deeds for their land. These deeds were obtained by the farmers after farming for a number of years in the Keiskamma Irrigation Scheme, during which they paid a fee (subtracted from their milk deliveries proceeds) to the central processing unit owned by a government body called LIMOCOR. At the time of the collapse of the scheme, the ownership transactions had not been completed for all the farmers in the scheme. As a result, two units comprising ten members have a Deed of Sale, but no title deed. The last unit still needs to be surveyed by the provincial Department of Rural Development and Land Affairs. Despite these administrative issues, the land ownership is not contested, and there is a clear distinction of each member's land. The trust has also cleared land previously unused, for example along the banks of the river. The secondary cooperative is in discussion with the Department of Land Affairs on ownership of these areas of land. Aside from the land, the individual members do not own any other assets on the farm.

The secondary cooperative, Seven Stars Cooperative, is the owner of all the fixed assets, such as the milking parlours, buildings and irrigation infrastructure. Each of the members has an equal share in the secondary cooperative, despite the individual landholdings varying in size between 12 ha and 20 ha. This is done for ease of administration.

Through the six trustees on the board of trustees of the Seven Star Trust, the landowners have a large say in the development and financial management of the farm. In theory, through their two-third majority, they could enforce certain decisions without having to obtain the approval from the Amadlelo Agri trustees. Both shareholders have the same aim, i.e. the profitable operation of the dairy activity, hence, in practice, the board has taken decisions in agreement with both groups of beneficiaries. The fact that the cooperative members rejected the first proposal for partnership indicates that the members can determine what happens on their land. Their negotiating power is tested in the renegotiation of the sharemilk agreement which expired in March 2015. The cooperative, aware of its lack of knowledge, seeks advice from legal sources, as well as from government during the negotiation period.

Although the ownership and the voice of the trust are shared equally, or in favour of the landowners, Amadlelo is exposed to most of the risks related to the farming operation. As owner of the cattle, the company takes the risk of exposure to diseases. This risk is higher at Seven Stars Trust than at other (commercial) farming operations because the farm is located in the middle of a community. Cattle owned by the community, dotted all around and between the farms' lands, roam just on the other side of a fence, and can easily transfer diseases. Cooperative members also have their own livestock, which is kept on the land of the cooperative (the farmers keep a small plot for their own use). Additionally, if a cow dies, for example, due to an illness, it is Amadlelo who carries this loss, not the trust. However, because both groups of beneficiaries (the landowners and Amadlelo) gain from a healthy herd through the sharemilk agreement, there is an incentive for all the members to limit the risk of disease.

The rewards from the trust operation are divided equally between Seven Stars Cooperative and Amadlelo, according to the 50/50 partnership. The cooperative also benefits from natural growth in the herd size (see next section). However, there are two points of contention: the 10 % management fee for Amadlelo, which is to be paid before any other payment to either of the beneficiaries, and the 50/50 share split. According to the cooperative, the value of the land and assets contributed by the cooperative members is higher than the value of the livestock and moveable assets contributed by the company. As such, the cooperative

should receive a larger share of the profits. The counter argument from Amadlelo is that the landowners benefit from land appreciation as well as through dividends, whereas the company faces a depreciation of its assets. Furthermore, the company is exposed to more risks. Hence, the 50/50 partnership is fair, according to Amadlelo.

A further reward accruing to the trust, and hence to both the landowners and the sharemilker, is equity share (and thus potential dividends) in Coega Dairy Pty Ltd, the buyer of the bulk of the milk produced by Seven Stars Trust. As illustrated in Figure 12.3, Coega Dairy is 38% owned by the Coega Empowerment Trust (CET). The equity of CET, valued at R100 million, is financed by the IDC through a share warehousing construction. Forty per cent of CET is in the hands of the 'Project Trust', which is an umbrella entity for black-owned suppliers. These suppliers include four dairy operations in which Amadlelo is a partner, i.e. Fort Hare, Middledrift, Seven Stars Trust and Shiloh. However, it also includes a black supplier not related to Amadlelo. Distribution of the 40% CET equity is based on milk volume. As such, Seven Stars Trust is part owner of Coega Dairy (Pty) Ltd. The contract with IDC states that CET first needs to service its loan with IDC before being allowed to make dividend payments to any of its shareholders. As such, dividend income through Coega Dairy equity is not expected to accrue in the near future.

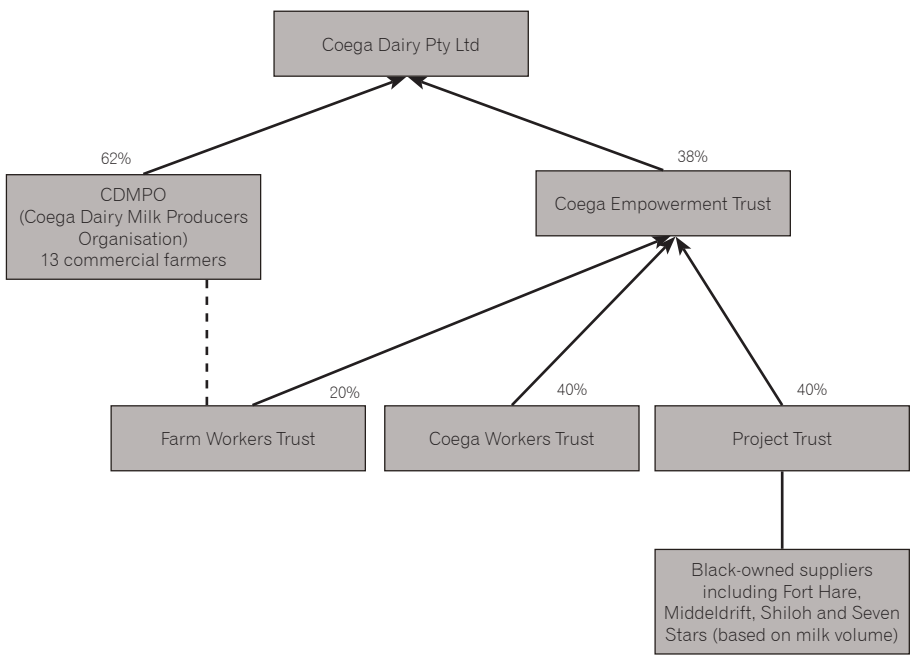


Figure 12.3 Coega Dairy shareholding structure

Source: Authors

The Seven Stars Trust has strong linkages with the community, mainly through the supply of milk. Around 60 000 litres of milk are sold to the community on a weekly basis. This includes private households, and small businesses who resell the milk to communities further away. The buyers supply their own vessels for transporting the milk, and thus Seven Stars Trust does not perform any packaging activities. The local market prefers raw milk, as supplied by Seven Stars Trust, because it produces good amasi, a fermented milk drank

by the local population in absence of refrigeration. The local farmers have always supplied the local market, but before the partnership with Amadlelo a lower quantity of lesser quality was available. The community thus greatly benefits from the availability of good quality milk at a low price. The remainder of the milk (varying between 45 000 to 136 000 litres per week, depending on the season) is collected by Coega Dairy for processing in their Port Elizabeth facility. Coega Dairy mainly supplies customers in the Eastern Cape.

Furthermore, nearly all the employees on the farm come from the local area. This excludes the more senior positions for which the local people lack the skills. Although dairy farming in general is relatively labour extensive, the Seven Stars Trust is able to provide a source of income for a reasonable number of people in the community. The majority of the labourers are not from the landholding households, though. There used to be more from among the landholder families, but poor performance by these employees led to their dismissal. Incidents reported include theft, justified by the worker stating that he (as co-op beneficiary) was the owner of the farm anyway. The trust has experienced that it is easier to employ non-members, although this does not prevent them from hiring SSC-members for the farm.

Whereas market and labour linkages are strong, input linkages with the local area are weak. None of the major suppliers are located in the Keiskammahoek region. Machinery and servicing technicians are based in Port Elizabeth, or further away. This hampers effective performance in the case of machine maintenance. Owing to the long distances, technicians do not readily visit the farm when needed, but rather schedule their visits to coincide with other work in the area, delaying required work at Seven Stars Trust.

Outcomes

The single most important outcome of the project is the fact that there is an operational dairy farm in an area where, beforehand, there was close to nothing. Since the inception of the partnership in early 2010, the farm has been fully developed. The irrigation system is operational on all units (although one unit still faces issues), pivots have been put up where possible, pastures have been sown and fenced, and two milk parlours have been constructed and connected to the electricity grid (electricity provider Eskom took nearly two years to connect the second parlour), along with a number of other buildings. During these five years of development, funded by government funds, Amadlelo has taken the lead in deciding what was required, such as specifications for grass seed, insemination programmes, parlour specifications, and the like. Over the five years, the herd has grown from 800 cows plus 400 heifers, to 2 000 cows and 1 500 heifers through the purchase of cattle by Amadlelo. The pace of growth has been dictated by the availability of grazing land, and thus the rate of land clearing and irrigation revitalisation. The farm has reached its maximum capacity and can now focus on herd stabilisation and advanced herd management, as well as skills transfer.

Aside from the internal, farm-related decisions, Amadlelo also established the current supply relationship with Coega Dairy, expanding on its already significant milk supply to this processor. It was also the driving force behind the funding applications that have enabled the redevelopment of the farming operation. As such, it has taken a central role in the full design and implementation of the project. Because commercial requirements are the ultimate driver for Amadlelo, the company has not always engaged in time consuming negotiations with the cooperative partner, in effect side-lining the beneficiaries.

During the development years, the trust has not been able to generate a profit. Nevertheless, payments have been made to the landholders as an advance of expected profits. As such, they can still be considered as dividend payments. The amount started at R600 per month for every member in the year 2010/11, which doubled to R1 200 in 2011/12, then increased to R1 800/month/member in 2012/13, and in 2013/14 was set at R2 400 per member per month. An additional sum of R2 000 was paid in January 2012 and 2013, with the January 2014 payment amounting to R10 000 per member. The payment for January 2015 is expected to be considerably higher than in the previous year. This income is a sharp increase from the meagre income that the SCC members were able to generate when operating as a cooperative without a commercial partner.

The principle of a sharemilk agreement is that the number of cows put in by the sharemilker remains the property of the sharemilker. However, the sharemilker and landowner share in the growth of the herd raised on the farm. The sharemilk agreement also states that the ownership of all livestock shall remain with the sharemilker. Therefore, the sharemilker has to purchase the share in the natural increase from the landholder. This is done against a fixed value per cow, bull or heifer. Over the first five years, no natural increase took place in the herd size, and thus the cooperative did not receive any income from the so-called stock trade.

The skills development programme has been less successful. In the first year, four youths from the landowner households were selected to undergo a training trajectory, which included two years of practical training followed by two years education at Fort Cox agricultural college. Two of the youngsters finished the practical training programme, but one of them failed to qualify for the educational part, leaving only one of the landowner members in the programme. Students on the farm now come from other areas.

Issues

The dairy operation itself is running smoothly, mostly having to deal with common agricultural and business issues such as staff performance and cattle death. A larger issue exists in marketing the milk. The operation does not have pasteurising facilities, and thus only supplies fresh milk. Although the local community prefers this because of the amasi making possibility, Seven Stars Trust cannot supply local government institutions such as schools, the hospital, or the army barracks. These institutions require pasteurised milk owing to the higher health risks of disease inherent in infected unprocessed milk. The trust is therefore in the process of establishing a pasteurising facility and amasi processing facility so it can service this part of the community.

Most of the issues relate to internal cooperative activities, or the lack thereof. Primary cooperatives are mostly dormant and lack capacity. None of the cooperatives have business plans, or even a vision, that will enable them to generate alternative income streams, or obtain government funding for entrepreneurial activities. The secondary cooperative also lacks a business plan with which it might identify means of generating income. This internal non-capacitation, in turn, has an effect on the level of meaningful participation in the sharemilk business. Aside from overall business planning, the secondary cooperative needs to answer questions such as if and when it will buy out Amadlelo, and whether to invest dividends from the sharemilk agreement or to pay out to the individual members.

Another issue related to the cooperative structure is representation. In the current set-up, the primary members elect both directors of the secondary cooperative and the trustees

on the board of Seven Stars Trust. Whereas every unit is represented in the SST, this is not necessarily the case in the secondary cooperative. The organisation senses friction between the two bodies, both considering themselves as a centre of power. A proposal is in the making in which the primary cooperative members will elect the board of the secondary cooperative, with each of the primary cooperatives being represented. The secondary cooperative board, in turn, will elect representatives from its members to sit on the trust. This would reduce potential friction between the trust and the cooperative, and also give the cooperative better insight into the operation of the business through its trust representatives.

Potentially the largest challenge the operation faces, is the transfer of the landownership to the next generation. Most of the landholders, and thus cooperative members, are the original farmers who started farming in the area at the inception of the Keiskammahoek Irrigation Scheme. Their children will inherit the land, risking the land being broken up into small parcels which some of the next-of-kin might want to sell. The secondary cooperative has already taken steps to advise its members on the best way forward: the family should appoint one representative to become the cooperative member and deal with all land-related matters on behalf of the whole family. In the event that a member, or the next-of-kin, indicates they want to sell the land, the Seven Stars Cooperative has the first right of refusal, although this has not yet been documented officially. A lease agreement between each landholder and the primary cooperative is in place, in terms of which the member leases the land to the cooperative for a period of 25 years (five renewable periods of five years), lapsing in 2038. This agreement is the same for every primary cooperative. Through this agreement, the land contributions hold a long-term security for the cooperative. A similar agreement between the primary and secondary cooperative is absent, although the lease between the individual landholder and the primary cooperative does indicate that the primary cooperative has the right to sub-lease the land to the secondary cooperative, and that rental for the individual landholder is determined as a portion of the profits of the sharemilking agreement with Seven Stars Trust. Nevertheless, the absence of a contract between the primary and secondary cooperatives could put the operation of the trust in jeopardy in the event that one of the primary cooperatives wishes to exit the secondary cooperative.

Success factors

The success of the operation so far has been made possible by strong leadership. The chairperson of the trust is a businesswoman with acumen and experience. She is a suitable person to lead the trust during the developmental stages. The community respects her and the advice she gives. She is a driven individual who has worked hard as a farmer in the early days of the irrigation scheme, and who wants to see the full community finally unlock the potential of the area. The commercial partner, Amadlelo Agri, is a company looking beyond the economic value of an investment, and has community upliftment as an important aspect in its business approach. The many years of experience in the sector, and the good contacts in the political arena which Amadlelo Agri possesses, have served the project well.

During the implementation, and going into the future, the project operates in an environment in which there is no dispute over land ownership, no interference from chiefs and local headmen, or politicians. Although not all the land titles have been finalised administratively, the whole community knows what land belongs to whom. There are no

challenges from neighbours, nor are there any land claims based on historical occupation. As such, the operating environment is stable, allowing for investment and future planning.

Sustainability and scalability

Sustainability of the operation is greatly dependent on the skills transfer to the community, in order to equip the members to operate and manage a dairy farm the size of Seven Stars Trust. One of the community members is about to enter into a training trajectory of five years to prepare him to become a farm manager. For the short term, the cooperative is still dependent on the support of Amadlelo. Amadlelo, in its turn, relies heavily on its CEO, although there is a large network of commercial dairy farmers within the company with similar experience.

The farm has reached its maximum land and irrigation capacity, and once the herd has reached maturity, the operation will be at full capacity. As such, the project is not scalable. The partners can elect to invest income from the Keiskammahoek project into other sharemilk agreements, or to lease their cows to other dairy farmers. A more likely option is that the co-op will buy out the shares from Amadlelo and will look for expansion on its own. It is up to the two partners to plot out their future.

The concept of a sharemilk agreement with a land-owning community is a model easily replicated. It can be applied both in the dairy sector, but also for other crops with a long lifespan such as (fruit) trees. Communities bring in land and water, whereas the commercial partner will then provide the productive assets and the skills for use on the land plus water, and the skills to turn the farming operation to a profit. The value of both contributors needs to be comparable. Through the partnership, the community can obtain the knowledge required to run the operation independently, whereas the commercial partner can exit the project after a certain time. As such, it offers a flexible timeframe without hampering the long-term sustainability of the project. Amadlelo has already implemented numerous sharemilk agreements with different communities throughout the Eastern Cape province.

Conclusion

Organisation of the landholders in a collective body has enabled these smallholders to engage in a contract with a commercial dairy operator, resulting in a revitalisation of the dairy activities on their land. It does so with equal participation, on paper, in the operation of the farm, but at less risk for the landholders. Despite the dairy-farming experience of the smallholders, they are not familiar with the scale of the current operation. This puts them in an overall dependent position compared with the commercial partner, rendering them as mere rent-seekers. In the long-term, this dependency can be overcome if sufficient skills transfer takes place. Although the commercial partner was central to the initial development of the farm, it still needs to be seen if the smallholders will be empowered to become an equal, and even independent, party, once the farm is a well-established operation.

Although commercial incentives are its main objectives, the commercial partner is concerned with rural development. As such, the commercial partner is aware of the need for benefit-sharing with the beneficiaries from inception. Regular payments to the landholders have fostered a basic relationship of trust among the smallholders and the

commercial partner. In addition, the project has revitalised the community in its collective organisation, encouraging the landholders to search for alternative sources of income for the landholding community. But, whereas the project does stimulate the sense of community, the complex community structure threatens the long-term perspective of communal activities, with or without a commercial partner.

13

A community-owned business with informal support structures – Gxulu Berries

Wytske Chamberlain

The Amathole Municipality, located in the Eastern Cape, has identified blueberry farming as a sector with growth potential in the Amahlathi area close to Stutterheim. It has established the 'Berry Corridor' with the overall aim for the area to become the biggest berry producer in the southern hemisphere, covering 500 ha of berry growing (Aspire, 2013a). The anchor of this project is the Amathole Berries company, located about 25 km south-east of Stutterheim. This is a large-scale blueberry farm, set up with funding from the IDC and the Eastern Cape Development Corporation (ECDC). Amathole Berries is seen as the knowledge and marketing provider for small-scale, community-owned, berry growing projects, originally labelled 'outgrowers', and is targeted to produce blueberries on over 200 ha. Gxulu Berries is the first of the community-owned berry growers, located in Upper Gxulu village. Two other community projects have been identified – Sinqumeni Berries and Iqunube Berries.

Project description

Gxulu Berries is a community-owned company located in the Upper Gxulu valley in the Keiskammahoek valley in the Eastern Cape. Upper Gxulu is situated close to the Cata dam, which is part of the old state-funded irrigation scheme of the Keiskammahoek valley. The village itself, though, is supplied with water from the Mnyameni dam. The town of Keiskammahoek is just under 10 km from Upper Gxulu on a dirt road. Gxulu Berries is the first of three community-owned berry growers established in the Amahlathi district and started activities in 2011.

Gxulu Berries produces blueberries under shade netting, using a hydroponic growing system in which individual plants are planted in plastic bags with separate irrigation. The company has a packhouse where berries are packed into crates, which are then transported to Amathole Berries for storage and marketing purposes. Due to insufficient cooling and packing facilities, and the long distance to Amathole Berries (close to 100 km over tarred road, the more direct road via Stutterheim is not tarred), the produce reaches Amathole Berries in an inferior quality. Hence, the only marketing channel available is the frozen market, aside from a small percentage which is marketed fresh to a few local retailers.

The farm started construction of nine ha of shade netting in 2010 and planting commenced in 2011 on six ha, which was increased by a further three ha in 2012. The total land area set aside for the berry farm by the community is 20 ha. In the 2012/13 harvesting season,

50 kg of berries were picked. Blueberry plants take at least two years to reach considerable fruiting stage. Thus, the 2013/14 harvest yielded seven tonnes of berries for the Gxulu Berry company. The targeted harvest is about 10 tonnes per ha, equalling 90 tonnes for the current nine ha. The aim is to break even, in 2015, which requires about three tonnes per ha, depending on the berry price.

Gxulu Berries has two shareholders: 70 % is held by the Upper Gxulu Community Trust and 30 % by the ECDC as co-funder of the project. The farm is located on land rented by the Gxulu Berries company from the Upper Gxulu community, as organised into the Upper Gxulu cooperative, the sole shareholder of the community trust. The original idea was to have the 70 % community share divided between a workers trust and a community trust. However, all the workers employed by Gxulu Berries are from the Upper Gxulu village, and thus it was decided to have only one trust, i.e. the community trust. Although originally called 'outgrowers', the project in essence is an independent blueberry producer with informal ties to Amathole Berries, the large-scale commercial berry grower in the municipal district, for mentoring purposes and marketing activities. No contracts exist between the two companies, and thus the interaction between the two occurs on an ad-hoc basis when needed.

The municipal economic development organisation (Aspire) supports the community administratively: it assists in the establishment of the organisational bodies, it seeks funding, and it provides an external mentor with agricultural skills to establish the farm and train the workers.

Inception

In 2009, Aspire sent out calls for the establishment of community-owned blueberry farming, then called 'outgrowers'. Together with the ECDC and Amathole Berries, the organisation aimed to establish berry farming activities in the Keiskamma Valley as part of the greater 'Berry Corridor'. Production of blueberries would give the opportunity for greater economic development in the communities, and create employment in an area with high unemployment levels. The business plan envisaged the establishment of an anchor unit, Amathole Berries, with a number of community outgrowers, and a communal packhouse situated centrally in the Amahlathi district. Funding to establish three community projects, covering 20 ha each, was secured in 2010.

Actors and drivers

The main driver behind Gxulu Berries is the Amathole Economic Development Agency, called Aspire. Aspire is wholly owned by the Amathole District Municipality and focuses on implementing economic development projects throughout this large municipal area. Together with the ECDC, it has initiated the 'Berry Corridor', which includes Gxulu Berries and Amathole Berries. Two independent berry growers, Rippling Waters (one ha) and Dew Process (12 ha) also receive occasional business advisory support from Aspire.

Aspire was tasked with sourcing both funding for the community outgrower projects, and selecting communities where these projects would be implemented. In addition, it is responsible for managing the service level agreement with the community. Funding was secured in 2010 through the Employment Creation Fund (ECF). The funding was used to purchase the plant material required to set up three community growers, each growing 20 ha of blueberries.

To find land for the community projects, Aspire put out a call in the newspapers in 2009 requesting communities with land available to come forward. Upper Gxulu, one of the communities to offer land, was assisted in their proposal by a local NGO. After receipt of all the proposals, Aspire then used the services of an independent consultant, ATS Consulting, to assess the applications based on aspects such as availability of water. After ATS Consulting did the assessment, Upper Gxulu village was selected as the first site for community-based berry production. ATS Consulting is also contracted by Aspire to manage the Gxulu Berries operations.

The Berry Corridor is a shared initiative between Aspire and the ECDC. As a stakeholder in the initiative, the ECDC has provided funding towards the establishment of the first three community projects. In return for financial participation, it obtained a 30% equity share in the newly established business entities. Aside from the equity share it holds in Gxulu Berries (and the other community projects of Sinqumeni Berries and Iqunube Berries), the corporation has a 10% shareholding in the commercial anchor company, Amathole Berries.

The Upper Gxulu community, consisting of 217 households,[1] is organised into a local cooperative of which every village member is a beneficiary. This cooperative is responsible for numerous community-related activities. Aside from the blueberry project, the community also grows fresh peppadews (a type of chilli pepper). A commercial partner, Rance Rural Development, supplies technical assistance and markets the produce.[2] Peppadews bear full fruit from the first year and thus directly generate income for the community, unlike the blueberry plants which need a few years to reach peak productivity. The Upper Gxulu community has demarcated a 20 ha piece of land for the growth of blueberries. It rents this land to the Gxulu Berries company for which it receives a monthly rental fee – although rent is only paid for the area developed. Involvement in the Berry Corridor initiative brings employment to this area, which otherwise has very limited job opportunities. It also has the potential to generate considerable income for the community once the project starts to generate profits. The Upper Gxulu cooperative is a 70% shareholder in Gxulu Berries.

Financial support

European Union / ECF

The majority of the funding needed for the establishment of the three community-based berry growing companies was secured through the ECF. The ECF provides funding to a wide range of organisations including governmental organisations, cooperatives, community-based organisations and NGOs. "The ECF supports projects and programmes that have a positive impact on employment creation, skills development and capacity building, developing the 'green economy', developing the agriculture and agro-processing value chain, technology diffusion and commercialisation, public employment creation, rural development and the business environment" (DTI, 2014). The fund is sponsored by the European Commission and the Department of International Development from the UK, and is managed by the South African Department of Trade and Industry (DTI).

