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ACRONYMS

AGM	Annual General Meeting
AMPIC	Amadlelo Milk Producers Investment Company
AT	Agency Theory
(B-B)BEE	(Broad-Based) Black Economic Empowerment
BCtA	Business Call to Action
BMB	Blue Mountain Berries
BoP	Bottom of the Pyramid
BWT	Bessieplaas Werkers Trust
CASP	Comprehensive Agricultural Support Programme
CET	Coega Empowerment Trust
CF	Contract Farming
CPA	Communal Property Association
CPI	Consumer Price Index
CPP	Community Private Partnership
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 Rural Development and Land Reform
DTI	Department of Trade and Industry
ECDC	Eastern Cape Development Corporation
ECF	Employment Creation Fund
EIA	Environmental Impact Assessment
ESS	Employee Equity Share Scheme
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
HDP	Historically Disadvantaged People

IB	Inclusive Business
IDC	Industrial Development Corporation
IFC	International Finance Corporation
ITB	Ingonyama Trust Board
KZN	KwaZulu-Natal
LORWUA	Lower Orange River Water Use Association
LRAD	Land Reform 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
OECD	Organisation for Economic Cooperation and Development
PLAS	Proactive Land Acquisition Strategy
PtO	Permission-to-Occupy
RCF	Risk Capital Facility
RDT	Resource Dependence Theory
RECAP	Recapitalisation and Development Programme
RLCC	Regional Land Claims Commission
RV	Recoverable Value
SASA	Sugar Association of South Africa
SDP	Supplier Development Programme
SDT	Social Development Trust
SPF	Supplementary Payment Fund
SSG	Small-Scale Growers
SST	Seven Stars Trust
TCE	Transaction Cost Economics
TFPM	Tshwane Fresh Produce Market
THS	Tongaat Hulett Sugar
TNS	TechnoServe
UNDP	United Nations Development Programme

WBCSD	World Business Council for Sustainable Development
WCP	Winterveld Citrus Programme
WUFA	Winterveld United Framers Association

CHAPTER 1 INTRODUCTION

1.1 Introduction

The private sector is increasingly regarded as a crucial partner in achieving economic growth in the developing world (OECD/WTO, 2015; Warner & Sullivan, 2017). Notions such as 'public-private partnerships' (Kanu, Salami, & Numasawa, 2011; World Bank, 2008), the 'bottom of the pyramid' as business opportunity (J. Nelson, 2007; Prahalad & Hart, 2002) and 'corporate social responsibility' (Elder & Dauvergne, 2015; Virah-Sawmy, 2015) are illustrative of this trend to engage commercial businesses into economic development objectives. Inclusive Business (IB) also operates in this framework, as it refers to the nexus between corporates, and thus profit, objectives, and social objectives in the form of opportunities for poor communities. These IB enterprises are considered to be financially sustainable business solutions that incorporate poor communities in commercial value chains in roles such as employees, suppliers, distributors or consumers (Bonnell & Veglio, 2011; IFC, 2017; WBCSD, 2014). Integrating these poor communities through commercially viable business operations allows these previously excluded people access to markets, knowledge and other livelihood opportunities while at the same time offering growth opportunities for the companies involved. It is argued that private sector businesses working together with poor communities, implementing the dual IBs objectives of financial and social gains, can drive economic growth (J. Nelson, Ishikawa, & Geaneotes, 2009; Prahalad, 2006; UNDP, 2010). As a result, numerous organisations, including the World Bank, United Nations Development Programme (UNDP), the G20 and the German Gesellschaft für Internationale Zusammenarbeit (GIZ), have established programmes to support these IBs, and specific platforms have been created to foster the engagement of commercial entities with low-income households, the so-called 'Bottom of the Pyramid' (BoP) (Prahalad & Hart, 2002).

IBs have been implemented in a wide range of sectors, including information technology, health care, energy and water, but also mainstream consumer goods (e.g. Nieminen, 2017; Rösler, Hollmann, Naguib, Oppermann, & Rosendahl, 2013). Considering the high incidence of rural poverty and the high level of dependence of the poorest part of the world population on agriculture, the term inclusive business has also gained traction in the agricultural sector. The Food and Agricultural Organisation (FAO) estimates that in poor countries 1.5 billion people live in smallholder households, with the majority of these households belonging to the

group of the extremely poor (FAO, 2012). It further states that one billion people are dependent on the food and agricultural sector and that 80% of the food supply in Asia and Sub-Saharan Africa is produced by these smallholders (FAO, 2012). This illustrates the relevance of the smallholder sector and the potential impact of smallholder inclusion on development. It is therefore that this work focuses specifically on IBs in the agricultural sector.

This chapter starts with a literature review analysing three aspects that provide the overall context for the thesis: insights relating to inclusive businesses in general, the debate on the structure of the agricultural sector to best stimulate growth, and the role of IBs in this particular sector (Section 1.1). Based on this review, the lacunas in our understanding of agricultural IBs are identified, leading to the expression of the problem statement (Section 1.2) and the specific research questions this thesis addresses (Section 1.3). Section 1.4 presents a holistic conceptual framework that underlies the analysis presented in this work. The methodological approach is outlined in Section 1.5, which also encompasses a rationalisation of the scope and the research strategy applied. Section 1.6 underlines the value the work adds to the current body of knowledge and presents further opportunities for research related to this study. The chapter concludes with an outline of this thesis (Section 1.7).

1.2 Background to the problem: IBs in agriculture as driver of development

To frame the central object of this thesis, namely that of IBs in the agricultural sector, three facets require a detailed review. Firstly, it is important to gain an understanding of what an inclusive business is and what sets these businesses apart from traditional enterprises. The second aspect analyses the debate on the structure of the agricultural structure that can best drive economic development. These two insights combined relate to a third facet, namely that of the specific role of IBs in the particular context of the agricultural sector.

1.2.1 Inclusive businesses – Innovative partnerships to stimulate economic development

Inclusive businesses are generally described as profit-oriented enterprises that allow low-income communities access to commercial value chains, and which combine their financial objective with social benefits. Despite the general understanding of what an inclusive

business is, a clear definition of this term lacks. For example, 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, p. 3). As such, it underlines that the relationships within these businesses are fair and that IBs play a role as responsible entities within their wider operating environment. The International Finance Corporation (IFC), which provides financial support to a range of IBs, defines these models as "…commercially viable and replicable business models that include low-income consumers, retailers, suppliers or distributors in core operations" (IFC, 2017). The aspect of equality lacks in this definition. The World Business Council for Sustainable Development (WBCSD) also does not mention the terms equality or fairness in their description of IB (WBCSD, 2016). Rather, both organisations imply that the low-income communities the IBs work with will benefit through increased economic opportunities.

Aside from the debate on the equality aspect, consensus seems to exist on some fundamental aspects. Firstly, whereas the basis of the IB is profit driven, these enterprises have a social goal to improve the livelihoods of the communities which they serve (Bonnell & Veglio, 2011; Scholl, 2011). Secondly, IBs engage poor people in a diversity of ways: as consumers, producers, distributors or employees (IFC, 2017; WBCSD, 2016). This diversity captures the concept of wider value chains in which IBs operate. These two aspects combined illustrate that IBs provide resources, opportunities and competencies to enhance the social and economic livelihoods of previously disenfranchised people (George, McGahan, & Prabhu, 2012).

Initiatives of corporate engagement with the BoP that were initially described and analysed by academics and practitioners mainly evolved around multinational corporations searching for business alternatives outside their traditional markets. Examples include Unilever, Monsanto, and Coca Cola (George et al., 2012; London & Hart, 2004; J. Nelson et al., 2009). Since then, the body of literature has increased and now includes a diverse range of IB studies covering a myriad of actors and sectors. These include information technology, financial services (AECF, 2014; Ashley & Sivakumaran, 2014), consumer electronics (Halme, Lindeman, & Linna, 2012), water and sanitation (Gebauer & Jennings Saul, 2014), health care (Angeli & Jaiswal, 2016), electricity (Goyal, Esposito, Kapoor, Jaiswal, & Sergi, 2014; Halme et al., 2012), but also the extractive industries (Mnwana, 2014; Virah-Sawmy, 2015). Whereas some of these sectors directly engage poor communities in commercial value

chains, other IB initiatives (e.g. electricity or water provision) rather enable poor people in an indirect manner to gain access to these chains. Many of the businesses described in more recent publications are small or medium-sized enterprises set up by local investors rather than large multinationals, underlining the broad field and diversity of actors active within this business segment (Ashley & Sivakumaran, 2014).

Platforms that support IBs, such as Business Call to Action (BCtA) and the IFC, mention that thousands of people in poor communities have been reached by the business initiatives that they support (Ashley & Sivakumaran, 2014; Gaertner & Ishikawa, 2014). The main effect is reported in terms of jobs created, consumers who gained access to particular goods or services, and producers for which market access has been enabled. These reports, albeit being of a descriptive nature, are insightful, but are also biased as they report on the organisation's own successes. Academic analysis regarding IBs is still limited, but several insights are starting to emerge.

One finding is that engagement with low-income communities is characterised by a high level of uncertainty and risk for the corporate actor (Schmutzler, Gutiérrez, Reficco, & Márquez, 2012; Schuster & Holtbrügge, 2014; Trienekens & Willems, 2007). Challenges related to operating in a BoP context include a lack of infrastructure, poor market information, weak institutional structures and limited credit and financing opportunities (Reficco & Márquez, 2012). More generally, the corporate partner is unfamiliar with the community it operates with (London & Hart, 2004; Schuster & Holtbrügge, 2014). To successfully operate in this environment, two aspects have recurred in the academic literature: innovation and partnerships.

Traditional ways of doing business have been exclusionary to poor communities. Thus, innovative ways are required to integrate poor people in commercial value chains (Angeli & Jaiswal, 2016; Halme et al., 2012; Scholl, 2011; Schuster & Holtbrügge, 2014). Innovation can relate to new products that are suitable for low-income customers, to new services that enable further economic activity by disenfranchised individuals, or to new models of doing business (George et al., 2012). Particularly the business models, i.e. the manner in which a business creates and captures value (Shafer, Smith, & Linder, 2005), are relevant in the framework of this study. For example, mining companies have included the communities in which they operate into their ownership structure (Mnwana, 2014), suppliers and

communities co-fund local water treatment plants (Gebauer & Jennings Saul, 2014), and independently owned, low-cost manual operations distribute beverages in densely built urban centres (J. Nelson et al., 2009). Halme et al. (2012) rather highlight the need for innovation within the corporate entity, labelled 'intrapreneurial bricolage', required for these innovative business models to be designed, piloted and supported.

But, whereas it is clear from the literature that innovative business models are required to engage with poor communities, current publications fail to provide a conceptualisation of such models and what kind of model suits a certain context. Rather, they remain limited to the description of particular models in case study narratives (Angeli & Jaiswal, 2016; Gebauer & Jennings Saul, 2014).

The second point that comes to the fore from the available literature is the importance of partnerships in these models. As with traditional enterprises, these partnerships are required for the core business of the IB: to gain access to inputs, capital, and distribution networks across sectors (J. Nelson, 2007). But in the framework of IBs, the role of cross-sector and non-traditional partnership, such as with NGOs, governmental institutions or financers, play an equally important role (London & Hart, 2004; J. Nelson, 2007; Schuster & Holtbrügge, 2014). These non-traditional partners assist in access to resources, labour and local knowledge, and build trust among the targeted communities (London & Hart, 2004; Reficco & Márquez, 2012; Schuster & Holtbrügge, 2014). Collaboration allows the actors to share and manage risk in the uncertain environment in which IBs operate (Schmutzler et al., 2012). These collaborative partnerships are not necessarily incorporated into the business models. On the contrary, Schuster and Holtbrügge (2014) rather argue that collaboration with non-traditional partners is preferred over internalisation. These partnerships, plus the large amounts of funding through global initiatives such as the IFC underline that, although the corporate sector can and does contribute to the improvement of livelihoods in poor communities, external support is often required to establish these initiatives.

1.2.2 Agriculture – How to stimulate its development?

Although the general consensus is that agriculture plays an important role in initiating economic growth in a context of primary sector dependency, the way to achieve this remains a topic of debate. In the traditional discussion on the manner in which agriculture can initiate

economic growth, arguments are brought forward to either support smallholder farmers (e.g. Eastwood, Lipton, & Newell, 2010), or to focus on large commercial farming (e.g. Collier & Dercon, 2009). Inclusive businesses, forming partnerships between these two segments, can be considered as a new angle in this debate.

Central to the argument supporting smallholder farmers is the potential for poverty reduction. Rural poverty is prevalent, with a large part of the population in poor countries, and certainly the poorest, being dependent on the agricultural sector for their income. Thus, focus on smallholder farmers can have a high direct impact on poverty levels (Diao, Hazell, Resnick, & Thurlow, 2007; Hazell, 2011). Indeed, Lipton (2005) observed that poverty reduction was generally triggered by productivity increases of small-scale farmers. Studies also found that small-scale farms had much stronger local and regional linkages than large-scale commercial farming, and thus are a stronger engine for rural development (e.g. Hazell & Röell, 1983). Regarding labour productivity, Eastwood et al. (2010) found that small-scale farming is more efficient than large-scale operations.

On the other hand, scholars argue for a stronger focus on large-scale mechanised farming to stimulate growth (e.g. Collier & Dercon, 2009). Their view is that the agricultural sector in rich countries shows characteristics absent in African nations, such as a small number of people engaged in agriculture, the vast majority of people living in urban areas, and a more productive agricultural sector. For developing countries to achieve this same structure, a sharp increase in labour productivity in the agricultural sector is required. Smallholder farmers and their supporting institutions are considered as weak agents for stimulating this productivity increase (Collier & Dercon, 2009:3). Certainly, the argument of higher productivity on small family farms does not always hold, particularly where market imperfections favour large-scale farming over small family farms (Eastwood et al., 2010). Commercial farms are able to obtain scale economies related to technology, finance and logistics that will allow them to achieve high levels of yields and labour productivity, which are essential to release labour to other sectors and stimulation of the overall economy (Collier & Dercon, 2014).

This debate concerning which farm size to support is set in a dynamic, global environment. Two recent developments in specific have re-shaped the structure of the agricultural sector. Firstly, liberalisation has resulted in increased levels of globalisation and concentration, in the

supplying, processing and the retail segments. This is characterised by the rise of supermarkets and large agribusinesses. In the primary production segment of the chain, this development has favoured the growth of large-scale, commercial farming operations in developed, but also in developing countries (Reardon, Timmer, Barrett, & Berdegué, 2003). The current value chain furthermore shows a large extent of vertical coordination and the implementation of grades and standards (Reardon, Barrett, Berdegué, & Swinnen, 2009). Small-scale farmers lack access to capital and technology, key instruments to being competitive in this more industrialised and concentrated industry (Kirsten & Sartorius, 2002b). As a result, the agricultural sector in developing countries, with their large number of family farms, is limited in access to the global, but also the domestic, market and hence in overall economic stimulus.

Secondly, agriculture has seen an increased interest from investors, triggered by the food crisis in 2008 (Vermeulen & Cotula, 2010). Population growth, dietary changes, and energy demands all put a continuously increasing pressure on limited resources (FAO, 2009). Higher food prices and long-term growth of demand for food items trigger investors to expect a positive return on their investment (Miller, Richter, McNellis, & Mhlanga, 2010). The financial crisis strengthened this move towards agriculture as investment target, as it is considered as anti-cyclical and offers a higher level of certainty (Ducastel & Anseeuw, 2017). Particularly developing countries have seen a sharp increase in land-based investments (Nolte, Chamberlain, & Giger, 2016). Increased inclusion of local communities can ameliorate the negative effects on communities targeted by the large-scale land acquisitions across the developing world (Cotula & Leonard, 2010; de Schutter, 2011).

1.2.3 Inclusive businesses in agriculture – a new paradigm?

It is against this background that renewed interest has emerged into novel ways of investment in agriculture that aim to include smallholder farmers into commercial agricultural value chains through partnerships with a commercial business, the essence of inclusive businesses. Numerous innovative business enterprises engage with smallholder farmers and rural communities across the developing world, as supplier of produce, as offtaker of inputs, or within agri-processing activities (Cotula & Leonard, 2010; Gradl, Ströh de Martínez, Kükenshöner, & Schmidt, 2012; Graf, Kayser, Klarsfeld, Bonsey, & Brossard, 2015; USAID, 2014). Several stakeholders can be involved in these enterprises, including smallholder

farmers, landowner collectives, agribusiness, large-scale farmers, government, financiers, and NGOs. It is the innovative nature of the models that sets these partnerships aside from traditional ways in which smallholders were engaged in commercial value chains.

Indeed, linkages between small-scale farmers in developing countries and commercial agribusinesses in themselves are not new. For example, sharecropping arrangements were implemented in ancient Greece, and supply contracts have been used since the late 1800s (Prowse, 2012). Farmer cooperatives are another traditional instrument that have been used for a long time to overcome smallholder challenges to engage in commercial farming activities (Karantininis & Nilsson, 2007; Ortmann & King, 2007).The shortcomings of these traditional instruments have been widely described. Those related to supply contracts and producer organisations are shortly described here. Particular challenges when supply contracts/producer organisations are combined with other instruments as part of more complex governance structures, will be further developed in Chapter 2.

Contract farming in a development country environment provides specific challenges. A lack of contract enforceability results in a large number of cases where side-selling occurs (Barrett et al., 2012; Sopov, Saavedra, Sertse, Vellema, & Verjans, 2014). Smallholder farmers in these countries are often of a very small size and spatially dispersed with poor infrastructure. This makes transacting with these individual farmers costly (Kirsten & Sartorius, 2002b). From a smallholder perspective, they often suffer from power asymmetry and monopolistic offtakers, and get trapped in a vicious circle of debt (Eaton & Shepherd, 2001).

Producer groups equally face a number of challenges, mostly relating to the smallholder members. Collectives of smallholders generate complexity for the members (Glover, 1987). This is expressed in the form of free-riding, control and influence problems (Ortmann & King, 2007). Other challenges lie in the manners of exit available to members, and the distribution of residual income (Chaddad & Cook, 2004, 2007). Frequently mentioned criticism on the role of collective organisations, particularly regarding the potential for smallholder development, is that the poorest members of society often do not participate in these groups, This means that in practice, these collectives have an exclusionary effect (Bernard & Spielman, 2009; Markelova, Meinzen-Dick, Hellin, & Dohrn, 2009; Thorp, Stewart, & Heyer, 2005).

It is partly in reaction to these shortcomings that current IBs illustrate a more complex form of organisational structure that go beyond a one-dimensional supply contract or cooperative membership. Rather, unique business set-ups are implemented (Guidi, 2011). Furthermore, inclusiveness extends beyond active small-scale farmers, where IBs incorporate passive landholders and farm employees who are engaged in the business they work for beyond a simple employment contract. It appears that different inclusive instruments can be applied under different circumstances, acknowledging the heterogeneity of rural areas (Ashley & Maxwell, 2001; Guidi, 2011). This results in composite, unique, hybrid structures.

IBs could be a particularly valuable development tool in countries with a highly dualist agricultural sector in which a well-developed commercial value chain co-exists with a large number of smallholder and subsistence farmers who struggle to gain access to these value chains. The existence of a well-established infrastructure gives opportunities for small farmers to be included in wider value-chains, but at the same time they have to compete with farmers who have better access to resources such as financing and technology. As such, the question of inclusiveness is critical for example in South Africa. The government of this country has implemented a policy framework focused on land redistribution and agricultural transformation with the aim to offer opportunities to previously disadvantaged landowners to benefit from land ownership in terms of economic development, food security and empowerment and be integrated in the local/regional/national or even global agricultural supply chain.

But, despite the attention for IBs as an innovative solution for sustainable and fair development, there is little understanding about their structural set-ups and how the poor communities share in the value creation and appropriation activities of the agricultural IB. Most research into IBs in the agricultural sector is empirically driven and focuses on two areas: inclusion of smallholder farmers into commercial supply chains through the traditional instruments of outgrower schemes (e.g. Eaton & Shepherd, 2001; Sopov et al., 2014) or cooperatives (e.g. Ortmann & King, 2007; Roets, 2004; van der Walt, 2005 in South Africa), and success stories on innovative ways to include poor people in rural areas as suppliers or consumers (often outside the agricultural sector) rather than partners (Ashley & Sivakumaran, 2014; Gaertner & Ishikawa, 2014).

Several authors have put forward models to categorise the methods of inclusion of smallholders. Guidi (2011) proposes a framework that classifies business models according to their coordination (the efficiency, rather than the distribution within the chain) and their cooperation (prioritising social goals through equitable distribution). Based on this framework, four business models are distinguished: corporate driven, producer driven, intermediary driven and hybrid models. Whereas this study provides a detailed insight into new ways in which the agricultural sector can contribute to improving rural livelihoods, it is still centred on active smallholder participation, with a crucial role for collective organisation. Vermeulen and Cotula (2010) rather look at the mechanisms of inclusion and propose six models: contract farming, leases and management contracts, tenant farming and sharecropping, joint ventures, farmer-owned businesses, and upstream and downstream business links. This typification largely aligns with traditional instruments, adding some more recent strategies.

Despite these efforts, a theoretical understanding that provides more in-depth insight into the complex IB structures within the agricultural sector observed in practice is lacking. This was confirmed by Gradl (2015) when she stated that "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". Equally lacking is insight into the level of inclusiveness[1] of these IBs, and consequently the impact of participation in IBs on their beneficiaries in general, and on smallholders in particular.

1.3 Statement of the problem

Following the above assessment, it can be stated that two specific knowledge gaps exist. The first hiatus relates to the institutional structure of the IBs. A large body of research exists into individual instruments, specifically contract farming and cooperatives, but little is understood of the wide variety of partnership forms that seem crucial to the success of private sector engagement with poor communities, and that have been described in numerous case studies (Guidi, 2011; Sopov et al., 2014; Vermeulen & Cotula, 2010). For example, smallholder farmers can be organised in a cooperation with additional equity in downstream operations (de Koning & de Steenhuijsen Piters, 2009). Other IBs rather involve a lease of land by poor landowners to commercial agribusinesses, with additional engagement by these landowners

[1] The terms inclusiveness and inclusivity are used interchangeably in this thesis.

through a mentorship or a joint venture construction (Cotula & Leonard, 2010; Lahiff, Davis, & Manenzhe, 2012). Important questions in this regard are: why do stakeholders in these IBs implement so many different and often complex organisational structures? Why do the stakeholders decide to opt in to such partnerships? And how do these structures develop over time? This lack of understanding means that it is hard to establish what kind of "model" works in what situation, and particularly if and how IBs can be a driver for agricultural growth and rural development in general.

Secondly, this missing insight in business structures prevents an assessment of the outcomes of these "models" and establishing for whom a particular "model" works. Although the underlying expectation is that IBs contribute to development at the bottom of the pyramid, little evidence exists in how the poor actually engage in the partnership, how they benefit, and at what cost. No methodology exists that measures the level of inclusiveness obtained by the individual IBs. This inclusiveness is not just an outcome of the institutional set up, and subsequent implementation, of a specific case, but equally important is the perception of the smallholders on their involvement and benefits from their participation in an IB.

To address these two lacunas a number of initial reflections and comments to better delineate the term Inclusive Business in the framework of this particular study seem necessary. Firstly, this study focuses on primary production activities and excludes purely agro-processing initiatives and low-income communities as consumers of agricultural inputs or products. Beneficiaries are thus included in the value creation processes of the IBs as suppliers of land, produce or value-sharing employment. Secondly, it centres on institutional partnerships between low-income communities/smallholders and a corporate enterprise. As such, this work discusses arrangements of value creation and appropriation as expressed through the sharing of ownership, decision-making, risk and rewards between smallholders/low-income communities and agribusinesses or large commercial farms (Vermeulen & Cotula, 2010). 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). Lastly, although this study focuses on primary production in the agricultural sector, the scope is wider than active smallholder farmers. As this work will illustrate, IBs incorporate individuals and communities not active in primary production activities, and farm workers who are engaged in the farming

organisation beyond a mere employment contract[2]. These categories of people cannot be appropriately described as smallholder. To accommodate for the diversity of people included in IBs, this work will use the general term 'beneficiary' alongside those of 'smallholder' and 'low-income community'. More specific terms are used when referring to a particular IB, for example 'landowner', 'landowning community' or 'farmworkers collective'.

1.4 Research question

Leading on from the previous section, this study aims to develop insight into the IBs as partnerships between commercial partners and low-income communities. More precisely, it studies the manner in which these partners collaborate in the value-creation and appropriation processes within the IB. Thus, the object of this study is the IB as institutional structure that allows the two main stakeholder parties to share resources and responsibilities to create agricultural produce and share in the rewards of the IB activities. The central research question is thus formulated as:

> *How do IBs, as institutionalised partnerships between commercial agribusinesses and low-income communities, facilitate inclusive value-creation and appropriation processes?*

The overall research question leads to two sub-sets of questions, aligned with the knowledge gaps that have been identified in the previous section: the institutional structure and the inclusivity of these structures.

In order to understand how the institutional IB structures facilitate more inclusive value-creation processes, one has to understand i) how they are structured, and ii) what drives the shape and the governance set-ups of these particular structures An understanding of the how, and why of IBs as relationship between commercial agribusinesses and smallholder/low-income communities requires answers to questions such as: What instruments are applied in the complex IBs and how do these instruments interact? What are the drivers for the stakeholders participating in an IB? How is the structure of an IB determined and who drives this process? Does the structure of an IB change over time? Can a typology of IBs be created that group these institutional structures? And leading on from there, can we develop general

[2] 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.

models or enhance existing ones, adapted to small-scale and emerging farmers and other IB beneficiaries?