Through the ECF, Aspire secured a grant for the total of R35 million. This was the amount budgeted to establish one outgrower project of 20 ha. However, the ECF indicated that

1 Census 2011 available at http://census2011.adrianfrith.com/place/273068

2 A pre-season off-take agreement has been signed between the village cooperative and the commercial partner, determining the price to be paid at harvest.

it wanted three outgrower projects to be initiated, resulting in the implementation of reduced areas of six ha per outgrower. This grant was organised to be paid out in three tranches over a period of three years. The first tranche of R21 million was scheduled for payment in 2010, with the other tranches amounting to R10.5 million and R3.9 million, to follow after that. The DTI transferred the first tranche of the funds to the Department of Rural Development, which in turn, paid it over to Aspire. The remaining payments are still outstanding at the time of writing. To overcome cash-flow issues in absence of the grant payments, Aspire has provided a R1.2 million loan to Gxulu Berries. The ECF money is a grant, with no repayment required or equity share taken by the funder.

Eastern Cape Development Corporation

The ECDC paid R800 000 to Amathole Berries for the supply of seedlings. This contribution was used to acquire a substantial part of the required plant material, which at that time (in 2008) was estimated to cost R1.6 million, out of a total budget of R5.3 million. The initial business plan envisaged funding for Gxulu Berries (and the other community outgrowers) through 50% equity and 50% loans. The R800 000 was considered equal to 30% of the equity, hence, the ECDC would obtain a 30% share in each of the community businesses. The ECDC has two directors on the board of Gxulu Berries, as well as the other companies, to protect their financial interests.

The initial budget of R5.3 million, drawn up in 2008, was revised upwards, mainly because of an increase in plant density and seedling prices. In 2008, before the start of the project, calculations were made based on 10 000 plants/ha at a seedling price of R8/plant. Amathole Berries, the anchor farm on which the community businesses would base their agricultural practices, in 2009 decided to increase the plant density to 27 000 plants/ha and the community outgrower's business plan was adjusted accordingly. Increased plant density also had implications for the required irrigation system and demanded an increase in the number of workers per ha, all putting an upwards pressure on the budget. In 2010, Amathole Berries informed Aspire that the seedling material price would be R16/plant, apparently owing to a failure of the nursery contracted. Because of the limited alternatives (overseas nurseries only, requiring quarantine time and a long shipping time), Aspire accepted the proposed increase. As such, rather than the budgeted R5.3 million, R35 million was required to establish the outgrowers, with subsequent adjustments driving the overall budget even higher. The revised budget not only adjusted the required capital, it also changed the expected 50:50 split between equity and loans to only 10% equity funding and 90% loans, hence the R800 000 contribution from the ECDC no longer equalled a 30% shareholding. By the time the companies were established, a R35 million ECF grant had been secured, once again changing the equity–loan ratio. As a result, the R800 000 contribution by ECDC no longer justified even close to 30% of the equity. In 2014, Gxulu Berries requested ECDC to contribute a further R3.1 million, without an increase in their shareholding, to fill a gap in cash-flow caused by operational expenses. This has apparently been approved by the ECDC. Even though the amount is still below the actual investment required to equal their 30% share,[3] it is a step in the right direction.

The ECDC also gave Aspire a R150 000 grant to fund the establishment of the three community companies. This money was used to assist the communities to establish legal entities, including a workers trust for the two other community businesses, the Community Property Association, and a family trust.

3 Until March 2014, total investments put into the outgrower companies was R22 million, of which the R800 000 ECDC contribution is only 3.6%. This will be diluted to only 2% after the remaining ECF funds are transferred.

Amathole Berries / Yummiberry Projects

Amathole Berries is the anchor business in the Berry Corridor. As such, the company would play a mentoring role for the community-based projects. Amathole Berries would be in a position to share knowledge and experience, and also train key staff members from the community. In the start-up phase, Amathole Berries would also handle the marketing activities for Gxulu Berries until the central packhouse was constructed. At the time of writing in 2015, this central packhouse had not been built, and Amathole Berries continues to market the produce for Gxulu Berries.

Aspire has signed an agreement with Yummiberry Projects to supply the plant material to the community projects. Yummiberry Projects is owned by the main driver behind Amathole Berries and is a part-shareholder in the commercial berry venture. The agreement between Aspire and Yummiberry Projects was for the supply of nearly 500 000 plants, to be purchased by Yummiberry Projects, and to be delivered via Amathole Berries. In this way, the community projects could benefit from large deals made between Yummiberry Projects and the supplying nursery. Figure 13.1 summarises the stakeholders and their responsibilities.

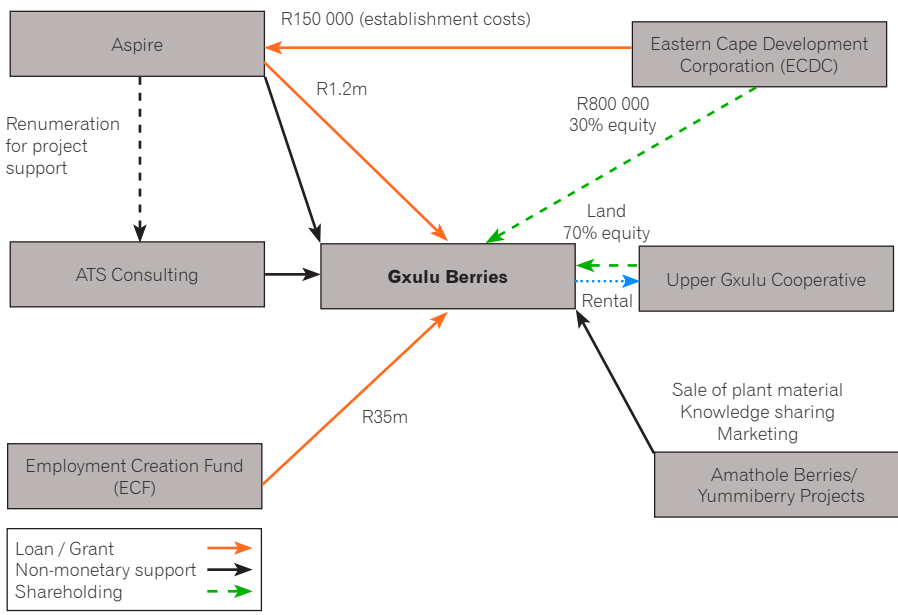


Figure 13.1 Institutional set-up and financial support structure Gxulu Berries

Source: Authors

Implementation

Activities in the Upper Gxulu village commenced in 2010 with construction of a nine ha growing area under shade netting and a packing facility. The first seedlings arrived in 2011, and the first considerable harvest was picked in 2013/14. On-the-ground implementation of the project has been rather straightforward. A consultant from ATS Consulting has

trained employees from the community in planting, pruning, spraying, and all other relevant activities. Positions for three officials were advertised within the community: a driver, a main supervisor, and a female sub-supervisor. The ATS consultant and an Aspire representative were among the selection committee members. The selected supervisor was only 21 when he was appointed in 2011, and the sub-supervisor is a young woman also in her twenties. Together, they run the daily activities. The other staff members were selected during the construction phase when 53 villagers were employed.

The Gxulu Berries company ran into more issues in the formal establishment of the business. The land on which the farm is established is communal land and certain legal steps were required to obtain an official land title. This could either be done in the name of a community trust or a CPA. Upper Gxulu village cooperative decided to establish a CPA. The documents to constitute the CPA, which were drawn up with the assistance of Aspire, were submitted to the Department of Rural Development for registration in November 2011. Since then, the project officer in the department has moved and the paper work can no longer be tracked down. The documents have been re-submitted to the Department of Rural Development, but the department has now decided it prefers to establish a CPA covering nine villages in the area, including Upper Gxulu, and not an individual CPA for each village. A decision on the Upper Gxulu village CPA has not been taken. In the absence of a CPA, no official lease agreement can be signed by Gxulu Berries for the land rental. Nevertheless, the company pays rent to the community cooperative, and has done so since 2011.

After the village decided to establish a CPA, it was envisaged that this CPA would be the legal entity representing the community as shareholder of Gxulu Berries. However, in 2012, the Department of Rural Development informed the community that a CPA cannot be a shareholder. Consequently, the community established a cooperative. It is up to the community to decide who is a member of the cooperative, which is roughly everyone in the village. Despite the establishment of the cooperative, the official shareholding agreement has not been signed yet.

Functioning: committees and meetings

The company is governed by a board of directors established in 2011. This board consists of three representatives from the community and two representatives from the ECDC. The three cooperative members are appointed by the community and are not employees of Gxulu Berries. Until 2013 the project manager at Aspire also sat on the board, but Aspire decided that his responsibilities as project manager were in conflict with those of his board membership, and he has thus been removed as board member. The community board members report back to the community. No annual general meeting has taken place for communication with the community, but this should be covered in the feedback the board members give.

The day-to-day operation is in the hands of a local supervisor. He is assisted by the ATS consultant who visits the farm two to three times a week. The consultant is responsible for management of the farm and takes all decisions. Nobody in the community has ever been exposed to commercial agricultural, and thus outside support from people such as the ATS consultant and the Aspire representative is required. The workers meet at least once a month to discuss, among others, activities to be planned for the coming period and labour issues.

A project steering committee consists of representatives from Aspire, the ECDC and the Department of Agriculture, and keeps track of the funding and overall performance of the business. The community elects a committee who decides how to spend the income received by the cooperative, both from the blueberry business and other activities in which it is engaged.

Certification

One of the limitations Gxulu Berries faces in the immediate future is that the company has not yet achieved GLOBALG.A.P. certification. Major domestic retailer, Woolworths, requires their suppliers to have this accreditation, as do the fresh export markets. This limits the available market channels mostly to frozen berries which fetch a lower price, and to the smaller, local retailers who do not set certification standards. To achieve GLOBALG.A.P. certification, Gxulu Berries will have to adhere to regulations regarding health and safety, hygiene and waste management, as well as traceability and fertiliser application procedures and the like. Strict documentation of procedures and activities need to be implemented, which impose difficult demands on a small community where average levels of education are low. In addition, funding is needed to cover the costs involved with the assessment and certification.

Employee development

No formal training has been given to any of the Gxulu Berries staff, including the supervisor. Nevertheless, the employees have learned skills such as pruning, pest protection, fertigation and irrigation. The supervisor receives support from both the ATS consultant and the Aspire project manager, not only on farming skills, but also with issues regarding money, training needs and first aid requirements. Occasionally, employees from Gxulu Berries go to the Amathole Berries farm for knowledge sharing and training activities.

Inclusivity

Vermeulen and Cotula (2010) have determined four criteria to evaluate value sharing of a project: ownership, voice, risk and reward. This section will assess these criteria for Gxulu Berries. It will also detail the linkages with the local community and markets.

The Gxulu Berries company is majority owned by the Upper Gxulu cooperative, and thus, indirectly, by all members of the Upper Gxulu village. This includes all current employees who belong to the Upper Gxulu community, which make them all members of the cooperative. Company ownership implies ownership over all the moveable assets and infrastructure, as well as the produce. Furthermore, the land is fully owned by the community, and with it all the fixed assets, such as the packhouse and improvements made to the land. Overall, the project can be considered a community-owned business with minor equity owned by an external funder. The employees do not have additional ownership through a separate workers trust. At the time of establishing the company, it was decided that, because all employees are community members, a community cooperative shareholding was the only required entity.

Although the community has 70% ownership of the company and 100% ownership of the land, it still relies on outside help to run the operation. Three of the board members

are representatives of the community, but they do not have a strong voice. This is partly attributable to the fact that meetings are held mostly in English, a language in which they are not fluent, but also because they lack experience to run an operation such as Gxulu Berries. The workers themselves have a voice only through raising issues directly with their supervisor, who might share their concerns with his mentors, either from ATS or from Aspire. The mentors can raise issues in the steering committee on behalf of the workers. The mentors also make most decisions regarding both the agricultural practices and the financing of the company, reducing the community to mere employees. Nevertheless, the skills, particularly of the supervisor, have increased over time, allowing for the reduction of the ATS consultant's involvement. Overall though, in practice little input is received from either the workers or the board members related to the operation, which will hopefully change over time.

The shareholding of the Upper Gxulu cooperative has been financed through grants from the Employee Creation Fund and equity funding from the ECDC. No direct financial input had to be made by the community, which only contributed the land. Hence, the beneficiaries do not run any financial risk, either personal or as a collective. In case the business fails, the ECDC will lose the financial resources it has committed to this project as co-shareholder. On the other hand, operational risks, such as pests and bad weather, as well as price risks, do affect the community (the majority shareholder) as it impacts on the (potential) rewards from the operation. Additionally, opportunity costs lie fully with the employed beneficiaries, since they are dependent on the project for their source of income. The community as a whole suffers if the business does not perform, leaving the company in the position of being unable to pay out dividends and grow in order to generate more employment opportunities and income.

The community benefits through two different channels. The first is economically through the monthly rent paid by Gxulu Berries to the cooperative, through dividends and infrastructure development. The rental is set at R250 per hectare, totalling R2 250 per month. This rental amount forms a steady income for the cooperative, and is considerably higher than comparable rentals in the area. In addition to rental income, the cooperative will reap rewards once the company starts earning profits. Because there are no major loans to be repaid, the first dividends might start to flow as early as 2015. Nevertheless, the company needs financial resources to expand, and thus the first profits might be re-invested into the company. The cooperative, together with the ECDC, has the authority to decide on how the profits are used. Lastly, the community benefits from asset development, such as the irrigation infrastructure, the packhouse, and the like. Fixed assets belong fully to the community as land owner, while other assets are shared with the equity partner.

The second channel of rewards relates to job creation and the related skills development. In an area with few employment opportunities, the Upper Gxulu community now has access to a farm generating employment with priority being given to community members. The workers are exposed to activities related to blueberry farming and the overall management of the farm, developing their skills over the years. The employees of the company earn a salary, and in future they might also receive bonuses, if the shareholders decide to implement these. During the construction phase, Gxulu Berries employed 53 temporary workers, all from the community. Farming activities started with five permanent workers in 2011, which increased to 16 permanent employees in 2014. During harvest time, another 20 seasonal workers are employed. All workers come from the community, benefiting from the only employment opportunities in the village.

Therefore, from an employment aspect, Gxulu Berries has an extremely strong link with the community. The earned incomes tend to stimulate other economic activities in the community, such as retail business, although this might be concentrated on nearby Keiskammahoek as the local economic centre. In contrast, production input linkages with the region are very limited, as the local area is not geared to supply a commercial blueberry farm. Gxulu Berries relied heavily on Amathole Berries for its supplies in the initial stages of development, particularly regarding the plant material. Overall, the company has not created a large amount of direct spin-off growth in the area.

Market linkages for Gxulu Berries are equally limited. The only outlet for fresh produce marketed by Gxulu Berries consists of local shops without strict quality standards, and which can be reached without refrigerated transport. Blueberries are a relatively new and expensive product in South Africa, and most people in the Amathole region do not have the means to purchase this expensive fruit. Thus, the fresh market channel only covers a small volume. The presence of Amathole Berries offers market access for the bulk of produce from Gxulu Berries, especially to processors. The company can use both storage and refrigerated transport facilities of the anchor farm, as well as its market connections. Although the relationship between the two blueberry growers is informal, it gives Gxulu Berries access to the wider domestic market without having to make heavy investments in storage and transport facilities.

Outcomes

The farming activities in Upper Gxulu village have been a moderate success over the first three years. The employees are capable of running the daily operations independently and only require a weekly visit from the ATS consultant. Harvests have also been better than expected, with the first real harvest being picked in 2013/14. For a community without experience in blueberry farming, this is a good achievement.

Despite the good start, the company is still dependent on outsiders for management, funding, and project support, as well as for marketing and accounting activities. Envisaged was a strong role for Amathole Berries as anchor farm, and the ECDC as equity partner. In practice, Amathole Berries has not been able to live up to its mentoring role due to internal challenges to establish its own farm. Although the commercial farm was central in the overall Berry Corridor plan, no formal contracts were signed between the anchor farm and the community business. This lack of contracts with Amathole Berries, both for plant seedlings and for harvested produce, is a large risk to the much smaller community-owned business. This has been most visible in the steep price increase of the seedlings provided through Amathole Berries, but is equally present in the marketing of the produce where Gxulu Berries is a price taker, dependent on the channels and price negotiated by Amathole Berries. The anchor farm has no direct interest in the development of the community businesses, nor is it contractually bound to render certain services.

Equally challenging has been the engagement of the ECDC as equity partner. This organisation is a development financing institute, and hence, equally unfamiliar with blueberry farming as the community. Thus, all shareholders completely lack knowledge to establish and manage such a farming operation. In addition, Gxulu Berries is one of many projects with which the ECDC is involved. This reduces the commitment of the shareholder, further diluting the actual contribution to the company. Nevertheless, the

organisation has committed the additional investment required for the continuation of the farm which would bring its capital contribution closer to its 30 % shareholding.

The overall support for Gxulu Berries is mostly provided by external parties: Aspire and ATS. Aspire is motivated to make the community outgrowers a success to achieve its goal of rural economic growth and development. As such, it continues to create the overall framework in which Gxulu Berries can operate, including the funding, as well as the structural set-up of the CPA and the required agreements and documentation. It also continues with securing the services of ATS for assistance with the farming activities in the absence of Amathole mentorship.

In the immediate future, the company will need to finalise the administrative parts of establishing the CPA, the Shareholders Agreement, and the lease agreement. In addition, Aspire, as the project initiator and supporter, needs to ensure funding is released to secure the continuation of the operations. After the first tranche of ECF funds was received, subsequent payments have not materialised, despite the money being available.

The community needs to be educated in the wider skills of running a business, supervision, budgeting, and also in the roles and responsibilities of a directorship. Aside from the berry-related training required, the community will also need assistance in the working of the cooperative and in how to deal with incoming funds, once dividends start being paid out.

Issues

Past issues

Labour performance

In the early days, the company struggled with low performance of the workers. People were not used to the job requirements expected by an employer. To explain their responsibilities, an outside human resources consultant was invited to the farm to take all the employees through a basic training course which explained their contracts and the clauses in them, such as leave. This has certainly benefited the company, as its employees are now aware of their rights, but also of their duties towards the company. They also realise now that the performance of the farm, and their income, is dependent on them. The supervisor, although young, is well-respected and has the social skills to deal with social issues and maintain discipline in his team.

Unsuitable horticultural practices

Although the company has benefited from the early experiences of Amathole Berries, Gxulu Berries still has to deal with additional costs attributable to unsuitable horticultural practices. The first six hectares were planted with a cultivar which is not suitable to the Eastern Cape climate, and hence, will not have a high yield. The cultivars selected for the three ha extension are more suitable and are expected to have a higher yield. Similar to Amathole Berries, Gxulu Berries has also decided to thin out the 27 000 plants per ha with which it started, to 13 000 plants per ha. However, the area under shade netting is not sufficient to accommodate this, even though a number of plants have been discarded due to sickness or poor growth. Additional shade netting will have to be erected. It is expected

that thinning out the plant density will allow the plants to absorb more light and thus grow a bigger leaf surface with increased berry production.

Unaddressed issues

Despite the minor successes of Gxulu Berries and the ongoing operational activities, a number of issues need to be addressed to ensure the future survival and growth of the company, and the flow of rewards to the community.

Institutional procedures

It has taken the community, supported by Aspire, more than two years to try to establish the Communal Property Association. After the initial submission to the Department of Rural Development went missing, the community is now facing a situation where its request for its own CPA conflicts with the department's desire to establish one CPA for nine villages together. As a result, no formal title deed has been given to the CPA, and no formal lease agreement between the CPA and Gxulu Berries has been signed. In absence of a CPA and lease agreement, Gxulu Berries is unable to obtain a water use licence. Currently, the company draws on the blanket water use right in the name of the village. Upper Gxulu is part of an old state-initiated irrigation scheme in the Keiskamma Valley, and from that period has unlimited water use rights, although the piping system is getting old and needs repair. Since the community is the majority owner of the project, drawing on the village's water is no issue in the short term, but it might become so in the future. In addition, the shareholding agreement, which needs ECDC input and guidance, has also not been signed yet. These are on-going issues which need to be concluded in the near future.

Funding/planting

After the first tranche of ECF funding totalling R21 million, no further funding has been released. As far back as 2012, Gxulu Berries requested that the release of the second tranche amounting to R10 million, be transferred. However, the DTI, as manager of the ECF fund, is not willing to transfer the funds, apparently because no agreement was signed in 2010 between the DTI and the Department of Rural Development. It is not clear who is responsible for this agreement and what the status is between the two departments. In the meantime, Aspire has issued a R1.2 million bridge loan from a fund meant for the building of the central packhouse.[4] This money has allowed the company to continue payment of salaries and to cover other basic running costs. However, required investments are being delayed. Gxulu Berries faced a serious cash flow problem after the 2013/14 harvest which needs to be resolved quickly. The additional investment by the ECDC to equal its 30% shareholding will assist with short-term financing.

A second issue is the delivery of plant material. A complex arrangement was set up in which Yummiberry Projects would source plant material from a nursery, deliver it to Amathole Berries, which would in turn supply it to Aspire for distribution to the selected communities. An order was put through by Aspire for 486 000 seedlings. In 2011, the first 162 000 plants were delivered, sufficient to plant six ha at Gxulu Berries, as Upper Gxulu was the first community ready to start planting. The subsequent delivery of 324 000 seedlings had to be postponed by Aspire as the other communities were not yet in a position to start

4 This money was sponsored by the IDC. Rather than paying the money back to Aspire, Gxulu Berries will have to use the R1.2 million to obtain its share in the packhouse. The outgrower communities are envisaged to all own a share in the central packhouse.

planting. Subsequently it was agreed that different cultivars would be delivered owing to the poor performance of the originally planned cultivars, causing a further accepted delay. Nevertheless, in 2012 there were problems with the delivery of plant material for the three ha extension of Gxulu Berries. Aspire claims to have paid 90% of the costs for all the plant material. The nursery, however, says that it has received only 60% of the required payment. There seems to be a deadlock, with too many parties involved between Aspire and the nursery. As a result, Gxulu Berries does not receive the new seedlings for extension. Furthermore, the other community projects do not receive the plant material required for them to even start operating.

Skills development and succession planning

Gxulu Berries relies on 'outsiders' to operate. The village lacks people with sufficient experience to run a multi-million rand business, dealing with high-value fresh produce, and a challenging supply chain. As such, the company relies on outsiders for marketing (Amathole Berries), management (ATS Consulting) and institutional support (Aspire). The village comprises less than 2 000 people with limited education. Despite having full ownership (the community is planned to buy out the ECDC once it is in a financial position to do so), the community will rely on outside leadership for many years to come. This is not necessarily a threat to the operation, but long-term succession planning is essential to ensure smooth transitions in leadership positions.

Production for market

For the first three years, Gxulu Berries focused on establishing the initial nine ha of berry plants and obtaining the first real harvest. For the 2014/15 season, the company is targeting a production of 50 tonnes, compared with the 2013/14 harvest of seven tonnes. Logistically, this will challenge the company in many ways. Firstly, marketing is currently done through Amathole Berries. The journey to their packhouse is about a 150 km round trip, partly on poor roads, which requires cooled transport and properly packed produce. Gxulu Berries only managed to purchase a small truck with cooling capability in 2014, after transporting previous harvests to Amathole Berries in cooled crates on the back of a pick-up truck. This was insufficient to keep the produce fresh, and hence, it could only be sold as frozen berries for processing purposes, fetching a lower price than fresh berries.

Not only is transport itself an issue, workers also need to learn to 'pick-for-market'. They need to pick the right berries at the right time. Picking a day too late means the berries will not be suitable for the fresh market anymore. This timing will require skill and understanding from the workers.

Lastly, in order to reach the fresh market, and thus be able to reap higher farm gate prices, the company needs to be GLOBALG.A.P. certified. A host of procedures is required in order to qualify for certification. Currently, the company is not geared to such formal ways of working and will need outside support to reach that level.

Success factors

The limited success so far can be attributed, first of all, to a dedicated team of workers surrounded by a team of experts, including an outside manager and the municipality's economic development organisation. This has enabled the community to establish a small, but growing, blueberry farm. It has been in a position to learn from the experiences

of Amathole Berries which started planting activities some years earlier. It has also been able to use the commercial farm for marketing activities, thus reducing the risks involved in setting up the business.

Another success factor is related to the funding. Rather than being dependent on a loan, the company was established with grant money. This gives the company more financial freedom, both because the financier is not directly involved in business decisions, and because the company is not burdened by loan repayments.

Sustainability and scalability

The future of the company depends on the receipt of the delayed ECF funding. The funds are needed to allow for payment of staff, operating costs, and the required expansion activities, such as transport and additional shade netting. Without this funding, the company will not be able to continue operating. Essential to the growth of the company is GLOBALG.A.P. certification. Without this, the market opportunities remain limited to a few local retailers and the frozen channel. Another key development is that of the new central packhouse. Current package and storage facilities at Gxulu Berries and Amathole Berries are insufficient to deal with the expected growth in produce from the existing plants - this does not include the extension activities or the two other community blueberry farms. Resolving this will need a coordinated effort between Aspire, as driver of the Berry Corridor, the local villages, the municipal government, and the funders.

Aside from Gxulu Berries, Aspire is involved in the establishment of two other community projects in the Keiskammahoek area. Sinqumeni Berries is situated on a farm owned by the Sothenjwa family. Five hectares have been covered under shade netting and half the seedlings have been received and placed in plastic bags. Sinqumeni Berries employs people who are not part of the family. Therefore, a different construction is used for this company. Sinqumeni Berries is 45 % owned by the Sothenjwa family trust, 25 % by the workers trust, and 30 % by the ECDC. Aspire has assisted the family with settling title deed issues,[5] the establishment of the family trust, and the Sinqumeni Berries company (Aspire, 2013b).

The third community project, Iqunube Berries, will be located at the Fort Cox College of Agriculture and Forestry and will cover only four ha. The advantage of the location is that the college will become a knowledge centre for blueberry farming. This knowledge can then be applied to the other community farming operations. The agreement between Fort Cox and Aspire was signed in 2012, but no further activities have taken place since then, owing to issues with plant seedlings and funders, as described in a previous section.

Developments with the second and third projects indicate that the activities at Gxulu Berries can be replicated, although in slightly different forms.

5 Land titles for black-owned farms in this part of the country, the former Ciskei, are outdated and often in the name of a long-deceased person. The whole family of the deceased needs to agree to whom the title deed should be assigned. One family interested in blueberry farming with the assistance of Aspire was not able to resolve land title issues, and hence, the project was cancelled. The Sothenjwa family was able to come to an agreement through the establishment of a family trust.

Conclusion

Gxulu Berries, in essence, is a community-owned business, operated by community members. To establish a farming operation with a new crop requires significant support: agricultural knowledge, business procedures and funding. As such, the community has depended on a vast network of support comprising commercial business, development finance institutes and the district government. Whereas, in theory, each of the partners had clear responsibilities, the actual implementation has seen challenges due to the absence of contracts, uncoordinated government procedures and unsuitable agricultural practices overall. Nevertheless, the basic operations are now fully in the hands of the community.

This project illustrates the difficulty of coordinating multiple stakeholders who each have different objectives. The relatively high number of stakeholders is required because the local community initially lacked all resources and skills aside from land, water and unskilled labour. It takes determined key individuals to get the project off the ground, followed by many years of continual support, before the community can independently operate its business. It will take equally long, especially with a crop such as blueberries, which need a few years to start bearing fruit, for financial rewards to accrue to the community. Nevertheless, the community members have a visible reminder every day of the project they own. This creates a sense of ownership and pride, and with good community management, will enable the standard of living for all members to increase.

14

Transversal analysis – Inclusive Businesses as complex combinations of instruments leading to more - but satisfactory? - inclusivity of smallholders

This chapter will present an in-depth transversal analysis of the different IBs presented in the book. The previous chapters identified and described IBs which are increasingly complex, combining numerous levels of organisation, as well as different instruments. All have the aim of including smallholder farmers and other previously disadvantaged groups into commercial value chains, and subsequently, at transferring a share of the IBs' value-addition to the beneficiaries.

The instruments identified are: collective organisation, mentorships, contractual production/marketing arrangements, lease/management contracts and equity. These individual instruments, each with their advantages and challenges, have been described and analysed extensively in the literature (e.g. Kirsten & Sartorius, 2002, 2007; Vermeulen & Cotula, 2010; Eaton & Shepherd, 2001). Combining instruments aims to overcome the challenges of each of these instruments individually. These combinations also respond to specific issues, in specific contexts, requiring implementation in specific ways. As such, a rigid typology of IB models will be avoided, as this does not seem suitable for classifying and defining the variety of IBs which integrate different instruments in various ways. This chapter analyses the manner in which the different instruments are combined and co-implemented, resulting in hybrid entities (Ménard, 2004). It is this combination that will thus be analysed, in order to better understand the development of IBs that could overcome the limits of individual instruments, and could allow – at least partly – for the inclusion of smallholders in commercial value chains and for the transfer of a share of the IBs' value-addition to the beneficiaries.

The overall outcome of this chapter will be an in-depth analysis of the IBs as a combination of instruments, including their determinants and contextual environments. As the IBs are complex and context dependent, it will be not be attempted to develop an ideal, tailor-made IB model, but rather to present how different combinations of instruments do, and could, respond to different challenges, situations and objectives.

This chapter includes two major sections. In the first section, the IBs (as a combination of inclusive instruments) will be decorticated and assessed. This will be done in a comparative manner in order to draw lessons and conclusions from the different combinations. The second section will assess the impact of the different IBs and instrument combinations with regard to smallholder inclusivity. The assessment will be based on the four criteria presented in the introduction (ownership, voice, risk and rewards – see Vermeulen & Cotula, 2010).

Complex combinations of instruments to overcome the constraints of individual tools

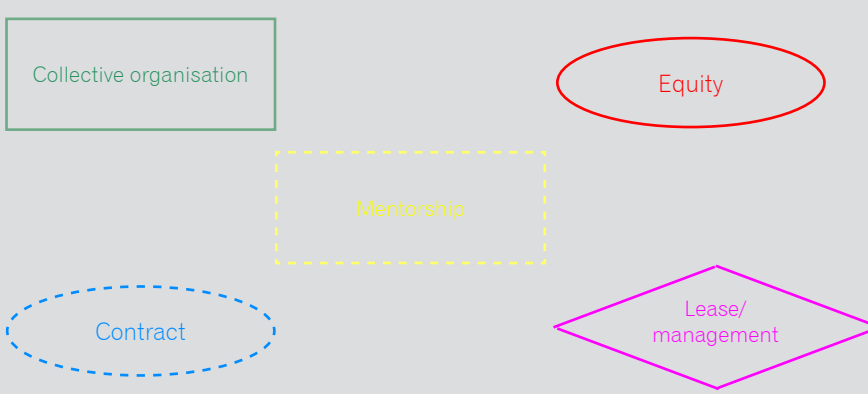
This section assesses IBs as a combination of inclusive instruments. As detailed in the different case studies presented in the previous chapters, each IB combines a number of instruments in order to overcome the limits and constraints of a sole instrument. Combining the instruments also responds to specific issues, in specific contexts, requiring implementation in specific ways. These IBs are thus hybrids presenting a "diversity of agreements among legally autonomous entities doing business together, mutually adjusting [...], and sharing or exchanging technologies, capital, products, and services, but without a unified ownership" (Ménard, 2004:348).

The different cases described combine the five inclusive instruments, each of them characterised by a number of positive elements and/or constraints. For each of the cases studied, this section will highlight the instruments used, how they benefit each other, and what the remaining challenges are. It gives insight into how the context impacts on the instruments used, the subsequent inclusion of other instruments, and the interaction between the instruments to generate the expected outcomes (which are analysed in the second section of this chapter).

As such, the objective of this chapter is not to assess each one of these instruments, but to assess how they are combined within IBs as hybrids to better respond to specific contexts and issues.

Box 14.1 Graphical presentation of the different inclusive instruments

In the analysis that follows, particularly in the figures detailing the different IBs, these instruments will be highlighted and graphically presented with the following signs:



The description of each of the instruments is provided in Table 1.1 in the Introduction Chapter.

The tables listing the benefits, challenges, action taken, and remaining challenges, use three different font styles depending on the stakeholder the specific information is applicable for:

- Beneficiaries / IB as a whole
- *Commercial partner*
- Financing party/other stakeholder

The Benoni case – Mentorship

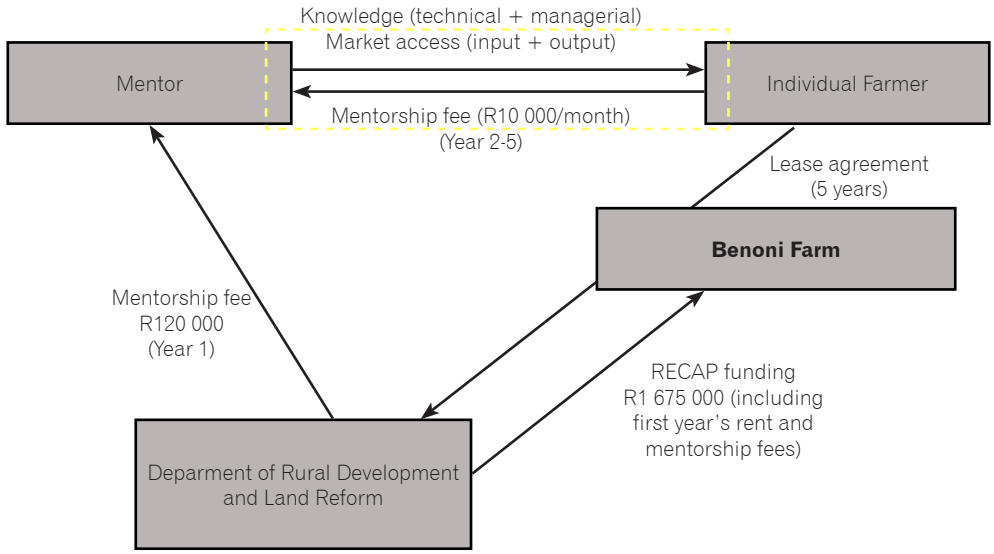


Figure 14.1 Benoni – sole mentorship

Table 14.1 Benoni case – assessment of inclusive instrument

Instrument	Benefits	Challenges	Action taken	Challenges remaining
Mentorship Imposed in framework of RECAP programme and grant	• Access to knowledge, inputs and markets	• Limited skills transfer to smallholder due to excessive mentor control	• External review of mentor performance	

The Benoni case is, essentially, a single instrument case based on mentorship. The mentorship is imposed by the government in return for access to recapitalisation funds in the framework of the RECAP programme, and links the smallholder to a commercial farming business. A land lease from government facilitates access to land for the smallholder on a five-year lease contract.

Although, in principle, mentorships allow for the transfer of technical and managerial farm knowledge to the beneficiary (e.g. Terblanche, 2011), this particular case shows how the emergent farmer is not capacitated. This is related to an excessive transfer of decision-making power to the mentor: the mentor not only takes decisions on his own, he also controls the finances and external service provision to the farm. The beneficiary not only loses decision-making power over his own farm, he is not capacitated either as he is not part of the process. This questions the essence of the mentorship as an inclusive instrument. The short term (five-year) of the lease aggravates this disempowering situation. Indeed, it does not allow for access to independent funds for the beneficiary, making him all the more dependent on the mentorship set-up.

Increasing the lease term would enhance the beneficiary's independence. It would, however, not be sufficient if implemented exclusively. It seems that there is a need for external monitoring of the power balance between mentee and mentor. An external review of the RECAP programme and the mentor performance rebalanced the power relationship, allowing for the beneficiary to engage himself in decision-making on the farm as an independent farmer. Besides the lease and mentorship instruments, it seems necessary to complement such set-ups with an external monitoring mechanism, preferably implemented on a continual basis. Substitution of responsibilities could, as such, be avoided. It should ensure balanced power relations, resulting in the smallholder farmer engaging in his or her own farm management and decision-making processes, and subsequently, to his or her effective capacitation through mentoring.

Mphiwe Siyalima – Combining access to resources, contracts and mentorship

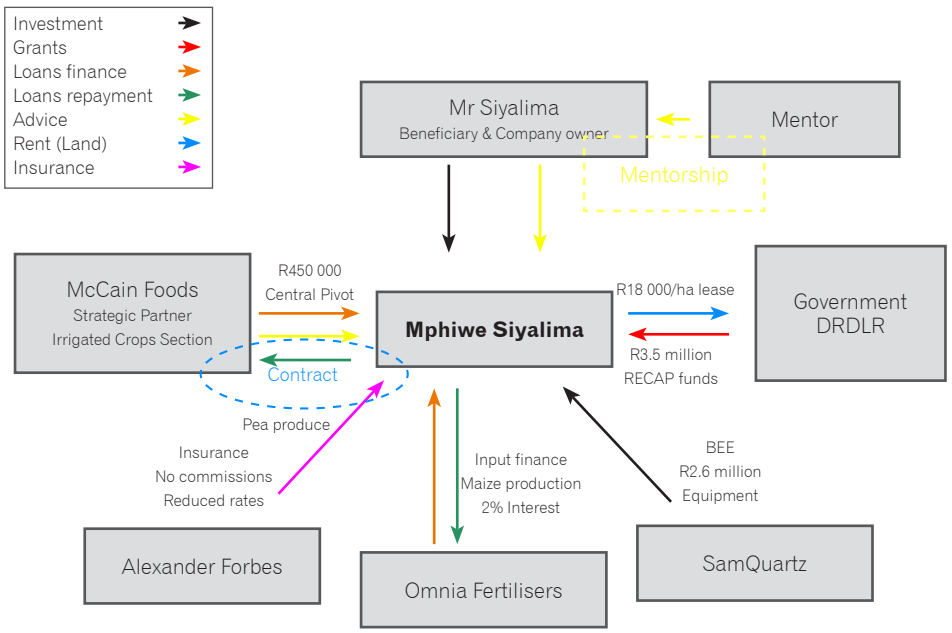


Figure 14.2 Mphiwe Siyalima – combining mentorship and contracts

This IB combines several off-take and supply provision contracts with mentorship. These contracts secure market access, as well as access to inputs and additional production credit. The mentorship provides for technical and managerial knowledge, and balances the powers between the commercial agribusiness and the smallholder farmer, thus offering the potential to overcome the principal-agent issue inherent in contract farming set-ups (Sykuta & Chaddad, 1999). Mentorship is required as part of the government programme through which the beneficiary leases land and infrastructure. Through this lease, the emerging farmer can obtain access to the basic resources necessary for farming at an accessible price.

Although the lease provides for the land and the basic infrastructure, the short-term nature of the agreement does not allow for expansion, owing to the lack of collateral security for obtaining required financing. This has been overcome through several contracts with commercial partners for crop production, production credit and inputs. Although providing for means of production, the contractual affiliation with high-end off-takers leads to a principal-agent issue where the farmer is exposed to relatively high risk, both operationally and in price. The mentor is engaged not only to provide the necessary technical and managerial capacity for the contracted crop, but also to provide the farmer with access to an extensive network with which to establish multiple partnerships for risk diversion, which is not possible when the farmer depends solely on extension services provided by the off-taker.

Table 14.2 Mphiwe Siyalima – assessment of combination of inclusive instruments

Instrument	Benefits	Challenges	Action taken	Challenges remaining
Contract	• Secure markets • Access to inputs and credit • *Quality control and timely procurement* • *Corporate Social Responsibility*	• Principal-agent issue where farmer is exposed to relatively high risk	• Mentor with extensive network to establish multiple partnerships for risk diversion	
Mentorship	• Transfer of technical and managerial knowledge • Multiple sources of funding found by mentor reduces principal-agent issue • *Increase farmer compliance*			• Continued dependency

Three major related issues occur. First, the viability of the IB can be questioned. The benefits for the emerging farmer resulted greatly from external support, including grants, without which the IB might not have been possible. This dependency on external funding poses questions directly related to the sustainability of the IB. Second, the short-term lease does not allow for a solid basis, thus jeopardising sustainable financial access and preventing the farmer from overcoming the viability issue. Third, in order to overcome the two previous challenges, the farmer is fully dependent on seasonal contractual agreements. Not only does it not allow for structural accumulation, it also leads to a continued dependency syndrome (Baumann, 2000; Sibjenga, 2009).

As with the Benoni case, access to a longer-term lease agreement would not only allow for autonomously driven, long-term expansion perspectives, it would also lead to greater farmer independence.

Winterveld – Combining farmers collective, contracts and equity

The Winterveld Associated Farmers Union is a loose collective of farmers engaged in the production of numerous crops. At the heart of the organisation is a citrus project which involves both individual member farmers producing on their own farms, and production on an anchor farm owned by the farmers' collective. Citrus fruit is sold through a non-fixed contract with a processing company. Based on the supplied quantity, the farmers collective gains equity in the processing company, which in turn qualifies the processor for BEE points. As such, the member farmers obtain ownership, both in a commercially operated and managed farm, and in the processing facilities downstream. This enables them to dilute the risks related to their individual farming operations.

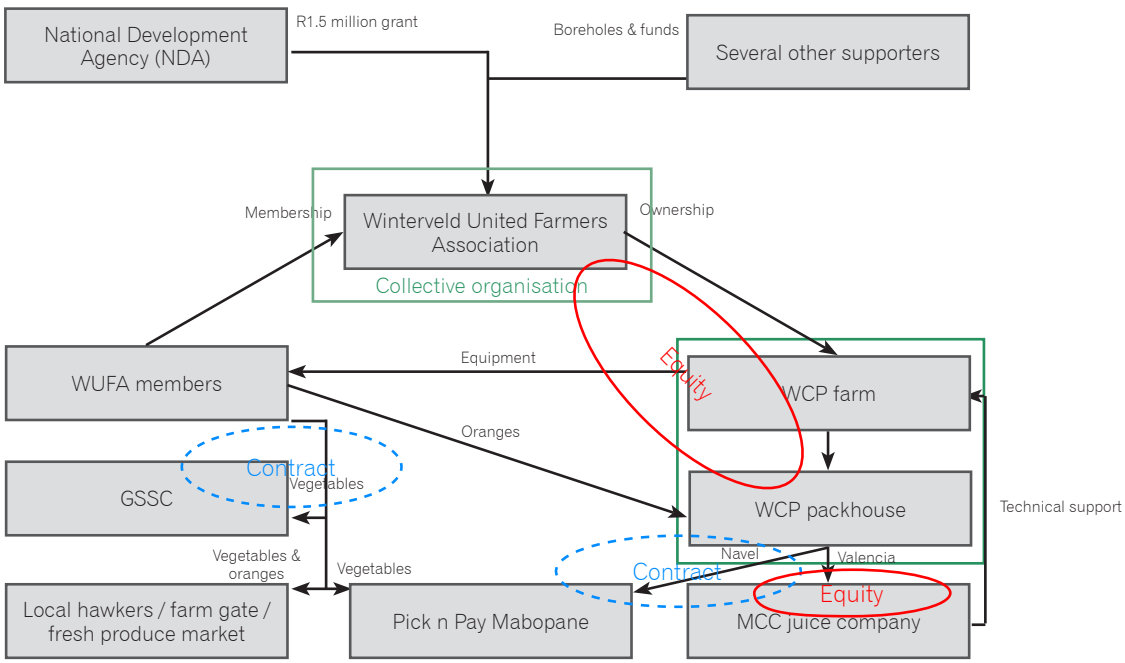


Figure 14.3 Winterveld – farmers collective, contracts and equity

Combining a collectively owned anchor farm with individual member production enables the collective to grow sufficient quantities to be of interest to the processor. The individual farmers would not have been able to reach significant scale by themselves. Collective organisation is thus instrumental for the members to gain access to this bulk market, enabling them to increase their production. For the farmers, the non-fixed, collective contract means a guaranteed market with the individual flexibility to sell to other channels where prices might be more favourable. The collective price negotiation, combined with equity in the main off-taker, allows for a more equitable voice for all partners, including the smallholders. As such, the principal-agent issue for the individual farmers is overcome by the collective organisation. The processor, on the other hand, gains from lower transaction costs as the entire supply is centralised through the anchor farm (see also Coulter, Goodland, Tallontire & Stringfellow, 1999). This is exemplified in the extension services provided by the processor which are limited to the anchor farm, and do not extend to the individual member farmers.

Whereas the loose structure of the collective association and the non-binding supply contract with the processor offer the member farmers a high degree of flexibility, it also reduces the incentives to take full advantage of the model. The collective, overall, has not been able to produce the quantities targeted in the supply contract, thus jeopardising their equity in the processor. Individual members do not understand the complexities of the multi-tier model and the benefits they could reap from it. Thus, the member farmers still mainly operate as individuals, dealing with the issues observed in other cases where smallholder farmers are integrated into commercial value chains (e.g. Tapela, 2008). This is accentuated by the non-collective (and non-transparent) management of the collective anchor farm and its relations with off-takers. As a result, the impact on individual members is limited in terms of voice, financial rewards and skills development. Lack of insight and inclusion, which has been observed in several cases with collective organisations discussed in this book, might, as such, have a negative impact on the long-term sustainability of this model.

Table 14.3 Winterveld – assessment of combination of inclusive instruments

Instrument	Benefits	Challenges	Action taken	Challenges remaining
Collective organisation	• Collective ownership of anchor farm secures supply, knowledge sharing • Access to inputs • *Transaction cost reduction*	• Insufficient access to market	• Contract with commercial partner for crop production	• Limited transfer of skills to smallholders
Contract	• Secure markets	• *Side-selling to local market due to low prices*	• Equity in processor	
Equity	• Increase farmer income through ownership in value-adding activities • *Obtain BEE points*			• Complex multilevel structure of organisation

The TechnoServe–Massmart case – Combining mentorship, equity and off-take contracts

This case combines a mentorship set-up, an off-take contract and equity; and although provision is made for overarching collective organisation including all participating farmers, this is not taken forward. The mentorship is implemented by a civil society organisation, allowing for a respect of the farmers' independency. This prevents issues arising which relate to a mentor's own objectives, as observed in the Benoni case. Nevertheless, in the TechnoServe–Massmart case, the agreement with the off-taker obliges the mentor to follow a stringent control, monitoring and implementation process. As such, the relationship with the commercial partner compromises its critical role as a voice of civil society (Elder & Dauvergne, 2015). The contract with the off-taker, who is also the financier of the packhouse, provides for a secure market for the farmers (Runsten & Key, 1996). To overcome challenges related to side-selling which the corporation experienced in other countries (Elder & Dauvergne, 2015), the off-taker provided equity (for free) in the

packhouse and representation on the packhouse board. This, in principle, should establish ownership of the farmers, generate additional income for them, and provide them with a say regarding the off-take, marketing and transformation (de Koning & de Steenhuijsen Piters, 2009). The entire set-up could provide the farmers with a secure market while they benefit from mentoring and owning a share in a segment of the value chain.

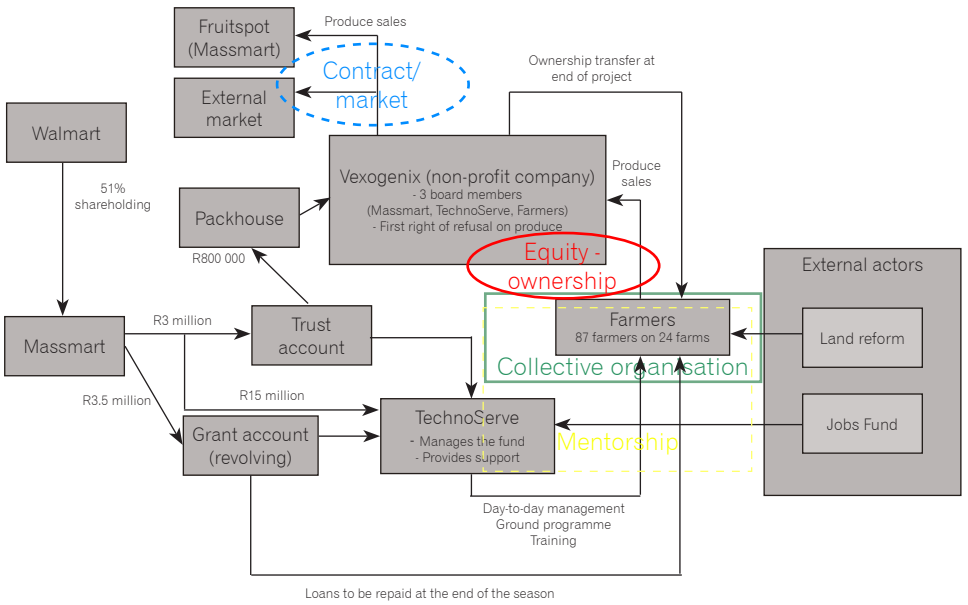


Figure 14.4 TechnoServe–Massmart – combining mentorship, contract and equity

Although it is often observed that under contract arrangements the prices paid to farmers are below the spot market price (as also observed in the Winterveld case; see also Kirsten & Sartorius, 2002), in this case, it prevents the farmers from accumulating income which induces them to continue side-selling, even though they have ownership in the packhouse, and would thus benefit from the performance of this packhouse. The off-taker also does not accept sub-standard produce, which leads to non-payment for parts of the production (see also Kherallah, 2000).