Regarding the inclusiveness aspect, this needs to relate to the institutional set-up analysed in the first aspect. Insight into the mode and extension of beneficiary inclusion in the IB requires answers to question such as: What aspects can be applied to determine the level of inclusiveness? Are the complex structures more inclusive than individual instruments? Does a relationship exist between the institutional set-up and the expected inclusivity of the beneficiaries? Is there a difference between the expected theoretical inclusiveness and the actual inclusiveness achieved in practice? But also, how do the beneficiaries perceive their level of inclusiveness?

Underlying the overall work is the general concern if and how IBs can contribute to public objectives such as smallholder development, land reform, agricultural sector transformation and wider rural development. Insight in the drivers of each of the stakeholders involved in IBs, the theoretical understanding of the organisational structure of the IB, and the actual implementation on the ground together allow for a thorough understanding in how IBs in general, and in more detail specific structures, can bring about the stated public objectives.

The two-step approach adopted in this work thus ultimately adds to our understanding what role IBs can play in the overall path to development. Although not a direct measurement of the contribution of IBs to the overall policy goals such as rural development, agricultural transformation and land reform, it is assumed that a positive causal relationship between level of inclusiveness and development potential exists.

1.5 Conceptual framework

Section 1.3 highlights the wide variety of types of community members and manners of inclusion within agricultural IBs. This requires me to apply a narrower, more specific definition of inclusive business than that is used in the general literature such as quoted in section 1.2. Thus, in the framework of this study, I posit that:

> An IB is a profit-oriented 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.

This definition incorporates central concepts used in other IB definitions such as *low-income communities* (or the Bottom of the Pyramid), that serve as either *supplier* to or consumer of products/services that are produced in a *commercially viable* manner (IFC, 2017; UNDP, 2010; WBCSD, 2014). Following the definition, for this research IBs are thus considered as partnerships between low-income communities and commercial agribusinesses, that implement complex combinations of instruments and strategies which structure resources, decision-making powers and market relationships in order to create and capture value, and which allow poor communities access to commercial value chains.

The duality of this work requires a layered conceptual framework based on the two core aspects of the research: one layer to determine the organisational structure of an IB, and a second layer to assess the level of inclusiveness of this structure. The first layer is of a theoretical nature, whereas the second layer constructs a mechanism for value-creation and appropriation analysis. This section will provide an outline of the holistic conceptual framework that is developed and applied in this study to answer the how and why questions related to the organisational structures of the IBs and the inclusiveness of the IBs.

Conceptualising IBs

Inter-organisational relationships describe governance forms between independent partners, which are shaped as hybrid forms of organisation placed between fully integrated firms and transactions fully organised by the market (Ménard, 2004; Williamson, 1991). Considering the centrality in this study of the partnership between two separate entities within a business framework, this concept of inter-organisational relationships is applied to reason the institutional set-up of IBs. Inter-organisational structures and the relationships between business partners are the subject of analysis of disciplines that fall under the umbrella of organisational theory (Dekker, 2004; Smith, Carroll, & Ashford, 1995). Since the objective of an IB is not solely economical, but also incorporates a social aspect, namely the inclusion and development of smallholders/low-income communities, it is imperative that both these facets of organisational theory are included in the rationalisation of the organisational structures (Ulrich & Barney, 1984). Furthermore, IBs tend to be characterised by a high degree of power imbalance, with the commercial partner being the better-endowed actor (W. Vellema,

2015). Lastly, the inter-organisational relationship between the IB partners changes over time (Guidi, 2011; Ménard, 2004). This is partly due to the limited time span of several instruments, but equally important is the dynamic nature of dependencies and power relationships. These facets potentially motivate adjustments of the IB structure. A holistic theoretical framework is required to address these complexities of IBs and the context in which they operate. More specifically, a new, multi-lens, research paradigm is applied that offers a holistic approach to understand the complex business structures of IBs. This framework combines aspects from Resource Dependence Theory (RDT), Transaction Cost Economics (TCE) and Agency Theory (AT), which together form a hierarchy of decisions that ultimately contribute to the institutional set-up implemented by an IB (Figure 1.1). This theoretical pluralism provides flexibility in our understanding of complex IB structures (Midgley, 2011).

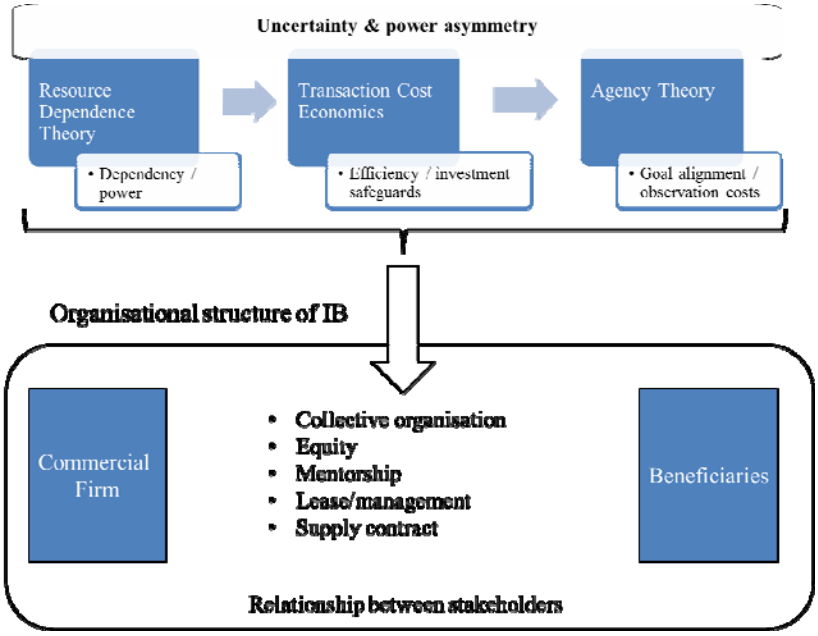


Figure 1.1: **Conceptual framework Phase I - organisational structure**

Source: *Author*

Firstly, RDT identifies likely partners based on the level of mutual external dependence (Pfeffer, 1987). RDT argues that organisations aim to reduce uncertainly related to their dependence on external parties. IBs are a tool to partly internalise these dependencies. RDT predicts that the higher the level of dependence, the more likely an organisation is to enter into a hierarchical partnership with the partner it depends on (Hillman, Withers, & Collins, 2009). Dependency is a reciprocal relationship, but within this relationship one party might

be more dependent than the other party, indicating a power imbalance. In a scenario of unbalanced power, the less dependent party is unlikely to yield its advantageous bargaining position. Highly integrated organisational structures are thus less likely when the relationship is characterised by power imbalance (Casciaro & Piskorski, 2005).

Once partners for an IB have been identified, TCE impacts on the governance structure of this IB through the aim of reducing the transaction costs between partners. The argument is that a higher frequency of transactions, as well as higher asset specificity, increases the level of uncertainty, which will lead the investing company to implement tighter control elements and thus a more hierarchical structure (Williamson, 1991). In the case of IBs, the firm by definition has more financial means than the low-income community it works with.

Lastly, AT focuses specifically on the contractual agreement considering the goal disparity between a principal (the agribusiness firm) who delegates a task to an implementing agent (the smallholder communities). This contractual agreement aims to minimise outcome uncertainty for the principal related to moral hazard (agent avoidance of responsibility), and adverse selection of the agent due to misrepresentation by the agent of his/her capabilities. If costs related to measuring the agent's behaviour are too high, the principal is likely to opt for an outcome based contract (Eisenhardt, 1989a). This implies a transfer of risk from the principal to the agent, who is assumed by AT to be risk adverse. Furthermore, AT assumes that the principal is the more powerful party and thus is able to alter the agent's behaviour (Saam, 2007).

The three theories are linked together by two elements in particular, namely uncertainty and power imbalance. These common elements directly impact on the organisational structure of an IB as implemented by the interlinking of instruments (Hayami & Otsuka, 1993). Uncertainty features in the form of external dependency, asset specificity and agent behaviour in the three respective theories. In general, the higher the level of uncertainty, the bigger the incentive for a more hierarchically integrated and coordinated partnership structure (Buvik & Grønhaug, 2000). Power imbalance determines which of the partners in an IB can influence the organisational structure of the IB, especially with regard to elements such as safeguards to protect investments into the partnership and remuneration and observation constructions.

Table 1.1: Inclusive instruments for smallholder integration into commercial value chains

Instrument	Description
Collective organisation	Groups 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.
Supply contract	Smallholder growing crops for commercial agribusiness based on pre-signed agreement.
Equity	Commercial entity with shared ownership between beneficiary (smallholders, community or employees) and commercial agribusiness.
Lease/ Management contract	Agreement between smallholders and commercial partner for the commercial entity to operate on the beneficiary's land. Payment based on benefit-sharing clause and/or fixed amount.
Mentorship	(Temporary) assistance to smallholder farmers to help overcome lack of knowledge on agricultural and business practices, as well as obtain market access.

Source: Author

The combination of these three theories motivates the stakeholders to implement certain instruments that facilitate the objectives as stated in each of the theories. These instruments are standard and not new by themselves. They are: collective organisation, supply contracts, equity, lease/management contract, and mentorship (Table 1.1). To overcome shortcomings of these individual instruments, and taking into account the case specific context of the partnership in the form of uncertainty and power asymmetry, the stakeholders interlink these standard instruments as motivated by the theoretical objectives related to dependency, efficiency and agency behaviour. Interlinking these concepts of the three theories predicts that different combinations of instruments will be embedded in the organisational structure. The particular business models that result are thus characterised as a combination of these standard instruments that serve as building blocks to create innovative hybrid business structures. An IB in this context is thus considered as the relationship between smallholder(s)/low-income community and a commercial partner as defined by the *combination of instruments* that is implemented. Not only does the combination of instruments vary, the way an individual instrument is implemented also differs per IB. For example, smallholder farmers can have equity in the IB, but this can range from a small minority to a majority share. Furthermore, the institutional set-up of an IB changes over time. A rigid typology of models lacks the versatility to accommodate for the heterogeneity,

complexity and flexibility of IB structures as influenced by the concepts outlined in the three theories. This has led me to refrain from providing such a typology of IBs, as attempted by other authors (Guidi, 2011; Vermeulen & Cotula, 2010 - see Section 1.2.3), but rather approach these partnerships as interlinked building blocks.

This short analysis of inter-organisational theory leads me to the first hypothesis:

> In a relationship characterised by uncertainty and power asymmetry, concerns regarding dependency, efficiency and agency behaviour motivate the implementation of a multi-instrument institutional structure to provide value creation and appropriation for both corporate and low-income partners within an IB.

Assessing inclusiveness of IBs

Whereas the first layer of the conceptual framework assesses and explains the complexity of the organisational set-up of an IB, it does not analyse the effect of combining multiple instruments on the IB partners. The second layer of the conceptual framework addresses this aspect as it relates to the inclusiveness of the partnership. The interlinked instruments create a specific structure that organises the way in which value creation and appropriation are shared between the commercial partner and the beneficiaries. This structure indicates the level of inclusiveness that is obtained within an IB. The processes of how an IB creates value and how this value is distributed between the partners can be assessed using four dimensions (Vermeulen & Cotula, 2010, p. 5):

- ***Ownership***: of the business (equity shares), and of key project assets, such as land, produce and processing facilities.
- ***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.
- ***Risk***: including commercial (i.e. production, supply and market) risk, but also wider risks specifically community risks.
- ***Reward***: the sharing of economic costs and benefits, but also non-monetary rewards such as skills development.

Although these four dimensions are closely interlinked, the expectation of a perfect correlation is false. For example, ownership influences voice, but board representation (as expression of ownership) does not necessarily align with equity; influence on price-setting affects benefits but other influences (e.g. need for re-investment) are equally important, and ownership influences risk but the latter also depends on financing methods (Vermeulen & Cotula, 2010:5).

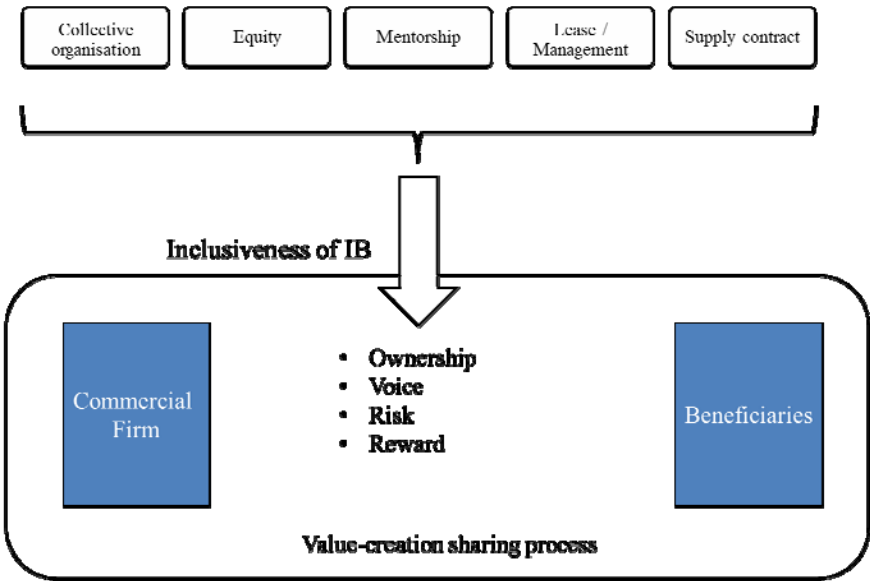


Figure 1.2: **Conceptual framework Phase II – inclusiveness**

Source: *Author*

The instruments implemented in the institutional set up of the IB impact on the way in which the value-creation and appropriation processes are shared (Figure 1.2). For example, equity implies shared ownership of assets within the IB, collective organisation allows for an increase in (collective) decision-making power, and a supply contract leaves (part of) the operational risk with the smallholder farmer. The instruments that are implemented according to the theoretical framework serve as a tool to determine the way in which the IB partners share in the value creation process that takes place within the IB. Equally important is the manner in which the instruments are being implemented. A small equity share in the IB does not result in the same level of inclusion as a majority share for the beneficiaries. Of particular interest for this study is how the instruments interact with each other and how this interaction impacts on the level of inclusiveness achieved by the beneficiaries.

While the 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, p. 5). For example, the same distribution of ownership, voice, risk and reward may have a very different outcome in practice due to the value chain in which an IB operates, or the capacities of the smallholders. It is therefore that a distinction is made between the level of institutional inclusiveness, or what is planned on paper according to the contractual arrangements, and the inclusiveness in implementation, when assessing IB inclusiveness (see Section 1.6.5).

According to the RDT aspect of the conceptual framework, a mutual interdependence underlies the establishment of an IB: both actors seek to benefit from resources of the IB partner, with the partnership aiming to be beneficial to both. Thus, adding an instrument to the organisational structure of the IB can be advantageous to either the agribusiness looking to increase the corporate performance of the IB, or to the smallholders/low-income communities wanting to increase their involvement in the partnership. Both aspects need to be addressed in order for the partners to come to an overall agreement that is acceptable to them. Thus, on paper, the IB as multi-instrument structure, offers a fair distribution of ownership, voice, risk and rewards, to be supported by all stakeholders.

However, it has been shown that the power asymmetry within an IB is tilted in favour of the commercial partner based on advantages in information, skills and financial capabilities (Reficco & Márquez, 2012; Vellema, Ménard, & D'Haese, 2016; Vorley, Lundy, & MacGregor, 2009). I posit that this imbalance allows this actor to control the actual implementation of the IB in a manner that prioritises the commercial performance of the IB over the inclusionary aspect. Whereas the developmental aspect that by definition is fundamental to an IB, remains, this motivation becomes inferior to the business aspect. This is expressed in a lower inclusivity in practice than what is envisaged on paper. As such, my second hypothesis is:

> Considering that power asymmetry between the partners in the IB favours the corporate partner, the interlinking of instruments in the organisational structure is anticipated to have a lower level of inclusion for the less-powerful low-income communities compared to what is anticipated on paper.

1.6 Methodology

This section addresses the methodology applied in this study. It argues the specific geographical scope applied, the research strategy selected for data collection, the case study selection and presentation. The research is split into two phases: the first phase analyses the institutional structure of each of the case studies, whereas the second phase concentrates on the determination of the level of inclusiveness. For each of the phases the method for field work and analysis of data is described.

1.6.1 Scope of field of study

South Africa has been selected as the site for this study. The case of South Africa is pertinent when IBs are considered. South Africa is affected by the afore-mentioned global developments of increasing concentration, globalisation and standardisation (Louw, Jordaan, Ndanga, & Kirsten, 2008). The country's agricultural value chain is characterised by a dual primary production structure and a highly concentrated processing and retail sector (Cochet, Anseeuw, & Fréguin-Gresh, 2015; Ledger, 2017). Whereas large-scale commercial farmers produce for both domestic and export markets, the approximately two million smallholders are mostly excluded from these marketing channels (Cochet et al., 2015). The combination of a high level of commercialisation and a large contingent of small-scale and subsistence farmers sets South Africa aside from both the developed world and the majority of the developing countries. But it is precisely this duality that offers significant opportunities for the establishment of IBs to create links between the two sector segments.

In addition, and in response, the national government has embarked on an ambitious programme of land and agrarian reform in order to rectify historical land expropriation that resulted in a high level of inequality in land ownership, and to drive transformation in the agricultural sector. Nevertheless, almost 20 years after the inception of land and agrarian reform measures, the racial disparity of land ownership and the agricultural sector still persists. This mainly results from the high rate of failure of many of the land reform projects (Binswanger-Mkhize, 2014; Kirsten & Machethe, 2005) and a continuation of the dominance of "white capital" (Helliker, 2013). Although policy and governance are often highlighted as major challenges, the failure to develop a vibrant (black) smallholder sector is also related to a lack of market access, managerial (financial management of commercial enterprises), and institutional aspects (non-recognised ownership structures and lack of access to credit)

(Anseeuw & Mathebula, 2005). IBs are expected to contribute to the transformation to a more equal agricultural sector.

Lastly, the South African government has recognised the potential agriculture can have for rural development and poverty reduction. In its National Development Plan (NDP) it identifies agriculture as the primary economic activity in rural areas and hence the main engine for rural job creation and economic growth (NPC, 2011). It is aware of the importance of stability for the existing commercial farmers but at the same time puts smallholder farming at the centre of rural development. However, only on a few occasions does it mention the possibility of partnerships between commercial firms and small farmers and landholders. For its part, the Department of Agriculture, Forestry and Fisheries (DAFF) has expressed the need for collaboration between the private sector, communities and government in order to achieve "employment through inclusive economic growth" and "Vibrant, equitable and sustainable rural communities contributing towards food security for all" (DAFF, 2013:x). The highly dualistic structure, combined with a policy environment focused on transformation makes that South Africa is at the forefront of establishing innovative and highly complex IBs in the agricultural sector.

1.6.2 Research strategy – A case-study approach

The object of this study is the organisational structures of IBs, and, subsequently, their outcome in terms of inclusiveness. This is reflected in the relationship between the commercial agribusiness and the smallholder beneficiaries as defined by the combination of instruments. These relationships are increasingly complex in their implementation. The first aim of this study is to provide an overview of these IB structures, answering the important questions of *how* these structures can be defined and *why* they are so complex. The criticality of the how and why question, combined with the complexity of this contemporary phenomenon lends this research suitable to a case study approach (Yin, 2009), which explores both the context in which an IB is established and the processes during the establishment as well as in the actual implementation (Meyer, 2001). The second aim, determining the level of inclusiveness of each of these types of IB, adds to the need for a holistic approach, including all stakeholders into the data collection process. This further builds the reasoning for a case study approach (Yin, 2009).

The case study approach allows me to firstly provide a descriptive analysis of complex IB organisations. Secondly, the insights generated from multiple case study evidence enable me to validate the theory presented in Section 1.5 that provides a framework explaining the specific combination of instruments implemented by an IB (Eisenhardt, 1989b). Implementing a multi-case approach is not only essential for the inventarisation objective of this study, the pluralist perspective of the phenomenon increases the validity of the proposed theoretical framework (Meyer, 2001). The embedded nature of this case study approach allows for the analyses of different levels per case and thus serves the multiple objectives of this research namely: to explore and make an inventory of the complexity of the IB phenomenon in their specific context, to build theory to explain this complexity, and to assess the relationship between organisational set-up and level of inclusiveness of these IBs.

1.6.3 Case study selection

Case studies were identified through a snowball random sampling approach. An initial selection was done based on key informants such as project participants, university researchers and practitioners. Additional cases were identified based on referrals by these initial cases. Lastly, sector specific publications, such as Agridigest, made further cases visible. For these cases, where no referral or previous contact existed, a convincing case had to be made to the stakeholders to participate. Cases were added during the first year of the research period after which no further cases were accepted due to time constraints.

For inclusion into the study two selection criteria were pertinent: diversity and sustainability. With regard to the first criterion, case study selection is motivated firstly by the variety of organisational structures and type of beneficiaries involved, which is greatly diverse with no duplication of a particular set-up. Only a few of the selected cases have a similar set-up, but still show crucial differences in important details. In addition, polar examples enable a more thorough verification of the proposed conceptual framework (Eisenhardt, 1989b), and allow me to obtain the richness in information required for determining the inclusiveness of specific IBs and IBs in general. Duplicate cases would have given further insight in impact of context and reduce observer's bias (Eisenhardt, 1989b), but, given the limited time frame, priority was placed on uniqueness to understand the overall organisational diversity. The occurrence of a diversity of elements was also necessary to capture the different contexts in which IBs

operate. Cases thus cover several sub-sectors and commodities, beneficiary types, and are geographically spread over the country (Table 1.2).

The second criterion of sustainability dictates that the case studies have managed to move beyond the inception phase and have succeeded to remain operational. For constructive and thorough assessments, sufficient time must have passed since the implementation of the IB to demonstrate a level of sustainability and to establish the roles and responsibilities of the stakeholders. Furthermore, the presence of continuing productive activities was required, so as to be able to assess effective undertakings. Importantly, maturity of the IB allows for the individual beneficiaries to gain experience regarding their inclusion into the IB, which is particularly required for phase II. Lastly, IBs which have been successfully operating for a number of years allow insight into potential changes in their organisational structures over time. On the other hand, the drivers for the different parties during the negotiation stage are only available retrospectively and might be coloured by subsequent experiences as a consequence (Meyer, 2001). Failed cases, which could provide specific insight in what does not work, were not intentionally neglected but proved inherently difficult to assess considering the concerned actors are often not available anymore, if they can be traced at all. This indeed proved to be the case when approaching the halted Westfalia avocado scheme involving smallholder farmers to supply leading retailers, and the IDC supported berry initiative in the Free State that had collapsed. The few interviews with stakeholders of these failed projects did inform some of the challenges identified in the remaining case studies and did contribute to the recommendations in Chapter 5.

Two cases (Heiveld Cooperative and Arieskraal farm) did not cooperate as they expected disturbance to their operations from the interviews. The total number of cases interviewed in Phase I initially amounted to 18 IBs, of which two cases (Benoni Farm and Mthinkhulu Farming) are single-instrument IBs and hence are excluded from further analysis. Another two cases are excluded from the analysis due to an insufficient time since inception (Ncera Macadamia) and a failure to implement the inclusiveness concept of an operating workers trust in the face of overarching operational challenges to establish the farm (Amathole Berries). These cases nevertheless provide insights especially regarding the experience with the mentorship instrument and the initial stages of the establishment of a new farm along an inclusive business structure. The analysis hence comprises 14 cases (Table 1.2).

Table 1.2: Case study basic characteristics

Case Study	Area	Province	Year inception	Sub-sector	Market	Beneficiaries
Blue Mountain Berries	257ha	Western Cape	2006	Blueberries	Export	60 farm workers
Bosman Vineyards	430ha	Western Cape	2008	Vines, wine	Domestic / Export	260 farm workers
Gxulu Berries	9ha	Eastern Cape	2011	Blueberries	Domestic	217 community households
Katmakoep Boerdery	103ha	Western Cape	2009	Dried grapes	Domestic	5 farm workers
Mondi Paper	4,000ha	KZN	2008	Paper	Domestic / Export	1,660 land claimant households
Mphiwe Siyalima	672ha	Gauteng	2009	Vegetables, maize, cattle	Domestic	1 emerging farmer
New Dawn	1,050ha	Limpopo	2007	Tropical fruit	Export	1,615 land claimant households
Richmond	2,434ha	Limpopo	2009	Tropical fruit	Export	1,615 land claimant households
Seven Stars Trust	731ha	Eastern Cape	2009	Dairy	Domestic	36 landowners
TechnoServe – Massmart	±185ha	Limpopo	2012	Vegetables	Domestic	80 smallholder farmers
TechnoServe – Nwanedi	±200ha	Limpopo	2013	Butternut	Domestic	50 smallholder farmers
THS – Simamisa	±6,700 ha	KZN	2012	Sugar	Domestic / Export	6,600 landowners
THS – Vuselela	3,700ha	KZN	2009	Sugar	Domestic / Export	2,555 landowners
WUFA	±200ha	Gauteng	2002	Citrus, vegetables	Domestic	74 smallholder farmers

Source: Author

1.6.4 Phase I - The institutional set-up

The institutional set-up of the IBs was assessed through semi-structured interviews. The main topics of the interview were fixed, and incorporated the inception and development of IB, the drivers of the stakeholders to engage in the partnership, the structure of the IB and financial support received, management and performance of the IB, success factors, and challenges faced. To allow for the exploratory nature of the research, these topics were covered by asking open questions. The aim was to consult the IB manager, the manager of the commercial partner (in several cases the same person), and a beneficiary representative. Where applicable, external partners such as mentors or funders, were included in this phase (

Table 1.3).