The equity, the presence of a farmers' representative on the board, and the engagement of a civil society mentor, have not led to any significant power shift which might have included a change in strategy of the packhouse and/or the off-taker (no increase of prices, no purchase of second-grade produce, and no authorisation for them to sell this sub-standard produce on other markets). This power control is related to the fact that the off-taker is also the financier of the off-take facility (i.e. the packhouse) and the initiator of the IB (including the set-up with the mentor), in a context where there are very few crop alternatives and alternative markets. The short term of the mentorship programme is a constraint on effective emancipation, as it leads to limited capacitation of farmers.

Besides through the civil society related mentor, the voice of the farmers is dependent on one community member's presence in the management of the packhouse. The low education level of this farmer representative compares unfavourable with that of the off-taker. Thus, the off-taker is the main decision maker for the packhouse with a compromised say for

the farmers. This is accentuated by the lack of collective organisation of the farmers. The farmers are indeed not organised, acting as individual and separate entities. The decision of some of the (bigger) farmers to terminate their relationship with the off-taker (and lose their share in the packhouse) might put some pressure on the off-taker to increase the level of integration and benefits for the remaining farmers. A better structured farmers organisation seems, however, to be necessary for providing a more balanced relationship, directly through more bargaining power, and indirectly through organising alternatives in a collective way (as is the case of the Winterveld association). Engaging the mentor for a longer term would also strengthen the position of the farmers, directly as the mentor represents a counter balance to the offtaker, and indirectly through farmers capacitation (see the Mphiwe Siyalima case). This could lead to a more equitable and sustainable situation, assuring longer-term viability for the farmers and the IB.

Table 14.4 TechnoServe–Massmart – assessment of combination of inclusive instruments

Instrument	Benefits	Challenges	Action taken	Challenges remaining
Mentorship Mentorship by TechnoServe, financed through Jobs Fund (for three years)	• Enhance farm production and management skills • Manage complex pricing and supply contract • Access to inputs • *Transaction cost reduction*	• *Costs (covered by temporary State subsidy)* • Full farm management by service provider, leading to limited capacity transfer (for contracted produce)		• Limited skills transfer to smallholders after short mentorship programme and full farm management takeover by service provider
Contract Contract with off-taker, Massmart	• Access to markets • *Agribusiness corporate image* • *Access to primary resources*	• *Side-selling to local market*	• Equity in packhouse	• Low prices, cash flow • No market for sub-standard produce
Equity Equity in packhouse, with farmers' representation in company management	• Increase farmers' ownership and (theoretically) voice • Increase farmers' income through value-adding activities • *Reduction in side-selling*	• Voice remains limited • Little effective collective organisation of participating smallholders		• Dependency on one community member in management of packhouse
Collective organisation	• Increase in number of beneficiaries through small farmer cooperatives	• Family rather than farmers' collectives limited efficient implementation on large scale		• Lacking effective overarching collective action and organisation related to packhouse management

Blue Mountain Berries – Combining employee collective and equity

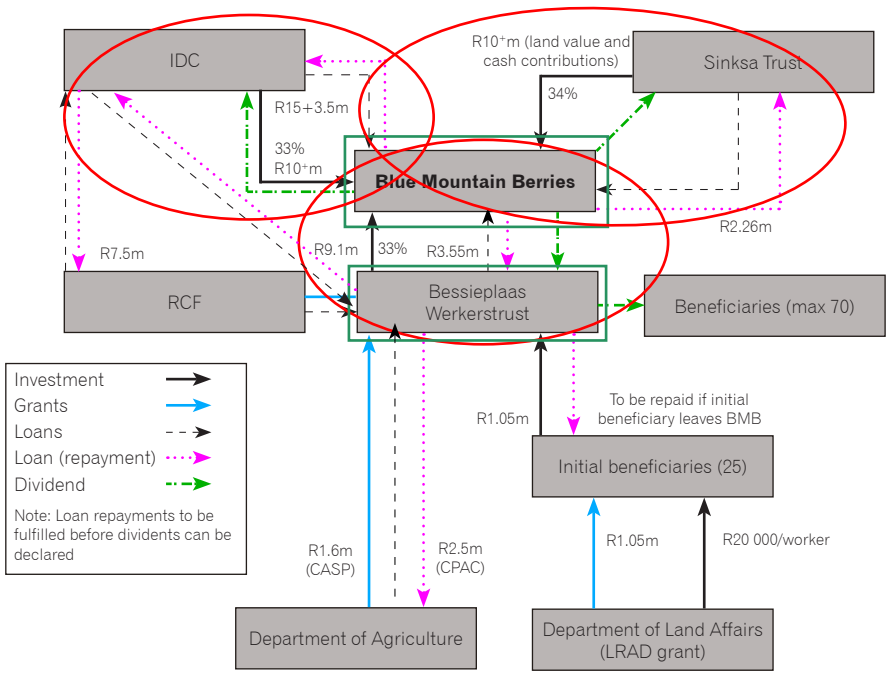


Figure 14.5 Blue Mountain Berries – collective organisation and equity

Table 14.5 Blue Mountain Berries – assessment of combination of inclusive instruments

Instrument	Benefits	Challenges	Action taken	Challenges remaining
Equity	• *Obtain favourable financing* • Profit sharing for employees • *Increase worker loyalty*	• Individual cannot finance equity • Collective representation of employees • *High-risk exposure commercial farmer*	• Organise employees in workers trust with access to soft loan funding for which employee has to qualify • *Majority equity for commercial farmer*	• Share valuation and sale
Collective organisation	• Keep equity with workers (no personal shares for public sale)	• Farmer dependency • Dependency on single employee representative	• Open communication • Identification of second employee representative	

Blue Mountain Berries is a one of many employee equity share schemes in South Africa. The essence of the model is ownership by the workers in the farm they work on, in this case a blueberry farm. This shared ownership allows the company to gain access to favourable

financing from development finance institutions. Although this financing is earmarked for obtaining shares in the farming operation on behalf of the workers, the capital can be used to invest in the business, as decided by the directors of the farm. As such, it might give a great impetus to establish new farms, or farms which are looking to expand. The experience of a commercial farmer can then be combined with increased involvement from the workers. The expectation is that through ownership, the workers benefit both financially, and through skills development related to their role as shareholder, and, over time, as decision makers (de Koning & de Steenhuijsen Piters, 2009). On the other hand, the commercial farmer hopes for higher levels of commitment and productivity from the workers, who will, in turn, gain from a better performing farm (Kruse & Weitzman, 1990; Knight, Lyne & Roth, 2003).

In practice, this case illustrates that it can take a long time for benefits to materialise for the workers, for a number of reasons (see also Fast, 1999; Tom, 2006). Firstly, loans to finance their equity need to be repaid before any dividends can be declared. Secondly, profits made by the farming operation are invested back into the business for future growth, rather than paid out as dividends to the shareholders. Whereas this is sensible from a business perspective, it is not always understood by the workers, who, in general, prefer to receive immediate cash payments. This misalignment between the wishes of the individual beneficiaries and that of the overall business is especially pressing in those situations where a large number of beneficiaries are organised in a collective, hence reducing the immediate understanding from the beneficiaries of the overall model and its functionality. Similar discrepancies can be observed in the cases of Mondi, Dinaledi and New Dawn, where commercial partners formed partnerships with a collective of land claimant communities. This issue can be mitigated through clear communication between parties and regular, even if only small, payments to the beneficiaries to increase their sense of ownership and beneficiation, as has occurred in the partnership between the Seven Stars Cooperative and Amadlelo Agri (Chapter 12).

Another challenge is the empowerment of the beneficiaries in order to bring them onto an equal level with the other shareholders. A large divide needs to be bridged, with skills transfer responsibilities resting on the more experienced partners. Not only is the success of the capacitation of the workers trust dependent on the willingness of the (in this case) commercial farmer, representation within the trust is equally important. BMB has acknowledged the dependency on one central person in the trust who is exposed to an environment where skills are gained, but which are not necessarily transferred further into the trust. Skills transfer which is focused on a single individual is the most effective in the short term, but carries a high risk if it is not disseminated further into the collective organisation. Similar dependency issues have been noticed in the cases of TechnoServe–Massmart, Tongaat Hulett and Mondi, where collective representatives play a crucial role in the relationship with the commercial partner.

The workers' ownership is held by the workers trust. This ensures that, regardless of the individuals working for the company, the workers, as a collective, maintain their share in the farm. Nevertheless, this construction brings many challenges, such as the valuation and tradability of an individual's equity share. Questions remain to be answered, including if, and how, to remunerate a worker leaving the employ of the company, and thus the shareholding in the trust, and how to accommodate an increasing number of workers. Whereas the initial implementation of the model is fairly straightforward, the details of this model are challenging to work out once the project is up and running.

Katmakoep Boerdery – Selective employee collective with equity and supply contract

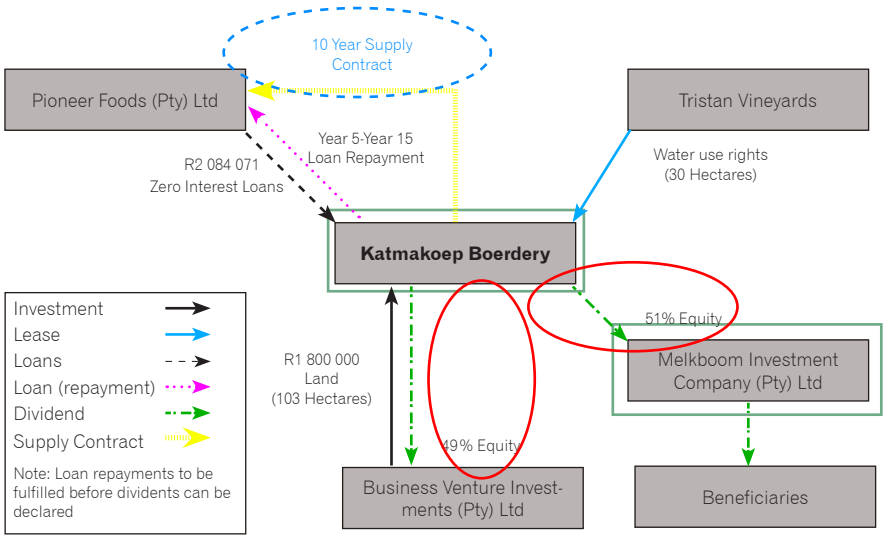


Figure 14.6 Katmakoep Boerdery – collective organisation, equity and supply contract

Table 14.6 Katmakoep Boerdery – assessment of combination of inclusive instruments

Instrument	Benefits	Challenges	Action taken	Challenges remaining
Equity	• Benefit from farm profit • *Unlock land potential and future water supply* • BEE points	• Finance of equity exposes funder to risks	• Exclusive supply contract	• Workers employed by equity partner rather than joint venture company, causing unequal relationship
Collective organisation	• To organise equity of employees			• Individual workers can freely sell shares, jeopardising BEE status of IB
Contract	• Access to market • Ensure supply of produce			

Katmakoep Boerdery is another form of an employee equity share scheme, but organised along different principles than BMB. As with other equity share schemes, ownership of farmworkers was applied to obtain favourable financing (Tom, 2006; Sopov *et al.*, 2014), although, in this case, not from government, but from a private funder. Whereas the majority ownership of the workers should ensure a significant voice in the decision-making on the farm, the private partners are in full control of the project; management of the farming operation is in the hands of the minority equity partner, whereas the contract agreement transfers marketing of the produce to the financing off-taker. The supply contract, and the already existing relationship between the two commercial partners, manage the risk

related to the loan provision by the processor. The supply contract ensures a market for the produce from the new farm, which, in turn, provides financial stability and solidifies the IB over time.

Due to the lack of a strong cohesion, the collective organisation in this case does not strengthen the overall voice of the beneficiaries, but actually decreases the impact of the beneficiaries in the company. The employee shareholding is organised within a company called Melkboom Investment, rather than in a workers trust. As such, the employees hold individual, tradable shares in the Katmakoep equity partner. This immediately poses a major issue with regard to the inclusivity of this model, as the employees are free to sell their individual shares in Melkboom. Their individual participation weakens their collective engagement, and thus their potential negotiating power. Also, it questions the true empowerment for the employee shareholders, should they cash in their shares, and hence surrender their voice in the management of the venture. In addition, the sale of shares has a direct impact on the overall shareholding structure of Melkboom Investment, and thus that of Katmakoep Boerdery. This could disqualify Katmakoep Boerdery from the BEE points obtained by the processor and disqualify Katmakoep as an 'emerging farmer', resulting in the loss of preferred access to the extended water supply for irrigation, threatening the future growth of the farm. In addition, the workers do not receive support for the management of their investment company, as this is not in the direct interests of either of the two commercial stakeholders, which is an issue also observed in the case of Tongaat Hulett, Mondi, New Dawn and Dinaledi. Whereas the commercial partner needs the (collective) beneficiaries for the development of its economic activities, it does not consider itself responsible for the empowerment of its less-experienced partner.

The beneficiaries' position is further weakened through their employment status. The beneficiary workers are not employed by the Katmakoep joint venture, but by the farm management company BVI, which holds the remaining shares in the joint venture. They work not only on Katmakoep Boerdery, but also on other farms managed by the equity partner. As such, there is an employer–employee relationship which is much stronger than that of the more traditional farm worker equity share schemes, such as BMB, where the workers are employed by the joint venture company, instead of by the equity partner, resulting in an (in theory) equal relationship between the shareholders. As a result, the shareholding workers have little say in the management of Katmakoep Boerdery, nor are they in a position to decide upon management, labour and technical issues on the farm, which is managed by their employer. In addition, the potential productivity increases attributable to the profit share incentive (Kruse & Weitzman, 1990) no longer applies. Their inclusion is limited to sharing in the decision of how to allocate the profits generated by the farm. This severely limits their options for empowerment and growth potential within 'their' farm.

Overall, an entrenched, unequal, employer–employee relationship is not overcome. Whereas the commercial partners are able to gain from this model, little to no empowerment of the beneficiaries takes place.

Tongaat Hulett – Landholders cooperatives with lease contract

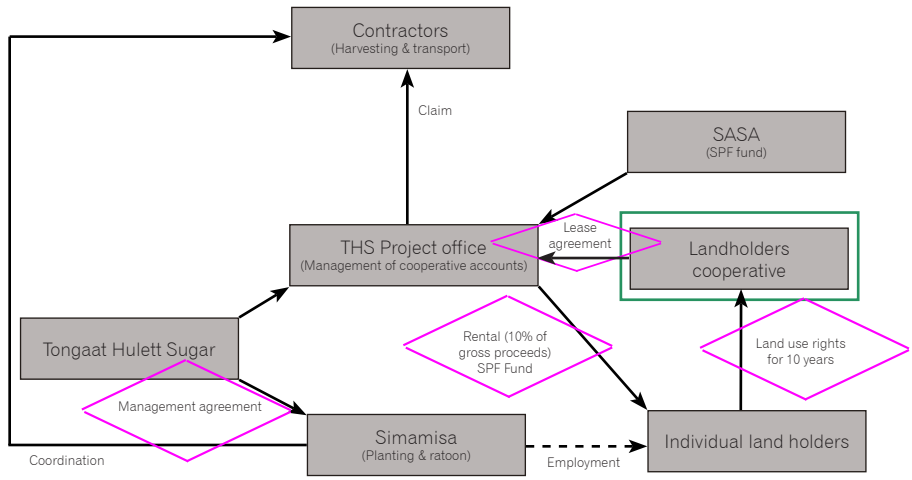


Figure 14.7 Tongaat Hulett – landholders collective, lease and management contract

Table 14.7 Tongaat Hulett – assessment of combination of inclusive instruments

Instrument	Benefits	Challenges	Action taken	Challenges remaining
Lease / Management	• Access to income – 'Rent' fully production-based to share production risk • *Access to primary resources* • *External management company to externalise farmer support costs*	• High level of fragmentation for land ownership	• Set up collective organisation of smallholders	• Low participation of smallholder results in low benefits for them • Economic driver of management company excludes isolated smallholders • Low landholder responsibility, leading to non-engagement and maintenance
Collective organisation	• *Transaction cost reduction*	• *High cost of support for smallholder collectives*	• *Engage external management company*	• *Free-rider problem*
Contract (Vuselela model)	• *Guaranteed acccess to produce*	• Limited capacity of cooperative	• Hire external contractors	• Bad performance of external contractors

This IB, based on a lease/management agreement, is reinforced through collective action and a subcontracting agreement for production service provision. The smallholders included in this IB were traditionally engaged in the production of sugarcane, but due to a lack of scale and support, their activities were not viable (see also Armitage, Hurly & Gillitt, 2009). The IB enables smallholders to overcome this through a lease/management

contract with THS, the sole off-taker. It allows the smallholders to benefit from production-related payments. To facilitate this process, collective organisation of the smallholders was necessary to alleviate the transaction costs for the service provider and off-taker (Kirsten & Sartorius, 2002). Two versions of a cooperative lease have been implemented: one (Vuselela) where the cooperative has ownership over the cane roots (an asset with a 10-year lifespan) and where THS manages the land, and the other (Simamisa) where THS owns the roots for which the management has been outsourced to an external company (Figure 14.7). In both cases, the collective organisation enables the off-taker, THS, to take control over these lands. Empowerment of both the cooperative executive and individual members, is not a clearly defined responsibility for the commercial partner, and hence, is not given much attention, as was also observed in other cases, such as Katmakoep Boerdery.

In theory, the Vuselela variant has a higher degree of inclusivity for the smallholders than the Simamisa model. Indeed, the cooperative to which the landholders belong is the owner of the sugarcane roots, and thus of the productive asset. As such, they should have a say in how their cane is managed. In practice, the relationship between smallholder and commercial partner is highly unequal, resembling a pure lease/management situation. THS takes all the decisions regarding the operations and also has full control over payments to the individual members, bypassing the cooperative executive. It considers the skills of the cooperative leadership (which in principle should overcome power biases and incapacity issues), both regarding cane production and cooperative management, as being insufficient. Even though in the short term this centralised decision-making process might lead to higher production on the land, it does not empower the cooperatives in the long-term, thus keeping them fully dependent on the commercial partner. THS, on the other hand, experiences high transaction costs in managing both the highly fragmented lands, and the internal cooperative administration, in effect, nullifying the advantage of a collective organisation. It has, therefore, implemented a more centralised form, the Simamisa variant, where the actual operation is outsourced to a third party and the role of the cooperative is further limited, as they no longer own the productive assets. As such, it illustrates the point that stakeholders change over time based on information gained (Stiglitz, 1986). Smallholders in this variant benefit only from land rental income. As such, this can be considered passive inclusion into the commercial value chain.

The passive nature of this model leads to a number of issues. Firstly, the smallholders, and even more the wider community in which they live, do not feel a strong responsibility towards the cane. As a result, the fields are not looked after, and thus record a low productivity. The lack of responsibility is aggravated by the way benefits for individuals are calculated. This is done according to a share of the overall cooperative's income, based on the size of land leased by the member to the cooperative. Efforts by one individual to ensure high production are thus shared by all members. Equally, the loss of harvest from the field of one member is also shared across the cooperative. This "free-rider" problem (McMillan, 1979) thus poses a threat to this model, as both partners, landholder and lessee, stand to lose their income. Secondly, because the administrative management is also in the hands of the commercial partner, the cooperative executive members, and certainly the individual members, have limited understanding of the calculation of the economic rewards, which have proven to be very disappointing for the smallholders. Low income for the individual members is caused by the free-rider issue and lack of commitment in the production process, whereas the small size of their land (one to two ha) also does not allow for a high-income stream.

Overall, the low rewards, the complex set-up with limited transparency, and the very low level of inclusion in decision-making (both in the partnership and in the cooperative), result

in disillusionment among the smallholders regarding their re-entry into the commercial supply chain. Nevertheless, the model has given them a relatively risk-free opportunity to bring their fallow land into production.

Mondi – Collective landholder with lease contract and mentorship for community-owned business

This IB is centred on a trust, responsible for the land management of a claimant community, which has engaged in a lease agreement with a commercial partner for the operation of the forestry activities on its land. The commercial partner was the previous landowner. The community is further involved through contracting activities undertaken by a community-owned business for the commercial partner, for which it is mentored by the commercial partner.

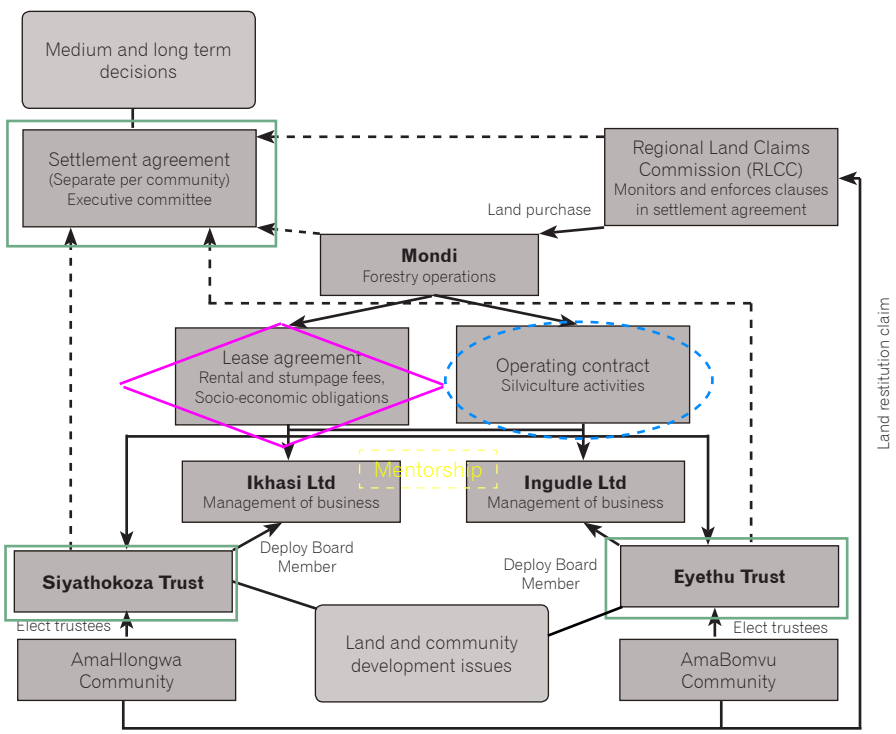


Figure 14.8 Mondi–Kranskop – collective organisation, lease, mentorship, contract

In order to avoid fragmenting the economic activities carried out on the restituted land, mainly for viability reasons, the stakeholders decided to retain land ownership collectively, structured on a trust. As such, this model has a strong role for the community trust. It is responsible for the overall land management, and also has full ownership over the community business. However, due to skills and capacity issues in managing a large-scale forestry operation, a lease and management agreement has been engaged in with the previous owner. Nevertheless, the vision for both parties is that, at the end of the lease agreement, the community will be able to operate the forestry plantation independently. As such, a company business has been established of which the community trust has

full ownership. This community business is employed by the commercial partner for contracting activities, with responsibilities evolving over time. The commercial partner is responsible for the development of the forestry-related skills of the community. This structure leads to direct participation in the business (and avoids a total disengagement of the community, as mentioned by Vermeulen & Cotula, 2010:53). This participation, together with the mentorship, should gradually overcome the capacity issues, leading to the community gradually taking on, and eventually taking over, the forestry activities, plantation management and overall business.