Fieldwork

Field work for Phase I commenced in October 2013 and continued until August 2015. Each visit took 2-4 days, enabling the different stakeholders to be interviewed. The visits ended with a feedback session with the IB manager to clarify aspects where stakeholders had provided unclear or contradictory information. Additional clarification questions that arose during the analysis of the data were posed via email to the respective stakeholder. For the field work activities I was supported by students whose on-going work related to IB cases included in my study. In addition, I supervised a number of MSc students whose research project was directly derived from my study. Information from the interviews was supported and triangulated by written documents. These included trust deeds, production figures, corporate documents and other previously published material (Table 1.4).

Despite the generally cooperative nature of most of the respondents, a number of stakeholders did not consent to an interview. This mostly relates to external funders such as the Eastern Cape Development Corporation or government representatives. Their roles were described by other stakeholders in the IB that were interviewed, but this information could not be verified or contextualised by the actors themselves. A further challenge was found in obtaining internal documents relating to the financial performance of the IB. In some cases, it was stated that these were confidential. In other cases promises to email the relevant documents were not kept, despite numerous reminders. Performance details would have provided more depth to some cases, particularly for New Dawn, Richmond, THS Vuselela and Simamisa.

Table 1.3: Interviews per stakeholder category – Phase I

Case name	IB management	Commercial partner	Beneficiary representative	External stakeholder	Time of field visit
Blue Mountain Berries	Farm manager	Is IB manager	Workers trust chair person	Financer	Dec. 2013
Bosman Vineyards	*IB manager*	*Is IB manager*	*Workers trust chair person*	*Workers union representative Government representative*	*Oct. 2013*
Gxulu Berries	Farm manager	Manager offtaker	Employee representative	Farm mentor, business mentor	March 2014
Katmakoep Boerdery	*Farm manager*	*Is IB manager*	*Phase II*	Subdivided farm owner	*May 2014*
Mondi Kranskop	Mondi Land Manager	Mondi Head of Land	Chairpersons both CPAs and community businesses	-	March + July 2014
Mphiwe Siyalima	*Farm owner*	Director Finance McCain	N/A	-	*April 2014* Aug. 2014
New Dawn	*Farm manager*	*Is IB manager*	*Chairperson CPA*	-	*April 2010 Nov. 2012 Nov. 2014*
Richmond	*Farm manager*	*Is IB manager*	*Chairperson CPA*	-	*April 2010 – Nov. 2012 Nov. 2014*
Seven Stars Trust	Farm manager	CEO	Chairperson landowner co-op Chairperson board of trustees	-	Nov. 2014
TechnoServe – Massmart	Senior Business Advisor NGO Packhouse manager	Supplier Development Lead Massmart	Phase II	Senior strategic advisor NGO	Aug. 2014
TechnoServe – Nwanedi	Senior and two junior business advisors NGO	-	Phase II	Senior strategic advisor NGO	Oct. 2014
THS – Simamisa	Director and pre-implementation mgr Simamisa	Mgr Cane Development THS	Chairpersons of three landowner cooperatives	-	Aug. 2014
THS – Vuselela	Small scale grower manager THS	*Land reform manager THS*	Chairpersons of two landowner cooperatives	-	*Oct. 2013* + Sept. 2014
WUFA	*WCP manager*	-	Chairperson farmers association	-	*2010* + Aug. 2015

Source: *Author*

Note: *Stakeholders in italics were interviewed under my supervision*

Table 1.4: Literature sources – Phase I

Case name	Official documents	Corporate documents	(Semi-) Academic publications	Media	Other
Blue Mountain Berries	Deed workers trust			Farmers Weekly	Employee household survey
Bosman Vineyards	Deed workers trust				
Gxulu Berries		Mentor report		Newspaper clippings	
Katmakoep Boerdery					
Mondi Kranskop	Trust deed and beneficiary lists	Sustainable development report, Press releases	Two IIED reports (Cotula & Leonard, 2010; Vermeulen & Cotula, 2010)	Farmers Weekly, SA Forestry	Financial documents
Mphiwe Siyalima				Newspaper clippings	
New Dawn	Lease and shareholder agreements	Mentor brochure	PhD thesis N. Davis IIED report (Lahiff et al., 2012)	-	Large number of CPA reports and newsletters
Richmond			PhD thesis N. Davis IIED report (Lahiff et al., 2012)	Newspaper clippings	Large number of CPA reports and newsletters
Seven Stars Trust	Shareholders agreements Sharemilk agreement Trust deed Lease contract	Corporate brochure		AGRIdigest	District municipality Cooperative Case Studies report
TechnoServe – Massmart		Supplier Development Report Massmart TNS Evaluation report TNS SWOT analysis			Farmer score cards
TechnoServe – Nwanedi					Farmer score cards
THS – Simamisa		Simamisa corporate presentation			
THS – Vuselela					Planting reports Cooperative lists Cooperative monthly report
WUFA		Supply figures WCP to MCC	MSc thesis K. Banda Report on agricultural contracts (Anseeuw et al., 2011)	Engineering news NPA press release	Member farm details

Source: Author

Analysis

The analysis of this first phase started with a description of each case study according to a standardised format. This process allowed for familiarisation with each of the unique cases and served as preparation for the cross-case evaluation required for theory building (Eisenhardt, 1989b). The description started with the inception, financing and implementation of the IB to gain insight into the stakeholders' drivers in the form of their interdependencies, and the instruments implemented to overcome these interdependencies and the uncertainty related to them. The outcomes at the project level, the successes and challenges illustrate the efficiency obtained in the performance of the project, and how the beneficiaries (as agents) are observed. The assessment of sustainability and scaling potential serves as an outlook to the future and provides an answer to the questions if and how the particular set-up can contribute to the overall objective of rural development. A graphical representation covering the stakeholders and financial flows, overlain with the instruments, was drawn up for each of the IBs. The case study description also provides a delineation of the four dimensions of inclusiveness that form the basis of the Phase II analysis. These case study descriptions are included in Appendix A. Describing all the cases provided an in-depth insight into the drivers of the stakeholders involved but also the development of the IB as a project and the engagement of the beneficiaries over time. A central stakeholder per IB, in most cases the commercial partner, provided a fact-check of this case study description.

The second step in Phase I was to cross-analyse the cases by applying the three-tier conceptual framework consisting of RDT, TCE and AT, depicted in Figure 1.1. This analysis provides a conceptual understanding of IBs as hybrid multi-instrument set-ups. At the basis of this analysis are the ex-ante dependencies that trigger the numerous IBs, and how additional instruments are subsequently implemented in the different IBs to address the efficiency and agency behaviour concerns. The results of this analysis are presented in Chapters 2 and 3. The theoretical construct is built inductively by identifying the common elements and recognising patterns in Chapter 2. In Chapter 3, this inductively built framework is then applied to the 14 case studies to motivate the multi-instrument structures observed in the field. As such, there is a reciprocal relationship between theory building and the empirical evidence. The thorough understanding obtained from the detailed case description facilitated the ease of this inter-case comparison.

1.6.5 Phase II – Inclusiveness measurement

As mentioned in Section 1.5, inclusiveness is determined for two situations: that which is potentially achieved based on the institutional set-up when the IB is established, and that which assesses the actual implementation on the ground. The first assessment, labelled the 'institutional set-up' inclusiveness, is based on how the interlinked instruments are to be implemented. This assessment indicates how the beneficiaries are to be included on paper and is determined by the analysis of the institutional set-up done in Phase I. However, it is important to also assess how this structure is applied on the ground as illustrated in the assessment of the so-called 'implementation' level. For this second assessment, it is imperative to integrate the experiences and views of the smallholders/low-income community members to establish a true understanding of the inclusiveness achieved in the actual implementation of the IB. Such insights are equally essential to establish if an IB in particular, and IBs in general, can form a pathway for transformation and development. This part of the study consisted of a second round of field work, the development of an inclusiveness scoring mechanism, and the analysis of the scoring results.

Fieldwork

To obtain the experiences of the beneficiaries, a semi-structured survey was conducted. This survey was adapted to suit the individual cases. For example, questions relating to crop details were omitted for IBs where individual beneficiaries were not actively farming the land in the IB, whereas questions relating to collective organisation were redundant in IBs where such an organisation was not part of the organisational structure. This approach allows for comparison between case studies as well as within an individual case. Appendix B contains an example of this survey used for the specific case of TechnoServe-Massmart, as one of the more complex cases that covers most of the survey segments.

Sampling of individual beneficiaries in this phase of the study was done by random selection from lists of beneficiaries provided by the IB in phase I, such as lists of CPA or cooperative members. Targeted sample sizes depended on the overall size of the beneficiary population and the type of beneficiary involved. For projects that incorporated active smallholders (Mphiwe Siyalima, the two TechnoServe cases and WUFA), a minimum of 50% of the beneficiaries was targeted. The target for cases set up as an employee equity share scheme (Blue Mountain Berries, Bosman Vineyards and Katmakoep Boerdery) or with a small

number of beneficiaries (Seven Stars Trust) was 30%, whereas the large cases without direct beneficiary engagement in the IB activities (Gxulu Berries, Mondi, New Dawn, Richmond and both THS cases) was set at 5%. The difference in targets is firstly motivated by the extent of the involvement of the individual beneficiaries in the IB. The reasoning is that a higher level of engagement results in more detailed and more diverse insights from the beneficiaries. To capture the wider range in different perceptions requires a larger sample size. Secondly, whereas the sample size for the larger groups might be smaller from a percentage view, the absolute number of beneficiaries interviewed can be higher than for the smaller cases. The maximum number of beneficiaries per case was set at 50. This number allowed for a comprehensive insight into the beneficiaries' experiences whilst limiting the time and resources required to complete the surveys.

Table 1.5: Sample size individual beneficiaries per case – Phase II

Case	Sample size	Total number of beneficiaries	Sample as % of total population
Blue Mountain Berries	23	60	38.3
Bosman Vineyards†	0	260	-
Gxulu Berries†	16	217	7.4
Katmakoep Boerdery	5	5	100.0
Mondi Kranskop	52	1,660	3.1
Mphiwe Siyalima	1	1	100.0
New Dawn	76*	1,615*	4.7
Richmond			
Seven Stars Trust	26	36	72.2
TechnoServe – Massmart	10	80	12.5
TechnoServe – Nwanedi	29	50	58.0
THS – Simamisa	40	6,600	0.6
THS – Vuselela	48	2,550	1.9
WUFA†	0	74	-

* *The New Dawn and Richmond projects have the same beneficiaries. The interviews with these 76 beneficiaries covered their experiences with both IBs.*

† *The Bosman Vineyards and WUFA cases were excluded from Phase II. For Gxulu Berries only community members working on the farm were interviewed, which is not an objective representation of the total population.*

Source: Author

Surveys with individual beneficiaries were not conducted for two cases due to time and resources constraints. The WUFA case was the last case to be added to the study, leaving only time for Phase I. Considering the overall limited time and resources, it was decided not to include Bosman Vineyards, taking into account that the structure of this IB resembles that of Blue Mountain Berries (BMB). Whereas the experiences of the individual beneficiaries between the IBs differ, the mechanisms of inclusion nevertheless are similar for the BMB and Bosman cases. Thus, the inclusiveness scores for WUFA and Bosman Vineyards are based on the inputs from the beneficiary representatives (and other stakeholders) interviewed during Phase I. For the Gxulu Berries case, which was also added late in the research, time constraints limited interviews to those community members employed by the IB, not including community members without direct involvement in the project. Whereas this provides a detailed understanding of the experiences of this particular group, it is not a representative sample of the total community. Hence, these insights are not used in the overall inclusiveness assessment. Table 1.5 presents the sample size per case for Phase II of the study.

Challenges encountered during the survey relate to two specific aspects and apply to the larger cases. Firstly, considerable confusion exists within the communities regarding who is a beneficiary and who is not. The distinction between membership of a Communal Property Association (CPA) as the IB partner, and being part of a land claimant community is not clear to many people (Mondi, New Dawn and Richmond cases). This is particularly relevant for descendants of historically displaced families, where only one of the siblings holds CPA membership. Nevertheless, all siblings consider themselves as beneficiaries. Not only did this confusion obstruct the efficient identification of beneficiaries, it also hampered the process to gain concise insights that relate to the IB in particular, rather than the wider community dynamics. For the particular cases of New Dawn and Richmond, which have the same beneficiaries, an additional complication was beneficiation through the membership of the CPA and inclusion through employment. For these cases, insights were obtained both from CPA members not directly engaged with the IBs and those members employed by the IBs. Additional interviews were held with non-beneficiary employees to contrast their experiences but were not included in the further analysis in this study.

The second challenge relates to the large geographical area, with limited physical infrastructure and unclear addresses, over which beneficiaries are spread. For efficiency

purposes, individuals were selected that live in close geographical proximity to each other and who were relatively easily accessible, leading to a geographical bias. To minimise this bias, a concise effort was made to incorporate individual beneficiaries from multiple collectives to capture the potentially different dynamics within each of these groups. Furthermore, a number of leaders of other groups were included in the survey to incorporate their particular experiences. These two challenges lead to a cumbersome process of field work.

Analysis and scoring mechanism

Combining the information from the Phase I interviews and Phase II survey allows me to gain insight into the inclusiveness within the projects. To determine how beneficiaries are included in the value-creating and accumulation processes within the IB, a scoring mechanism is designed based on the four dimensions outlined in Section 1.5, namely ownership, voice, risks and rewards (Vermeulen & Cotula, 2010). Each of these dimensions is divided into three categories to gain further insight into the specifics of these broad dimensions, resulting in 12 categories overall. These categories are then scored from one to five points, resulting in an overall score per dimension between three and 15 points that indicates the extend of inclusion of the beneficiaries in the IB for that particular aspect of the value-creation process (Table 1.6). Scores are high where beneficiaries have a high or even complete contribution to a category. Where beneficiary contribution is absent, the score is the minimum of one point. Shared contribution between beneficiaries and the commercial partner result in intermediate scores.

A few notes need to be made regarding the scoring mechanism. Firstly, the presented assessment relates to the set-up and implementation of an IB as overall business operation. It does not assess absolute numbers, such as the amount of rent received, the value of assets owned, or the number of beneficiaries trained. Whereas this allows for comparing IBs of different sizes, it might exaggerate the extent of inclusion; stakeholders implement a minimum of value-sharing, but generate a high score. Related to this point is that the methodology is not an impact assessment or evaluation; it does not compare a before and after situation, nor does it analyse the performance of the IB, or look at either positive or negative effects of the IB. Thirdly, this assessment largely relates to the overall degree of equality within the IB partnership, it does not fully evaluate the impact on the individual beneficiaries. Whereas the IB as a partnership might have a relatively high inclusiveness, this

does not necessarily trickle down to the individual members. Particularly where large collectives are involved, this lack of individual impact is observed (Chamberlain & Anseeuw, 2017). Furthermore, existing inequalities are likely to have an effect on the level of impact at an individual level (Sabates-Wheeler, 2008). Thus, whereas certain smallholders might be impacted positively, others can consider the IB's impact as negative. Lastly, spin-off effects of the IB through community linkages are not included in this measurement as these do not pertain to the internal structure of the IB. The methodology presented here aims to provide insight in the value-sharing potential of the institutional structure of IB as combination of standard instruments, it is not an overall or individual impact assessment.

The analysis of the inclusiveness scores compares the level of value sharing based on the institutional set-up performance in the actual implementation. The critical factor in this analysis is how the instruments interact in reality versus the theoretical expectation as rationalised in the conceptual framework. As such, the analysis can identify pitfalls of IBs as well as opportunities to increase the developmental impact of these partnerships. The results pertaining to the inclusivity aspect of this study are presented in Chapter 4.

Table 1.6: Scoring mechanism per category

		Score (high = most inclusive)				
	Categories	**5**	**4**	**3**	**2**	**1**
Ownership	**Land + fixed assets**	Individual land and collectively-owned assets	Individual land, no collectively-owned assets	Collectively owned land and assets	Land and assets shared between collective and commercial partner	Commercial partner OR Rent
	Moveable assets	Individual beneficiary all assets	Some individually owned, some collectively owned	Collective OR Some individual, some other	Shared between collective and commercial partner	Commercial partner
	Produce	Individual all	Some individual, some off-taker	Collective	Shared between collective and commercial partner	Commercial partner/off-taker
Voice	**Pre-implementation**	Impact on governance structure, partner, and opt-in/out decision 1 point each; 2 points if voice belongs to individual, 1 for collective engagement in negotiations, with individual feedback loop				
	Day-to-day and IB operation	Part individual + commercial partner, part independent individual with additional involvement in collective	Part individual + commercial partner, part independent individual	Individual + commercial partner OR Collective	Collective + commercial partner	Commercial partner
	Medium to long-term	Impact on strategy, structure 2 points each for individual voice, 1 point for collective voice; opt-in/out option for individual beneficiary, 1 point				
Risk	**Financial**	Individual funds (incl. loan financing)	Individual funds plus grant/ commercial partner support	Collective funds (incl. loan financing)	Collective funds plus grant/ commercial partner support	No financial commitment for beneficiaries
	Operational	All for individual	Individual shared with beneficiary collective	Individual shared with collective and commercial partner OR all for collective	Shared between collective and commercial partner	No operational risk for beneficiaries
	Community	1 point each for membership, individual behaviour, collective leadership challenges and external frictions				No community / collective risks
Reward	**Market access**	Input, output, credit: 1 point each if collectively, 2 points each for individual access. Maximum score 5 points. Total 1 point if market access is as IB.				
	Financial	Rent, produce and dividends/assets: 2 points each for individual income, 1 point each for collective income; 1 point for income for IB as whole				
	Employment & skills	Jobs exclusively for beneficiaries: 2 points; shared with wider community: 1 point; operational training: 1 point; external training: 1 point; bursaries: 1 point. Experience through IB participation default 1 point.				

Source: Author

1.7 VALUE-ADDITION AND ADDITIONAL RESEARCH OPTIONS

This study is a significant step in understanding the complexity around IBs in the agricultural sector. It does this firstly by conceptualising IBs as a relationship between a commercial partner and smallholder farmers/low-income communities that is characterised by the combination of standard instruments into the organisational structure. This allows for a standardised characterisation of an IB, while still presenting the intricate complexities of each case. Applying the method of the combination of standard instruments moves beyond the case study descriptions that have dominated research into this topic so far. Being able to typify or characterise an IB makes comparing IBs possible, at least from an organisational perspective. The conceptualisation method in this study importantly offers new insight into how these IBs work, and motivates these mechanisms. Understanding the drivers of the stakeholders and why they choose to implement particular instruments in a specific manner, provides opportunities to influence the context in which these IBs operate in a way that not only stimulates these partnerships, but more importantly, ensures that they can be more equal and sustainable.

The second contribution of this study is the insight into who these IBs work for. The conceptualisation of IBs is the basis of this inclusiveness evaluation. It provides a tool to assess how the interaction between instruments can aid or obstruct beneficiary participation. The methodological analysis of the inclusion of beneficiaries into the value-creating and appropriation processes within the IB sheds light on the vital question if and how the smallholders/low income communities are effectively included in the IBs. IB partnerships will not be a pathway for rural development and agricultural transformation if true inclusion does not take place within these partnerships. This study contributes to enhance the potential for IBs as developmental tool, through a focus on the institutional structures and distribution of value-sharing activities between commercial actors and beneficiaries.

This study provides a holistic framework for the assessment of inclusive businesses. As such, it provides a platform for further study into this wide arena in which these businesses operate. Additional research applying the conceptual framework and methodology outlined in this study can be conducted in numerous spheres to further build understanding of IBs and hence facilitate the benefits for all stakeholders: beneficiaries, commercial partner but also

governments, funders and other supporters. As such, expanding the research into other geographical areas and sectors will add to the insights obtained from this study. Policy frameworks and the structure of the studied sector are among the parameters that are likely to impact on the structure and success of the IBs that are implemented, and thus will result in alternative structures. Equally important is to expand the study into failed IBs. It is important to gain a deeper understanding why certain IBs fail, and what the consequences of such failure are. Successful and failed IBs are two sides of the same coin, and thus require equal understanding to ensure future IBs do not fall into the same trap of failure as previous IBs.

The results in this work are based on a singular observation per case study. Most IBs are still in a developmental phase and have not yet reached maturity. Effects on the long-term benefits are therefore not yet clear. Research applying a longitudinal approach will shed light onto the development of both the organisational structure of the IB and the level of inclusion obtained and experienced by the beneficiaries. This study contributes to the understanding of an initial IB structure. But, it needs to be taken into account that institutional structures partly emerge from a series of ever-changing relationships, opportunities and experiences, within the IB, and in the wider operating environment (Guidi, 2011). Moreover, growth over time is essential for an IB to continue its contribution to rural development. This requires strategies to scale in, scale up and scale out (Chamberlain & Anseeuw, 2016). Future adjustments required to adapt an institutional set-up to scale are not in the scope of this study, and need further attention to ensure an understanding of the on-going impact of IBs.

The last area of potential research lies in a further development of the assessment of the wider impact of the IB. Rural development and poverty reduction only partly depend on the internal operation of the IB. But an IB does not operate in isolation. Instead, it establishes numerous linkages with the community where it operates. An IB can purchase inputs such as fertilisers from local businesses, it provides employment for the rural community, the wages earned by its workers can stimulate the local economy, or the IB can engage in corporate social investment for example by sponsoring a local school. These linkages are likely to vary largely between IBs, and, in turn, this will have an impact on the contribution by the IB to local development. In addition, specific impacts from IB participation on the beneficiaries such as food security, social standing and empowerment equally contribute to the overall effect the IB has on the community it operates in. To fully understand the potential of IBs on

rural development, these livelihood aspects and local embeddedness need to be further researched.

This study provides a holistic platform to extend into further research into alternative contexts in which IBs operate, and the wider and deeper impact of these partnerships.

1.8 OUTLINE

This thesis consists of four chapters which each have been submitted as separate papers for publication in diverse academic journals. These chapters cover a specific aspect and together form a comprehensive insight into the two main aspects of this study and hence the overall research question.

In Chapter 2 the theoretical framework is elaborated with an illustration and application by the specific scenario of a contract farming arrangement in two different IB set-ups, despite operating in a similar context. This chapter presents a detailed analysis of why a partnership is established and how instruments work together to achieve the objectives of the stakeholders in the partnership.

This is further expanded in Chapter 3 which extrapolates the conceptual perspective of IBs as combination of standard instruments to the remaining case studies and further explores how the different instruments are combined. The in-depth analysis combined with the wider application to a range of unique set-ups provides a comprehensive insight explaining the complexities of the institutional structure of IBs. Based on this analysis, crucial aspects to enhance the positive impacts, at IB level but specifically for the beneficiaries, are identified.

Chapter 4 delves into the analysis of the inclusiveness obtained by the IBs studied. The four dimensions of inclusiveness (ownership, voice, risk, reward) are analysed both from and institutional and implementation perspective. This chapter illustrates the relationship between the instruments implemented in the organisational structure and the degree and way in which the beneficiaries are included, or excluded from the value-creation processes in the IB.

Chapter 5 combines the insights from the first three papers to provide an answer to the larger question if IBs are truly a tool for development or merely a way to increase corporate control.

It provides insight into if and how IBs can contribute to the specific political objectives of agricultural transformation and land redistribution. It outlines the structural shortcomings of IBs and the conditions under which the IBs can become successful and sustainable entities. Lastly, it provides recommendations for policy makers that can be applied to ensure IBs lead to a more equitable development of the agricultural sector.

In conclusion, Chapter 6 summarises the results pertaining to both the complexity of IBs as organisational structure and the actual level of inclusion of the communities that are to benefit from these projects. It revisits the conceptual framework presented in this introductory chapter to evaluate its validity. Based on the findings described in Chapters 2-5, it furthermore assesses the hypotheses posed in Section 1.5 and answers the overall research question that is central to this work. Lastly, it outlines areas for further research to strengthen, widen and deepen our understanding of the mechanisms and potential of inclusive businesses.

CHAPTER 2 CONTRACT FARMING AS PART OF A MULTI-INSTRUMENT INCLUSIVE BUSINESS STRUCTURE: A THEORETICAL ANALYSIS[3]

2.1 INTRODUCTION

Inclusive businesses (IBs) in this work are considered as complex organisational structures that create partnerships between a commercial agribusiness and smallholder farmers/low-income communities. One of the instruments that make up these structures is contract farming (CF). A large body of literature exists on CF, focusing on aspects such as the contractual agreements (Allen & Lueck, 1992), the potential for smallholder farming in developing countries (da Silva & Ranking, 2013; Prowse, 2012), the impact of CF on these smallholders (Bellemare, 2012), and the challenges of CF (Eaton & Shepherd, 2001) as well as other thematics. Although most of these publications look at CF as a single tool for farmers to become integrated in the commercial value chain, some authors have highlighted the option for CF to be supported by additional instruments, mainly in order to overcome known challenges (e.g. da Silva & Ranking, 2013; Glover, 1987; Prowse, 2012). In South Africa various examples of set-ups are found that go beyond traditional CF arrangements, incorporating CF in a complex Inclusive Business (IB) set-up (Fréguin-Gresh & Anseeuw, 2014; Röttger, 2004). These complex IBs can take many forms by including different instruments (collective organisation, equity, mentorship, lease/management contract) in varying set-ups, all structured around a traditional supply contract. Little is yet understood about the drivers that lead to these complex contracting arrangements, or about the way they are structured and operate. Whereas CF has been explained from a Transaction Cost Economics approach (Bijman, 2008; Kirsten & Sartorius, 2002a) or by Agency Theory (Clemente & Galvão da Silva Júnior, 2013; Vavra, 2009), the current trend of utilising multidimensional relationships beyond a single supply contract requires revisiting and complementing these theoretical approaches.