Table 14.8 Mondi–Kranskop – assessment of combination of inclusive instruments

Instrument	Benefits	Challenges	Action taken	Challenges remaining
Collective organisation	• Prevent fragmentation of commercial farming operation • Enhancing business opportunities	• Lack of experience • Control by local elite	• Enter lease agreement	• No individual access to land despite ownership • Complex, multilevel structure of organisation
Lease	• Access to primary resources • Access to income • *'Rent' partially based on production to share production risk*	• *Long-term availability of primary resource* • Low level of participation and benefits from land ownership • *Long-term availability of primary resource*	• Support establishment of community businesses, with ownership and responsibilities, and mentorship programmes	• Low incomes
Contract	• Access to income and job opportunities	• Lack of experience	• Mentorship	• Limited rewards and voice, dictated by commercial partner
Mentorship	• Long-term: Skills development of community to manage plantation after lease period	• Limited resources of commercial partner	• Engage industry bodies	• Limited transfer of skills to beneficiaries

Whereas the trust has a central position in the model, its role is limited owing to an unequal relationship with the commercial partner, caused by a lack of capacity and skills. This is most visible in the way in which the community business (owned by the trust) and the commercial partner work together: the commercial partner dictates the operational activities of the community business. Whereas Mondi mentors the community businesses, this mentorship is not extended to capacitation of the community trust. And because Mondi is still the owner of the trees on the plantation, the mentorship only relates to the contracting activities performed by the community, not to the mid- and long-term plantation management. As a result, the decision-making position of the community regarding the plantation management is severely impaired. Inclusion is further weakened by the lack of ownership over the productive assets, i.e. the trees. Revenues are limited to a fixed rental plus an amount based on the weight of trees harvested. The produce–share

construction aims to include the community in the plantation income, while also serving to instil a sense of responsibility towards to plantation. Nevertheless, monetary rewards for both community trusts are limited. The lack of financial revenue is aggravated by the financial demands of the community business. In the absence of the government-promised grants to establish these companies, the community has had to find its own funds, mainly by using the rental income and small profits made from the contracting activities.

Overall, in light of the above, individual claimants have been disappointed in their renewed land ownership. Similar to the Tongaat Hulett model, they do not have ownership over the produce from their land, and more importantly, they lack insight and decision-making ability in a complex model. Whereas the smallholders in the Tongaat Hulett model at least gained some income from their individual landownership, even this is denied to the claimant community members who depend on the income of the trust, and the decisions taken by the elected members as to how to apply the financial revenues from the trust. As observed in the employee equity share model of BMB, it is equally important in this case to pay out even a small amount to the beneficiaries for them to share in the economic activities on 'their' land.

New Dawn and Dinaledi – Collective landholder with lease and equity in operating company

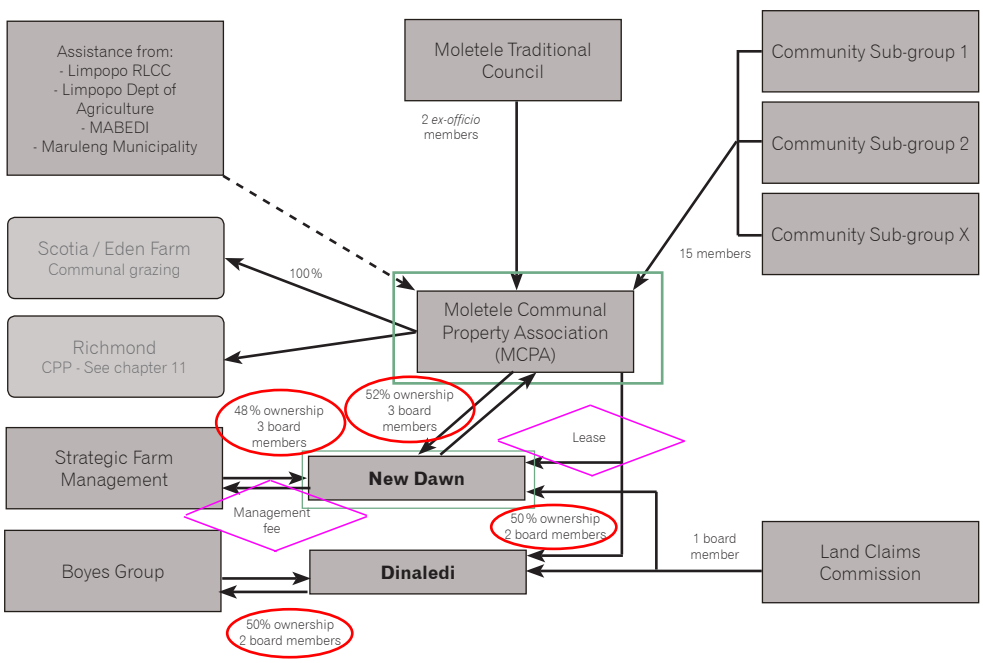


Figure 14.9 New Dawn and Dinaledi – landholders collective and ownership combined with lease and management contract

Table 14.9 New Dawn and Dinaledi – assessment of combination of inclusive instruments

Instrument	Benefits	Challenges	Action taken	Challenges remaining
Collective organisation	• Prevent fragmentation of commercial farming operation • Enhance business opportunities	• Lack of experience • Control by local elite	• Focus on lease instrument rather than equity (see Richmond case) • Democratic election of representatives	• No individual access to land despite ownership • Complex multi-level structure of organisation • High number of community members results in low benefits per individual
Equity	• Access to market • Opportunities to learn new skills • *Access to government funds*	• Delay in government grant to finance equity of community	• Financing by commercial partner	• Despite shared ownership, commercial partner takes full ownership over produce through its marketing company
Lease	• 'Rent' stable income to community. Partially based on profit share. • *Access to primary resources*			• Insufficient funds by joint venture prevents rental payment

Similar to the Mondi case described above, the New Dawn and Dinaledi cases also centre on a community organisation, the MCPA, which has the responsibility of managing land on behalf of the community, and which wished to continue with existing, economically viable farming activities. However, in this case, the lease is not with a commercial partner, but with a newly established joint venture in which the MCPA has a majority shareholding. Government grants enabled the community to finance the community's equity in the joint venture. This model enables the community to benefit from operational profits and rental income, as well as from exposure to the management of a large-scale farming operation and market access (de Koning & de Steenhuijsen Piters, 2009).

The community acknowledged its lack of knowledge and financing for the independent operation of the farms, and thus engaged with a commercial partner. A joint venture arrangement would expose the community to the management of the farm, thus overcoming the obstacle of skills deficiency, over time. Nevertheless, the commercial partner does not have a clear responsibility for empowerment and skills transfer, and thus had the flexibility to focus solely on the operational management, leading to the community not benefiting from its exposure. The role of the community was further compromised by the non-payment of government grants earmarked for investment in the farm, and for securing the community's equity. Considerable investments were required to revitalise the neglected farms. The absence of government grants meant that cash flow from operations needed to be reinvested in the farm. In addition, because of the financial challenges, the joint venture was unable to deliver on its rental payments, which was considered a stable source of income for the community organisation. Lastly, the joint venture only controls

the primary production part of the chain. The commercial partner has exclusive access to the produce for its marketing business, thus further excluding the community from the project. The MCPA's involvement is currently reduced to passive participation on the board of directors. As such, the intended gain of exposure in this forum to empower the community representatives to run the farm independently in the longer term, has not yet been achieved. Neither has the community received any substantial financial income from either the lease, or the farming operations (Binswanger-Mkhize, 2014). If the joint ventures are able to endure the developmental years of the farms, financial rewards might start to flow towards the community. The exclusion from the (lucrative) export activities, as well as the limited skills transfer, will nevertheless leave the MCPA in a vulnerable position.

Overall, the inclusivity for the large number of individual beneficiaries is negligible. As with the Mondi–Kranskop case, the community members have little insight into such a complex business model. They have not gained from their land ownership (economically or with skills acquisition), even though they do observe economic activity on their land. In addition, they do not have access to the land for their own purposes. Due to the complex challenges of this model for the communal organisation, and the limited benefits to the community, the MCPA has indicated that it will no longer engage in joint ventures, leaving the operational responsibility fully to a commercial partner (see Richmond, Chapter 11).

Richmond – Collective landholder with lease

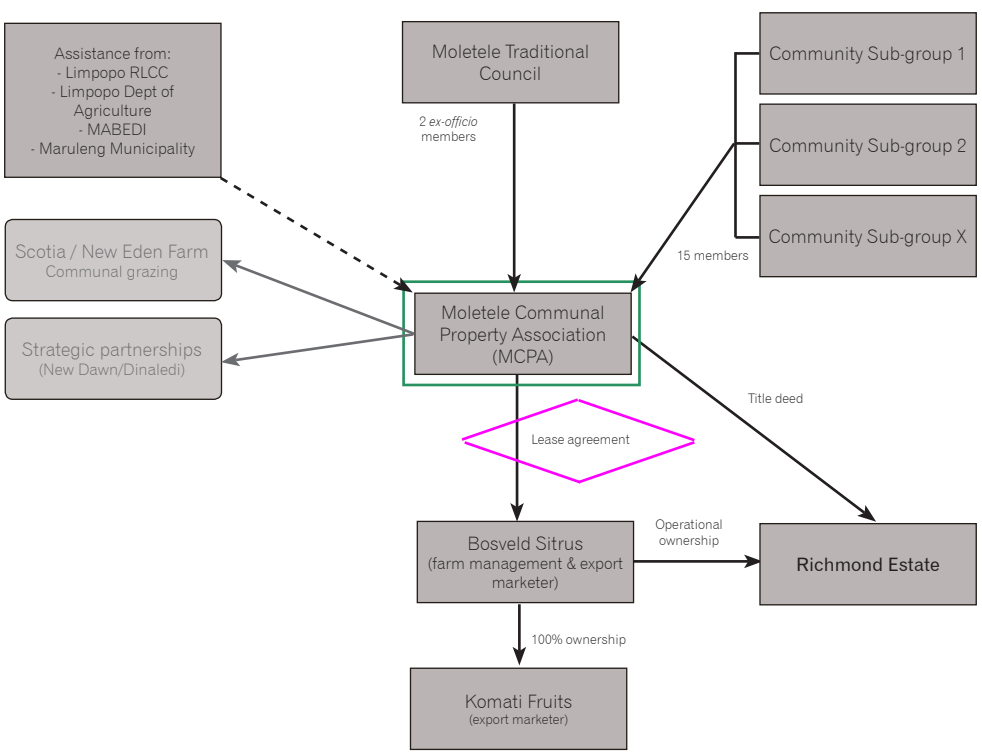


Figure 14.10 Richmond – landholders collective and lease agreement

This IB combines collective organisation with a lease and management agreement. The collective was created to take collective ownership of the land and its production bases. The lack of skills within the MCPA regarding management of a commercial farming operation resulted in many challenges for the community organisation (see Dinaledi and New Dawn, above and Chapter 10). To operate the farms coming under its management after the initial land restitution, including Richmond Estate, the MCPA decided to opt for a simple lease agreement. Under this construction, the lessee has full responsibility over the management and operation of the farm, and also has full ownership of the produce from the farm. The community organisation no longer participates in either the decision-making, or the financing of the farming activities.

A lease construction presents fewer requirements and risks for the community organisation, with the community still benefiting from the economic activities on the land. It also reduces the risks for the commercial operator, who does not have to take the responsibility to develop the community organisation and work with a potentially difficult partner. One of the expectations is that the farms will be more productive (with less effort from the MCPA), from which the community will benefit through the profit–share clause in the lease agreement (Vermeulen & Cotula, 2010). Whereas in the joint venture model the expected fixed rental income did not materialise, this is not expected in this lease agreement construction. The lessee takes full financial responsibility for the farm, including the rent. Thus, the community expects to benefit more, while being at less risk.

Table 14.10 Richmond – assessment of combination of inclusive instruments

Instrument	Benefits	Challenges	Action taken	Challenges remaining
Collective organisation	• Prevent fragmentation of commercial farming operation • Enhance business opportunities	• Lack of experience • Control by local elites	• Enter lease agreement • Democratic election of representatives	• No individual access to land, despite ownership • High number of community members results in low benefits per individual
Lease	• *Access to primary resources* • 'Rent' stable income to community. Partially based on profit share • *Externalisation of community costs*			• Low participation of smallholder results in low benefits for them • Lack of skills transfer

However, the inclusivity and empowerment of the community are compromised in this model (Binswanger-Mkhize, 2014). Although there are specifications in the lease agreement regarding responsibilities of the commercial partner concerning the development and improvements to the farm, the MCPA lacks the financial clout to challenge the lessee (one of the largest fruit exporting businesses in South Africa) in case of non-performance. More importantly, the community no longer has any say in how the farm is operated, and thus, is no longer exposed to the operating of a farm. Although the community members have preferred status when employment opportunities arise, skills transfer is not a priority for the lessee. Regarding the produce, the lessee has full control over the marketing, which is

done by its own marketing firm. This potentially enables the firm to implement a transfer pricing system where low prices are paid to the farm, repressing the profit margins at farm level, and thus the profit share for the community.

Overall, at the end of the lease agreement, the community might be left with a farm in need of redevelopment, without having benefited either economically or by being empowered to take over the management of the operation.

Seven Stars Trust – Multilevel landholder cooperative with production share agreement and downstream ownership

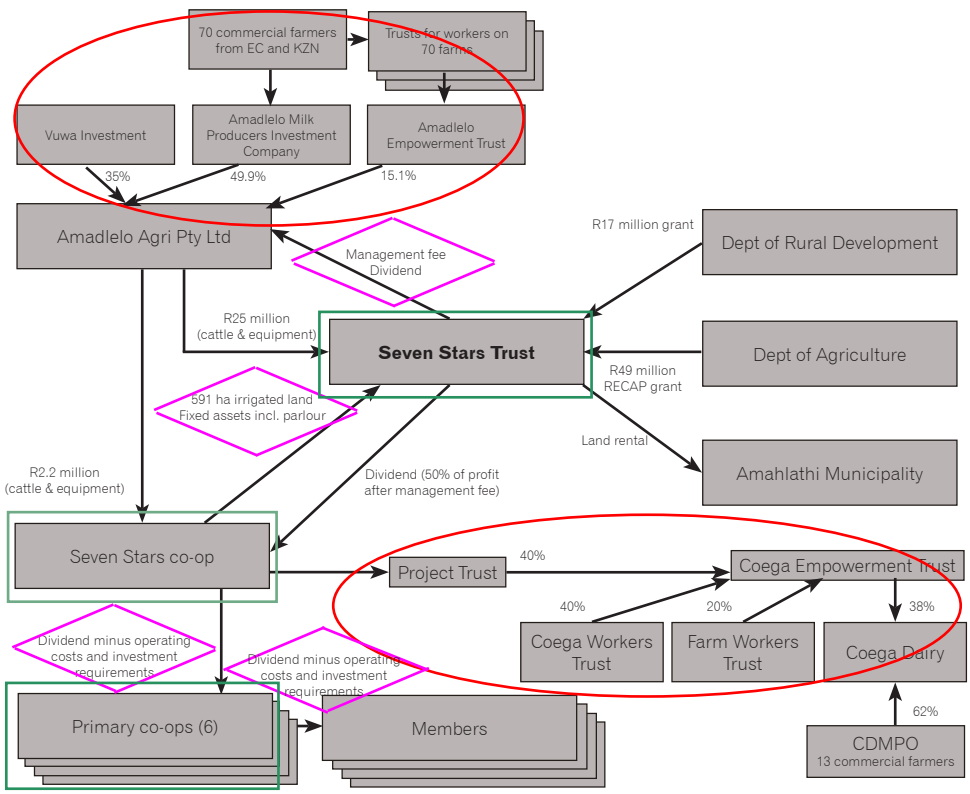


Figure 14.11 Seven Stars Trust – Landholder cooperative with produce-share agreement and ownership

Seven Stars Trust is responsible for the operation of a large-scale dairy farm. The trust is a partnership between a collective of landholders and a commercial dairy management company. The landholders were unable to operate their individual landholdings owing to lack of financial means and skills. Collective organisation would enable the landholders to offer a land size appealing to a commercial partner. Therefore, the individual landholders have signed a lease agreement with the cooperative.

An overall lease agreement with a commercial partner was not considered, as this did not sufficiently include the landholders in the actual operation of the farm (see Richmond),

which is a condition for government grants. A joint venture with shared asset ownership was also not seen as an alternative due to the many complications (see for example the New Dawn and Dinaledi case; and Lahiff *et al.*, 2012). Instead, a sharemilk agreement was implemented in which the landholders' cooperative provides land, and the commercial partner provides the cattle and moveable assets. This set-up reduces the risk exposure of both parties, as the ownership remains separated. The trust, comparable to a board of directors, has representatives from both the landholders and the commercial partner. The landholders thus have a direct impact on how the farm is operated, including the application of the revenue from the farming operations. Although the income from the operation is shared equally between the two partners, the commercial partner receives a management fee as compensation for time invested in the project. This is nevertheless a bone of contention for the cooperative. To complete the project, the trust was able to acquire an equity share in the milk processor it supplies owing to its emerging farmer status.

Table 14.11 Seven Stars Trust – assessment of combination of inclusive instruments

Instrument	Benefits	Challenges	Action taken	Challenges remaining
Lease	• 'Rent' fully profit based: share of risk and *prevent diversion of supplied inputs (incl. cattle)* • *Access to primary resources* • Increased, stable income flows	• Pure lease agreement does not grant access to government funding	• Collective organisation to manage the farming operation with equal profit sharing	• Limited skills transfer to community
Management contract	• Official way to apply knowledge and network of commercial partner • *Remuneration for services rendered*	• Reduction of income for shareholders	• Contract renegotiation	
Collective organisation	• Collective ownership of infrastructure • Access to government funding • *Reduction of transaction costs*			• Complex multi-level structure of organisation • Fragmentation of land ownership during lease
Equity	• Small share in processor based on milk supply as extra income and inclusion in value chain	• Access to funding	• DFI warehousing of equity share	• Complex multi-level structure of organisation • Long period of repayment to DFI

Whereas the instruments implemented seem to be well coordinated, it is a highly complex project with many layers. The landholders' lack of knowledge places them in a dependent position towards the commercial partner (Lahiff *et al.*, 2012). This is aggravated by the multiple layers of organisation, muddling the insight in the project. For example,

the landholders' understanding of their equity share in the milk processor, as well as the management fee construction, is limited. The complex set-up of the cooperative, furthermore, adds potential for internal management struggles, which are already visible in the disputes between the cooperative representatives in the Trust, aggravating the inherent principal-agent issue (Cook, 1995). Internal management actions will become more difficult to accomplish when land ownership is passed on to the next generation, with the risk of land fragmentation which might threaten the long-term cohesion of the community. Lastly, as observed in other cases, the commercial partner has no direct interest, or obligation, towards the skills development of the community. Although community members do gain knowledge through their involvement in the operation of the trust, community empowerment is not a core activity of the partnership.

Nevertheless, the trust has been able to pay out annually increasing monthly payments to the landholders, and so has built a relationship of trust between the stakeholders. The landholders are satisfied to see their land being used and to receive a stable income in return. The commercial partner, on the other hand, has been able to gain access to high-value land for its cattle (although with considerable efforts being taken to develop the farm) in a fairly flexible model.

Gxulu Berries – Community-owned business supported by mentorship and informal contracts

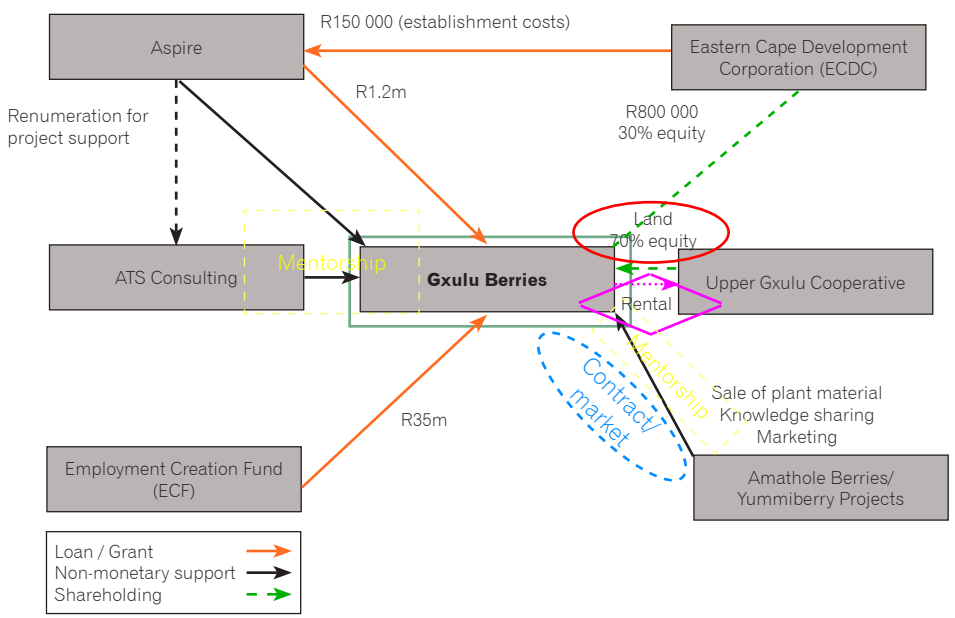


Figure 14.12 Gxulu Berries – Collective organisation, lease, equity, mentorship and informal contracts

This IB has implemented all five instruments identified in this study. A community has established a farming operation on land leased from the community trust. Ownership of the operating company is shared between the community trust and a DFI, which provided funding for the establishment of the company. The government and a large-

scale commercial farm provide mentorship to the community. The commercial farm also supplies plant material on a contract basis and provides market access for the community business.

Table 14.12 Gxulu Berries – assessment of combination of inclusive instruments

Instrument	Benefits	Challenges	Action taken	Challenges remaining
Collective organisation	• Full ownership of operation, decreases potential for social tension • Access to cheap funding	• Lack of experience	• Mentorship	• Government procedures for establishment of CPA
Equity	• Reduce risk for DFI funder	• Equity share of DFI funder not equal to its financial commitment	• Financial contribution increased to match equity • Additional finance used to overcome input contract issues	• No expertise among members on board of directors
Lease	• Stable income for community, decreases potential for social tension			
Contract	• Access to post-harvest facilities, markets and inputs	• Lack of written documentation	• Secure additional funding	• Lack of consistent and sufficient quantity and quality to access high-value market segment
Mentorship	• Access to technical advice • Government support for sourcing of funds and institutional issues			• Long period of skills transfer • Mentor not able to support community business

When setting up the operation, the community lacked everything besides land. Financing was (partly) found from a DFI which, in return for the investment, received equity to manage the risks related to its investment. A commercial farm in the area was to mentor the community and provide access to both inputs and market channels. Community internal mentoring, often observed to be absent in other cases, is the responsibility of local government, which also arranges the day-to-day operational support required in the absence of a formal contract with the commercial farm (Eaton & Shepherd, 2001). The engagement of the government and the equity share of the DFI funder provide a certain levelling of power relations between the community business and the commercial farm, which has proven to be an obstacle to empowerment in cases such as Katmakoep Boerdery, and New Dawn and Dinaledi. To provide regular financial income for the overall

community, a lease was signed with the community trust as landholder. This overcomes the absence of benefits for the community in the development stages when any positive cash flows are invested in the building-up of the business (see for example BMB, and New Dawn and Dinaledi).

Despite the fact that the instruments implemented did overcome challenges, several issues still exist. These relate to operational, contractual and financial matters. The commercial farm was itself a new establishment which had to manage numerous challenges, leaving little time for mentorship activities. No agreement was signed between the companies regarding responsibilities relating to mentorship, or input and output markets. The support from government partly compensated for the lack of contribution from the commercial farm, but undocumented contracts have posed a financial burden to the community business. Whereas the equity partner was able to assist with further financing, it failed in its contribution to the board of directors where community representatives lack skills; the DFI partner is also too far removed from the project. Lastly, government regulations and procedures obstruct the establishment of the community, trust, and hence, the official signing of the lease agreement (lease payments have been made, regardless of this). Nevertheless, each of these issues could have meant the collapse of the project, had the other instruments not been in place.

Overall, the community has been able to establish a new operation, creating skills and employment opportunities in an area with very limited economic activity. Any such operation will need to continue for several years before the equity partners will receive financial returns. Whereas the small size of the community might pose challenges for future growth of the operation, it can possibly contain internal issues related to the management of the collective organisation.

Inclusivity is achieved – in theory – but implementation shows many challenges for true inclusion remain

This section will compare the cases on the several dimensions of inclusivity as applied throughout the book, as explained in detail in Chapter 1: ownership, voice, risk and rewards (Vermeulen & Cotula, 2010). A complex scoring mechanism has been designed to calculate three levels of inclusiveness (see methodological note in Box 14.2):

- Theory: the average of the individual instruments;
- Institutional set-up: how the model is envisaged to work;
- Implementation: the achieved inclusiveness in practice.