This chapter aims to gain insight into how different theories contribute to the institutional set-up of IBs that have incorporated CF. Using aspects of Resource Dependence Theory (RDT), Transaction Cost Economics (TCE) and Agency Theory (AT), the chapter explores why and

[3] This chapter is adapted from:
Chamberlain, W.O. and Anseeuw, W., 2017. Contract farming as part of a multi-instrument inclusive business structure: a theoretical analysis. *Agrekon*. 56(2), pp. 158-172. DOI: 10.1080/03031853.2017.1297725

how two contracting arrangements, which have similar objectives, diverge in the institutional set-up implemented. Thus, two new elements for the existing literature on CF are brought to the fore. Firstly, this chapter looks at CF set-ups that operate in conjunction with other instruments in complex IBs. It analyses the interaction between these instruments rather than the separate instruments by themselves. Previous work is lacking in the theoretical analysis of these complex entities. Secondly, the theoretical approach is of a holistic nature. By applying the three theories, the institutional set-ups are not seen in isolation, rather a broader view is attained which covers aspects of the internal efficiency (TCE), the relationship between the partners (AT), and the relationship with the operating environment (RDT). Whereas CF in the framework of the individual theories has been described in numerous publications (Bijman, 2008; Kirsten & Sartorius, 2002a), this work presents an overall framework in which the three theories, TCE, AT and RDT, interact. It argues that the three theories conjoin to determine the set-up of the partnership eventually constructed by the stakeholders. This framework can then be used for the conceptualisation of a wide range of IBs that are not necessarily centred on a supply contract.

Although the chapter is theoretical in nature, it is based on empirical research. The analysis contains two cases involving emerging farmers who are supported by an intermediary NGO which mentors the smallholders within the framework of a supply contract. Information was obtained through semi-structured interviews with all stakeholders, including representatives of the offtaker, the implementing agent (mentor) and a representative sample of 10 smallholders in case A, and 27 farmers in case B. Semi-structured interviews allowed for gaining an in-depth understanding of each of the stakeholder's insights, whilst maintaining a structure that covered the same central themes, which subsequently could be compared. Follow-up questions provided clear answers in cases of contradictory information received from the different respondents during the formal interviews. Data was further triangulated by the use of annual scorecards kept by the mentor detailing production data of the individual smallholders. Applying both quantitative and qualitative data, as well as including different stakeholders, increases the internal validity of the cases researched (Eisenhardt, 1989b; Yin, 2009).

The chapter is built up of six sections. Section 2.2 presents a short overview of the existing literature on CF and how this instrument fits into a more complex IB structure. Section 2.3 presents the theoretical framework outlining the three theories in detail. The two case studies

are described in Section 2.4. These sections set the scene for the theoretical rationalisation of the institutional set-ups in Section 2.5, applying the theories outlined in the theoretical framework section. The chapter rounds off with a conclusion (Section 2.6).

2.2 CONTRACT FARMING AS PART OF COMPLEX INCLUSIVE BUSINESSES

CF has been promoted as an instrument to promote smallholder farmers' access to commercial markets, both domestically and globally (da Silva & Ranking, 2013). Although CF takes many forms such as the centralised and multipartite model (Eaton & Shepherd, 2001), the common idea in developing countries is that a commercial firm provides inputs to (resource-poor) farmers who agree up front to deliver their crops to this commercial offtaker. Control over the production process is usually shared between offtaker and farmer. Contracts typically specify items such as quantity, quality, time and price determination (Singh, 2002).

In a nutshell,[4] for the commercial firm, the benefits lie mainly in the increased control over its inputs. The firm knows how much produce it can expect and when. Partial control over the production process also results in higher reliability in the standard of produce supplied (Bolwig, Gibbon, & Jones, 2009; Guo, Jolly, & Zhu, 2007). Short-term contracts allow for flexibility in quantity sourced, as firms can adjust the quantities sourced through contracts depending on their anticipated demand (Miyata, Minot, & Hu, 2009). Own farming activities do not offer this flexibility owing to the high sunk costs that need to be recovered. Supply contracts prevent challenges related to own production, such as labour unrest (Clapp, 1988), or production risks (Watts, 1992). In addition CF, certainly in developing countries, can be seen as beneficial for the firm's social image as it is considered to be of developmental impact for the contracted smallholders (Baumann, 2000). Smallholder farmers, on the other hand, potentially benefit from access to markets, technology and inputs (Simmons, Winters, & Patrick, 2005; S. Vellema, 2002). Through pre-determined price agreements, part of the price risk is reduced, although production risks remain (Dileep, Grover, & Rai, 2002). Knowledge and technology provided by the firm can enable the smallholder to increase yields (Miyata et al., 2009). This knowledge can then be applied by the farmers to other crops, in addition to their contracted crops. Input supply by the offtaker firms serves to overcome financial constraints faced by the smallholders (Nagaraj, Chandrakanth, Chengappa, Roopa, & Chandakavate, 2008).

[4] For more detailed descriptions and analyses of CF, see the extensive works of Bijman, 2008; Eaton & Shepherd, 2001; Kirsten & Sartorius, 2002; Prowse, 2012.

For both parties, challenges exist, particularly where contracts are incomplete or where lack of enforcement controls fail to prevent contract breach. As a result, side-selling and input diversion by the smallholders is often observed (Barrett et al., 2012; Sopov et al., 2014). Firms encounter high transaction costs in managing and monitoring a large number of spatially dispersed farms (Kirsten & Sartorius, 2002a). Farmers, on the other hand, face potentially monopolistic offtakers, often lack bargaining power, lose autonomy over their farming activities, and face the risk of becoming locked into a vicious circle of debt (Eaton & Shepherd, 2001).

In order to mitigate these issues and challenges, standard CF is combined with other instruments in the framework of complex IBs. Although standard CF arrangements can be considered as an IB (Rösler et al., 2013), IBs are – at least in the framework of this study – understood as a combination of instruments, leading to a more complex set-up aimed at integrating smallholder farmers into commercial value-chains. As illustrated by the cases studied for this research, these more complex institutional set-ups apply a combination of several to all of the five basic instruments: CF, often forming the basis of the partnership, together with collective organisation, equity, mentorship and/or a lease/management contract. Previous publications have highlighted the heterogeneous character of CF, in part due to the combination with these additional instruments (Oya, 2012; Simmons et al., 2005). The remainder of this section will briefly outline the existing literature on why CF is partnered with these instruments and how this impacts on the organisational structure.

Firstly, collective organisations – such as farmers' organisations – are promoted to reduce transaction costs incurred when working with a large number of contracted smallholders (Coulter, Goodland, Tallontire, & Stringfellow, 1999; da Silva, 2005). In addition, a producer organisation can increase, through the joining of voices as well as increased produce volumes, the bargaining power of the smallholders, bringing about a more equal relationship between offtaker and farmer (Bijman, 2008; Glover, 1987). A last argument for contract agreements combined with a producer organisation is that it offers a channel for external organisations to provide support, for example to better prepare the farmers with regard to standards set by commercial markets (Prowse, 2007). Producer organisations, on the other hand, add complexity to an IB structure that builds on CF, as is pointed out by Glover (1987). In turn, the lack of understanding that results from this complexity has a potential

negative impact on the commitment of the smallholders. Although the presence of a producer organisation often seems to be a prerequisite for the commercial offtaker to engage with smallholder farmers, thus forming an essential condition to access the commercial value chain, the institutional set-up which combines CF with a collective organisation can thus have a negative impact on the level of inclusiveness for the farmer, as compared with a direct supply agreement between firm and farm.

Secondly, equity is applied as a strategy aimed at overcoming the issue of side-selling. Providing equity in the offtaker to the contracted smallholders is expected to trigger a higher level of commitment of the smallholder to the contract agreement. Indeed, an increase in activity of the offtaker is likely to increase the overall performance of the offtaker, resulting in potential dividends being paid out to the smallholders. De Koning and de Steenhuijsen Piters (2009) describe several successful cases of smallholder farmers with shareholding in the offtaker. On the other hand, the equity tool is often little understood by the smallholders, thus not generating the anticipated commitment effect as illustrated by numerous case studies in this research. This is amplified by the discrepancy between the short-term cash requirement of the majority of smallholders and the long-term business objectives of the offtaker, resulting in dividends not being proclaimed in the initial years of the undertaking (Lahiff et al., 2012).

Thirdly, support by an external stakeholder, such as a government body or an NGO, essentially describes the multipartite model and the intermediary model identified by Eaton and Shepherd (2001). In the multipartite model, direct interaction exists between the agribusiness and the smallholder, but with additional responsibilities for a third party. The external party can play the role of identifying smallholders or providing support to, and capacity development of, the farmers (Eaton & Shepherd, 2001; Simmons, 2002; Strohm & Hoeffler, 2006). Multipartite CF can spread the risk over multiple stakeholders, especially in new ventures. It can also reduce the risk for investors through the provision of government funds or by NGO funding.

In the intermediary model, the agribusiness transfers the full implementation of the CF to a third party and does not create direct interaction with the smallholders. Particularly in cases where a large number of smallholders are involved or where the offtaker lacks agribusiness expertise, the inclusion of a third party offers an economical solution for the offtaker (Strohm

& Hoeffler, 2006). Nevertheless, the intervention of an independent intermediary often impedes coordination across the chain and farmer incentive (Bijman, 2008).

Fourthly, the role of land lease in CF has not received specific interest. Nevertheless, land tenure and ownership has been highlighted in the analysis of CF case studies. As such, Simmons et al. (2005) find that Indonesian smallholders with ownership of irrigated land were more likely to participate in CF agreements. This is confirmed by Bellemare (2012) in his study on CF in Madagascar. Lack of secure land tenure, in general, can form a challenge to the successful integration of smallholders, as the investor risks loss of its investment in the project if the smallholder becomes involved in land disputes with the landowner (Eaton & Shepherd, 2001). Communal land tenure, as opposed to freehold title deed, limits the expansion opportunities for smallholders, which consequently limits their benefits from CF (Levin, 1987). On the other hand, smallholders without secure tenure might be more inclined to enter into CF. Lack of collateral prevents them from obtaining loans, which can be compensated for by input provision on a CF arrangement (Simmons, 2002). In general, CF seems to be more viable in cases where smallholders have secure tenure of a moderate size, in areas with high potential for commercial farming. In effect, this potentially excludes the most marginal of smallholders from CF (e.g. Baumann, 2000; Simmons, 2002).

These instruments are generally assessed on an individual basis. Their interactions with CF agreements, individually or as complex set-ups integrating several of them, are still to be assessed, especially through a theoretical lens. The following section of this chapter will address the complexity of these IB set-ups around CF from a theoretical perspective.

2.3 THEORETICAL FRAMEWORK

To understand the variances in the institutional set-up of IBs, and of the two case studies in particular, three complementary theories are applied: Resource Dependence Theory (RDT), Transaction Cost Economics (TCE) and Agency Theory (AT). Although each of these theories identifies its own market frictions, focal dimensions and contractual focus, linkages between the three exist, offering multiple lenses to assess the institutional set-up of IBs and the case studies. This approach of theoretical pluralism allows a greater flexibility in understanding complex IB structures (Midgley, 2011).

The three theories form a hierarchy of decisions that impact the overall IB, narrowing down from identification of likely partnership to contract details (Figure 1.1, p15). Firstly, RDT focuses on the external dependencies of a business and the network it operates in (Pfeffer & Salancik, 1978). IBs in general are a tool to partly absorb these dependencies, with CF as one particular method. IBs specifically incorporate a social aspect into their business objectives, namely the development of the contracted smallholders, hence increasing the dependence on smallholders. In effect, this mutual dependence between firm and farm serves as a starting point for the relation between the two. Rather than aiming for efficiency, partners try to obtain power over the resources of another stakeholder (Hillman et al., 2009). RDT is particularly relevant to IBs implementing CF as these partnerships are inherently uncertain due to the unfamiliarity between the commercial offtaker and the smallholder farmers, and the power imbalance that favours the offtaker (Schuster & Holtbrügge, 2014; Vellema & D'Haese, 2016). Secondly, TCE sheds light on the specific governance structure, once the need for a partnership has been established. According to this theory, the adopted structure aims to reduce the transaction costs between the partners and to protect any partnership specific investments (Williamson, 1979). Lastly, AT focuses specifically on the particular contract between the two parties, taking into account the difference between the delegating principal (offtaker) and the implementing agent (smallholder) (Eisenhardt, 1989a). Principals are faced with moral hazard (shirking by the agent) and adverse selection risks. Reducing these risks requires observation costs. The principal's aim is to balance these risks and costs, with goal alignment a critical tool to obtain this balance (Holmström, 1979).

Whereas these three theories all relate to the understanding of organisational structures, two elements in particular link these theories together and create an interwoven theoretical fabric: uncertainty and power imbalance. It is these two common elements that directly impact on the organisational structure, or the contractual agreement in this specific study, that is entered into between the stakeholders in an IB. This will be illustrated in the remainder of this section and is summarised in Table 2.1.

Table 2.1: The common elements of uncertainty and power imbalance per theory and relation to level of integration

Theory	Uncertainty	Power imbalance
RDT	Higher levels of mutual dependence create uncertainty and drives hierarchical integration	Unequal level of dependency allows for advantageous bargaining position, impeding on hierarchical integration
TCE	High frequency of transactions and high asset specificity increase risk of uncertainty and require tighter control levels	Skewed financial resources in an IB lead to high level of asset specificity that are protected by safeguards biased to the commercial firm
AT	Goal dichotomy and information asymmetry between agent and principal creates outcome uncertainty	Principal in powerful position determines the contract to prevent cheating by agent

Source: *Author*

A first common element to the three theories is uncertainty. The central argument of the RDT is that organisations aim to reduce their dependence on their environment and consequently reduce their uncertainty to the environment (Pfeffer, 1987). Organisations are part of an interdependency network with other organisations. Where an organisation perceives uncertainty about these interdependencies as impending on its continued operation, it will attempt to manage the externalities. One of the options for externality management is engagement in hybrid partnerships, positioned between open market transactions and fully integrated hierarchic structures, with those stakeholders who have control over the external resources required by the firm (Hillman et al., 2009). The aim of the firm is to gain power over resources from other parties, hence reducing the uncertainty related to these resources (Ulrich & Barney, 1984); thus, the higher the dependence, the greater the desire for a dependent party to absorb this constraint and consequently reduce uncertainty (Casciaro & Piskorski, 2005).

For TCE, uncertainty relates mostly to asset specificity. Uncertainties over potentially opportunistic behaviour by the partner, and over future developments, endanger partnership-specific investments (Williamson, 1979). Due to the bounded rationality presumed in TCE, contracts cannot incorporate clauses to cover for every possible event. Thus, the partner will need safeguards other than the contract to protect its investment. Hierarchical controls serve as such a safeguard. TCE argues that more frequent transactions, together with higher asset

specificity of the investment, and higher uncertainty will lead to tighter control requirements by the investing partner and thus a more hierarchical structure (Williamson, 1991).

Lastly, AT explains the contracts entered into between the cooperating parties as being dependent on the outcome uncertainty, behaviour measurability and risk aversion profiles (Eisenhardt, 1989a). The theory aims to "get the contract right" (Cook & Chaddad, 2000, p. 210) by ex-ante alignment of the economic incentives of both the principal and the agent to draw up the most economical contract (Kim & Mahoney, 2005). The argument is that due to goal divergence, the principal is faced with moral hazard (the agent avoids its responsibilities) or adverse selection (misrepresentation of agent's capabilities). The specific contract between the principal and agent is designed to overcome this uncertainty.

A second common element is that of power imbalance. Whereas the classic RDT considered the overall concept of interdependence, Casciaro and Piskorski (2005) have proposed a revision to the RDT by de-coupling this concept into power imbalance (the difference in dependence between two organisations) and mutual dependence (the sum of the dependence). Thus, two organisations can have an equal power relationship but in situations with varying degrees of mutual dependence. They argue that a higher level of power imbalance reduces the likelihood of complete constraint absorption (e.g. merger of organisations), as the more powerful organisation is unwilling to secede its advantageous bargaining position.

TCE considers hierarchical structures as a safeguard for an investing party to protect this investment. Since in an IB financial resources are generally skewed towards the commercial firm, this firm tends to commit larger funds to the partnership. Safeguards in the case of IBs, including CF projects with smallholder farmers in developing countries, are thus biased to protect the firm, rather than the farmer (Vellema, Ménard, & D'Haese, 2016). It is thus likely that the outcome of the contract between partners is more beneficial to the commercial partner, compensating the risk of its investment.

This is confirmed by AT, which assumes that the principal has power over the agent and is thus able to change the agent's behaviour (Saam, 2007). To overcome agency problems, the principal can invest in behaviour-observing information systems, which come at a cost (Sharma, 1997). If information systems are not achievable, the principal is likely to enter into an outcome-based contract where the agent is remunerated based on the outcome of the

agent's performance, essentially aligning the incentives between principal and agent (Eisenhardt, 1989a). However, outcome-based contracts entail a transfer of risk to the agent, who, in the basic form of this theory, is assumed to be risk averse. Especially in situations where outcome uncertainty is high, outcome-based contracts might not be attractive to the agent (Eisenhardt, 1989a). Nevertheless, AT suggests that due to the power asymmetry, it is the principal who will dictate the contract.

Power imbalance can stem from information asymmetry, which can lead to opportunistic behaviour as identified in TCE and moral hazard and adverse selection which are central to AT. Reduction of information asymmetry can lead to increased trust between the partners (Gulati & Gargiulo, 1999). Trust is considered an important element in the determination of the transaction costs (Sartorius & Kirsten, 2007) and easing of agency problems (Shapiro, 2005). Uncertainly, power and trust are all based on stakeholders' perceptions rather than objectively measurable elements. Hence, the ex-ante institutional set-up of an IB as predicted solely on the theory is likely to diverge from the actual structure which is also impacted by existing relationships and opportunities.

2.4 CASE DESCRIPTION

Case A 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 the local Supplier Development Programme (SDP) of Massmart, one of the largest distributors of consumer goods in Africa. Initially 87 farmers, organised in 24 farm units/cooperatives, were being mentored by an NGO (TechnoServe, the mentor) in the production of fresh vegetables for Massmart. TechnoServe also trains the farmers in financial and marketing-related topics. Each farmer is visited by field staff once to twice a week. Since inception the number of smallholders reduced to 80 farmers in 12 collectives (Table 2.2).

This IB comprises three contractual arrangements each with a three-year period. Firstly, a contract between Massmart and TechnoServe defines the overall functioning of the project, the financing committed by Massmart and the operational structure of a packhouse. Secondly, a contract between Massmart, TechnoServe and the smallholders covers grant financing and the loan process. The third contract is between the smallholders and Vexogenix, the not-for-

profit organisation (NPO) owning the packhouse, to which produce is delivered. This contract covers the conditions of sale including the price determination and quality requirements.

Massmart has funded the refurbishment of a packhouse to fill the infrastructure and marketing gap in the area, servicing both participating and non-participating farmers. Packaged produce is marketed via a Massmart-owned wholesaler, processor and distributor of fresh fruit and vegetables. Prices paid by the packhouse to the farmer are market-related but with a floor price guarantee (as calculated by TechnoServe) to protect the farmer against losses. Produce that does not meet the quality requirements is sold locally by the farmers themselves. The packhouse is owned by Vexogenix, a non-profit company in which Massmart, TechnoServe and the farmers all have an interest. After the three-year contract, the packhouse is to be transferred to the full ownership of the farmers[5].

As part of the overall agreement, Massmart sets an annual target with its fruit and vegetable distributor subsidiary, stipulating the quantities it has to purchase from the Ofcolaco packhouse. The packhouse management, together with the TechnoServe staff, works out an annual production plan to meet these targets. This annual production plan is then worked out further by TechnoServe into farm unit plans. As such, TechnoServe determines which farm grows what produce and when, in order to be able to satisfy the agreed demand from Massmart. Over the year, contracted farmers all supply a variety of vegetables to the packhouse. Farmers deliver produce on a daily basis during the different crop harvesting seasons, thus engaging in a number of deliveries depending on the crop and the time of the season.

Case B is located at the Nwanedi irrigation scheme, some 60 km from Musina in northern Limpopo. At the request of a commercial bank which faced difficulties recovering loans provided to the local smallholders, TechnoServe became involved with mentoring these smallholders. At the same time, it recruited new farmers into its new mentorship programme. This project is sponsored by several actors, all of which are financial or development agencies, rather than commercial agribusinesses (but not the initiating commercial bank).

[5] The project collapsed after the contracts with Massmart and TechnoServe ended, among others due to a lack of cohesion and leadership in the collective of smallholder farmers.

Table 2.2: Case study key dimensions

Dimension	Case A	Case B
Number of participants	Start: 87 farmers (24 units) Current: 80 farmers (12 units)	Start: 44 individual farmers Current: 50 individual farmers
Predominant land ownership	Farmer collective or individual with Permission-to-Occupy	Individual Permission-to-Occupy
Crop	Range of fresh vegetables (average 2.9 crops per farmer)	Butternut supported by mentor; tomato supported by contractor (outside IB scope)
Contracts	• Massmart and TechnoServe • TechnoServe and smallholder • Smallholder and packhouse	• TechnoServe and offtakers • TechnoServe and financiers • TechnoServe and smallholders • External tomato processor and smallholders
Financial support	Revolving grant sponsored by offtaker	Independent loan/grant providers
Financing available to	All smallholders	Smallholders selected by mentor
Packhouse	Smallholders have collective ownership in packhouse	No formal packing activities by smallholders
Instruments used	CF, equity, mentorship, collective organisation	CF, mentorship

Source: Author

TechnoServe (the mentor) firstly secures the (loan) financing, secondly disburses the loans to selected smallholders, and thirdly manages the funds on behalf of these farmers. To ensure the success of the smallholders and guarantee repayment to the lenders, the mentor is also responsible for the development of a marketing channel. As such, it has established offtake contracts for butternut with two distributors. These contracts serve as guarantees for the financial loan providers. Thus, this particular IB is largely made up of a range of contracts between TechnoServe and three financers, between TechnoServe and two offtakers and between TechnoServe and the individual smallholders (Table 2.2). Because the project only incorporates the production of butternut, the frequency of transactions with the offtaker is limited to the harvesting season of this crop which spans around two weeks per farmer.

Centrally organised collection of produce from the farmers is delivered directly to the offtaker. Over a contract period of three years, 50 individual farmers are mentored by TechnoServe, with six farmers added since inception. As in case A, TechnoServe field staff visit the farmers once or twice a week. Aside from the contracts arranged by TechnoServe, the vast majority of the mentored smallholders are engaged in a standard CF arrangement with a tomato processor. TechnoServe informally supports the tomato activities.

The basis of both case studies is thus a form of intermediate CF (Eaton & Shepherd, 2001) where TechnoServe acts as the intermediary between the commercial firm/financer and the smallholder farmers. The firms (Massmart in Case A, wholesalers of butternut in Case B) specify the quality and quantity of produce required, but transfer responsibility of implementing these contract specifics to the external mentor. As such, the intermediary provides a dual role: firstly, that of central agent allowing the offtaker to interact with one partner rather than multiple smallholders, and secondly, that of extension officer providing both technical and financial knowledge to the smallholders to ensure they can and do adhere to the standards specified in the contract.

2.5 RATIONALISING THE ORGANISATIONAL STRUCTURE

This section aims to explain the different organisational structures observed in the two case studies. For this, it applies elements from the above-detailed Resource Dependence Theory, Transaction Costs Economics, and Agency Theory – particularly through their uncertainty and power imbalance aspects.

2.5.1 Resource Dependence Theory

Resource Dependence Theory's starting argument is that organisations are dependent on their environment. The organisation aims to reduce the uncertainty related to these dependencies, leading the organisation to endeavour to attain a position of power over external resources by entering into inter-organisational networks (Pfeffer & Salancik, 1978). The level of mutual dependence between the firm and the farmer is high in Case A. Political requirements force Massmart to integrate local suppliers into its supply chain. Thus, the company depends on smallholder farmers to supply part of its produce. The farmers, on the other hand, lack the resources to enter into the large commercial value chain and thus rely on the financing and market offered by the firm and the knowledge of the mentor. Massmart does have access to a

large pool of alternative smallholders, whereas potential offtakers for the smallholders are limited. As a result, Massmart has a more powerful position in the partnership than the smallholders. This mutual dependence is absent in Case B where the offtaker has multiple sources of supply besides the Nwanedi smallholders. The Nwanedi farmers, on the other hand, are dependent on the financing, knowledge and market offered through the intermediary partner Techno-Serve, but have alternative sources in the form of a tomato processor and other (government and NGO) training bodies operating in the area. The higher degree of dependency of the offtaker on the farmers in Case A might thus be a driver for the firm to invest more in this relationship in order to reduce uncertainty, obtain a higher degree of power over the produce, and work closer with these smallholders, resulting in additional links to be established beyond the supply contract compared with the situation of Case B.

Firstly, willingness by the offtaker to invest is illustrated by the packaging requirements in both case studies. The mentor and firm identified a lack of packaging facilities for fresh vegetables in both project areas. In Case B, the lack of packing infrastructure resulted in the choice of a (low-value) crop that can be packed without such a facility. The firm's higher dependence on the smallholders in Case A meant that the offtaker had to present a higher value proposition to the smallholders to attract them into the scheme. At inception of this project, packaging occurred at a privately-owned facility, but the participating smallholders who incurred these costs perceived the prices as being unfair. In an attempt to reduce dependence on outside stakeholders that were not trusted by the farmers, and to bring down packaging-related costs, the firm opted for the establishment of a separate packhouse.

Secondly, investments by the firm differ between the two cases in the area of smallholder financing. The smallholders in Case A all have access to full financing through an offtaker sponsored revolving grant fund. This fund enables the smallholders to engage in the activities required by the offtaker. The offtakers in Case B, who are not dependent on the smallholders, do not feel the need to support these small suppliers. Hence, the mentor has had to engage independent financers who are not able to fully fund all the mentored farmers.

Thirdly, the offtaker in Case A pays a fixed fee for the services of the NGO as detailed in Appendix A.10.2.2. This fee is the single largest cost for the offtaker, and 2.5 times the amount invested into the packhouse and revolving grant fund.

Thus, Resource Dependence Theory reasoning can be regarded as underlying the institutional boundaries of the two cases. High dependency by the firm in Case A has triggered the establishment of a more integrated structure, allowing the firm to gain a higher degree of control over the upstream activities on which it depends. Whereas in Case A the dependency is highest on the side of the offtaker, in Case B the smallholders have a higher dependency on the offtaker. The fact that Case A shows a higher degree of vertical integration can be explained by the dominance of the commercial partner compared to the smallholder. But, whereas Resource Dependency Theory can describe the origin and degree of cooperation, it is insufficient to explain the governance structure of the alliance. For this, I turn to Transaction Cost Economics, and specifically the concepts of asset specificity and transaction frequency.

2.5.2 Transaction Cost Economics

According to TCE, uncertainty regarding transaction costs results from asset specificity and the related appropriation concerns. Transaction-specific investments require the firm to safeguard this investment and thus maintain a level of control, encouraging more hierarchical partnerships (Williamson, 1991). The appropriation concerns are therefore more pertinent to the financing partner providing the funding to operate the project. Funding for inputs and training is fully supplied by the offtaker to all contracted smallholders in Case A, but only partially in Case B by external funders. Furthermore, Case A has additional investment funded by the offtaker in the packaging facility, and the offtaker incurs the cost of the mentor.

Input funding is implemented differently between the two case studies. A revolving grant funded by the firm allows interest-free loans to all farmers in Case A. Whereas a small number of contracted farmers in Case B have access to a similar grant structure, other farmers rely on interest-bearing loans provided by external funders or do not receive any financial support at all. As a result of the different funding structures, safeguard mechanisms differ between the two cases. In Case A, three mechanisms are at work. Firstly, the fund is in the collective interest of all farmers: non-recovery impacts on the overall fund availability for other farmers. One of the funds in Case B equally relies on this mechanism, but is limited to those smallholders who have been selected by the mentor. Secondly, non-repayment leads to the immediate termination of the relationship between the smallholder and TechnoServe, and thus the smallholder loses both the mentorship and access to the Massmart marketing channel. Contract termination thus serves as an incentive for the farmers to adhere to the

agreement. The third safeguard for the firm lies in the central management of the fund with TechnoServe. Through its close relationship with the smallholders and the high field presence, the mentor organisation is in a strong position to monitor the farmers' activities. The mentor furthermore administers all the financial flows and thus can deduct a loan repayment from a farmer's crop income. This third safeguard, central administration of the finances by the mentor, also applies to the financial sponsors of Case B, both for the interest-free and interest-bearing funding. The external funder providing interest-bearing loans has implemented the general safeguard of interest rates needed to be paid by the individual smallholder (and administered by the mentor).

The second investment by the firm in Case A is the refurbishment of a packhouse. This packhouse is considered to be essential for filling the existing infrastructure gap in the area. Without this facility, the production of several of the vegetable types would be less viable, and the offtaker would be at a higher risk of extra-contractual sales. Furthermore, it allows for additional job creation in the area, thus contributing to the community in general and improving the social image of the project. As such, the packhouse serves as a safeguard for the supply contract, by creating an enabling environment. This facility illustrates the aspect of asset specificity, which is regarded as a critical determinant for organisational structure by Williamson because it "creates bilateral dependency and poses added contracting hazards" (Williamson, 1991, p. 282). He argues that a higher asset specificity of a firm in a partnership environment is likely to result in higher hierarchical control for better managing anticipated uncertainty over the use of this asset, although this higher level of control comes at higher coordination costs. In this view, it can be argued that the asset specificity in Case A has triggered the funding firm to enter into a hybrid structure of co-ownership of the packhouse, including the smallholders and the mentor as co-owners. Whereas this increases the coordination costs for the firm (in this particular situation the firm has seconded a staff member to manage the packhouse activities), it does give the firm a larger degree of control without fully integrating this entity into its own hierarchy.

Anticipation of appropriation costs prompts firms to select a reliable partner (Dekker, 2004). As Gulati and Gargiulo (1999) argue, firms rely on prior alliances in building their networks. TechnoServe is an organisation known to Walmart, the parent firm of Massmart, and as an NGO, it has an established track record globally. The firm thus has grounds to trust the mentor, reducing appropriation cost concerns on the part of the mentor and the farmers. This

trust does not extend to the relationship between TechnoServe and smallholders. The high costs of contracting the NGO in implementing the contract farming arrangement does pose questions as to the overall cost effectiveness of this structure, and to who benefits most: the NGO or the smallholder farmers.

Aside from the asset specificity, frequency of transactions is important to the offtaker as single party dealing with multiple suppliers. Individual transactions with each of the contracted farmers incur higher transaction costs than dealing with a single transaction partner, in this case the mentor. Engaging a central contact point to firstly identify potential smallholders and secondly to coordinate the implementation of the contract reduces the number of transactions the firm/financer has to engage in. But, this argument holds for both the offtaker and the implementing agent. Thus, the mentor itself will aim for a similar reduction of transaction and coordination costs. This is more pressing in Case A where the required supply quantities are not only larger, but also include a range of produce, versus the single crop in Case B. Deliveries in case A, initiated by the farmer, take place on a daily basis, for a period of 12 weeks. The delivery period in case B spans roughly two weeks and collection from individual farmers is centrally coordinated by the mentor. The farmer collectives in the more complex Case A allow the mentor to more efficiently coordinate activities over a large number of smallholders. Combining farmer collectives with supply contract arrangements is a well-established method that is applied in multiple sectors around the world (e.g. Runsten, 1994).

Transaction costs are also higher in a situation where the contracted farmers are unfamiliar with the contracted crop. This requires additional resources from the offtaker to ensure the smallholders are trained and assisted to grow the produce according to the specification of the offtaker. The firm can choose between internally employed extension officers (often the case where the offtaker is a processing company specialised in a few crops) or external agricultural specialists (where the firm, such as a retailing offtaker, has no specific crop knowledge). In both Cases A and B, the offtakers fall into the second category, hence their choice to work through an implementing agent, TechnoServe.

2.5.3 Agency Theory

The previous section illustrated that from a TCE perspective, the inclusion of an intermediary partner is a way of reducing the transaction costs for the firm. Nevertheless, this function can also be performed by, for example, a farmers' collective. The question remains, why did the firm opt for an external agent to coordinate the contract implementation? This question can partly be explained by the Agency Theory which concentrates, among other things, on outcome uncertainty driven by goal dichotomy and the role of information asymmetry. The reasoning is that the principal in the partnership (i.e. the contracting firm) does not have certainty about the agent's (i.e. the smallholder) behaviour. To ensure the contract is adhered to and the outcomes of the contract are positive for the principal, the firm aims to implement measures to increase the information on agent behaviour and thus reduce moral hazard on the part of the agent (Eisenhardt, 1989a).

These aspects coalesce to prompt the firm to rely on a trusted external partner, rather than, for example, a farmers' collective, to firstly implement an information system allowing for the reduction of unobservable behaviour by the agent, whilst simultaneously aligning the goals of the agent and the external intermediary. TechnoServe, an organisation that Massmart works with across the globe, is in charge of drawing up production plans, input requirement determination and the like, as well as observing the implementation of these plans, thus reducing the flexibility of the smallholders to engage in non-contractual behaviour. In Case A, the offtaker (partly) finances the activities of the mentor, making TechnoServe contractually dependent on the offtaker, in turn incentivising the mentor to implement the contract with the individual smallholders. The mentor is responsible for the full harvest of the smallholders, including sub-standard produce for which it needs to find marketing channels.

To reduce the additional costs related to alternative market development, the mentor will aim for the smallholders to produce high quality crops, thus aligning its goals to that of the firm but also positioning itself closer to the farmer as it has a broader mandate than just the contracted crop. This argument holds for both Cases A and B but due to the higher value and volume and larger range of crops in Case A, this argument holds more weight in Case A than in Case B. Goal congruence between all three parties in Case A is further achieved by shared ownership in the packhouse. The value adding activities in the packhouse serve as incentive since an increase in packhouse activities increases the value of their collectively-owned asset.

Lastly, contract termination serves as the ultimate incentive for smallholders to adhere to the contractual agreements.

Nevertheless, in Case A, where smallholders have access to alternative markets, absence of trust between the mentor and the offtaker on the one hand and the smallholders on the other hand, has resulted in high levels of extra-contractual sales despite the structure designed by the offtaker and mentor – lack of trust flows from a lack of insight in the working of the project (information asymmetry) and thus the envisaged benefits for the smallholders. Rather than receiving delayed payment at an unknown price, the farmers opt for immediate cash receipt from external traders. This has led the firm to adjust the remuneration system to be more favourable for the smallholders. In summary, increased dependence of offtaker on the smallholders drives this offtaker to strive for more vertical integration and higher investment by the offtaker in Case A (RDT). As a result, the asset specificity in Case A is higher, requiring more safeguards for the investors, including shared ownership in the packhouse asset. Furthermore, the more complex offtake agreement requires collective organisation to manage the smallholders efficiently and a mentor that can assist smallholders with unknown crops (TCE). An external implementing agent allows for monitoring of farmer behaviour (AT). Table 2.3 presents a summary of the case studies within the theoretical framework presented.

Table 2.3: Application of theoretical framework – structural differences in institutional set-up explained

Theory	Concern	Case A	Case B
RDT	Uncertainty	High mutual dependence drives firm to invest in farmers (packhouse and revolving grant fund) and in external implementing agent (mentor) for high value crops.	Low mutual dependence requires simple crop plan with low investment needs.
	Power imbalance	Firm finances implementing agent and farmers, thus highly imbalanced relationship favouring firm in decision making processes.	External financing balances power between firm, farm and implementing agent resulting in less vertical integration.
⇩		⇩	⇩
TCE	Uncertainty	Complex cropping plan leads to higher frequency of transaction. Centralised administration and farmer's collective reduce the transaction costs for the firm.	Centrally planned collective overcomes individual challenges related to transport and minimises transactions between smallholders and offtakers.
	Power imbalance	Investments safeguarded by fixed supply contract (offtaker, packhouse, smallholders) and loan fund administration by mentor.	No safeguards needed in absence of low transaction frequency and asset specificity.
⇩		⇩	⇩
AT	Uncertainty	Moral hazard managed through contractual engagement of external implementing agent to select and monitor farmers, and to implement crop plan. Shared ownership in packhouse to align goals for smallholders with offtaker.	Goal divergence and moral hazard limited due to low mutual dependency.
	Power imbalance	Unobservable behaviour by smallholders reduced through appointment of mentor. Contractual exclusion of alternative marketing channels leaves farmers as full price takers of single offtaker. Marketing risk of sub-standard produce for farmer.	Flexible offtake contracts allow for selection of best price for smallholders.

Source: *Author*

2.6 CONCLUSION

The comparison of the two case studies in this chapter presents evidence that the combination of Resource Dependence Theory, Transaction Costs Economics and Agency Theory provides a framework detailing the differences that emerge in complex IBs that apply CF as one of multiple tools to include smallholder farmers in the commercial agriculture value chain. The starting point of the level of mutual dependency of the RDT, combined with the power asymmetry between the partners, explains the organisational boundaries within which the CF operates. A higher level of dependency, especially by the more powerful firm, will stimulate the firm to control more of this dependency, hence a higher level of vertical integration with the contracted farmers and a higher level of investment. In this study, RDT explains the difference in mentor financing, crop selection and the inclusion of a packhouse, financed by the firm. TCE then foresees that, due to the higher investments made by the firm in the higher dependency project, the increased asset specificity leads the firm to share ownership in the downstream value adding activity. Safeguards are further required to protect the financing provided to the contracted smallholders. Collective organisation not only renders the contracted farmers mutually responsible and dependent on each other, it also allows a more efficient implementation of the more complex production scheme. Lastly, the usage of a known and trusted external mentor allows an amelioration of the moral hazard challenge identified in AT and aligns the goals of the firm, the farm and the implementing agent.

Although the findings of this chapter are based on only two cases, the provisional conclusion is that IBs incorporating CF agreements as part of a complex structure have the potential to increase the level of control by the firm in an efficient manner. Complex CF constructions are likely in cases where the offtaker firm is highly dependent on a large number of small-scale farmers who are new to the contracted crop. Whereas this can be advantageous to the firm, it potentially leaves the smallholders in an unclear position, where they lose sight of the workings of the contract, their risks and their rewards. As such, it questions the degree of inclusiveness for the smallholder farmers of these complex IBs. Conversely, IBs can overcome existing power disparities, as exposure to the commercial value chain does reduce the initial information asymmetry. Generally, IBs are a contingent relationship, developing and adjusting their structures over time. Further research into IBs with different structures and stakeholders is required to ascertain the validity of the proposed theory and outcomes.

CHAPTER 3 INCLUSIVE BUSINESSES IN AGRICULTURE: DEFINING THE CONCEPT AND ITS COMPLEX AND EVOLVING PARTNERSHIP STRUCTURES IN THE FIELD[6]

3.1 INTRODUCTION

Inclusive Businesses (IBs) are seen as an essential tool for raising low-income communities, across the developing world, out of poverty, and for stimulating rural development overall (Rösler et al., 2013; UNDP, 2010; World Bank, 2008). In this study, IBs are considered as encompassing profit-oriented partnerships between agri-businesses and smallholders that aim to integrate the latter equitably and sustainably into commercial value chains. Depending on the particular IB model being analysed, "smallholder" is used as a broad term, incorporating active small-scale farmers, small landowners and owners of land-related assets, and shareholding farmworkers, either as individual or grouped in a collective.

The inclusion of these smallholders is being considered necessary, particularly in an increasingly vertically integrated and concentrated agricultural supply chain (Reardon et al., 2009). Insights into the structure of IB partnerships in primary agriculture remain limited. Factual and analytical understanding continues to lean on rigid traditional models (McIndoe-Calder, 2012; Vermeulen and Cotula, 2010), despite calls for innovative organisational structures to be instituted to manage the relationship between non-traditional partners such as agri-businesses and smallholders (Halme et al., 2012; Schuster and Holtbrügge, 2014), and the existence of case-studies highlighting the heterogeneity of the governance structures between these partners (de Koning and de Steenhuijsen Piters, 2009; Romano and Liversage, 2010; Sopov et al., 2014). For example, in their analysis of IB models, Sopov et al. (2014) restrict themselves to the typology of contract farming proposed by Eaton and Shepherd (2001). Another study by USAID (2014) introduced models that incorporate smallholders as producers or customers, based on the challenge that the IB addresses. Each of these typologies is unable to capture the unique structure of each individual IB. The authors themselves acknowledge the shortcomings of their typologies, stating that "real-world investment projects may involve complex combinations of various models" (Vermeulen and Cotula, 2010, p.4) and that "models are not static, but rather, dynamic" (USAID, 2014, p.23).

[6] This chapter is adapted from an accepted manuscript submitted to Land Use Policy, which is currently under revision.

The multitude of business structures not only requires a consideration to be given to how to define these set-ups, it also raises the questions as to why each IB combines various instruments in its own specific way.

This chapter addresses these two lacunas identified by proposing a new, flexible typology for the institutional set-ups of IBs, and – in order to do so – applying a theoretical framework to explain these institutional structures. Although valuable insights stem from, among others, transaction cost economics and agency theory (Bijman, 2008; Ollila, 2009; Ortmann & King, 2007; Valentinov, 2007), the chapter's first objective is to apply a holistic theoretical framework, presented in Chapter 2, to explain the composite nature of the complex structures observed. This allows for conceptual insights to apprehend IBs as complex and unique governance structures and tools for smallholder integration into commercial value chains. The second objective of this chapter is thus to assess the how and why of this integration through these complex structures.

This study applies the concept of instruments as building blocks to accommodate the heterogeneity and complexity of governance structures into a typology. It identifies common instruments that are combined to form unique hybrid organisations: collective organisation, equity, lease/management contracts, mentorship, and supply contracts. Each of these building blocks, or instruments, has its own way of integrating smallholders or low-income communities into the commercial value chain, and thus transferring a share of the IB's value-addition to these beneficiaries. An IB in this context is thus considered as the relationship between (a group of) smallholder(s)/low-income community and an agribusiness as defined by the *combination of instruments* that is implemented.

Regarding the theoretical understanding of an IB governance structure, this study applies the multiple-lens theoretical approach detailed in the previous chapter. This approach uses aspects of Resource Dependency Theory, Transaction Costs Economics, and Agency Theory, thus incorporating both ex-ante and ex-post reasoning. By applying a holistic approach in a broader scope of IBs, this study allows for insight to be gained into how the greatly varying, complex and unique organisational constructions develop, who drives the decisions that lead to the implementation of the particular structures, and what motivates these decisions.

Research for this chapter was done in South Africa where collaboration between agribusiness and smallholders is especially relevant. The country is characterised by a highly dichotomous agricultural sector. A policy framework, centred on land redistribution specifically, and wider sector transformation in general, has been implemented to transform the agricultural sector to become more equal, with greater participation by the previously excluded black population (Cochet et al., 2015). IBs are seen as being a critical component for bringing about the required transformation (DAFF, 2013). This combination of a dualistic sector and an inclusiveness-driven policy context renders the case of South African agriculture as pertinent for research into IB partnership structures.

Findings in this chapter are based on 14 case studies that encapsulate the diversity of the South African agricultural sector. These cases studies bring to the fore the heterogeneity of the governance structures used to integrate smallholders into commercial value chains. The selected cases are all operational in primary agricultural production and include active smallholders, rural community members not active in farming activities, and farm workers engaged beyond an employment contract (Table 1.2, p. 25). These are collectively referred to as beneficiaries throughout this chapter.

Section 3.2 summarises the conceptual framework as posited in Chapter 1, comprising an overview of the instruments identified as building blocks, and the theoretical framework applied to the explanation of the combinations of these instruments. Considering the importance of the context on the IBs, section 3.3 outlines the policy framework in which the cases operate, before providing a short introduction to the individual case studies that form the basis of this study. The results are presented in section 3.4 – describing in detail IBs as complex combinations of instruments. The following discussion in section 3.5 re-contextualises these results in the view of the inclusiveness and dynamic nature of the IBs upon implementation. The chapter concludes by questioning IBs as a tool for development, within today's development trajectories in section 3.6.

3.2 CONCEPTUALISING IB STRUCTURES FROM AN ORGANISATIONAL PERSPECTIVE

Publications in the field of IBs in the agricultural sector have identified several ‘models’ to describe how smallholders and low-income communities (beneficiaries) are included in

commercial value chains. This conceptualisation according to 'models' proves inefficient for dealing with both the complex governance structures observed in the field, and the changes in these structures within IBs occurring over time. Equally insufficient is the continuum of coordination mechanisms, ranging from free market transaction to vertical integration (Peterson, Wysocki, & Harsh, 2001). For example, in this continuum, contracts and equity are considered as different options for vertical coordination, whereas in reality, these options are combined within one IB. Analysis of IB cases revealed five instruments that link smallholders and low-income communities with commercial agricultural value chains, namely: supply contracts (da Silva & Ranking, 2013; Prowse, 2012; Sopov et al., 2014), collective organisation (Latynskiy & Berger, 2016; Markelova et al., 2009), equity (de Koning & de Steenhuijsen Piters, 2009), lease/management contracts (Vermeulen & Cotula, 2010) and mentorship (Terblanché, 2011) (Table 1.1, p. 17). Rather than considering these instruments as 'models', this study considers them as building blocks that are combined to form unique, evolving business structures. This approach avoids the use of a rigid typology of IB structures which is too static to capture the dynamics and complexity of organisational structures implemented by IBs. Using the concept of instruments as building blocks also allows for the concurrent implementation of different strategic control options identified in the vertical continuum thinking (Peterson et al., 2001).

Inter-organisational structures and the relationships between business partners comprise the subject of analysis of disciplines that fall under the umbrella of organisational theory (Dekker, 2004; Smith et al., 1995). The objective of an IB is two-fold, namely economic and social. In the case of entities active in primary agricultural production the social aspect lies in the equal-based inclusion of smallholders/low-income communities. It is imperative that both these facets of organisational theory are included in the rationalisation of the governance structures (Ulrich & Barney, 1984). Furthermore, IBs tend to be characterised by a high degree of power imbalance, with the commercial partner being the better-endowed actor. Lastly, the inter-organisational relationship between the IB partners changes over time (Guidi, 2011; Ménard, 2004). This is partly due to the limited time span of several instruments, but equally important is the dynamic nature of dependencies and power relationships and changes in the broader context in which the IBs operate (Mainville & Peterson, 2006). These facets motivate adjustments of the IB structure. A holistic theoretical framework is required to address these complexities of IBs and the context in which they operate (Figure 1.1, p. 15). This allows for a holistic theoretical approach that explains the

unique and complex, hybrid (Ménard, 2004; Williamson, 1991) organisational structures observed in IBs.

This study applies an inductive process to build a new conceptual framework from case study material. Firstly, the analysis of the organisational set-ups identified the instruments as building blocks (Table 1.1, p. 17). Secondly, individual, existing theories were found to be insufficient to rationalise the complex and unique structures observed in the field. Whereas some aspects of such theories were applicable, they proved insufficient to deal with the observed realities. In Chapter 2, a new theoretical construct was built inductively by identifying these elements and recognising patterns. This chapter applies this construct to all case studies to form an overall conceptual framework that motivates the multi-instrument structures observed in the field. As such, there is a reciprocal relationship between theory building and the empirical evidence.

The three theories are linked by common aspects, specifically the role of power imbalance and uncertainty (Chapter 2). Both these elements are particularly relevant to hybrid organisations in general (Ménard, 2004), and to IBs specifically, where uncertainty is exacerbated by partners who are unaccustomed to each other and where power relationships tend to be significantly skewed (Trienekens & Willems, 2007). It is these aspects, combined with the social objective of IBs, which make these organisational structures different from the more mainstream inter-firm partnerships. Although it falls outside the scope of this study to delve deeper into the common aspects of, and the differences between, the three individual theories, a discussion of them separately, but as interlinked, allows a better understanding to be gained of how they contribute to the assessment of IBs.

The starting point of the theoretical framework is *RDT*, which looks at the external dependencies of an actor. RDT argues that higher levels of dependency result in more integrated forms of partnership, especially if the dependency creates a high level of uncertainty (Pfeffer & Salancik, 1978). IBs are inherently uncertain in their dependency, as the commercial partner and the smallholders/low-income community are unaccustomed to each other (Schuster & Holtbrügge, 2014). Since the agribusiness is likely to be the dominant partner due to its larger ability for financial contribution, and its more developed skills and networks, dependency characteristics that initially shape the IB structure originate foremost from the firm's dependency on the farm, not vice versa. However, to offer an attractive

proposition to the smallholder/low-income community, the IB must incorporate elements that allow the beneficiaries to deal with their dependency challenges. This refers to the element of interdependency, acknowledging the fact that both partners depend on each other. A relevant extension to RDT has been provided by Casciaro and Piskorski (2005), who theorise that higher levels of mutual dependence will lead to an increase in vertical coordination, whereas a higher level of power imbalance reduces the likelihood of vertical integration. Considering the often more powerful position of the agribusiness, I posit that the firm's dependency is the likely driver behind the IB initiation, and subsequently that the higher the firm's dependency on the resources owned by the smallholder is, the more likely the agribusiness is to invest and co-opt with the smallholder in this partnership, if this reduces the level of uncertainty related to their interaction. As such, the theoretical framework aligns with the netchain concept, which combines vertical supply chains with more horizontally oriented networks, adding an extra dimension to inter-organisational coordination. According to this concept, the particular type of dependency impacts on the coordination mechanism between partners in the same netchain. The expectation is that pooled dependency, where actors make a discrete contribution to a task, leads to standardisation in market-like transactions. Sequential dependency, in which actors within a netchain depend on preceding actions from another actor, stimulates managerial discretion. Reciprocal dependency refers to a situation where netchain actors simultaneously depend on each other, and advances mutual adjustment (Lazzarini, Chaddad, & Cook, 2001). It is, however, important to note that organisational strategies in RDT are driven by power, rather than performance indicators such as profit or efficiency (Pfeffer & Salancik, 1978). Furthermore, RDT considers the ex-ante situation that explores where some form of resource internalisation is likely. These aspects set RDT apart from TCE and AT. Dependencies within an IB in primary agricultural production centre on land, quality and quantity of produce, financing, access to input and output markets, expertise, and infrastructural assets, which each can be managed by the identified instruments.