This section will first analyse the four dimensions before concluding with a comparison of the dimensions to assess their interdependency.

Box 14.2 Methodological note on the calculation of the theoretical, institutional and achieved inclusiveness of IBs

To calculate the inclusiveness scores, three categories for each of the four dimensions (ownership, voice, risk, rewards) have been defined, resulting in a total of 12 categories. Each of the categories is scored between one and five points, with maximum points for maximum inclusiveness. Thus, per dimension, the score varies between three and 15 points. The first step determined the scores for each of the individual instruments (per criteria, aggregated per dimension), which forms the basis for a case's theoretical score, which is then calculated as the average of the individual instruments. The idea is that the unique institutional set-up of a case is able to achieve a higher level of inclusiveness for its beneficiaries than the average of the individual instruments applied. However, when the IB becomes operational, it is often noted that the actual inclusiveness lags behind these plans, which is illustrated by the implementation score. This section will illustrate numerous situations where beneficiaries, on paper, were to experience high levels of inclusion in a project, but where the implementation lagged behind, resulting in the side-lining of the beneficiaries. Unequal power relationships are generally the cause for the unbalanced and incomplete application of the inclusivity aspects of the IBs, once again highlighting the need for external, impartial observation, when new projects are realised.

Ownership

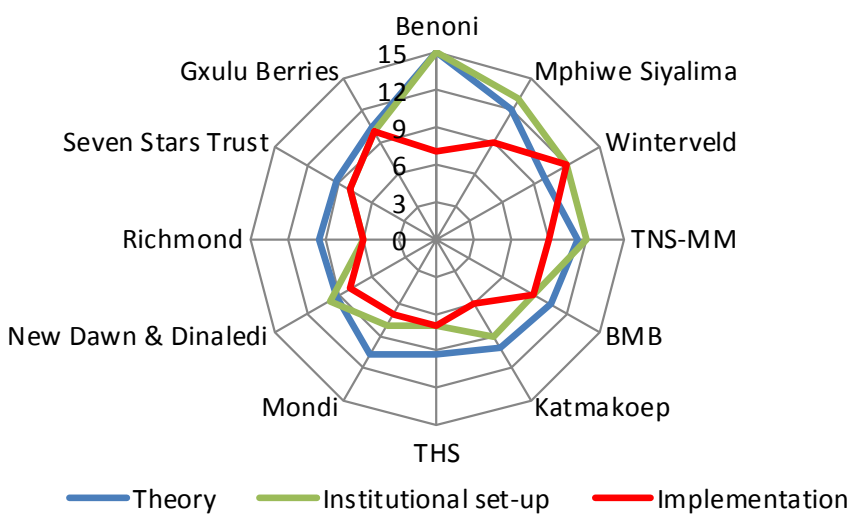


Figure 14.13 Level of ownership

Score categories: Land + fixed assets, moveable assets, and produce.

In theory, and on paper, high levels of ownership occur mostly where individual farmers operate with a certain level of independence, such as Winterveld, TechnoServe–Massmart, Benoni and Mphiwe Siyalima. These examples represent cases where farmers, in principle, act individually or as a collective, and retain their individual activities and decision-making powers. Their basic engagement is in mentorships, which – by definition – leaves full ownership with the independent farmer (i.e. Benoni) (Terblanche, 2011); the combination with off-take contracts and/or engagement in equity, might slightly affect their ownership, positively or negatively (i.e. Winterveld, TechnoServe–Massmart and Mphiwe Siyalima) (Baumann, 2000).

Table 14.13 Impact of instrument on ownership

Instrument	Positive	Negative
Collective organisation	• Reaching a threshold, allowing for acquisition and ownership which would not have been possible operating as individuals • Political legitimisation	• No immediate ownership for individual • Issues with collateral security
Equity	• Direct way of obtaining ownership in land, assets, downstream business activities and production	• Shared ownership dilutes overall ownership of the beneficiary
Contract		• Transfers (produce) ownership to commercial partner/off-taker
Mentorship	• Ownership remains fully with beneficiary	
Lease	• Enables productivity in case of (financial) barriers to ownership	• No ownership of beneficiary

Intermediary levels of ownership, driven by different motivations depending on the stakeholders, are noticed where collective organisations are involved (de Koning & de Steenhuijsen Piters, 2009). All the collective organisations studied hold ownership of land. Individual landholders can choose to (temporarily) transfer their land to a collective (THS, Seven Stars Trust). Otherwise the land title is held in the name of a collective, such as a Community Property Association. In this last case, the beneficiary member is not in a position to independently determine how to use the land. But where land is owned by the smallholders, often the moveable assets and/or the produce, are, at best, shared with an (commercial or financing) equity partner (i.e. New Dawn and Dinaledi) (Baumann, 2000). Beneficial ownership for the beneficiaries is particularly low where land and all assets are leased out to the commercial partner on a long-term basis (Vermeulen & Cotula, 2010), as is the case with Richmond and THS. These communities, as landowners, have outsourced everything, and as a result do not participate in the farming activities; they do not have to invest in assets, nor do they own any share in the produce from the farm, or have decision-making power as to the crops grown on their land (see later in this chapter). In effect, the instruments with higher levels of inclusiveness do not compensate for the dominant lease instrument, resulting in an institutional set-up score below the theoretical one.

In practice, however, ownership often scores lower, particularly for those IBs who seemingly have theoretically high levels of ownership of their assets and produce. This is certainly true for the Benoni and Mphiwe Siyalima cases, where an individual farmer lacks the (financial) means to establish his own farm, and hence is dependent on a land/asset lease, and/or stringent conditions under contract farming or mentorship agreements. As a result, Benoni and Mphiwe Siyalima are both involved in (short-term) land (and asset)

leases. Farmers in the TechnoServe–Massmart project, although often active as individual smallholders, have ownership over the land through a (family) cooperative to accommodate a PtO for multiple family members. Only the collectively organised smallholders have been able to obtain machinery, with the individual farmers being dependent on outsiders. Lower degrees of ownership are also observed with regard to the Katmakoep beneficiaries who, in theory, might have a high level of ownership through equity. As part of the joint venture, they have a share in the land. Nevertheless, the equity partner, as farm manager, owns all the equipment required for the activities on the farm. Furthermore, the produce is dedicated to the commercial off-taker who has financed the beneficiaries' equity. This overall construction has greatly compromised the participation of the beneficiaries in the ownership of this project. In contrast, landowners involved in the THS Vuselela model have become owners of the sugarcane roots. In essence, the model is built on a collective organisation of landholders, leasing out their land to a commercial partners without further involvement from the landholders. Government grant funding has, in this case, enabled the landholder cooperative to obtain ownership over this asset.

In general, it can be stated that the beneficiaries mostly enjoy critical ownership of land (and water use rights) which they contribute to the IBs. Nevertheless, full ownership does not go much beyond land, with moveable assets and produce, at best, collectively owned with a commercial partner, who is motivated to enter into the partnership with the smallholders in order to gain access to their land. This illustrates the lack of skills and/or finances by the smallholders to independently engage in activities on their land.

Voice

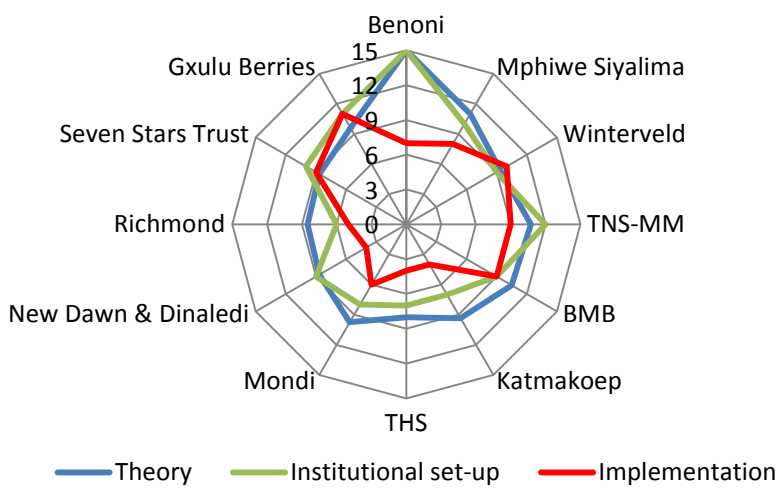


Figure 14.14 Level of voice

Score categories: Operational and short-term, Marketing, Medium- & long-term.

In theory, the degree of 'voice' aligns with the 'ownership' dimension: individually operating smallholders enjoy the highest level of decision-making power in the project. This explains the rather high degree of voice, in principle, in the Benoni, Mphiwe Siyalima (individual farmers with mentorships), and TechnoServe–Massmart (individual farmers, organised in a collective with equity) cases. Nevertheless, the envisaged negotiation power of the beneficiaries is compromised as can be deduced from the generally lower score of the institutional set-up, compared to the theoretical score (Figure 14.14).

Table 14.14 Impact of instrument on voice

Instrument	Positive	Negative
Collective organisation	• Collective voice to increase overall say of beneficiaries and balance power relations	• Individuals need to compromise (Principal-agent)
Equity	• Equity generally leads to representation in decision-making bodies	• In practice, can remain limited due to unequal balance of power
Contract	• Short time frame allows changes at end of contract period	• Operational control (partly) transferred to commercial partner
Mentorship	• Voice is enhanced through knowledge and access to information	• Mentor might overtake decision-making if not engaged in capacity and knowledge transfer
Lease		• Commercial partner fully in control

Collective organisation offers individuals the opportunity to increase their (collective) voice (Baden, 2014), especially when combined with equity that gives decision-making power (Baumann, 2000). For example, the employee equity share scheme of BMB increases the overall level of decision-taking ability of the beneficiaries through the representation in decision-taking bodies. But, whereas the collective voice can be increased significantly, the individual's voice is compromised. Beneficiaries who belong to such collective organisations, mostly on the left-hand side of the spider web in Figure 14.14, are less in a position to individually influence what happens within the project. In the best case, their individual voice is represented through the (democratic) election of the members' representatives.

In contrast, contracts and lease agreements generally have a negative influence on the voice of the farmers (Fréguin-Gresh, D'Haese, & Anseeuw, 2012). The lack of finance and managerial capacity renders farmers and communities dependent on external support, leading to a lack of voice. Whereas the contracts transfer decision-making power only partially, the lease arrangements in this study place all the decision-making power with the commercial lessor, hence the low implementation score of the Richmond case. However, the limited period of the lease/contract does give the beneficiary (collective) the option to alter the IB's construction in the long-term. Beneficiaries who have temporarily transferred their land to a collective organisation (i.e. THS) can equally take the option at the end of the agreement to exit the collective, and thus retain the power as to the long-term decisions for activities on their land. If the farmers can diversify into crops outside those under contracts or supply agreements, their decision-making ability increases, as illustrated by both Mphiwe Siyalima and the Winterveld farmer members. An issue for those beneficiaries with land access through a short-term lease (Benoni and Mphiwe Siyalima) is that they are not in a position to make any medium- to long-term plans for 'their' farms, lacking the security of the land, which negatively impacts on their overall decision-making ability.

In practice, many cases demonstrate unequal power relationships between the beneficiaries and the commercial partners, with less decision-making power being transferred to the farmers than expected. Several reasons can be identified. Firstly, the inherent, significant power discrepancies between the often small-scale farmers and the generally large-scale off-takers or business partners, lead to farmers' voice, although improved, remaining inferior (e.g. Richardson, 2010, for contract farming, or de Koning & de Steenhuijsen Piters, 2009, for equity). The TechnoServe–Massmart case is illustrative: mentorship and equity have not enabled the farmers to negotiate better margins with the off-taker who, in this case, is also the main financier and sole permitted off-taker for the project. This entrenched power disparity is particularly the case in South Africa, historically characterised by biased (racial) relationships, as shown in the Benoni case where the mentor took over all managerial and technical aspects of the farm (Olubode-Awosola & van Schalkwyk, 2006). Secondly, the lack of financial capacity often does not allow for more voice, as financial dependency renders the beneficiaries dependant on the commercial partners in any case. This is illustrated by the New Dawn and Dinaledi cases, where beneficiaries acquired a majority shareholding of the operating company, but the commercial partner is, in practice, still responsible for the full management of the farm and the marketing activities, making the beneficiaries mere figureheads in the initiative. Thirdly, the lack of capacity in general, and of capacity transfer in particular, does not allow these voice biases to be overcome. Indeed, whereas IBs, in theory, are designed to develop the beneficiaries' skills, especially in mentorship and equity constructions, in practice this is often not a priority for the commercial partner. It also transpires that beneficiary empowerment often takes longer than planned, certainly in the framework of large community set-ups.

Overall, the results show that equal decision-making is rare within the analysed IBs, even in cases where equity and ownership should ensure a certain ability by the beneficiaries to impact on the activities of the IB. The objective of smallholder empowerment is severely compromised as a result. In addition, unequal decision-making power brings into question the equal distribution of the risks and the rewards of the IB, with the commercial partner potentially transferring an unfair risk exposure to the beneficiaries, while at the same time capturing an unfair share of the rewards. Insufficient smallholder empowerment also places a question mark on the long-term ability of the beneficiaries to become independent players in the agricultural sector, and hence the achievement of true transformation. The interposition of an external party to ensure an equal relationship, together with a responsibility for ensuring beneficiary empowerment, might overcome this lack of 'actual' voice of the beneficiaries in the IBs.

Risk

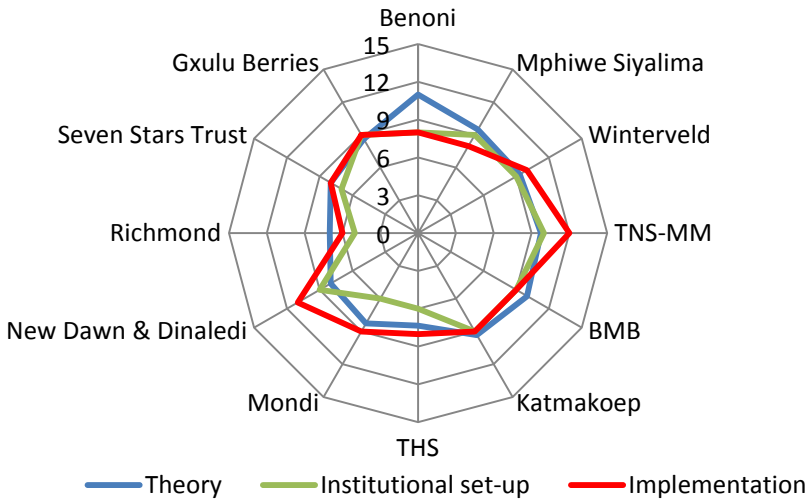


Figure 14.15 Level of risk

Score categories: Financial, Operational, Community. High scores represent high risk.

Table 14.15 Impact of instrument on risk

Instrument	Positive	Negative
Collective organisation	• No personal risk exposure of individual	• Additional risks related to internal management of collective
Equity	• Sharing of risk between shareholders	
Contract	• Transfers (part of) operational risk to commercial partner	• Principal-agent problem places unfair risk on beneficiary
Mentorship	• Skills transfer to enhance ability of beneficiaries for risk management	• Full risk still with beneficiary
Lease	• No risk exposure related to activities on the land	

Theoretically, all IB instruments lead to an alleviation of risk for the smallholders. This is certainly the case for lease/management agreements, where all activities and decisions, and thus also the risks, are transferred to the commercial partner, as shown in the low implementation score of the Richmond case (Figure 14.15). The risks to the Moletele community members related to this Richmond Estate are considered the lowest of the cases studied. The lessee takes full responsibility of the farming operations, and thus also the risks related to them, both financially and operationally. The risk to the beneficiaries is further lowered by the fact that government purchased the land on behalf of the community. Thus, individual members have not committed any private funds to the project. The community expects nothing but a rental income, although there is a profit-share element to make the beneficiaries partially responsible for the farming activities. This illustrates that contracts tend to be implemented where the landholders are more risk-averse (Allen & Lueck, 1996).

Intermediary situations exist, however. Collective organisations transfer the risks from individuals to a collective, allowing for a diffusion of risk per individual (as done in the Gxulu Berries and Winterveld cases, also see Delpierre, Guirkinger & Platteau, 2012). On a similar basis, equity also allows for risk sharing between the different shareholders, proportionally to their shares (the BMB case, also see IFAD, 2013). In the case of contracts, the off-taker takes on part of the operational risk, while cancelling (in principle, entirely) the market and commercialisation risk, as in the Mphiwe Siyalima case (FAO/NAMC, 2009; Kirsten & Sartorius, 2002). Lastly, in the case of mentorships, where the mentor does not take on any risks, risk management is achieved through skills and information transfer. While individually operating smallholders in a mentorship agreement have the highest level of ownership and voice, they are also exposed to the highest level of risk.

In practice, however, risks seem to be related to the effective implementation of the IB. This is particularly the case for the collective set-ups, as most of the collective organisations in this study illustrate the risks of both internal and external tensions. The wishes of individual members might not align with those of the collective, causing friction that can negatively impact on the performance of the IB (e.g. Richards, Klein & Walburger, 1998, on the principal-agent issue in cooperatives). In some cases, these frictions even extend to the external community in which the IB operates. This has been illustrated in various forms, for example in the cases of Mondi, Seven Stars Trust and Tongaat Hulett. Thus, whereas a collective organisation on the one hand reduces individual risk exposure, the added complexity, on the other hand, nullifies this and can result in a higher overall risk to the IB. This explains why the TechnoServe smallholders (although individual farmers, with equity and contracts) seem to be exposed to the highest risk. Not only do the individual farmers take on full operational and financial risks, additional complexity is added to the project through their collective ownership in the packhouse. This brings with it issues such as the internal management of the collective and the operation of the packhouse. Although the potential for extra income exists, it requires additional efforts from the farmers, and the supporting stakeholders, to ensure they materialise. Lastly, in practice, the risk affecting the farmers and beneficiaries can also be lower than (theoretically) estimated. This is directly related to the low engagement in strategic activities and decision-making of the beneficiaries, as is the case for Katmakoep.

Overall, individual beneficiaries can certainly experience alleviated risk in the framework of the IBs, unless they operate as individual smallholder. The IB instruments, as well as additional grant funding, limits the financial commitment of the beneficiaries. The operational expertise of the commercial partner, in return for a high level of decision-making power, restricts the operational risk. Nevertheless, the risks related to the highly complex and multilevel constructions involving collective organisations and volatile community environments can place severe strain on the IBs. The collective needs to manage its multifaceted internal affairs, making it a potentially challenging partner to engage with. An equally important lesson is that the commercial partner seems to be able to transfer an unequal share of the IB-related risk to the beneficiaries, as is illustrated by the implementation scores which, only for this dimension, are higher than the institutional set-up scores.

Rewards

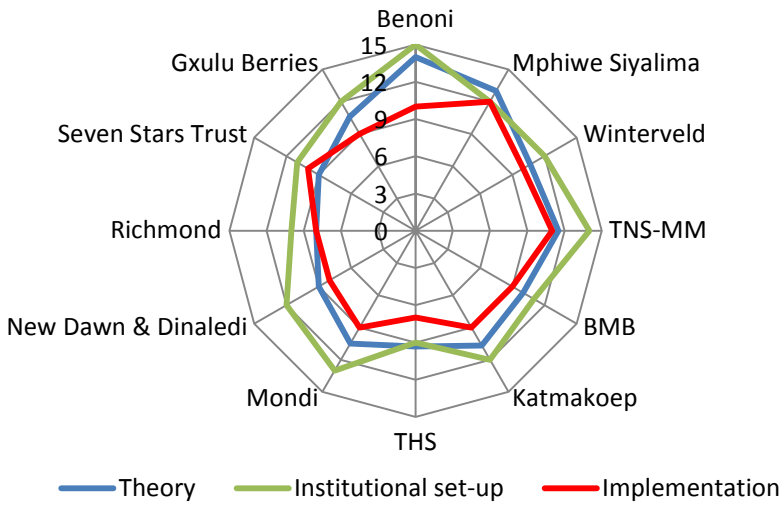


Figure 14.16 Level of rewards

Score categories: Financial, Market access, Employment and skills.

A main driver behind support for IBs is the expected rewards for the smallholders. These include market access and financial benefits, as well as job opportunities and skills development. In theory, IBs and inclusive instruments contribute in different ways. Firstly, through mentorships and equity, beneficiaries improve their rewards directly through access to knowledge and information (Terblanche, 2011). This transfer of knowledge is inherent in most of the IBs covered in this study. Collective organisations, on the other hand, contribute to the benefits by enabling the collective to reach certain thresholds (mainly related to the off-take volumes (Vanni, 2014), as illustrated by Winterveld and THS), by enhancing its ability to negotiate conditions/margins (Meinzen-Dick & Gregorio, 2004; Ostrom, 2007), as in the case of TechnoServe–Massmart, and by legitimising demands (access to public services or jobs, see Mondi and Moletele). Lastly, equity, lease agreements, and contracts, ensure a degree of certainty of rewards. Equity does so by integrating the beneficiaries into the ownership structure, contracts by securing markets, and lease agreements by assuring the continuation of productive activities. As illustrated by Figure 14.16, IBs are, on paper, able to reap higher benefits than the average of the individual instruments.

Table 14.16 Impact of instrument on rewards

Instrument	Positive	Negative
Collective organisation	• Organisation in a group can facilitate access to benefits by enabling the group to reach certain thresholds • Lead to better margins/conditions through increased negotiation power	• Shared benefits can be marginal for individual beneficiaries • Priority of collective not aligned with that of individual members
Equity	• Equity equals share in financial rewards	• Priority of other equity partners not aligned with beneficiaries • Dividends delayed until after debt settlement (including loan repayment used to finance equity)
Contract	• Degree of certainty of income	• Unequal distribution of rewards due to principal-agent problem
Mentorship	• Increased benefits related to transfer of knowledge and access to information	
Lease	• Degree of certainty of income	• Benefits limited to rental

This being said, IBs can also put pressure on potential benefits. This is often related to 1) the extent and use of benefits, particularly in the framework of larger collectives, and 2) the inherent set-up of these IBs where engagement of the smallholders – and with it, the benefits – are limited.

Firstly, in the framework of collective organisations, shared rewards can be marginal for individual beneficiaries. This is illustrated in the larger collectives such as those in Moletele (New Dawn and Dinaledi, and Richmond) and Mondi, where on a project basis relatively large amounts of financial rewards are transferred to the collectives, although they only represent a marginal amount paid to the individual beneficiaries. Frustration within these collectives regularly occurs, leading to critics questioning the core essence of such set-ups for beneficiaries. The pressure on potential rewards is also related to the fact that the priority of a collective is not always aligned with that of its individual members, or the collective's priorities differ from those of the (equity) partners. Whereas the beneficiaries themselves might prefer regular payments, the collective management might decide that the available funds should rather be reinvested in the IB, especially if the collective is a shareholder in the project. Particularly in cases where the first years of the partnership are marked for (re)development of the farm or business, such as Winterveld, New Dawn and Dinaledi, profits are invested in asset growth, resulting in limited cash flow. A delay in payment to individual members is further aggravated if the equity has been financed through loans which need to be repaid before dividends can be declared, such as illustrated by BMB and Gxulu Berries. Financial management decisions need to balance the requirements of both the IB and individual members. These decisions are difficult to make and require an understanding by all stakeholders of the complexities of the models. The Tongaat Hulett case, however, illustrates the point that individuals can benefit directly from financial streams, despite being part of a collective. Proceeds from the sugar cane produced by the overall cooperative are paid straight into the accounts of individual landholders, bypassing the cooperative. This reduces the risk (in the perception of the commercial partner) of mismanagement of funds by the people managing the collective organisation. It needs to be said though, that it is the commercial partner who fully controls these payments.

Secondly, engagement of smallholders can – voluntarily or not – be limited. This is attributable to, among other things, a lack of capacity, the complexity of the project, the initial structure of the collective, or the biased decision-making and power relations between smallholders and commercial entities. As a result, the (social) benefits for the smallholders will often be minimal. For example, benefits for the community resulting from their involvement in New Dawn and Dinaledi have proven to be limited, with many challenges for the collective, resulting from lack of financial impetus and skills. The collective organisation has been disappointed by the complexities of co-management in a joint venture set-up of a commercial farm. As a result, it rather opts for a less complex lease construction, arguably with more secure, though lower, financial income to the organisation. In both models, the individuals depend on the decisions made by the collective executive to declare payments to them.