Once a partnership has been identified, TCE focuses (among other things) on the asset specificity of investments embedded in the hybrid organisation (Williamson, 2002). It argues that safeguards in the contract serve to protect the partner who has made relationship-specific investments. Investments in IBs are inherently skewed towards the commercial partner who has larger financial means than the beneficiaries. Thus, it is expected that safeguard instruments serve the interests of the commercial partner and not necessarily those of the

beneficiaries. A second important aspect is that the partners aim to reduce the costs related to their transactions (Williamson, 1979). These include costs such as those incurred in finding a transactional partner and establishing and monitoring of a contract (Hobbs, 1996). According to TCE, a more hierarchal structure of the hybrid organisation suits situations of high uncertainty around the transaction, considerable asset specificity, and a high frequency of transaction (Ménard, 2004; Williamson, 1979). These concepts consider vertical integration as a necessary means to overcome opportunistic behaviour, often detrimental to the less powerful partner. The concept of complementarity instead highlights the point that increased vertical integration can instead benefit both partners (Mainville & Peterson, 2006).

Finally, AT analyses the relationship between a principal and agent within a contractual arrangement. It argues that an agent will shirk in its behaviour towards the principal, resulting in risks for the principal in the form of adverse selection and moral hazard (Holmström, 1979). The contract aims to minimise this risk, through incentivising the agent, and by aligning the agent's goals with those of the principal (Eisenhardt, 1989a). To ensure a positive outcome, the principal can incorporate monitoring and observation systems for agency behaviour, but these come at a cost, which the principal will aim to minimise (Shapiro, 2005). Aspects of outcome uncertainty are particularly relevant for IBs where non-traditional partners work together. Thus, further instruments could be incorporated into the IB's structure to deal with this challenge.

This holistic theoretical framework, combined with the standard instruments, is applied to unique case studies to explain the complex institutional set-up of an IB. Not only does the implementation of an individual instrument differ per IB, the combination of instruments also varies, both at implementation and over time (Mainville & Peterson, 2006). For example, smallholders can have equity in the IB, but this might range from a small minority to a majority share. It is the multi-layered argumentation that underlies the adaptable combination of the standard instruments, as alluded to by previous authors (Sopov et al., 2014; Vermeulen & Cotula, 2010), and that creates unique business structures which allow these "strange bedfellows" (W. Vellema, 2015) to enter into business relationships.

3.3 SOCIO-POLITICAL CONTEXT AS DRIVER OF IBS

The theoretical framework highlights the dependency between agribusiness and smallholder. This dependency is partially driven by the socio-political context in which both actors operate. In the South African case, the context is defined by the highly dualistic structure of the agricultural sector, and the transformation-driven policy framework that aims to overcome this dualism (R. Hall, 2004). The sector is dominated by a capital-intensive, large-scale farming segment (owned predominantly by white farmers and firms). At the other end of the spectrum is a large number of (black) smallholders and subsistence farmers, with limited access to production means, who exhibit low productivity, and who are largely excluded from commercial value chains (Cochet et al., 2015). This duality offers a foundation for IBs which is absent in many developing countries which tend to be dominated by the smallholder segment with a less developed infrastructure. In theory, storage infrastructure, input suppliers, financing, and offtakers exist in the country, and a wealth of agricultural knowledge is available, but little synergy between the two segments occurs in practice. Overall, commercial value chains are well-established, with ample partners being available for smallholders and low-income communities, and thus the potential for IBs is considerable.

The South African government aims to utilise this potential through two pillars: land reform and agricultural sector transformation. Land reform policies aim to increase access to land ownership for black communities and individuals to address the uneven land ownership distribution and forced removal from land during the apartheid era (see Box 3.1). Government grants finance the transfer of land from white to black owners, and allow for the establishment of farming activities after ownership transfer. Conditions attached to land ownership through government programmes often require the new landowners to engage in some form of partnership with agribusinesses to ensure the continuation of commercial land use, influencing the particular instruments to be used in an IB (e.g. Lahiff, Davis, & Manenzhe, 2012). Agricultural sector policy instead aims to achieve increased black ownership and control over agribusinesses through the AgriBEE (Black Economic Empowerment) legislation (NDA, 2006). The AgriBEE framework provides targets for agribusinesses regarding ownership, control, and development to qualify for preferential procurement status. This policy, leaving the IB partners to decide on the instruments through which partnerships are to be built, creates a form of dependency of agribusinesses on smallholders. Thus, the policy context, on the one hand, results in agribusinesses seeking to

gain access to land transferred to low-income communities, smallholder produce, and favourable grant financing, while on the other hand obliging new black landowners to partner with a commercial entity. It is important to note that the South African land and agricultural policy framework is designed in a way to reduce dependency on state support. Government support primarily consists of once-off grant funding that stimulates the establishment of an IB, mainly through equity funding, rather than funding its operation via recurrent subsidies. In addition, IBs are motivated by preferential procurement guidelines which are not supplemented by financial support. As such, IBs demonstrate a low level of temporal rent-seeking (Lerner, 2009). Nevertheless, it needs to be underlined that the availability of government financing does encourage agribusinesses to form partnerships with smallholders as illustrated by the cases in the following section, and that multiple IBs have collapsed following the termination of donor funding or the non-payment of government grants (Chamberlain & Anseeuw, 2017).

In all of the 14 case studies, government policies impacted on the formation of the IB, either as main driver or as peripheral influence. The direct impact of the policy environment is the creation of dependencies between agribusinesses and rural, low-income communities, underlining the importance of integrating RDT into the conceptual framework. Power over resources, conditioned by the policy framework, is a significant motivation in the formation of IBs in the South African context, as will be illustrated in this Chapter. In contrast, the establishment of IBs with smallholders in other developing countries are motivated by more economic drivers such as business expansion into new markets or achieving flexibility in the supply of produce (Gaertner & Ishikawa, 2014; USAID, 2014). The lack of an established commercial farming sector forces actors further down the value chain to integrate smallholder farmers in these countries (Vorley et al., 2009).

The IB cases studied for this particular research operate across the agricultural sub-sectors (Table 3.1). Furthermore, they are spread geographically, subjecting them to specific policy environments dictated by provincial governments, which can prioritise nationally defined policies of their choice. For a more detailed description of the case studies, see Appendix A.

Table 3.1: Case study description

Case study	Characteristics	Description
Blue Mountain Berries	Beneficiaries: 70 Area: 257 ha	Farm workers of newly-established blueberry farm organised in **collective** with ***equity*** in the farm, shared with the commercial farmer and DFI who warehouses loan financing of employees. Part funded by government grant. Farmer with equity working on **management contract**.
Bosman Vineyards	Beneficiaries: 260 Area: 430 ha	Workers of long-established wine and vine farm, organised in **collective**, initially obtained full ownership in two of seven farms. In the second phase, all farms were brought under one company with shared ***equity*** between the commercial farm owner and the workers.
Gxulu Berries	Beneficiaries: 217 Area: 9 ha	Community-owned blueberry farm with minority **equity** for DFI funder. Land **lease**d from community ***cooperative***. Informal **supply contract** with commercial farm for produce offtake and **mentorship**.
Katmakoep Boerdery	Beneficiaries: 5 Area: 103 ha	Selected employees of farm management company are individual shareholders of an investment company (**collective**) with ***equity*** in new raisin farm shared with their employer. Employee ownership funded by commercial offtaker, in exchange for **supply contract**.
Mondi Paper	Beneficiaries: 1,660 Area: 4,000 ha	Existing forestry plantation sold by paper producer to land claimant **collective** and ***leased*** back with trees still owned by paper producer. Claimant community business **contract**ed for plantation work, **mentor**ed by commercial paper producer.
Mphiwe Siyalima	Beneficiaries: 1 Area: 672 ha	Individual farmer on government leased land with multiple partnerships driven by ***mentor***, allowing for diversification of crops and marketing channels. Centred on **supply contract** for fresh vegetables.
New Dawn	Beneficiaries: 1,615 Area: 1,050 ha	Tropical fruit farming on land ***leased*** from land claimant community by joint venture with shared **equity** of commercial operator and land claimant **collective**. Operational control through **management contract** and marketing activities owned by commercial equity partner.
Richmond	Beneficiaries: 1,615 Area: 2,434 ha	Land claimant **collective** leases land to commercial operator for tropical fruit production. ***Lease*** based on fixed amount and profit share.
Seven Stars Trust	Beneficiaries: 36 Area: 731 ha	Individual landowners organised in two-tier ***cooperative*** structure contribute land to sharemilk agreement governed by Trust. Cattle and moveable assets contributed by commercial partner, fixed assets funded from government grant. **Management contract** with commercial partner. Profits shared between landowners and commercial partner, instead of lease rental. Trust has **equity** in downstream dairy processor.
TechnoServe - Massmart	Beneficiaries: 87 Area: ±185 ha	Loose **collective** of smallholders **mentored** by NGO in production of vegetables on ***supply contract***. Offtaker is financial sponsor. Smallholder collective, NGO, and offtaker share **equity** in new packhouse.
TechnoServe - Nwanedi	Beneficiaries: 57 Area: ± 200 ha	Individual farmers supported by ***mentor*** who arranges **supply contract** for butternut and external financing with separate stakeholders. Technical support only for other vegetables.
THS - Simamisa	Beneficiaries: 6,600 Area: ±6,700 ha	Small landholders give power of attorney to a **cooperative** that ***leases*** their land to sugar producer who owns cane roots. Operational management by external **management** company.
THS - Vuselela	Beneficiaries: 2,555 Area: 3,700 ha	Small landholders ***lease*** land to **cooperative** with **supply contract** with sugar offtaker. Cooperative owns cane roots, funded by government grant. Operational management by offtaker.
WUFA	Beneficiaries: 74 Area: ± 200 ha	***Collective*** **organisation** of individual farmers with collectively owned anchor farm. Non-binding **supply contract** for citrus with offtaker, in exchange for **equity** in processor. Smallholders produce on contract through the collective, as well as other crops, as individuals, for other channels.

Source: Author

Box 3.1: Policy measures to stimulate transformation in South African agriculture

Settlement/Land Acquisition Grant (SLAG) – 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. In addition, no funding was available for the new landowners to turn their land into a productive asset.

Land Redistribution for Agricultural Development (LRAD) – 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. Grants were not necessarily linked to the purchase of land, and could also be used for equity schemes or infrastructure and land improvements. LRAD was terminated in 2010.

Comprehensive Agricultural Support Programme (CASP) – 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.

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

Agri-Broad-Based Black Economic Empowerment (AgriBEE) – A BEE framework for agriculture was released in 2004, and a Sector Charter was gazetted in 2008, to increase the involvement of black business 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.

Land and Agrarian Reform Project (LARP) – 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) – CRDP was developed to deepen support to land reform beneficiaries by enabling broader rural development through improved access to basic services, enterprise development and village industrialisation.

Recapitalisation and Development Programme (RADP, also called RECAP) – 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.

Source: *Chamberlain and Anseeuw, 2017, pp. 12–13*

3.4 COMPLEX AND UNIQUE ARRANGEMENTS OF STANDARD INSTRUMENTS

The organisational structures of IBs are increasingly complex and dynamic, as illustrated by the 14 cases studied. Each of these cases has implemented a unique set-up by combining the standard instruments identified as building blocks for the IBs. According to the conceptual framework, partnerships between agribusinesses, on the one hand, and smallholders/low-income communities, on the other, are initially triggered by one stakeholder's dependency on resources controlled by an external partner. This ex-ante dependency condition for partnership lies in the agribusiness's need for land, produce or favourable financing, whereas the smallholders are searching for market access, knowledge, and financing. This dependency, which is actor and context related, defines the core instrument around which the IB is built (in *italics* in Table 3.1). According to the conceptual framework, additional instruments are then implemented to make the transactions more efficient and to minimise the costs related to agency observation, and to address reciprocal dependency by making the value proposal more attractive for the business partner (Figure 3.1).

Considering that the power imbalance favours the agribusiness over the beneficiaries, the resource dependence of this commercial partner foremost determines the core instrument: lease for land dependency, supply contracts for offtakers looking to secure produce, and equity for agribusinesses requiring favourable funding for farm development. However, in several cases, the smallholders are the actors who initiate the core instrument: collective organisation to reach scale, or a mentorship to gain access to expertise.

Although the IBs, as combinations of instruments, each form a coherent entity, they are organised around this core instrument. Figure 3.1 and the following sections present them accordingly.

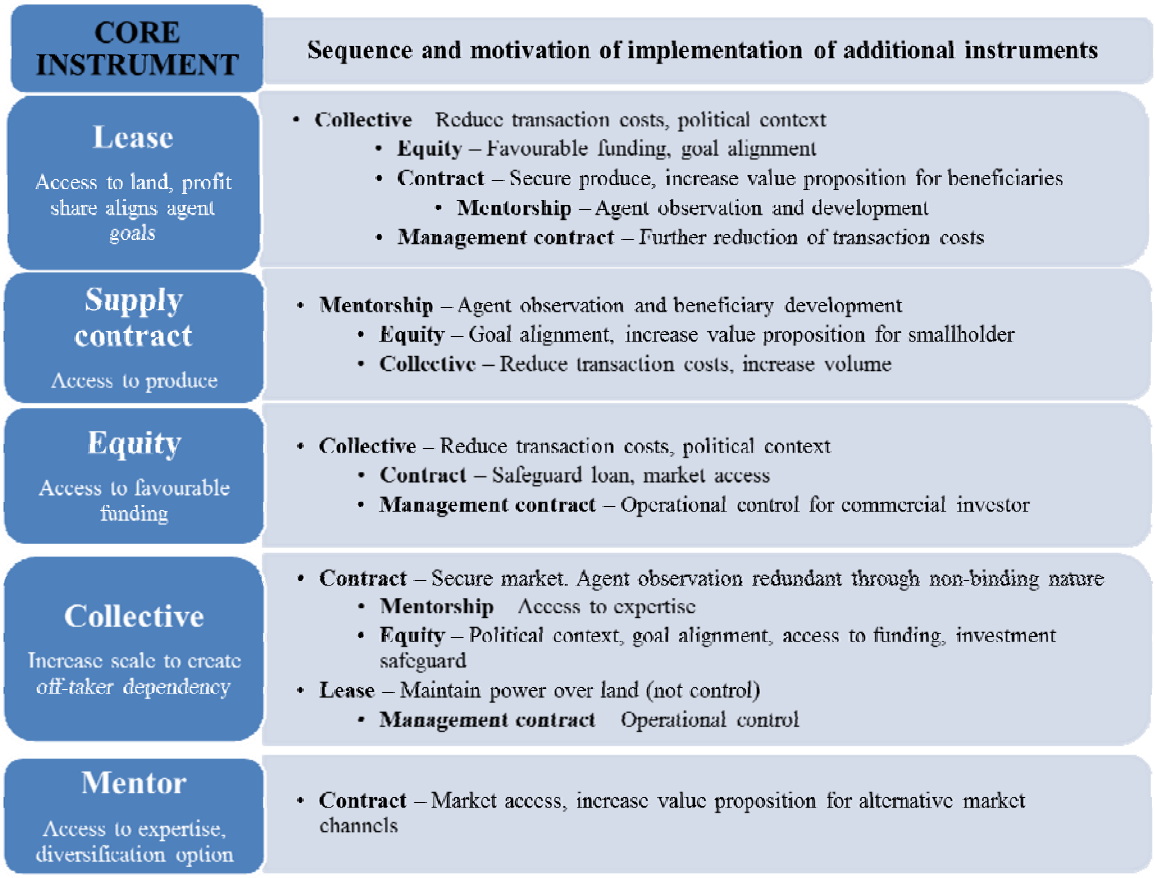


Figure 3.1: Core instrument and motivation for additional tools according to the theoretical framework

Source: Author

3.4.1 Lease

A lease or management contract overcomes dependency on land, while minimising the uncertainty for the lessee in transacting with the landowner. It offers the lessor the opportunity to gain income from this asset without any direct involvement in the farming operation. This situation is particularly relevant in South Africa where the land redistribution and restitution policy creates agribusiness dependency on smallholders by transferring land ownership from commercial operators to communities that lack (commercial) farming expertise to continue productive land use. The sequential relationship between smallholders – new, inexperienced, landowners – on whose land commercial crops are grown, and an agribusiness who processes or markets the produce, is characterised by a higher level of power and information asymmetry and increased uncertainty related to produce supply for the agribusiness, as compared with the situation before redistribution of land ownership. A lease agreement transfers the control over the land (again) to the agribusiness lessee, allowing this

partner to absorb its constraint (RDT), reduce the transactions with the community (TCE), and avoid agency issues (AT).

On the other hand, low-income communities searching for an agribusiness to operate on their land need to offer a sufficiently large area to be considered as an attractive partner that would allow this agribusiness to minimise transaction costs related to the number of contracts to draw up, manage and monitor. Hence, a lease contract generally involves a *collective organisation*. This collective can be a combination of individual smallholders, such as in the two cases operated by Tongaat Hulett Sugar (THS), or the sole landowner representing a larger community as is the case with the Kranskop (Mondi) and Moletele (New Dawn, Richmond) communities. Indeed, a value proposition to foster dependency by the agribusinesses seems to guide government policy for registering restituted land under a community collective, rather than individual land claimants. This approach allows existing commercial, large-scale farming to continue, despite new land ownership (Binswanger-Mkhize, 2014). Similar arrangements to those of Mondi, New Dawn and Richmond have been described across the country (Lahiff et al., 2012).

Shared *equity* with the lessor community provides two benefits to the agribusiness lessee. Firstly, it reduces the investment requirements of the agribusiness, which can benefit from community contributions into the farming operation, generally funded by government and/or Developing Finance Institutes (DFIs) aiming to stimulate rural development. Reduced financial commitment to the IB reduces the agribusiness' need for safeguards to protect its IB-specific investments. Secondly, shared equity aligns the goals of the lessor and lessee who both gain from higher profits that result from a well-operating farm, as argued by AT. Shared equity thus limits the risk for the lessee while providing the lessor with additional income opportunities. The combination of lease and equity allows the landowning community to maintain power over their land, while sharing the actual control with a skilled agribusiness partner. However, the Moletele community experienced their involvement as equity partner in the New Dawn company as being too cumbersome, without corresponding compensation for their engagement. For the more recently established Richmond Estate, this community rather opted for a pure lease agreement, reducing the costs for inter-IB transactions for both IB partners.

Whereas a lease provides control over land, it does not necessarily ensure control over the produce, the ultimate source of agribusiness dependency. This is, for example, the case where the agribusiness entered into the lease as part of a joint venture as illustrated in the previous paragraph, or where the beneficiaries own the productive asset on the land (THS Vuselela). Government funding for sugarcane roots, an asset with a 10-year life span, allowed the agribusiness, THS, to reduce its required investment in the IB. Lease contracts with landowner cooperatives were then combined with *supply agreements* to secure corporate control over the crop. This set-up safeguards the firm's cane input from fragmented land, but limits its supplier interactions to 31 cooperatives, rather than the several thousand individual members, without company investment needed in cane roots. Nevertheless, intensive cooperative management, required to ensure the contractual adherence of the community landowners, proved to be time consuming for the firm. For smallholder extension, THS implemented a different model (Simamisa), where cooperative management is outsourced on a *management contract* to a commercial third party. Considering the highly critical sequential dependence between cane harvest and processing, this management contract ensures critical managerial control over the activities on the landowners' plots, at a lower cost to the agribusiness. THS supplied the cane roots itself, making a supply contract redundant in this set-up. Income for individual landowners in both cases entirely depends on overall cane production by their cooperative, on the one hand stimulating the smallholders to ensure high production, while on the other hand allowing for free-riding behaviour within the cooperatives. Whereas the objective of the agribusiness is the same in both models, namely access to fragmented smallholder land for increased cane production, the difference in context (absence of government funding), and the experience with the first model (high transaction costs), motivated the firm to implement a model with a significantly different structure.

Lastly, a lease can be combined with a *mentorship* arrangement to prepare the smallholders for long-term, independent operation of the farming activities. Uncertainty reduction over time allows for a less vertically integrated coordination mechanism between the mentoring agribusiness and mentored smallholder, reducing transaction and agency observation costs, while maintaining access to each other's resources. Mondi sold land on which it operated a forestry plantation to two local communities, following successful historical land claims. Whereas the company sold the land, it retained ownership, and control, of the trees. Mondi was forced by government to include the communities into its forestry activities as part of the

land-restitution settlement deals covering the existing plantation. To secure wood supply after the current lease contracts terminate, the company engages the communities in contract work activities, combined with a mentorship construction. This approach allows Mondi to closely observe agent behaviour and to limit shirking, while at the same time aligning the priorities and work methods of the communities, as agents, to those of the company, resulting in better outcomes for both partners due to complementarity. Concurrently, the communities are enabled to increase their importance as partners for the forestry company in the long term.

3.4.2 Supply contract

Agribusinesses not engaged in primary production can secure produce through a supply agreement with active smallholders. This instrument is often sufficient when the farmer is well established and hence uncertainty around the transaction is minimal. However, developing smallholder farmers in low- and middle-income countries requires support beyond the usual supply of inputs and extension officers.

To overcome the large knowledge and experience gap between emerging smallholders and the demands of the commercial value chain, all cases evolving around contract farming in this particular study have implemented a *mentorship* arrangement in addition to the supply agreement. A mentor enables the observation of agent (smallholder) behaviour, reducing both adverse selection risks ex-ante, and moral hazard ex-post signing of the contract. However, mentorships are costly to implement, with the offtaker only willing to cover these costs when its dependence on the smallholder's produce is considerable. In this study, this only holds for Massmart which is bound by government-enforced take-over conditions following its majority purchase by USA-based Walmart. These conditions specify the inclusion of local, previously disadvantaged suppliers into their supplier base, creating dependency on smallholder farmers. The company engaged a global NGO, TechnoServe, with which it also works in other countries, to implement smallholder sourcing, with the company directly incurring the mentor's, and thus agency observation, costs. The same NGO, TechnoServe, is also the mentor in the Nwanedi case, but in this instance is sponsored by government funding that aims to achieve growth of smallholder capacities. Limited dependency by the offtakers does not justify IB-specific investment in this case (Chapter 2).

Uncertainty regarding agent behaviour is further managed through shared *equity* in downstream activities. This sharing aligns the goals of smallholder and offtaker, and incentivises smallholders to enter into, and adhere to, the supply contract. Massmart has invested in the refurbishment of a local packhouse, in which the smallholders, as a collective, hold equity. The smallholders thus have an interest in supplying this packhouse, enabling the offtaker to limit extra-contractual sales. The mentor, as the implementer of the contract and third shareholder in the packhouse, serves as a safeguard to protect the IB-specific asset investment made by the offtaker. A similar set-up is observed in the WUFA case, where individual smallholders, as a collective, own a nucleus farm together with packing facilities, and a small share in the citrus processor they supply. This downstream set-up reduced uncertainty and risks for its members, prompting the smallholders to undertake the production of a new crop.

Interestingly, IBs centred on a supply contract do not necessarily incorporate a *collective organisation*, as was the case for lease-based IBs. Rather, the agribusiness searching for control over produce supply engages an external mentor to reduce its transaction and agency costs, as demonstrated in the TechnoServe Nwanedi and Mphiwe Siyalima cases. Nevertheless, a collective organisation allows for the more efficient inclusion of a larger number of smallholders, which is required where dependence by the offtaker is higher and a larger volume of produce needs to be procured from smallholder farmers. Thus, TechnoServe works with a number of farmer collectives in its larger project for Massmart, but not in the Nwanedi case.

3.4.3 Equity

The equity instrument is mostly implemented to gain access to favourable financing, allowing agribusiness and smallholders to share resources. Both government and DFIs support initiatives to increase ownership of disadvantaged people in agricultural businesses by funding shareholding on their behalf. The external capital injection allows an agri-business to expand its current operation, or to start a new farm. To ensure control over their funds, DFIs obtain their own equity in the IB, as illustrated by the two berry farms, Blue Mountain and Gxulu Berries. Equity essentially serves as a safeguard for their IB-specific investment, as argued by TCE. Equity is particularly suitable in cases of reciprocal interdependence, as illustrated by the farmworker equity-share schemes in this study. The agribusiness depends

on a well-performing workforce, whereas the workers depend on their employer for their income. Shared equity of the IB, through shareholder meetings and other platforms it entails, facilitates coordination of the IB through mutual adjustment, affirming the relationship between the type of interdependence and the coordination mechanism (Lazzarini et al., 2001).

Beneficiaries in IBs are organised in a *collective organisation* as the actual IB shareholder: a workers' trust, a community cooperative, or even a commercial investment entity. This structuring allows for the efficient management of the beneficiaries' shareholding: individual member fluctuations do not affect the overall shareholding structure of the IB, representation of the beneficiaries in decision making bodies is channelled through the collective's leadership, and financing of the beneficiaries' shareholding is organised more efficiently in a collective than financing on individual title, to name a few aspects. Group organisation can be politically motivated, as illustrated earlier by the New Dawn case. Beneficiaries can hold individual, tradable, title to shares in this collective, as is the case of Katmakoep Boerdery. BMB was established with DFI funding. The managing operator contributed land; the remainder of the investment was funded by a DFI and government grants. Part of the DFI funding is a loan to obtain equity for the workers' trust; part is for the DFI's own shareholding. The shared equity allows the operator, working on a management contract, to gain access to financing, and provides all shareholders, including the workers, control over the management of the IB. Reciprocal dependency between employer, employees and government motivated this IB, with the equity tool covering the issues of dependency and agency observation, whereas the collective organisation of the workers in a workers' trust streamlines the internal IB transactions between the agribusiness, DFI, government and the employees.

Katmakoep Boerdery illustrates the point that a commercial actor can also provide equity funding. This IB is set up with a majority share for black farm workers. As such, the IB is an attractive supplier for agribusinesses that require black-owned suppliers under the AgriBEE framework. This consideration motivated the raisin offtaker to provide an interest-free loan to fund the 51% equity of the workers, with a supply contract serving as a safeguard. The minority shareholding is owned by a commercial operator (who is also the employer of the shareholding farm workers) which required funds to bring its unused land under production, with the particular JV status as black-owned, while also ensuring preferential access to water.