In practice, rewards for the smallholders and beneficiaries are often less advantageous than expected. This is, in general, related to the transfer of decision-making powers to the commercial partners. Social benefits, such as skills transfer and job creation for community beneficiaries, are not at the core of their interests. As such, they take little effort to ensure that these benefits materialise. Indeed, the absence of skills transfer was observed in two-thirds of the projects studied where it had been anticipated. Economic rewards are equally limited owing to the often-existing power disparity, enabling the commercial partner to, possibly, take an unfair share of the income from the IB. It thus happens that beneficiaries observe economic activity on 'their' land, but reap little, if any, rewards for themselves, and witness the profits accruing to the commercial partner. This is particularly likely to occur in cases where ownership of the produce belongs to the commercial partner.

In general, IB-related rewards do occur and expand; they lie in the market access which the partner is able to create, in the transfer of knowledge and skills, in the receipt of financial benefits, and in employment creation. However, this often remains at project level, with benefits for individual smallholders often being marginal. Not only is this related to the set-up of these IBs, it is also related to the business nature of these initiatives. Many IBs require heavy investment, which leads to asset accumulation, but not to an increase in income for the individual beneficiaries, whether independent smallholders or members of a collective organisation. In addition, job creation is often slow to materialise. Similarly, skills development takes time, and consequently, so does the acquisition of ability by the beneficiaries to become independent. As such, partners should commit to a long time period, being aware of the many difficulties in the first years. The expectations of the beneficiaries, and the community in which they operate, should be managed accordingly.

Overall comparison

In general, the four dimensions of inclusiveness are related (Figure 14.17). Nevertheless, the cases illustrated a number of insights, particularly contrasting the theory and practice.

Firstly, beneficiaries might have a certain level of ownership, although it does not necessarily mean that they have control over their assets (Fréguin-Gresh *et al.*, 2012). This is illustrated in the case of New Dawn and Dinaledi where the landholding community effectively handed over control of their land to a commercial operator, despite being the majority equity owner. Similarly, the small landholders in the Tongaat Hulett model have equally transferred full control to the sugar producer. This leaves the beneficiaries as mere rent-seekers.

Secondly, while the beneficiaries might have a fair share in the decision-making bodies and processes within the IB, they need to be empowered (by the other stakeholders) in the project. Practice shows a large divide between commercial partner and beneficiary, both in skills required for the management and operation of the farm, as well as in overall business acumen and financial participation. If no capacitation of the beneficiaries takes place, the effective say of the beneficiaries is severely compromised. All stakeholders need to be aware that attaining true empowerment within a short timeframe is unrealistic.

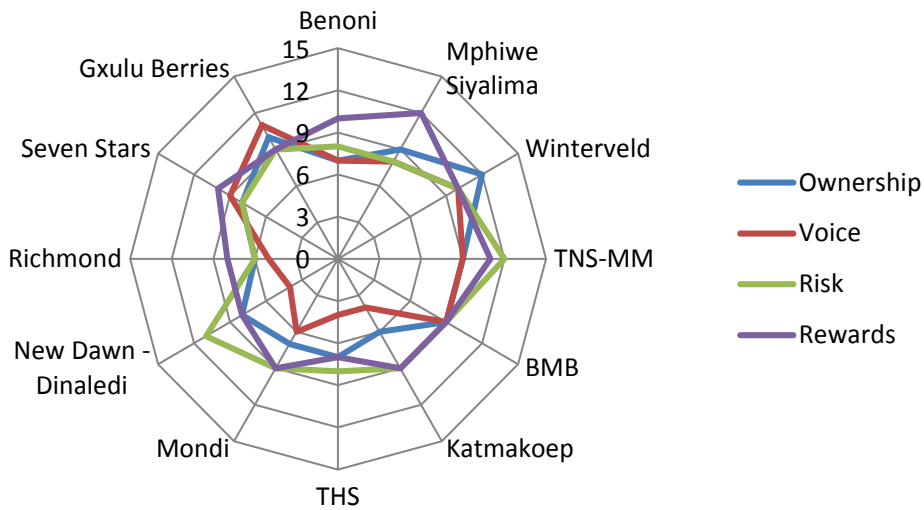


Figure 14.17 Overall inclusiveness of all cases (implementation)

Thirdly, the beneficiaries limit their risks through participation in an IB. Either they can partner with a technically/financially strong company which takes most of the risk, or they can benefit from government grants or other sources of cheap funding available for development purposes. Whereas individuals can further reduce their personal risks by entering a collective, the overall risks might increase due to the complexities of managing a collective organisation.

Lastly, whereas potential benefits for the smallholders are often mentioned in support of IBs, these are slow to materialise. Financial rewards, such as rental or dividends, are often low (Lahiff *et al.*, 2012). Inclusive Businesses often need an initial period of development where asset accumulation takes place, but which does not allow for direct financial income. In cases where landowners merely act as rent-seekers, non-involvement generally leads to marginal income. Social benefits, such as employment and effective skills development, equally take time to materialise. Overall, this impairs the local economic development impact IBs might have, certainly in the short term. The most significant benefit seems to come from market access for smallholders who (initially) are not able to operate independently (Berdegué *et al.*, 2008). As with the rent-seeking tendency, this also implies a certain control by the commercial partner, possibly stimulating an overall shift of control, and subsequent corporate takeover, of the agricultural sector (Anseeuw & Ducastel, 2013).

Overall, the cases show the importance of involving an impartial third party to balance power relationships, to check that agreements are fair and implemented fairly, to empower the beneficiaries, and to kick-start the projects with a financial contribution. Moreover, both the commercial partner and the smallholder(s) need to have the drive to commit to the longer term and make the partnership work in an equitable way, rather than aiming for their own short-term benefits. Only long-term partnerships, alongside endogenous smallholder growth, can bring about the transformation required in the South African agricultural sector.

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Conclusion

Commercially viable business linkages between large-scale farms, agribusinesses and large corporations on the one hand, and small-, and medium-scale farms and enterprises on the other, are considered to play an increasingly vital role in developing countries, not only in creating local jobs, improving livelihoods and food security, supporting gender diversity, and enhancing economic options, but also in transferring skills, technologies, quality management and sound business standards along value chains (Nelson *et al.*, 2009). In South Africa, these models are presently being promoted as 'win–win' strategies for smallholders and agribusinesses, as well as a solution for revitalising stagnating – particularly smallholder and emergent farmer based – agricultural development (e.g. EDD, 2011; NPC, 2011; DAFF, 2013; Vink, 2014). In this framework, stagnating and failed land reform projects led the national Department of Land Affairs (later the Department of Rural Development and Land Reform) and the Commission on Restitution of Land Rights to explore ways in which necessary skills and resources could be made available to claimant groups, and agricultural production could be maintained (Lahiff *et al.*, 2012). This resulted in the promotion of the strategic partnership model, whereby claimant communities would enter into joint ventures with existing firms, to operate farms, more or less along the lines established prior to transfer of ownership. From the first strategic partnerships implemented in Limpopo in 2001, South Africa has seen many inclusive projects mushrooming, taking on diverse formats. Around 2005, strategic partnerships spread in high-value restitution cases, concentrated in the subtropical zones of the Limpopo and Mpumalanga provinces, while farm worker equity schemes were implemented in the Western Cape. From 2010, it was generalised to the entire country, particularly through the implementation of the RADP. This programme provided distressed farms with both technical and financial support from government, with the condition to enter into a partnership with a strategic partner or mentor in order to ensure the sustainability of assisted projects/farms (DRDLR, 2012).

Despite the national – as well as the global – support for IBs, very little information is available about these IBs; several questions were pending and initiated this work and book. Questions such as: Which IBs are being developed, and how do these different IBs support small-scale farming system consolidation? Can these arrangements improve farmers' livelihoods? If yes, under which conditions? Can any type of farmer, engaged in any commodity and production system, benefit from these arrangements, or are there thresholds and conditions, for example, in terms of productive investment, land assets, and the like? Can we develop general models of IBs or enhance existing ones, adapted to small-scale and emergent farmers? How would an IB facilitate the integration of these farmers into modern markets, and what impact would this integration have on farmers' livelihood consolidation, job creation and poverty alleviation? Which are the critical determinants for the sustainability of these IBs as tools for market integration, poverty alleviation and employment creation? Which kind of external (private or public) support is required? Do current agricultural, land and other policies, facilitate the integration of these farmers into modern markets?

As such, based on in-depth empirical research of 12 IBs, which combined a neo-institutional approach of the set-ups (Cook, 1995) with a more socio-institutional

assessment of inclusiveness (Vermeulen & Cotula, 2010), this book offers a contribution to better understand the development and implications of different types of IBs for small-scale and emergent farmers, and to assess their potential for market integration, poverty alleviation and job creation. It contributes by:

1. establishing an overview of the several IBs developed and adopted across South Africa;
2. assessing the impact which each of these models has in the following areas: smallholder development, market access, capacity building and empowerment, and consequently, employment, food security, poverty reduction and agrarian change;
3. developing lessons that can be learned from the experiences in the different IBs, leading to recommendations to the different public and private stakeholders.

Concretely, being practically orientated, the book allows a more thorough understanding of the range of IBs in agriculture: what forms they take, how they work, and what makes them possible. A better understanding of what works, where and under what conditions, provides useful insights not only for smallholders, their support groups and governments willing to promote more IBs, and consequently, a better integration of smallholders in commercial value chains, but also for investors looking to invest in a more equitable and sustainable manner into agriculture.

The study illustrates the complexities of IBs as combinations of several instruments, the wide range of stakeholders involved and their drivers, the different outcomes of the businesses, and the impact on the smallholder farmers. Based on the findings which will be summarised in this chapter, we will stipulate advice for policy makers and practitioners alike, as well as put the potential for agricultural, rural and overall development from IBs into perspective.

Inclusive Businesses as diverse combinations of inclusive instruments

The results presented in this book describe IBs as increasingly complex set-ups, combining numerous levels of organisation, as well as different instruments, aiming at including smallholder farmers and other previously disadvantaged groups in commercial agricultural value chains, and subsequently, at transferring a share of the IBs' value-addition to these beneficiaries.

Thus, IBs in this study are seen as a combination of inclusive instruments. The instruments identified are: collective organisations, mentorships, contractual arrangements, lease/management contracts, and equity. The objective of this work was not to assess each of these instruments, but rather to examine how they are combined within the IBs to better respond to specific contexts and issues. These IBs are thus hybrid organisations, presenting – along what Ménard (2004:348) describes as a "diversity of agreements and instruments among legally autonomous entities doing business together, mutually adjusting […], and sharing or exchanging technologies, capital, products, and services". It results in a diversity of complex forms of organisation of production, characterised by three criteria: 1) pooling of resources – all hybrids are orientated towards coordination and cooperation from different firms or independent actors; 2) contracting and governance structure, in which there is always a form, more or less formal, of contract between the different stakeholders involved in the hybrid; and 3) competition between, and within, a specific context. According to Ménard (2004), the shaping of such particular arrangements

is always somehow the result of competitive pressures (within the hybrid between partners and competition with other arrangements).

More concretely, the IBs are a combination of instruments overcoming shortcomings of the above-mentioned individual inclusive instruments, in responding to specific conditions on the ground, and influenced by overall drivers of the stakeholders involved in these IBs.

The complexity of the IBs relate to the well-documented shortcomings of individual instruments (Baumann, 2000; Eaton & Shepherd, 2001; Young & Wright, 2001; Ortmann & King, 2007). Chapter 14 illustrates and assesses these combinations in detail. For example, equity is implemented alongside a contract in an attempt (by the commercial partner) to prevent side-selling (TechnoServe–Massmart, Winterveld), supply contracts are effected to limit the risk of financing of equity partners (Katmakoep), and collective organisations are established to reduce the transaction costs related to a large number of individual lease contracts with small landholders (THS). All these examples illustrate that the issues aimed at being overcome by the implementation of multiple instruments usually pertain to the commercial partner, although the smallholders might also benefit from the application of multiple instruments. The complex structures that result from the implementation of multiple instruments create an environment which is difficult to understand, leaving the beneficiaries in a vulnerable position that offers the commercial partner more ways to take advantage of the smallholders. Indeed, the beneficiaries in many cases have indicated that they do not understand the business in which they are involved. Specific conditions on the ground, and the value chains in which the IBs operate, equally drive the multi-instrumental structure of the IBs. Besides others, they concern for example, the land ownership structures, the beneficiaries' status and organisation (whether they are independent, individual farmers, or entire communities), the capacities of the smallholder farmers, and the like. Whereas in single instrument models clear elements determining the set-up do occur (for example, pure contract farming set-ups in perishable fruit and vegetable value-chains (Key & Runsten, 1999; Kirsten & Sartorius, 2002)), standardised IB construction patterns seem less evident due to an amalgamation of instruments.[1] Although these conditions impact on the overall structure of the IB, other drivers are primordial. As such, the commercial partner has considerable influence on the instruments used, and the ways in which they are implemented. The commercial partner is often in a powerful position due to its financial contribution, its knowledge on funding sources, and the overall operating and marketing environment. The Katmakoep (supply contract), Mondi (produce ownership) and Tongaat Hulett (collective organisation) cases are illustrative of the impact the commercial partner has on the implementation of certain instruments. Another significant driver in South Africa is the government, who can have a direct or indirect role, particularly in the framework of the country's land reform programme. Government actively promotes certain forms of partnerships with commercial partners for the management of restituted and redistributed land, and stipulates mentorship or strategic partnerships as a condition for emerging farmers to gain access to land and grant funding. The inclusive character of IBs should give smallholders and beneficiaries a say in the IB set-up (IBs then becoming co-constructed entities (Ménard, 2004)); however, they are often sidelined in the process due to unbalanced power relations, lack of information and know-how, and unequal financial and material weight.

1 Certain patterns are recurring. For example, when land ownership per individual is too small (either as member of a large community – Moletele for example – or as individual land owner each with a small portion of land – as in the case of Tongaat Hulett Sugar) IBs based around lease/management instruments seem to be favoured. This being said, no fixed correlation seems to exist, with other conditions influencing the IB set-up.

Not only are IBs complex in their initial set-up, the structure itself is likely to change over time. Instruments such as mentorship, (supply) contracts and lease/management partnerships have an agreed upon end date, allowing for renegotiation between the partners, as well as a reconsideration of the overall model. Mentorships in particular are aimed to equip the mentee with knowledge and access to networks in order to become an independent operator. Contracts can be re-negotiated, with smallholders potentially being able to redress unequal clauses, such as those related to the financial benefits or risks. The experience accumulated over time can even motivate a stakeholder to implement alternative models, as was observed by Tongaat Hulett and the MCPA.

The complex nature of the IBs, combining instruments as building blocks, has two consequences. Firstly, the uniqueness of each IB does not allow for solid and precise categorisation into models. Trying to categorise the analysed IBs would have led to an oversimplification of the set-ups, leading to impoverished analyses of the arrangements themselves. Of course, broad models are identifiable, but these would not have allowed for the precise analysis of the IBs, their instruments or their complexity. It seemed more relevant for the purpose of this book to avoid reductive categorisation and simplification in order to better understand the detailed complexity of each of these hybrid organisations to grasp how these IBs respond to different challenges, situations and objectives.[2] Secondly, due to the uniqueness of each IB, it was also decided to avoid developing an ideal, tailor-made IB model. Rather, the focus was to try to assess, understand, and build on how different inclusive instruments and arrangements, and the combination thereof, could be developed to enable smallholder integration in commercial value chains, as well as be a response to certain challenges and contexts. As such, the different set-ups assessed give elements and details of how certain arrangements can be developed and engaged in within the framework of agricultural IBs.

Mixed results of Inclusive Businesses

The IBs studied show different outcomes, not only for a business, but also for the smallholders included. The same instruments can lead to different results, depending on factors such as the combination with other instruments, and also the specific conditions which are in operation.

Varying results at project level

Particularly at project level, the assessments of the IB case studies in this book show positive results, as envisaged by proponents of IBs (Nelson *et al.*, 2009; BCtA, 2015; Kanu *et al.*, 2011; NEPAD Business Foundation, 2012). Overall, the large majority of the case studies showed a degree of sustainability, and in many cases even growth at project level. This is illustrated by an increase in land under production, accumulation of assets and infrastructure, and increase of income at project level. Although the businesses are not necessarily generating profits, most seem to be able to grow and develop their activities.

Positive results were also manifested when external inclusiveness is considered. Although linkages to local economic development were in some cases minimal, with little

2 The initial methodology for this work, and for the assessment of elements of success and failure of the IBs, was to sample a success and a failure case for each "IB model". As the results showed, each IB is different, and such a selection of single cases proved to be impossible.

spatial spinoffs (Ferguson, 2005), access to input and output markets for the IBs were attained in most, if not all cases. In addition, the projects provided access to technology, technological development, enabled certifications, and created job opportunities. These results correspond with the literature and the views of the proponents promoting such models. As such, IBs, as complex combinations of different inclusive instruments, have been shown to have the capacity to create conditions for inclusion of smallholders in modern value chains, and to overcome the limits of these instruments separately.

However, a few notes of caution need to be given. The IBs described and analysed in this book were selected as they have existed for a while, and are in a medium to longer state of maintenance (which is necessary for the sole reason to be able to assess them[3]). Even the Moletele cases, which are struggling at project level, and which (at least Richmond) are evolving to new structural set-ups, showed regular and significant income at project level. This purposive selection bias has to be taken into consideration while drawing conclusions from this work, and for generalising the impacts of IBs. One should indeed be careful not to overrate the overall impacts (positive and less positive) of these IBs, even at project level. Many of the IBs in South Africa are not reaching the implementation phase, or are failing during implementation (Machethe *et al.*, 2014), and illustrate the many challenges which need to be overcome before being able to start operating. In no case can the results, based on the IBs described in this book, lead to a quantification of these impacts, when all IBs success stories and failures are considered. The positive impacts of IBs described here should be seen as positive outcomes of successful cases, or in other words, as potential benefits and rewards when an IB is successful.

The results from this study also indicate that outcomes are diverse, even when the same instrument is used. This is illustrated, for example, in the case of mentorship, where little knowledge transfer occurred for the Benoni farmer, whereas the beneficiary of the Mphiwe Siyalima case seemed to gain from the mentorship agreement. Similarly, workers' equity is implemented in different ways between BMB and Katmakoep, leading to a vastly different experience for the beneficiaries. A decisive role in the implementation and operation of the IB, especially regarding the level of empowerment, is required for the (team of) individuals driving the company. Whereas a commercial partner might be vital in the operation of the farm, its profit generating argument needs to be accompanied by a drive for inclusion of the smallholders in order to establish mutually beneficial partnerships.

Results to be nuanced at smallholder and beneficiary level

The outcomes and results also need to be nuanced at smallholder and beneficiary level. Even when IBs are positive at project level, the outcomes for individual beneficiaries might be less optimistic. This is certainly the case when the IBs are assessed in practice: Chapter 14 shows indeed that effective impact on smallholders is often less positive than the theoretical and potential ones.

Firstly, less evident positive impacts at individual smallholder level occur with regard to external inclusiveness aspects. Impacts on access to input and output markets, technological development and certifications, besides others, often do not concern the individuals themselves. Cases of individuals being positively impacted upon regarding the latter exist, directly and indirectly (Winterveld farmers accessing vegetable off-

3 Failed cases were not neglected for consideration, but could often not be assessed throughout, as the projects do not exist anymore, with concerned actors not being available for discussions.

take contracts with supermarkets for example), but most of them are project/IB based. Market and technological access are often solely related to the IB as a whole, without direct transfer to the individual beneficiaries. This is particularly the case when lease/management instruments are developed: whereas the land is producing for the commercial market, the land owner is not directly engaged with the commercial grower. Similarly, job opportunities for beneficiaries appear to be limited. Often heralded as a major aspect of inclusion, certainly in the case of land restitution cases, the reality shows that, besides the inherent capitalistic and mechanised nature of many of these large-scale agricultural enterprises, several issues (lack of skills, protection of current staff and also weak work ethic) exist for integrating community beneficiaries into the work force.

However, the lack of results is mostly observed when internal inclusiveness (ownership, voice, risk, rewards) is considered.

One of the most significant challenges is indeed the lack of rewards, whether financial or material, for the smallholders. As shown in the different cases described in this book, the benefits for the smallholders and beneficiaries at individual levels are often very low – if they exist at all. This is confirmed by other evaluations. For example, Lahiff *et al.* (2012:52-53) writes in the case of Moletele that "twelve years after the lodgement of their restitution claims, and five years after the return of the first lands, most households have yet to see any positive impact on their livelihood. This is a source of great frustration for many, given the expectations that were raised by the restoration of the land and the establishment of commercial partnerships with private-sector operators, the huge sums of public money consumed and the extensive participation by community members over many years in discussions and planning exercises". Several aspects can be noted here. Firstly, the financial revenues are often low when the case involves a large collective of often-passive smallholders/beneficiaries (e.g. Mondi, Moletele). These limited revenues have often been intermittent and generally well below the expected rates (Lahiff *et al.*, 2012). Secondly, few of the IBs studied have made a profit since implementation. Even if substantial losses have been avoided in the retained cases (this is not the case for the many IBs that have failed and were not considered in this book), few have disbursed dividends, which many members expected to be the main form of revenue received from the IB where equity is concerned (de Koning & de Steenhuijsen Piters, 2009). Rental incomes have been equally disappointing. In many cases, the IBs are new or neglected farms where any revenues realised need to be used for reinvestments, expansion and debt repayments. In general, these IBs, which have become complex business set-ups, will need time to grow and stabilise. Important to note is the possible difference in expectations between the commercial partners, whose aim is to establish a viable company in the long-term, and the beneficiaries and communities, who often expect financial returns in the short term (Richards *et al.*, 1998). Thirdly, in many cases confusion exists around what has happened to the limited revenues received, especially where larger community organisations are involved. The non-transparent use of received funds by the organisation's leadership has led to even less effective direct payment, in cash or kind, to the individual community members. As Lahiff *et al.* (2012) write, community leaders were generally not in favour of paying out cash benefits to members (and under the prevailing financial conditions this would have been very difficult), and were actively involved in dampening down popular expectations. They did, however, acknowledge that people could not wait indefinitely to see some benefits from their 'successful' restitution claim. This lack of transparency undermines the position of the (sometimes democratically elected) community representatives who are seen as abusing their position of power for self-enrichment, and preventing any residual claims from flowing through to the general members (Timse, 2015).

An IB cannot be considered inclusive without an equitable partnership between the commercial partner and the smallholder farmers. This implies that the smallholders should actively participate in the decision-making processes regarding objectives, planning, operating methods and the like (James Jr. & Sulemana, 2014). As such, the smallholders' voice is central to an IB. Historically smallholders' and workers' voice and influence on decision-making has been limited (e.g. Nelson & Tallontire, 2014). Several instruments provide potential to increase the active participation of the smallholders in the IB.

Firstly, equity/ownership (for example in BMB, and New Dawn and Dinaledi) is generally combined with representation on the decision-making bodies of the IB (de Koning & de Steenhuijsen Piters, 2009). Secondly, collective organisation creates a platform for the individual members to bundle their voice (NCFC, 2010; Ortmann & King, 2007). But, this study illustrates that IBs are not able to (in the short term) overcome the unequal balance of power between corporate partner and smallholder. Lack of knowledge and (financial and material) resources often leave the smallholder in a dependent position. The skills development of the smallholder is generally not part of the commercial partner's responsibilities. Whereas the commercial partner might transfer knowledge regarding the operational activities, it does not extend to the management of a collective of beneficiaries, or the long-term management of a commercially operated agricultural business. Even mentorships, where in essence the mentee is an independent actor, still show a high degree of dependence from the smallholder farmer. This paints a bleak picture for the long-term capabilities of the beneficiaries for independently operating their assets. As remarked by Hendrickson *et al.* (2014:671) regarding the particular situation in South Africa, "It can take a very long time for oppressed groups to strengthen their voice to the dominant members of society".