This agribusiness exercises its power over the farm through a *management contract* with Katmakoep Boerdery.

These equity structures can change over time, underlining the suitability of a flexible IB typology based on standard building blocks – as illustrated by Bosman Vineyards, an old wine farm. Government grants, allocated to individual workers organised into a workers' trust, were used to transfer ownership of two of its seven farms to this trust. These funds allowed the agribusiness to grow the overall operations benefiting both partners. The farms transferred to the workers' trust rented equipment from a 'running' farm in which the trust owned a marginal share. Whereas this setup aligned with the government's land redistribution objective, and while the detailed administrative system required for equipment rental provided transparency between the employer, as principal, and the workers, as agents, it also was a cumbersome structure. To reduce transaction costs related to the governance structure of the IB, such as in the form of administration burdens following cross-farm equipment rental and audits and certification, it was decided after some years to combine all farms, including the 'running' farm, into a single entity with shared equity between the family-owned company and the workers' trust. Risks related to overall uncertainty, and moral hazard in particular, had reduced after a number of years of operation, allowing for this change in set-up.

3.4.4 Collective organisation

Rather than starting from a dependency by the commercial entity on the smallholder community, IBs are initiated by smallholders seeking access to commercial value chains. Collective organisation can overcome scale issues and reduce transaction costs both ex-ante and ex-post, making the collective an interesting partner for an agribusiness. WUFA is such a collective organisation, formed by smallholders who entered into citrus production. In addition to its members' farms, the organisation established a collectively owned nucleus farm to increase its production offer (to both offtaker and member smallholders). The commercial offtaker is impelled into forming an IB-partnership with WUFA by AgriBEE policy, according to which WUFA was given *equity* in the agribusiness. However, overall supply from WUFA is negligible for the agribusiness, which thus shuns investment in this partnership. The *supply contract* between the offtaker and the smallholders' collective, which extends to the individual smallholders, is of a non-binding nature, allowing the firm to greatly

reduce agency observation costs, but also precludes the smallholder from becoming trapped in a principal-agent relationship, while nevertheless having a guaranteed offtake.

The Gxulu community is another example of a collective wanting to engage in commercial agriculture. This community lacked everything but land. It thus relies extensively on external partners: a DFI for investment in return for *equity*, and a commercial farm for *mentorship* and market access. In this case, the agribusiness is not dependent on the small quantity of fruit produced by Gxulu Berries. According to RDT and TCE, the agri-business thus prefers a market-based coordination mechanism without investing in this relationship. Whereas the agribusiness has committed itself to buy produce from the community-owned IB, the agribusiness does so through an informal contract, minimising observation and transaction costs related to dealing with Gxulu Berries. A lease contract between the joint venture IB and the community cooperative ensures community income, even during the start-up years, encouraging overall community member support, as argued by AT.

Of particular interest is Seven Stars Trust (SST), a community of smallholders who were part of an old irrigation scheme. The Government instructed these smallholders to organise themselves into a cooperative and to then find an agribusiness to partner with in order to revitalise dairy farming on their land. Individual smallholders lease their land to the cooperative, transferring the decisions over land use to this collective. The cooperative and the commercial partner subsequently entered into a 'milkshare' agreement. Under this agreement, the community provides land and fixed assets, funded by government grants, whereas the commercial partner provides cattle and moveable assets. No assets are joint-owned by the partners. This structure allows the agribusiness to remain free from an idiosyncratic investment, and thus from potential hold-up costs as argued by TCE. In case of non-cooperation by the SST cooperative, the agribusiness can move its cattle and machinery to land elsewhere. Operational profits are shared equally between the partners, thus fully aligning the objectives of the two stakeholders, while also partially transferring production risks to the passive landowners. At the same time, the goal alignment achieved by the profit-share agreement safeguards the firm-owned cattle from misuse by the community. The commercial partner further reduces uncertainty by operating on a *management contract*, providing extensive control over the farm operations. Through the expertise and assets of the commercial partner, the smallholders once again receive income from their land.

3.4.5 Mentorship

Mentorships can be attractive for both the smallholders/low-income community and the commercial partner. The instrument enables complementarity within the relationship, mainly through the reduction of sub-standard produce. Mentees stand to develop their knowledge and expertise, as well as their network. This development allows them to lessen their external dependencies and improve the power relationship with the agribusiness. The owner of Mphiwe Siyalima is an emerging farmer, searching for support to establish his farming business. This farmer obtained a farm through the lease of government-owned land. A condition to this lease was that the smallholder would enter into a mentorship agreement. The smallholder engaged a mentor well known to him and to the offtaker who had sourced crops from the farm prior to the Mphiwe Siyalima lease. The mentor encouraged the offtaker to continue sourcing produce, despite the interposition of a new farm operator, through a *supply contract* with Mphiwe Siyalima. The mentorship furthermore allowed the farmer to diversify his activities, using the network offered by the mentor. The supply agreement served as guarantee to develop these other partnerships. Hence, the mentorship enabled knowledge transfer and access to an extensive network, mitigating the smallholder's dependency position as the agent in a supply contract.

Commercial partners equally benefit from mentorships. The mentor (e.g. TechnoServe) serves as an actor to observe agent behaviour, reducing the risk of shirking. Besides, mentors can develop the skills of the smallholders or low-income communities to align with the requirements of the commercial partner. This development builds the foundation for a long-term reciprocal relationship, as envisaged in the Mondi case. Aside from equity, where knowledge transfer ensues within the IB relationship between beneficiary and commercial partner, mentorships can enhance the performance of IBs in combination with any other instrument. However, although mentorships are often included in an IB, it is rarely the core motivation to establish the IB in the first place.

Table 3.2 and Figure 3.2 synthesise how the different instruments work together to effect the accumulation of multiple tools within an IB.

Table 3.2: Application of conceptual framework to IB cases

Case study	RDT (Dependency / power)	TCE (Asset specificity / efficiency)	AT (Goal alignment, observation costs)
Blue Mountain Berries	Workers' trust *equity* to obtain favourable financing for farm development. Workers dependent on IB employment.	*Collective* for efficient organisation of workers' equity *Management contract* to safeguard DFI and manager investments	Shared *equity* aligns the goals to optimise farm performance and allows for board participation which streamlines communication with workers.
Bosman Vineyards	Workers' trust *equity* in separate sister farms to obtain favourable financing for farm development. Workers dependent on IB employment.	*Collective* for efficient organisation of workers' equity Shared *equity* in overall operation to reduce transaction costs related to cross-rental of equipment and internal sales.	Shared *equity* aligns the goals to optimise farm performance and allows for board participation which streamlines communication with workers.
Gxulu Berries	*Cooperative* to offer scale to agri-business and a condition for grant funding. Non-binding *supply contract* with agri-business due to lack of agri-business dependency	*Mentor* to ensure efficiency to safeguard DFI and grant investment *Equity* to safeguard DFI investment *Supply contract* provides access to post-harvest facilities, market and plant material	*Lease* for immediate and stable community income Third-party funded *mentor* to ensure operation according to agri-business standards *Collective* ownership of farm by complete community to decrease the potential for social tension. Non-binding *supply contract* reduces the need for agency observation.
Katmakoep Boerdery	Workers *equity* allows for preferential status as supplier (to satisfy off-taker dependency) and for water access required for farm development (to satisfy agri-business dependency). Workers dependent on agri-business employer	*Collective* for efficient organisation of workers' equity *Supply contract* to safeguard off-taker's loan investment and secure market access for the farm.	Shared *equity* aligns the goals of employer and employee.
Mondi Paper	*Lease* to gain access to community-owned land on which agri-business owns trees and generate income for the community. *Contract* to increase the value proposition for the community.	*Collective* ownership of land for efficient transaction with agri-business, as dictated by government	*Contract* work for agri-business aligns community interest with agri-business *Mentorship* allows observation of community work and skill development in long-term *Lease* income partially depends on IB performance
Mphiwe Siyalima	*Mentorship* condition to land lease and allows for dependency reduction of smallholder through market diversification	*Supply contract* efficient coordination mechanism to secure market and access to inputs/credit for smallholder and ensure quality control and timely procurement for off-taker.	*Mentor* observes adherence to supply contract
New Dawn	*Lease* to give agri-business access to produce and generate income for community.	*Collective* ownership of land for efficient transaction with agri-business, as dictated by government	Shared *equity* aligns interest of community and agri-business

	Shared *equity* condition to government support and financing.	*Management contract* to safeguard investment by agri-business	*Lease* income partially dependent on farm performance
Richmond	*Lease* to give agri-business access to produce and generate income for community.	*Collective* ownership of land for efficient transaction with agri-business, as dictated by government	*Lease* income partly dependent on farm profit
Seven Stars Trust	*Cooperative* to access funding and offer scale to agri-business Milk-share agreement to gain access to land *Equity* in off-taker to increase value proposal for community.	*Collective* for efficient asset ownership and transaction with agri-business, as dictated by government *Management contract* to safeguard agri-business investment (cattle) and ensure efficient operation	*Lease* income for individual landowner fully dependent of collective farm performance
TechnoServe-Massmart	*Supply contract* secures access to smallholder produce. Firm invests in shared equity packhouse due to high dependence on smallholders, increasing value proposition for smallholders	*Collective* organisation to reach scale at low cost for agri-business *Supply contract* safeguards investment of agri-business *Mentor* performs central coordination to reduce transaction costs for agri-business	*Mentor* ensures adherence of smallholders to supply contract *Equity* in off-taker minimises extra-contractual sales
TechnoServe-Nwanedi	Smallholders depend on *mentor* for knowledge and market access Low dependence levels result in lack of investment in smallholders	No safeguards needed in absence of asset specificity and low transaction frequency	*Mentor* ensures repayment of loan funding Flexible *supply contract* without input provision allows for selection of best price for smallholder
THS – Simamisa	*Lease* to gain access to land (agri-business) and income (community).	*Collective* organisation to reach scale at low cost for agri-business. *Management contract* reduces transaction costs for agri-business.	*Lease* income for individual landowner fully dependent of collective performance to align goals to agri-business.
THS – Vuselela	*Lease* to gain access to land (agri-business) and income (community).	*Collective* organisation to reach scale at low cost for agri-business. *Supply contract* to safeguard supply from community owned productive assets (cane roots).	*Lease* income for individual landowner fully dependent of collective performance to align goals to agri-business.
WUFA	*Collective* organisation offers scale to agri-business. *Supply contract* guarantees input from black suppliers. *Equity* in nucleus farm to increase value proposition for individual members.	*Collective* organisation to efficiently transact with agri-business. Non-binding *supply contract* without input provision efficient coordination mechanism in situation of low dependency by off-taker.	*Equity* in off-taker minimises extra-contractual sales Non-binding *supply contract* reduces need for agency observation.

Source: *Author*

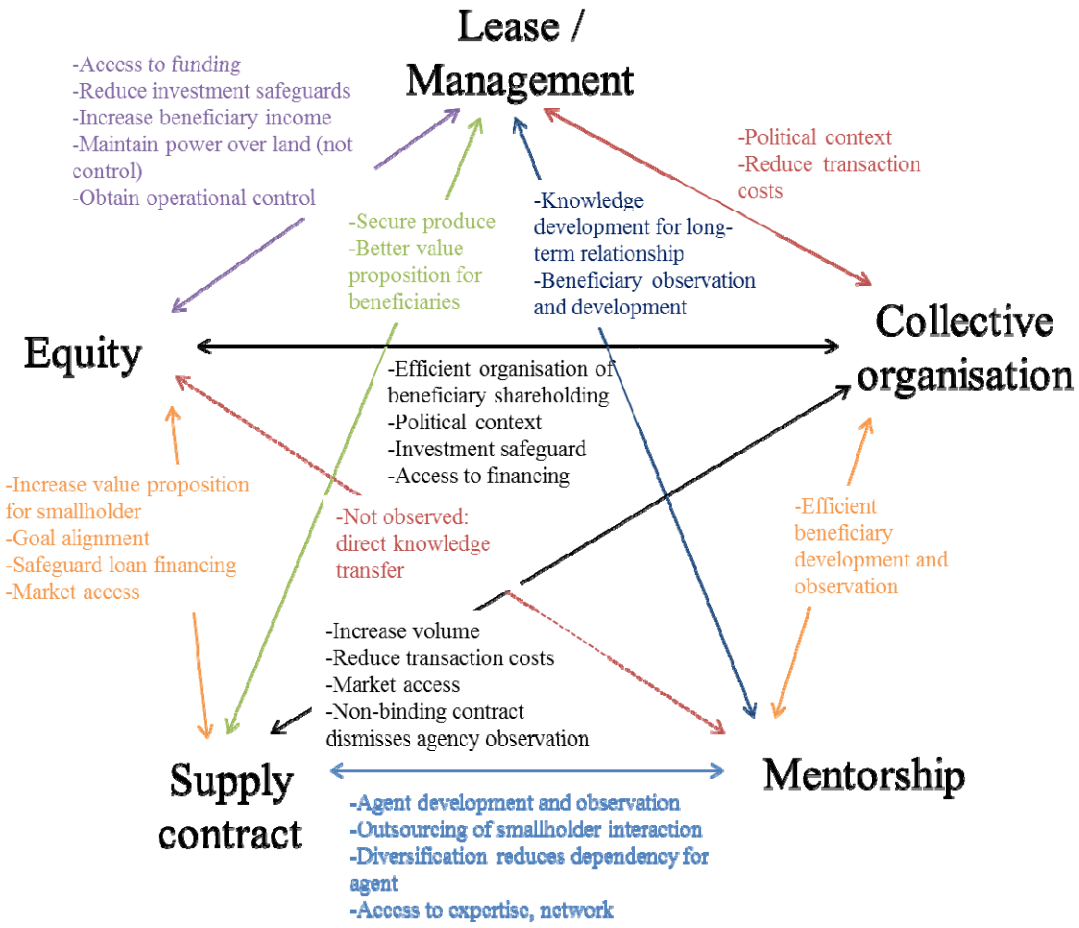


Figure 3.2: Wheel of instrument relationships

Source: Author

3.5 DO IBS FOSTER INCLUSIVENESS OR DRIVE CORPORATE CONTROL IN AN UNEQUAL SOCIETY?

The analysis of the case studies illustrates the multi-instrument structures of IBs, which are difficult to capture in a static typology. This difficulty is amplified by the dynamic nature of the IB structure, which changes over time. Ready-to-implement organisational structures or pre-defined fixed combinations of instruments are thus not applicable. The approach to identify instruments that are used as adjustable building blocks, uniquely combinable, provides the flexibility demanded by the complex and changing set-up of an IB. It allows for the reality that alternative coordination mechanisms can become more cost-effective in the process of time (Mainville & Peterson, 2006). Applying the holistic theoretical framework, based on the concepts of dependency, transaction costs, investment safeguards and agency behaviour, to the case studies subsequently provides explanations as to why, how, and by and

for whom the specific hybrid set-ups and combinations have been implemented in an IB. While the conceptual framework provides theoretical insights into why multi-instrument IBs are implemented, the question follows whether combining several instruments enhances or threatens the inclusion of smallholders in practice. This section provides insight into this question, using findings from the actual implementation of the described case studies, and compares these findings with results from existing literature.

3.5.1 Do multi-instrument IBs allow for inclusiveness or strengthen an unequal balance of power?

As highlighted in the introduction, IBs aim at achieving sustainable and inclusive commercial set-ups through partnerships between agribusinesses and low-income communities. These partnerships are defined by combinations of standard instruments, resulting in complex hybrid structures that are explained through resource dependency, transaction costs, investment safeguards and agency observation and goal alignment. As shown in Section 3.4, the initial driver behind the establishment of IBs in South Africa, and in other countries (IFC, n.d.; Sopov et al., 2014), is the dependency by agribusinesses on land (e.g. THS, New Dawn), on produce (e.g. Mphiwe Siyalima, TechnoServe) owned by smallholders or low-income communities, or on favourable financing (e.g. Bosman Vineyards). Access to these resources cannot be obtained through the market, and a fully hierarchical structure is not desirable to one or both parties, resulting in a hybrid governance structure lying between these polar organisational forms. This being said, the agribusiness dependency does not mean that the smallholders/low-income communities dictate the structure of the IB. Instead, as shown in many cases described in the literature (e.g. Wendimu, Henningsen, & Gibbon, 2016), the power relationship is tilted towards the agribusiness because of its greater financial means, well-established market integration, and wider expertise and capacity, thus enabling it to shape the organisational structure of the partnership to overcome its dependency on the beneficiaries, rather than vice versa (Casciaro & Piskorski, 2005).

Additional instruments are then implemented to balance these dependencies and, subsequently, aim at attaining set-ups that are more sustainable and inclusive. Some favour the smallholders and low-income communities through increased control, and a better value proposition to attract them into the IB partnership. Such set-ups occur particularly in cases where resource dependence by the agribusiness on the smallholder is high. Other additional

instruments favour the commercial partner: to allow for a reduction in transaction costs (company-organised landowner cooperatives – THS, or company-funded mentors to transact with smallholders – Massmart); to safeguard IB-specific investments (a supply contract to secure loan provision – Katmakoep, or management contract to control operations – SST), to align the beneficiaries' goals (equity in operating entity – New Dawn); or to observe beneficiaries' behaviour (mentorship – Mondi). These cases demonstrate the power of the agribusiness to reduce its uncertainty relating to transacting with the smallholder.

This sub-section discusses how the combination of instruments contributes to, or challenges, the inclusiveness of IB partnerships. As in the previous section, this discussion is organised according to core instruments, which are combined with additional ones (Figure 3.1).

Lease-based IBs operate in all cases in conjunction with a collective organisation of the beneficiaries to reach a minimal scale to create dependency and become attractive for a commercial partner to engage with these beneficiaries within a large-scale farming operation (Figure 3.1). This combination also reduces transaction costs for the commercial lessee. On the other hand, it does transfer costs related to a collective organisation, such as free-riding and organisation control, to the low-income community members of this collective (Ménard, 2004; Ortmann & King, 2007). As such, individual members, who have already transferred control over their land through the lease, often at unfavourable terms due to information asymmetry and power imbalance (Daniel, 2012; Vermeulen & Cotula, 2010), loose even more control and insight through the interposition of the collective organisation, as demonstrated in both THS cases. Shared equity for the beneficiaries in a joint venture that operates on the leased land, in theory, increases the beneficiaries' inclusion into the IB through an increase in the level of income through dividends, and control over the farming activities through board representation.

Nevertheless, in practice, equity tends to further obscure the complex structure of, and their role in, the IB for the beneficiaries. This lack of understanding is illustrated in the New Dawn case, and similar joint ventures (Lahiff et al., 2012). To compensate for the loss of control to the beneficiaries in a shared equity construction, the agribusiness re-establishes its power, at least over the operations, through the subsequent addition of a management contract. Overall, the risk remains partially with the community, thus compromising any increase in inclusiveness that their equity might have brought them. The stringent mentorship in the

Mondi case, which equally aims to increase the inclusiveness of the IB, confirms that the agribusiness can maintain tight control over the IB's activities. The landholding community's income does increase through the plantation (see Appendix A.5 for detailed figures), and the community members can increase their skills base. However, their involvement is merely as an executing agent, rather than as an independent actor. The Vuselela case, in particular, illustrates that the beneficiaries - owners of both land and productive assets - have lost control over both these resources through the mechanics of the multi-instrument construction centred on a lease. The inherent exclusion of the smallholders that results from a lease agreement is thus, at best, only partly compensated for by the combination with other instruments. All beneficiaries deserve a clear explanation of their role in the lease-based IB, with a realistic presentation of the limited (financial) rewards that are likely to accrue to them, certainly in the short term.

Table 3.3: The implementation of additional instruments to lease-based IBs in theory and implementation

Lease and	Theory	Implementation
Collective organisation	Scale to increase value proposition and reduce transaction costs	Collective management issues and lack of control for individual smallholders
Equity	Increased income from and control over IB for smallholders	Further complexity and no voice in IB
Supply contract	Increase value proposition for smallholders	Loss of control over productive assets
and mentorship	Increase smallholder skills	Agent observation tool
Management contract	Transfer control over operation to agri-business, transaction cost reduction	Side-lines equity holding smallholders from operation

Source: Author

Cases that centre on a *supply contract* have more involvement by the smallholders and thus are potentially more inclusive (Yaro, Teye, & Torvikey, 2017). The combination with a mentorship adds to the smallholders' benefits in the form of gaining expertise, as illustrated in particular by the farmers supported by TechnoServe, who supply Massmart. Nevertheless, these smallholders stated that frequently reported issues (Prowse, 2012), such as debt dependency and low prices, persist. Smallholder challenges are aggravated through collective

organisation. The implementation of a collective organisations allows the offtaker to benefit from reduced transaction costs related to for example supply quantity and input planning. However, the smallholders are unable to take advantage of the novel, un-established collective such as through increased negotiation power. On the positive side, collective organisation allows for the contracted smallholders to obtain equity in the downstream facility that they supply (Figure 3.2). It is argued that the combination of a supply contract and downstream equity has a favourable impact on the relationship between the firm and the farmer (Singh, 2008). However, as shown in some cases, the potential lack of transparency added by the collective organisation obscures the advantages for the smallholders in practice. Individual smallholders in the WUFA and TechnoServe – Massmart cases expressed that they could not understand the complex IB set-up, and not even fully grasped the supply contract that underlies their activities. The expected financial income from shareholding equity does not reach the individual smallholders. Well-established collectives with strong leadership can potentially overcome the challenges related to these additional instruments for contracted smallholders, and adjust the power imbalance that disadvantages these individual smallholders in their dealings with the offtaker agribusiness.

Table 3.4: The implementation of additional instruments to supply contract-based IBs in theory and implementation

Supply contract and	Theory	Implementation
Mentorship	Skill development smallholders	Agent observation tool Skill development smallholders overshadowed by debt dependency and low prices
Collective organisation	Reduction of transaction costs and increased voice for smallholders	Transaction costs agri-business reduced, smallholders loose insight into IB structure and contract
And equity	Favourable impact on relationship and increased income	Lack of understanding of complex IB structure and no financial rewards

Source: Author

The reciprocal dependency motivating partners to build an IB on shared *equity* indicates a power balance between smallholder and agribusiness. Equity serves multiple purposes: to increase the value proposition for smallholders through inclusion in controlling bodies and

the right to residual income; and goal alignment between partners (de Koning & de Steenhuijsen Piters, 2009; Eaton & Shepherd, 2001; Meinzen-Dick et al., 2011). Asset ownership is thus expected to have a positive impact on the smallholders and is consequently widely supported (Birdsall & Londoño, 1997; Carter & Barrett, 2006; Deininger & Olinto, 2000). This study, however, shows that the beneficiaries' contribution to decision-making is negligible (see also Cramb, 2013). This observation is related to the fact that, as with the lease-based cases, all the IBs centred on shared equity have incorporated a collective organisation to manage beneficiary ownership (Figure 3.1). As with the lease-based cases, little is done to empower the leadership of these collective organisations that have been established specifically to manage beneficiary ownership. The individual beneficiaries have even less insight and input into the IB of which they are shareholders. Effective beneficiary control over the IB joint venture is often further limited through the additional implementation of a management contract which formally transfers operational power to the commercial equity partner. In the case of Katmakoep Boerdery, the farmworkers, as shareholders, are further sidelined through a supply contract that serves as guarantee for the loan that was provided by the offtaker to obtain the worker's equity. This study moreover illustrates the fact that the residual income for beneficiaries through equity is generally low (Cramb, 2013). Loans used for equity funding need to be repaid before a dividend is declared (BMB), the operation of a collective organisation requires significant funds (Mondi), and the community is required, as equity partner, to invest in the IB (New Dawn). Thus, whereas equity, in theory, allows for a balance of power between agribusiness and smallholder, the more powerful agribusiness can reduce its IB-related uncertainty by adding other instruments to the organisational structure. The agribusiness thus seems to benefit more from the equity instrument than the smallholders/low-income communities do, at least in the short term, although it is exposed to higher risks. Whereas ownership is necessary, the effect of the equity instrument on the extent of beneficiary inclusion in the IB varies in practice (Sabates-Wheeler, 2008). Empowerment, related to capacity and representation, is essential for success in these cases.

Table 3.5: The implementation of additional instruments to equity-based IBs in theory and implementation

Equity and	Theory	Implementation
Collective organisation	Bundling of voice to increase smallholder control over IB Reduce transaction costs for smallholder shareholding	Insufficient capacitation of collective leadership to engage in decision making Financial rewards do not reach individual smallholders
Management contract	Efficient operation of IB	Transfers control over IB to agri-business
Supply contract	Market access for smallholders	Further loss of control over IB for smallholders

Source: Author

Regarding *collective organisation-based IBs*, Section 3.4 and the above paragraphs describe how most of the cases have incorporated such a collective body. Whereas this is often a secondary instrument implemented to reduce transaction costs, some IBs are specifically built on this instrument. Nevertheless, the collective organisation needs to be combined with other instruments in order to facilitate access for the individual members to commercial value chains. In this study, this is in the form of a contract to formalise the supply relationship between the smallholders and agribusiness to reduce uncertainty for both IB partners. Alternatively, the smallholder can enter into a lease/management contract. Whereas this transfers power over the smallholder-owned land in the IB to the agribusiness, it potentially increases the productivity of this land with little effort to the smallholder. Equity is offered by offtakers that source from the IB (WUFA, SST) to increase the IB's attractiveness to the smallholders' collective. However, as mentioned before, incapacity of the collective organisation, and its leadership in particular, has been observed in most of the case studies. Hence, the application of a mentorship agreement for Gxulu Berries, which concentrates not only on the technical aspects of blueberry farming, but equally on the management of a commercial farming operation. This approach seems to be mostly driven by the overarching development aspect of this particular IB, with commercial goals being of lesser importance. Therefore, this set-up is unlikely to be implemented in IBs where agribusinesses with a priority focus on IB profits are the main drivers. Overall, whereas in theory a collective allows beneficiaries to bolster their voice, in practice it transfers additional challenges to the members, and, in combination with additional instruments, complicates the overall IB, even where beneficiaries have independently organised themselves (Markelova et al., 2009). A

smaller-sized, well-established collective might be able to deal more efficiently with the challenges observed in this study.