The dominant position of the commercial partner in the IB enables it to transfer a non-corresponding share of the risks related to the farming operation, to the smallholders. Instruments such as mentorship and supply contracts leave the smallholders exposed to a high degree of, especially, operational risks: crop failure directly impacts on their income (e.g. Eaton & Shepherd, 2001). The lease agreements in this study are often based on a profit/produce sharing base, once again transferring a part of the risks from the commercial partner, who has full say over the activities on the smallholders' land, as well as ownership over the produce, to the beneficiaries. On the other hand, collective organisation, either by the beneficiaries or through shared equity in an IB, can spread the risk for the individuals (Delpierre *et al.*, 2012). Nevertheless, it is observed that collective organisation adds high levels of complexity to the business and exposes the IB to additional challenges related to the internal management of the collective (de Koning & de Steenhuijsen Piters, 2009). But, whereas the beneficiaries seem to carry a high degree of operational risk, financial risks are usually borne by the commercial partner or a third-party financier. Grant funding plays a significant role in managing the risks for the commercial partner when entering into, what are considered, high-risk projects, due to, for example, the inexperience of the smallholders, or the high level of financial investment required for the development of the farming operation. This confirms that commercial partners often engage in IBs if they can manage their risks to ensure a positive return on their investment, whereas the smallholders seem to suffer from a lack of insight to fully understand their risks.

Ownership, especially of land, is often crucial to the beneficiaries. Most commercial partners are driven to engage with smallholders by the need to access this land. As such, it gives the smallholders a certain power in negotiating the partnership, although, as the previous paragraph illustrated, this is mostly on paper. Nevertheless, equity in an IB has allowed beneficiaries to grow their asset bases. This is illustrated, for example, by BMB and

New Dawn, where considerable investments have been made by the IB in the development of the farm. But, whereas ownership of land often lies with the smallholders, the produce is generally owned by the commercial partner. The IBs studied show very limited levels of ownership in downstream activities, severely limiting the bargaining power regarding the proceeds of their land, and negatively impacting on the potential benefits. Rather, in many IBs the smallholders become mere rent-seekers, leaving the control over their assets to the commercial partner (THS, Seven Stars Trust, Richmond). Overall, whereas the IB generally opens up markets and gives the smallholder access to inputs, equipment and the like, the level of ownership generally reduces.

Recommendations – Towards more sustainable and equitable Inclusive Businesses

This study has illustrated that IBs do not take the form of standardised models. Rather, they form complex entities using common instruments, implemented according to the specific context of the IB. It is, therefore, not possible to develop a framework for the perfect business model. Nevertheless, certain lessons can be taken from this research and applied by stakeholders active in the field of IB. These lessons are all related and complementary.

The first step regarding the empowerment of smallholders is ownership. This can be achieved through ownership of land and/or produce, but it can also be attained through equity in joint ventures. Not only is the correlation between ownership – particularly land – and development well known, regarding IBs, it also relates to the state of being an owner, i.e. engagement, willingness to contribute, contribution to own development as well as to self-determination, contribution to decision-making, and balancing of power structures (Hendrix, 2008). Although ownership is not a cure-all (as others might still control the asset), it certainly serves as a stepping stone to be built upon.

Secondly, there is a need for effective capacitation of the smallholders. Ownership contributes to it, but the need to capacitate smallholders and beneficiaries will also be achieved through knowledge development. This should not only cover operational and technical skills; equally important are managerial and financial skills, and overall business knowledge. As such, the beneficiaries should acquire an understanding of commercial farming activities and of the internal management of a collective organisation. It is important to implement a programme that ensures knowledge distribution between the beneficiaries to prevent a dependency on a limited number of leaders who become difficult to replace. Strongly related to this point is the capacity required to build a truly equal relationship in which the smallholders participate as valued and informed negotiators and decision makers. This is particularly the case in a situation where historically an unequal relationship existed, e.g. that of labourer and employer. Thus, whereas smallholders can be integrated into the commercial agricultural supply chain within a short time frame, it will take much longer to empower them to become equal partners, or for the beneficiaries to engage independently in the commercial value chain.

Thirdly, IBs require support. The study showed that, contrary to expectations, IBs are not a substitute for the support and investments required to achieve agricultural transformation or rural development, whether from the State or a third party. Indeed, as observed, private financial resources are needed, as many IBs are either new farming businesses, or are set up to re-invigorate neglected farm land, both requiring significant funds to develop. Large agri-businesses are often in a better position to engage in these potentially volatile partnerships. Operational, and even developmental costs, are thus likely to be borne by the more financially endowed agribusiness in order to continue operating. At the same time,

however, this can possibly aggravate the power disparity between the partners, as discussed in the previous paragraph. Grant funding or subsidised loans can, besides limiting the risks for the agribusiness for engaging in community partnerships, play a fundamental role in overcoming the financial burden of such projects, as well as overcoming the financial inequality in the partnership, and with it, an overall imbalance of power within the IB. But support also involves mediation, safeguarding of assets of smallholders, balancing power relations, monitoring compliance with contractual agreements, and exploring new legal aspects and dispute resolutions, as well as more flexible options for land use.

Fourthly, related to the previous point, the involvement of a third, impartial, party can help overcome power and knowledge asymmetry between the smallholders and the commercial partner. Often, the smallholders can benefit from professional assistance both during contract negotiations and during the implementation phase, when contractual obligations of both parties need to be monitored. External assistance in the form of funding can also play a role in addressing the financial power imbalances, which in part, causes the perceived lack of decision-making power of the beneficiaries. A third aspect where outside involvement can benefit IBs, is in mentoring the collective when beneficiaries are organised in a collective organisation. Whereas the commercial agribusiness partner generally provides knowledge related to the operational and the management aspects of a commercial farming business, the responsibility for the internal management of the collective smallholder organisation is often unclear, and out of the scope of the commercial partner. This leaves the smallholder collective impaired when it comes to the efficient running of the organisation, which in turn impacts negatively on the role the collective plays in the IB.

Fifthly, no sustainable partnership can develop without a high degree of transparency, both between the partners, and internally (in the case of a collective organisation of beneficiaries). As Vollman (2014) emphasises, transparency relates to decision-making, pricing structures, financial performance and allocation of funds, and needs to be accompanied by clear accountability, practised from the first negotiations. It also contributes to evaluation and impact measurement. Lack of transparency results in many smallholders being unable to understand how the IB operates, and specifically, why their level of rewards is so low, in turn impacting negatively on their support of the IB. For transparent communication to be efficient, the beneficiaries need to have a basic understanding of business management, which will have to form part of the overall knowledge development programme. Transparency and accountability need to be accompanied by realistic expectation management for smallholders in order for them to understand that benefits, both financial and social, will take time to materialise.

Lastly, in order to implement a partnership with smallholders, time and realism are indeed required to achieve results. In many cases, the IBs overall, and the agricultural activities in particular, have to be developed, or re-developed, when reviving previously productive areas. But this is not the only reason. The capacitation of smallholders, the effective transfer of knowledge and know-how, building equal relationships in which the smallholders participate as valued and informed negotiators and decision makers within a broader set-up of establishing a viable large-scale agricultural enterprise takes time. The latter can lead to frustration, especially when expectations vary. Indeed, alongside the major commercial difficulties being experienced by the IBs, the most obvious weakness is the lack of material benefits reaching the smallholders, and the great majority of community members. This is a source of great frustration for many, given the expectations that were raised by the restoration of the land and the establishment of commercial partnerships with private-sector operators, the huge sums of public money consumed,

and the extensive participation by community members over many years in discussions and planning exercises (Lahiff *et al.*, 2012). For such partnerships to be sustainable, it is critical that smallholders and communities benefit from the venture, be it financially (often difficult to implement), or through the implementation of diverse land use systems (some to be used by members independently from the IB), or other benefits such as housing and employment (Binswanger-Mkhize, 2014). This is certainly a complex challenge when IBs engage with large groups of smallholders, beneficiaries and communities.

Inclusive Business as a new paradigm for development enabling structural agricultural transformation (in South Africa)?

As detailed in the introduction of this book, IBs are presently being promoted as a new paradigm for agricultural development, and particularly for the inclusion of smallholders in modern value chains (World Bank, 2005; UNDP, 2008; BCtA, 2015). This is generally related to 1) the acceptance that markets and governments, particularly in the poorer countries of the global South, are not developed, or do not have the capacity, to support a more internally driven growth pattern by providing the necessary services and support mechanisms for local, often smallholder, farmers' development and growth; 2) the need for investment in agriculture, and for large companies to be considered as having the potential to make a significant contribution to this funding requirement, as well as to poverty alleviation and overall development. Large companies would then come in as alternative actors, mobilising their core competencies in ways that, beyond the generation of employment, would improve the quality of supply chains, helping local businesses to diversify and/or become competitive, and include innovations or technologies that make it easier for individuals and small businesses to develop (World Bank, 2005; UNDP, 2008). IBs are being promoted in South Africa in the framework of the country's land reform programme, in an attempt to revitalise smallholder agriculture (DRDLR, 2012). Elsewhere in the world, the IBs are being promoted in the context of inclusive growth with desirable socio-economic and distributional impacts from large-scale agricultural investments (e.g. World Bank, 2005; UNDP, 2008; NEPAD Business Foundation, 2012; CFS, 2014).

So, are these IBs a tool for the enabling structural transformation in South Africa's agricultural sector?

The results detailed in this book show that IBs are not a panacea. This is supported by the mixed results of these IBs, in particular with regard to the inclusion of the smallholders. The above section details the challenges related to beneficiary empowerment. Although it is shown that IBs can lead to positive results, particularly at project level (also see Vermeulen & Cotula (2010) for other examples), in practice the outcome for smallholders has to be nuanced. This is even the case for the projects examined in this book, which purposively focused on relatively stable and sustainable IBs, and avoided the worst off and the ones that failed completely.

In addition, the magnitude of these IBs (in order to better grasp the extent of the paradigm, and to generalise its impact) remains low. Quantifying IBs is difficult because no extensive databases of these IBs exist. According to an independent evaluation[4] of the DRDLR's

4 Up to date, there is only one study allowing for some degree of quantification of IBs in South Africa: it is a broad-based evaluation of the Recapitalisation and Development programme of the DRDLR (Machethe *et al.*, 2014).

Recapitalisation and Development programme,[5] which supports strategic partnerships and mentorships in the framework of South Africa's land reform programme, 1 807 distressed farms have been targeted, of which about 640 have been integrated in the recapitalisation programme. Out of the 640 farms (covering 530 934 ha, i.e. only 0.5% of South Africa's agricultural land; 3% of the land under black ownership/occupation; and about 10% of redistributed/restituted land) placed under the RADP, 264 are attached to strategic partners, 117 to mentors, and most of the remaining 259 farms are being considered for direct sourcing as there are as yet no interested/adapted mentors/strategic partners (Machethe *et al.*, 2014). Although this evaluation concerns only the government supported projects under the RECAP programme, it should provide a broad sense of the overall extent of IBs in the sector, given the fact that most IBs have received government support. As such, IBs represent only a relatively small number of projects in the broader context of smallholder farming and land reform in South Africa. The National Department of Agriculture estimates that 40 000 commercial farm units existed in 2007, together with several thousand emerging farmers and 1.2 million small-scale farms in the former homelands (DoA, 2010). Thus, the extent of the participation of small-scale farmers in IBs appears insignificant.

Since the number of IBs/projects remains small, the IBs that are successful and sustainable are few. Furthermore, since the impacts of the IBs are mixed, in particular for smallholder farmers, it seems appropriate to say that the IB model or paradigm will only have a marginal impact on the broad transformation of the agricultural sector in South Africa. We are merely in the presence of a (relatively small) number of "islands of effectiveness" (Levy, 2014) which do not seem to have the capacity, nor the muscle, to profoundly restructure the sector. In addition, as detailed in the case studies, the replicability of many of the IBs is limited, leaving behind the hope for a broad-based snowball effect.

South Africa's specificity certainly impacts on the effectiveness of the model and has to be discussed here. Indeed, the development of farming for the great majority of people is all the more difficult in South Africa because of the country's segregational legacy, and because, from the 1990s onwards, the country engaged in a liberalisation and deregulation process of the economy which led to the entire sector being 'blocked' (Cochet *et al.*, 2015). The privatisation process led to the establishment of powerful agribusinesses. These restructurings are accompanied by vertical and horizontal integration within the agrofood systems through mergers and acquisitions during the privatisation process, which is a characteristic of global agribusiness concentration in recent decades. As such, a few large corporations dominate food processing, as well as the food retail sector, and are continually concentrating. These major chains have developed highly centralised agro-systems functioning according to preferred channels (suppliers, producers and transformers). Beyond concentration and vertical integration, these trends have major implications with regard to the country's agrarian transformation, as they have the potential to exclude small-scale farmers even further from mainstream agrofood markets (Louw *et al.*, 2007). While it is also argued that there is scope for restructured agrofood markets to provide viable market opportunities for smallholders, possibly through the IBs discussed in this book, the general trends of market restructuring have clear exclusionary effects on small-scale farmers, as these trends require higher levels of sophistication, and represent higher barriers to entry for smallholders.

The consequences for the wider society, including the state, of the limited successes of the IB model, and of the country's land and agrarian change overall, are undoubtedly

5 See details in the introduction chapter of this book.

great. As Lahiff *et al.* (2012:63) write: "The vast expenditures already incurred, with few tangible benefits to show for it, adds to the already vociferous criticisms of the policy of transferring valuable assets to poor communities. This provides ammunition to the critics of land reform and the wider redistributive policies of the state, and creates opportunities for opportunistic interventions from across the political spectrum. The slow pace and questionable benefits of land reform to date have added to calls for more interventionist strategies, particularly the expropriation of white-owned lands without compensation, although as this and other studies show, the problem is not just the acquisition of land but what happens to it subsequently."

The low potential for structural transformation in the specific context of South Africa should not, however, lead to a repudiation of the IB model and paradigm. Inclusive Businesses contribute to agricultural investment needs, particularly in the case where the state has no capacity, and where investment is needed from the private sector (Collier & Dercon, 2009; Deininger & Byerlee, 2011b). It is thus important to learn from the implemented cases, some of which are described here, and to take note of the recommendations in order to improve these models. It shows, however, that other development models will be needed if structural transformation and broad-based inclusion of smallholder farmers are sought, in South Africa (Cochet *et al.*, 2015), or elsewhere on the continent and beyond (Losch, Fréguin-Gresh & White, 2010).

Towards more corporate control and a corporatisation of agriculture

As illustrated in the previous section, the promotion of the IB model embeds elements of concern. The IBs are largely about horizontal integration within the agricultural sector, as existing farming operations and agribusinesses are merged with small units, and thus remain focused on producing primary commodities. This is, for example, the case with the mentorships and some of the primary strategic partnerships engaged in primary production. But IBs can also represent vertical integration processes when the large operation integrates aspects such as transformation or commercialisation, as illustrated by the THS and Winterveld cases. Also, the introduction of larger, corporate partners at Moletele (Chapters 10 and 11) signals a shift towards greater vertical integration, as the expanded farming units are linked with companies with extensive downstream interests in agricultural processing and marketing (Lahiff *et al.*, 2012).

In both horizontal and vertical integration processes, the result is an increased level of activity, and control of large-scale operations, motivated by the corporate partner's need for land, water and/or produce. This increase in activities, and the engagement of small-scale activities with large agribusinesses, effectively causes a corporatisation process of agriculture (Anseeuw & Ducastel, 2013). Through the IB organisation, farming and primary production lose the family basis, and take on structures based on corporate formats. This corporatisation process can be external, through the alliance of smallholders with a corporate firm, or from within when small-scale farmers are embedded in the corporate structure through, for example, shareholding.

The promotion of IBs does base itself on the existing production model of large-scale agricultural structures, whether farms, agribusinesses or corporate enterprises, and allows the latter to expand their activities and strategies. It leads to the non-questioning of the present agricultural development model based on large-scale commercial farming (supported during previous eras), or of even more concentrated corporate entities controlling the sector (Cochet *et al.*, 2015). Worse, its promotion leads to corporate

control over resources that, until now, have been in the hands of smallholders – such as the communal lands of the former homelands – or gives corporates access to resources, and in particular land, that have been restituted and/or redistributed to the marginalised populations of the apartheid era. As such, paradoxically, the IB paradigm – although its objective is the inclusion of smallholder farmers – might lead to the reinforcement of large and corporate farming. Solely promoting the IBs also means that the existing large-scale and corporate production model is considered as the only model for development – a position that is being strongly criticised if South Africa hopes to reform (Bernstein, 1996; 2013; Greenberg, 2010; Cochet *et al.*, 2015).

As we have seen through the different cases, what this means in terms of consequences – positive or negative – for the community, beneficiaries and smallholders, is case specific. But for community members, the joy of regaining their ancestral lands, or the hope of being empowered through inclusive programmes, has been tempered by a general failure of benefits to materialise. A policy of preserving the structure of the commercial farms, and even consolidating them in many cases, was premised with the hope of financial returns for community members – even if in some cases it also exposed them to high levels of risk (Binswanger-Mkhize, 2014). While these beneficiaries have shown great patience, even passivity, to date, there is likely to be ongoing pressure for more direct access to the fruits of restitution, including the right to live on the farms and use the land for small-scale, household-level, production. This tension between centralised, high-value agriculture, with indirect (or much delayed) benefits, versus disaggregated, low-value agriculture and resource extraction with short-term benefits, is set to persist, and it is likely that a balance between the two will have to be found in any future ventures (Lahiff *et al.*, 2012).

Not an alternative for state and public support

As emphasised in the introduction of this book, the IB approach lies in the broad acceptance that markets and governments, particularly in the poorer countries in the global South, are not sufficiently developed, or do not have the capacity to support a more internally driven growth pattern by providing the necessary services and support mechanisms for local, often smallholder, farmers' development and growth (Eaton & Shepherd, 2001). Large companies would then come in as an alternative, or, at least partly occupy the vacuum presented by the lack of public support services, mobilising their core competencies in ways that, beyond the generation of employment, would improve the quality of supply chains, helping local businesses to diversify and/or become competitive, and include innovations or technologies that make it easier for individuals and small businesses to develop (World Bank, 2005; UNDP, 2008).

This study however, has shown the necessary prominence of the state and its associated public services.

First of all, the state was often present as support for the smallholders and beneficiaries. This is most illustrative through South Africa's land reform programme which is enabling smallholders to acquire land. It is also supportive through the provision of additional funding for the establishment of the smallholder, whether through direct development of the farm enterprises (in the case of RECAP funds), or acquisition of shares (equity shares) in the IB. The support of basic public services, such as (heavily subsidised) electricity and water, are often a prerequisite for such IBs. Lastly, extension services (decentralised under the Department of Agriculture) and state credit facilities (Land Bank), although not always very efficient, also support independent smallholders and smallholders engaged in IBs.

Secondly, the state is also supporting the large-scale farmers and/or agribusinesses who engage with smallholders in IBs. As such, it directly provides payments for mentors and agribusinesses supporting smallholders. Through its Agri-BEE policy, the state is also subsidising – and thus, remunerating – large-scale commercial enterprises and agribusinesses for their engagement with smallholders, as strategic partners or even just as off-takers. As Lahiff *et al.* (2012:62) notes "There can be little doubt that the prospects of large operating profits, management fees and government grants were important in attracting commercial partners to these ventures." Whether these subsidies were the only motive, and whether this was matched by a genuine sense of social responsibility, is difficult to say, and is certainly not the case for all of them. But several companies have certainly gained significantly, as shown through the capitalisation of some of the enterprises which have remained under full ownership and control of the commercial partner and agribusiness, despite claiming inclusivity.

Lastly, and in addition to the first two points, the recommendations with regard to several of the case studies even called for additional state engagement, particularly in the form of mediation, safeguarding the assets of smallholders and communities, balancing power relations, monitoring compliance with contractual agreements, exploring new legal aspects and dispute resolutions, and more flexible options for land use.

The above shows that private businesses are not taking over the role of the state as the agent for development. On the contrary, the role of state agencies has been critical and there is still a vital role for the state to play. But, even beyond these roles of 'technocratic banality'[6] at project level, there seems to be a broader role for government to play than to outsource its development and reform task through projects implemented by the private sector, and to intervene only when necessary. Indeed, a broad-based policy engagement seems necessary if South Africa wants to restructure its agricultural sector. Given the many problems being experienced by the IBs, and certainly given the very few benefits for smallholders resulting from these operations, it is surprising that no other development models have been endorsed and promoted.

The need for more endogenous smallholder growth

Identifying the action levers for promoting agricultural development involving smallholders, based on production processes creating value-addition, and characterised by a less unequal sharing of value-added and wealth, is a priority in South Africa.

Overall, the IB case studies reveal that the business structures promoted as part of land reform and the revitalisation of smallholder farming in South Africa, have not yet succeeded in producing sustainable enterprises, integrating smallholders into modern value chains, or distributing benefits to communities. The results, and thus the lessons learned from IBs, still appear to be insufficient. Not enough progress has been made in any of the cases outlined that allow for the conclusion that IBs are financially viable, replicable at a larger scale, and can deliver sustainable benefits to communities and effective transformation over time. Despite positive results at project level, favourable conditions for production of high-value agricultural commodities and generous state support, it is clear that much more has to be done for the inclusion of smallholders and for the South African sector to be able to transform.

6 Terminology borrowed from Petit (2011), which he applied to development aid.

The idea of linking smallholders to large-scale farmers or agribusinesses transmits the idea that current commercial farming practices should be regarded as the benchmark for the type of agriculture which smallholders, including the restitution and redistribution beneficiaries, should aspire to. But when the decision makers adopted this same view, the agrarian reform became a mere tool for the economic de-racialisation policy as part of the BEE programme, which (paradoxically, perhaps) benefits the existing structures. However, when smallholders, who lack sufficient production means, access to markets and inputs to develop their properties on their own, are forced to call on an agricultural service company to carry out the entire crop management sequence, or sub-let their property to a business, the agrarian reform process is, in practice, translated into an increased concentration of agricultural production units, in addition to property ownership held for the most part by the country's minority.

Whereas this is related to the country's past (Walker & Cousins, 2015), the country subsequently went through a de-agrarianisation process (Eastwood, Kirsten & Lipton, 2006) with the consequence that many smallholders do not seem to be able, or willing (as many put it), to develop their agricultural activities under the present conditions, even in post-apartheid South Africa. The development of farming for the great majority of smallholders is indeed all the more difficult, as, from the liberalisation and deregulation of the South African economy in the 1990s onwards, the entire sector seems to have become "oligopolistically blocked" (Cochet *et al.*, 2015). That, together with agricultural and economic policies implemented more generally since 1994, has done little to 'transform' the situation of South Africa's marginalised majority, who remain trapped in the legacies of racialised inequality. As such, the forms of further capitalist development of agriculture since 1994 have reinforced the obstacles to the viable growth of production by small-scale farmers, thereby reducing their prospects of 'accumulation from below' (Cousins, 2013).

Thus, it seems that no solution for true transformation and empowerment of smallholders can be envisaged without questioning the uniqueness of the development model proposed for, or imposed upon, the beneficiaries of South African agrarian reform and, beyond that, upon the farming community as a whole. To this end, the issue concerning the redevelopment of commercial family farming, not subsistence farming, appears to be a priority. Four million South Africans from 2.5 million rural households are supposedly involved in farming (Aliber & Hart, 2009). Renewed efforts are required from the state, the private sector, NPOs and community members alike to identify land use and production models more suited to smallholders, which can deliver sustainable benefits in terms of employment and housing, and which are able to produce value additions and generate incomes that are shared more equitably. A major breach is necessary, at the structuring level of the actual primary production, and the upstream and downstream segments of the industry. Even though it has been partly de-racialised, the identical reproduction of the development model inherited from the past is not sufficient.

The elements of such a renewed policy agenda for South Africa are well known and are based on more national smallholder investments strategies, with smallholders at the centre stage. An effective agenda would address the diversity of smallholders' situations based on investment in terms of institutions, markets and assets. Improving smallholder access to assets, whether they are natural, human, or financial, will be a prerequisite. Improving market access for independent and autonomous farmers will also be needed. Finally, efforts should be made to strengthen institutions – from smallholder organisations, to the public sector – and secure rights with regard to land, water and production (HLPE, 2013).

These observations are important in the broader framework of large-scale investments in Africa. Indeed, the South African context is very specific, with other African countries being less affected by such huge power imbalances. In a more balanced and less concentrated environment, IBs might certainly lead to results that are more promising. This being said, the recommendations with regard to IBs detailed earlier in this chapter still hold. Two points seems of utmost importance here. The first one concerns the possible low replicability of these models in other countries in Africa. The results not only show that they are case specific, but also that they are very dependent on external support, whether from public or civil sectors. Secondly, without long-term and genuine investment in a more endogenous empowerment of smallholders, one can doubt the capacities of IBs alone, and the large-scale development model they entail, for enabling broad-based structural transformation elsewhere on the continent.

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