Table 3.6: The implementation of additional instruments to collective organisation-based IBs in theory and implementation

Collective organisation and	Theory	Implementation
Supply contract	Uncertainty reduction	Incapacity of collective leadership limits smallholder voice in IB and complexity leads to lack of insight into and income from IB structure
Management/lease contract	Increased production with little effort by smallholder	
Equity	Increase value proposition for smallholders, access to favourable funding	
Mentorship	Increase skills base and network of smallholders	Skills development at collective level rather than for individual smallholder

Source: Author

This study underlines the importance of local capacity building, which is considered a crucial aspect for successful engagement with low-income communities (London & Hart, 2004; Reficco & Márquez, 2012). However, mentorship of individual smallholders in such low-income communities is costly, hence, only a few cases, each with a low number of smallholders, have *mentorship* at the core of their set-up. One of the main contributions of a mentor is in establishing market access through a supply contract for the individual smallholders, this being the only combination of instruments for mentorship-based IBs. As illustrated by Mphiwe Siyalima, when mentorship leads to effective capacitation, the combination of a mentorship and supply contracts decreases the smallholder's dependency on the mentor or a single contract, opening up diversification potentialities. If not provided by external parties, a mentorship arrangement requires the agribusiness to invest resources in effective capacity building that does not result in direct benefits (Schuster & Holtbrügge, 2014; Vermeulen & Cotula, 2010). As argued by the conceptual framework and confirmed in Section 3.4, it is only when the dependency of the agribusiness on the smallholder is considerable (RDT), requiring substantial IB-specific investment in need of safeguarding (TCE), that the commercial partner will invest in non-core activities such as capacity building. In my cases, only Massmart and Mondi were motivated, and able, to fund a mentorship programme to build the smallholders' capacities in their respective IBs, although adding this as a secondary instrument, on top of a contract. Thus, the mentorship mainly serves to increase the smallholder's potential to adhere to the contract specifics that are

dictated by the commercial partner. As a result, the smallholders in both these cases have indicated that actual knowledge transfer between the dissimilar partners remains limited (Bojica, Estrada, & del Mar Fuentes-Fuentes, 2018), with complementarity through enhanced smallholder performance mainly benefitting the agribusiness. Third-party funded mentors, instead, can adjust the balance of power and can extend their support beyond the agribusiness partner in the IB.

Table 3.7: The implementation of additional instruments to mentorship-based IBs in theory and implementation

Mentorship and	Theory	Implementation
Supply contract	Access to market and network	Smallholder observation tool External mentor adjusts power balance away from agri-business

Source: Author

This synthesis highlights the point that complex governance set-ups, situated between pure market and hierarchical transactions, are motivated predominantly to manage dependencies and control within the IB between the beneficiaries and the agribusiness (Baumann, 2000; Vellema & D'Haese, 2016). The commercial partner seems to be able to exploit the unequal power relationship which is reinforced by unequal financial investments and capacities. The composite structure benefits the commercial partner through securing control over agents and the resources they own, in an efficient way, while reducing the risk to their investment. Although this achieves the IB's objective of including smallholders/low-income communities into commercial value chains, that of an equal partnership seems less prominent. Nevertheless, results show potential positive effects for the beneficiaries, especially in small projects where motivated individuals look beyond profit goals and who are driven by the long-term empowerment of the smallholders whom they work with (Cotula & Leonard, 2010; Zylberberg, 2013). This finding seems to indicate the importance of the actual implementation of a specific structure for effective beneficiary inclusion, beyond the purely theoretical organisational construct.

3.5.2 Dynamic structures: opportunities for attaining more equal relationships or enhancing corporate control?

Time potentially allows for overcoming challenges and correcting issues, including the lack of equality within an IB partnership that is described in the previous section. As analysed in this chapter, dependency, transaction costs, investment safeguards, and agency observation motivate the implementation of a particular combination of standard instruments to achieve beneficiary inclusion. However, each of these theoretical drivers likely alters during the partnership agreement. For example, diversification through mentorship improves the external environment for the smallholders, enabling them to bypass their dependence on one commercial partner (Casciaro & Piskorski, 2005); external dependencies change through policy adjustments (Hillman et al., 2009); partners improve information sharing through the re-occurrence of transactions, lowering costs related to information asymmetry (Dyer & Chu, 2000; Uzzi & Gillespie, 2002); investments are earned back over time, reducing the need for safeguards; and agency observation can be diminished in an embedded relationship where malfeasance is discouraged (Dyer & Singh, 1998; Granovetter, 1985). Inter-organisational trust and learning, established over time through continuous interaction, plays a crucial role in re-adjusting the structural and technical elements, and in determining the governance mechanism (Beccerra & Gupta, 1999; Gulati, 1995). These adjustments result from the establishment of strong and equitable bases, related to trust; learning from experiences within these complex, hybrid set-ups; capacity development of all actors engaged; and adaptation to specific and changing (socio-political) contexts (Guidi, 2011; Schuster & Holtbrügge, 2014).

Regarding trust, two crucial aspects of an IB reinforce its importance, namely the high level of uncertainty inherent in hybrid organisations (Das & Teng, 1998; Ménard, 2004) and the dissimilarity of the partners (Gulati & Sytch, 2008). IBs which fail to establish trust are thus less likely to succeed (Ghoshal & Moran, 1996). This likelihood of failure through lack of trust holds for shared equity joint ventures (Luo, 2008), collective organisations (Mujawamariya, D'Haese, & Speelman, 2013), and partnerships built on the supply contract instrument (Kiwanuka & Machethe, 2016). In theory, a period of collaboration thus provides opportunities for the development of more efficient and equal relationships. Bosman Vineyards illustrates this impact of trust in relationship development and the subsequent change in the organisational structure of the IB with less strict vertical coordination (Schulze, Spiller, & Theuvsen, 2006). As described in the previous section, and Appendix A.2, the

initial governance structure was based on two discrete entities with separate ownership, resulting in high transaction costs. The later integration into a more embedded, efficient and inclusive single business entity with shared ownership was enabled through the combined effects of knowledge sharing and mutual trust development, which had reduced the uncertainty initially related to the new relationship as IB partners. A long-term employer-employee affiliation facilitated this relatively quick establishment of trust.

This being said, experiences over time by both the commercial partner and the beneficiaries can lead to the implementation of governance set-ups that are less inclusive of the latter. THS required large resources for the management of cooperatives representing a few thousand smallholders in the Vuselela project. These cooperatives were not well embedded in the community, resulting in leadership challenges and other internal struggles. Furthermore, the agribusiness entirely controlled the payments to the individual smallholders, bypassing the cooperative leadership to distribute financial benefits to these smallholder. This set-up added operational costs for the agribusiness and undermined the capacity development of the cooperatives. To limit the transaction and agency costs related to the management of cooperatives and their members, the agribusiness opted to engage a third-party company for operational control in the Simamisa project. These smallholders in this IB no longer have a link with the agribusiness and have indeed become mere rent seekers. This development underlines the point that the powerful agribusiness can extend control over resources owned by the smallholders, with agribusiness' profit objectives being prioritised over smallholder inclusiveness. However, the smallholders have equally expressed disappointing experiences with the Vuselela model, and are reluctant to renew their lease, thereby threatening the sustainability of this IB. A value proposition that is attractive to the smallholder is hence essential if the agribusiness is to secure sustainable access to the smallholder's resources. The leaders of the Seven Stars cooperative, on the other hand, are considering renegotiation, if not cancellation, of the management agreement, due to their experience gained over five years of IB involvement. The small size and historical nature of this cooperative, combined with an agribusiness partner that has community development as one of its primary objectives, contributed to this evolution of power re-adjustment.

Regarding local capacitation, this remains limited. Due to this lack of capacitation, beneficiaries are not able to increase their control over the IB, over time. The Moletele community felt unable to deal with the complexity of their role as shareholder in the

management of the New Dawn joint venture. Failure by government to provide funding, on behalf of the community, as equity commitment to the joint venture, put this IB under significant financial strain, and further undermined the position of the community. For the later-implemented Richmond Estate, the Moletele community opted for a simple lease structure. While this released them of the burden of managerial and financial commitments, it also transferred full control over their land and the farming operations to the commercial partner. On a positive note, the capacitation of the Mphiwe Siyalima farmer has enabled him to independently operate and manage his farm, including the supply contract.

These experiences, albeit a few, seem to underline the criticality of long-term commitment between the stakeholders, and of a novel business approach by the commercial partner, incorporating aspects such as beneficiary capacitation, that offers an environment where partners understand each other's ability and expertise (Berdegué, Biénabe, & Peppelenbos, 2008; Halme et al., 2012; Schuster & Holtbrügge, 2014). Although my cases have achieved a certain level of maturity, most are yet to reach the point of first contract renegotiations, potentially triggering a change in the organisational structure through which partners work together. Further long-term research is required to gain additional insight in how, and why, an IB structure changes over time.

3.5.3 The importance of the socio-political context: particularities of the South African case

This study illustrates the important role of the socio-political context in the formation of IBs and the particular structure that they implement (Cotula & Leonard, 2010; Cramb, 2013). Three policy-related aspects should be highlighted.

Firstly, the highly dualistic agricultural sector in South Africa – contrasting a commercialised corporate sub-sector that enjoys access to modern technologies, infrastructure and services (including financing) with a large population that is dependent on small-scale agriculture – creates an environment supportive of IBs (at least in the discourse). The well-established infrastructure reduces the required investment in facilities such as storage and input supplies, agro-economic knowledge is readily available, and the legal framework is robust. Thus, agribusinesses circumvent the challenges which are experienced in smallholder farmer partnerships in less developed countries (Graf et al., 2015; Sopov et al., 2014).

Secondly, the policy framework (partly) shapes the dependency between agribusiness and smallholders/low-income communities. In the case of South Africa, this framework encompasses two particular programmes, namely land reform policy and agricultural sector transformation (see section 3.3). Land restitution created an immediate dependence by Mondi on the community to whom plantation land was restituted to. Similarly, in the case of New Dawn, commercial citrus growers were faced with orchard lands being claimed by the historically dispossessed communities, leading to this particular IB, and comparable cases in the area (Lahiff et al., 2012). In a similar vein, under the AgriBEE scheme, agri-processing companies are prompted to increase their inputs from smallholders and low-income communities. Whereas Massmart was set specific targets by government, Katmakoep illustrates the indirect policy impact. Thus, the policy framework creates a stimulating environment, which reinforces smallholders and low-income communities (Baumann, 2000), while the stakeholders are flexible in the organisational structure they implement. An enabling environment has equally contributed to the establishment of IBs in countries such as Mozambique, Ghana, and India (Cotula & Leonard, 2010).

Thirdly, government supports and enforces the implementation of favoured instruments. As such, the claimant communities, and the commercial partners in both the Mondi and New Dawn case, were obliged to enter into a joint venture as part of the government-driven settlement agreement. The provincial government in the Western Cape instead favoured employment equity schemes, providing grant funding to BMB, Bosman Vineyards, and similar projects under its jurisdiction (Knight & Lyne, 2002; Tom, 2006). Mphiwe Siyalima gained access to a government land rental on condition of a mentorship. Lastly, the smallholders of SST were assisted by government to organise themselves into a cooperative in order to offer scale to a commercial partner. Similar government-driven structures, subsequently adapted to benefit the commercial partner, are observed in the Malaysian palm oil sector (Cramb, 2013).

The combination of the above aspects are specific to South Africa, making it a particular case on the African continent. It is indeed a country where infrastructure and services are well developed, at least for part of the agricultural stakeholders, and where the call for agribusiness/smallholder partnerships within the IB framework is clearly voiced. It is also a country where government has the means to back – especially financially – these endeavours.

Different conditions in other African countries might lead to different instruments, and instrument combinations, for structuring IBs, as they will have an impact on the dependency structures between agribusinesses and smallholders/low-income communities. Multiple examples in the framework of the large-scale land acquisition phenomenon illustrate this (R. Hall, 2011; Nolte et al., 2016). Although the challenges and lessons learned from the set-ups and combinations detailed here might enable more inclusive investments in Africa, many have so far failed to achieve this (Latynskiy & Berger, 2016; Veldwisch, 2015).

This being said, shortcomings in policy and government engagement can also hamper the development of IBs, despite the positive impact of the policy framework on the initiation of IBs. Several examples mushroom from the case studies. In the Mondi, New Dawn and Gxulu Berries cases, financing for beneficiaries' equity has either been cumbersome, or has not materialised at all, putting those IBs with an equity component under significant strain. In the THS, Mondi and SST cases, collective organisation was forced on smallholders and communities, but was not backed up by capacitation of these collective bodies, leaving the beneficiaries in a vulnerable position vis-à-vis the commercial partner. In the Astoria and Benoni cases (single instrument IBs not included in this study), government-initiated mentorships have been more beneficial to the mentor than to the mentee, as it gave the mentor full decision-making powers over activities and finances (Chamberlain & Anseeuw, 2017).

The socio-political context of South Africa has forced agribusinesses to create partnerships that do not necessarily align with their profit strategies. Safeguarding their control, and economic interests, has in turn driven their strategies, and many of the complexities observed in the studied IB structures. The risk is thus of corporate control over low-income owned resources, rather than the envisaged development of the beneficiaries IBs aims to assist. This emphasises the need, besides the policy framework and State intervention, for third party engagement. Although this can render the IB set-up even more complex, third parties (NGO support in particular) can assist in the reduction of dependencies, and overcome public inefficiencies or shortcomings (as in other parts of Africa – see Boche, Tanner, Zimba & Anseeuw (2013)).

3.6 CONCLUSION

IBs are often mentioned in the literature and development strategies, yet their conceptualisation, and complex and changing partnership structures, are little known. Incorporating elements of RDT, TCE, and AT to offer a holistic approach that takes into account the power imbalances and uncertainties pertaining to the relationship between smallholders/low-income communities and agribusinesses, this chapter conceptualises IBs as being hybrid set-ups incorporating flexible and dynamic combinations of inclusive instruments (collective organisation, equity, lease/management contract, mentorship, and supply contract) rather than a stringent 'typology'. While allowing for more comprehensiveness, this approach offers the flexibility required to define the unique and dynamic governance structures, as have been observed in the field in this, and other, studies.

Structured around a core instrument, generally established to overcome an external dependency such as access to land, produce, or market, and influenced by the operational context, IBs uniquely combine additional instruments to safeguard IB-specific investments, reduce transaction costs and control agency behaviour. As such, IBs are contingent relationships through which power imbalances are addressed and which ease the initial uncertainty over time. While in theory these composite structures allow for greater inclusion of the beneficiaries in terms of ownership, voice, and rewards, the cases analysed show that due to its dominant power position, the agribusiness can shape the set-up of the IB to reduce its uncertainty pertaining to the relationship with the beneficiaries, and not vice versa. Nevertheless, the value proposal to the low-income community needs to be attractive for an IB to be established. Thus, despite their subordinate role, beneficiaries are able to gain experience from their engagement in commercial agricultural activities; positive for some, more disappointing for others.

This questions the actual beneficiary inclusion obtained by the IBs, and highlights the risk of corporate control over assets owned by low-income communities. Although IBs allow for some degree of inclusiveness, particularly regarding market integration, this risk emphasises the fact that IBs are not a panacea for inclusive development. Trust, capacity building, and empowerment, combined with flexibility, adaptation, and long-term commitment, remain crucial. Third-party stakeholders – such as civil society or the State – remain essential,

refuting the suggestion that IBs and their leading agribusinesses, as sole stakeholders, are effective for achieving inclusive agricultural development.

CHAPTER 4 INCLUSIVENESS REVISITED: ASSESSING INCLUSIVE BUSINESSES IN SOUTH AFRICAN AGRICULTURE[7]

4.1 INTRODUCTION

Ways to facilitate smallholder inclusion in commercial value chains have been discussed, conceptualised and developed in various ways over the last decades (Arias, David, Krivonos, & Morrison, 2013; Gradl et al., 2012). One way of fostering smallholder inclusion is through partnerships between commercial entities and smallholders/low-income communities. Evolving from more basic outgrower schemes (Bijman, 2008), recent developments have led to complex business partnerships that combine multiple standard instruments (collective organisation, equity, lease/management contracts, mentorship, and supply contracts) into unique business structures as demonstrated in the previous chapter. These complex inclusive businesses (IBs) are hailed to overcome some of the limitations of the more basic instruments, while increasingly providing smallholders and low-income communities with access to commercial value chains.

To determine the impact of IBs, existing measurements, such as the Impact Reporting and Investment Standards (IRIS) and the BCtA Results Reporting Framework (BCtA, n.d.), predominantly focus on business-related parameters. Particularly concerning agricultural IBs, indicators generally encompass the number of smallholders reached, training provided, and agricultural revenue generated. These indicators are subsequently viewed as comprising an indicator for the developmental impact of the IB (Wach, 2012). Such methodologies neglect the complexities of beneficiary inclusion in the overall value creation process within the IB (Vermeulen & Cotula, 2010). Methods of beneficiary empowerment and value-sharing are mostly ignored.

The objective of this chapter is to provide deeper insight into, and understanding of, the "inclusive" side of inclusive businesses. By looking at how value creation is shared between the corporate partner and the low-income beneficiaries, and how the different actors are engaged in deciding these shares, it aims to offer an answer to the question posed by Wach (2012, p. 3): "when is business 'inclusive' and when is it simply business?". This requires

[7] This chapter is adapted from:
Chamberlain, W.O. and Anseeuw, W., 2018. Inclusiveness revisited: Assessing inclusive businesses in South African agriculture. *Development Southern Africa*. DOI: 10.1080/0376835X.2018.1518708.

both a methodological and empirical approach. The first step is to develop a methodology for the holistic assessment of beneficiary inclusion throughout the value creation process within the IB. Four dimensions of inclusiveness are central to the proposed assessment: ownership, voice, risk and rewards (Vermeulen & Cotula, 2010). For each of these dimensions, a distinction is made between institutional inclusiveness and the inclusiveness that is achieved in the actual implementation of the IB. This distinction is critical, as the achieved inclusiveness in practice often lags behind the plans. This methodology is then applied to 14 IBs in South Africa. The empirical results illustrate if and how beneficiary inclusion is achieved.

The next section details the methodology and outlines the scoring mechanism (Section 4.2). Section 4.3 presents the results for each of the four dimensions. These findings are discussed in Section 4.4, contextualising the results in the wider debate on the role IBs can play in development. Before concluding, the chapter presents recommendations aimed at increasing the level of inclusiveness of IBs (Section 4.5).

4.2 METHODOLOGY

To determine the level of inclusiveness of a particular IB, four dimensions have been selected to indicate how value creation within the IB is shared between the smallholders/low-income communities and the commercial agribusiness: ownership, voice, risk and rewards (Vermeulen & Cotula, 2010). Each of these dimensions can contribute to overall economic growth, while reducing inequality. Whereas these dimensions are related, they do not necessarily correlate.

To gain further insight into the specifics of these broad dimensions, each dimension is divided into three categories, resulting in 12 categories, overall (Table 4.1). The score per category ranges from one (low inclusiveness) to five (high inclusiveness), providing a score for each of the four dimensions varying between three and 15 as detailed in Table 1.6 on p. 35. The scoring of each of the 12 categories is done on two levels: institutional set-up and implementation. The institutional set-up score indicates the envisaged level of inclusiveness that can be achieved. However, the actual application often lags behind, resulting in a different level of inclusiveness in practice (Aliber & Cousins, 2013; Lahiff et al., 2012). Thus, the second score relates to the effective implementation of the IB.

Table 4.1: Scoring mechanism summary

Dimension	Categories	Variables
Ownership	**Land + fixed assets**	(Combination of) Individual beneficiary, collective of beneficiaries, or commercial partner
	Moveable assets	(Combination of) Individual beneficiary, collective of beneficiaries, or commercial partner
	Produce	Individual, collective, commercial partner or offtaker
Voice	**Pre-implementation**	Individual or collective impact on governance structure, partner, and opt-in/out decision
	Day-to-day and IB operation	(Combination of) individual beneficiary, collective of beneficiaries, or commercial partner
	Medium to long-term	Impact on strategy, structure, opt-in/out option for individual beneficiary
Risk	**Financial**	(Combination of) individual funds, collective funds, grants and commercial partner funding
	Operational	(Combination of) Individual beneficiary, collective of beneficiaries, or commercial partner
	Community	Membership, individual behaviour, collective leadership challenges and external frictions
Reward	**Market access**	Input, output, credit
	Financial	Rent, produce and dividends/assets
	Employment & skills	Jobs, training, bursaries

Source: *Author*

Note: *Full details for the scoring mechanism are included in Table 1.6 on p. 35*

The 14 IBs to which this methodology is applied are situated across South Africa and represent a diverse range of sub-sectors (Table 3.1, p. 70). Using a snowball sampling method, the IBs retained for this study have been selected for their unique set-up, implementing complex combinations of standard instruments: collective organisation, equity, lease/management contracts, mentorship, and supply contracts. These instruments each affect the way in which beneficiaries are integrated in the value-creation process, and have a significant impact on the level of inclusiveness. The studied IBs have been in operation for a number of years, presenting a minimum level of sustainability. This results in better insights into the potential and actual levels of inclusiveness in each of these different structures.

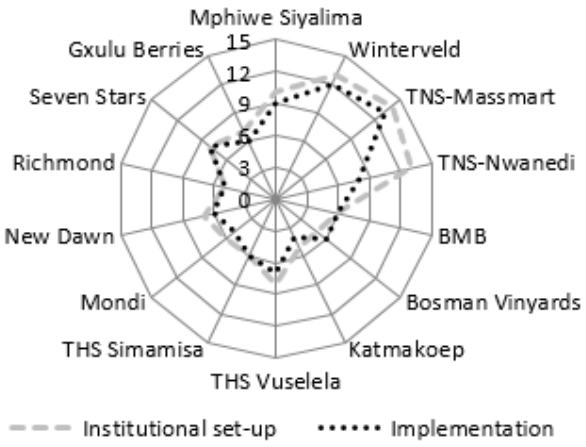
A few notes need to be made regarding the scoring mechanism. Firstly, the presented assessment relates to the set-up and implementation of an IB as overall business operation. It does not assess absolute numbers, such as the amount of rent received, the value of assets owned, or the number of beneficiaries trained. Whereas this allows for comparing IBs of different sizes, it might exaggerate the extent of inclusion; stakeholders implement a minimum of value-sharing, but generate a high score. Related to this point is the fact that the methodology is not an impact assessment or evaluation; it does not compare a before and after situation, nor does it analyse the performance of the IB or look at either positive or negative effects of the IB. Thirdly, this assessment largely relates to the overall degree of equality within the IB partnership; it does not evaluate the impact on the individual beneficiaries. Whereas the IB, as a partnership, might have a relatively high inclusiveness, this does not necessarily trickle down to the individual members. This lack of individual impact is observed particularly where large collectives are involved (McCusker, 2002). Furthermore, existing inequalities are likely to have an effect on the level of impact at an individual level (Sabates-Wheeler, 2008). Thus, whereas certain smallholders might be impacted upon positively, others could consider the impact of IBs as negative. Lastly, spin-off effects of the IB through community linkages are not included, as these do not pertain to the internal structure of the IB. The methodology presented here aims to provide insight into the value-sharing potential of the structure of IBs as a combination of standard instruments; it is not an overall or individual impact assessment.

4.3 RESULTS

The methodology outlined in the previous section is applied to 14 case studies, for which the four inclusiveness dimensions are presented here in individual sub-sections. These results are linked to the standard instruments that constitute an IB, namely: collective organisation, equity, lease/management contracts, mentorship and supply contracts.

4.3.1 Ownership

On paper, ownership levels are high where individual smallholders actively farm with a certain level of independence (first quadrant in Figure 4.1). These cases include a mentorship, which by definition leaves full ownership with the mentee (Terblanché, 2011). A combination of a mentorship with a supply contract affects the inclusiveness negatively since the smallholder loses ownership over (part of) his or her crop. Subsequent equity in the offtaker partly compensates this loss. Intermediate levels of inclusiveness occur where collective organisations are part of the institutional structure. In my study, all these organisations own the land on which the IBs operate. Either individual landowners have chosen to temporarily transfer their land to the collective, or the collective itself holds the land title. But, whereas the land is owned by the (collective of) smallholders, the moveable assets and produce are at best shared with the commercial partner. As such, the beneficiaries have little opportunity to engage in the formation of output prices. Inclusiveness from an ownership perspective is particularly low where land is leased out to a commercial partner. These landowners do not participate in the farming activities. Although this relieves them of any responsibility (financially or operationally), their inclusion is severely limited. In effect, instruments with higher levels of inclusiveness do not compensate for the dominant lease instrument.



	Institutional set-up	Implementation
Land / fixed assets	3.57	3.29
Moveable assets	2.57	1.93
Produce	1.93	2.00
Total	**8.07**	**7.21**

Figure 4.1: Inclusiveness per case – Ownership

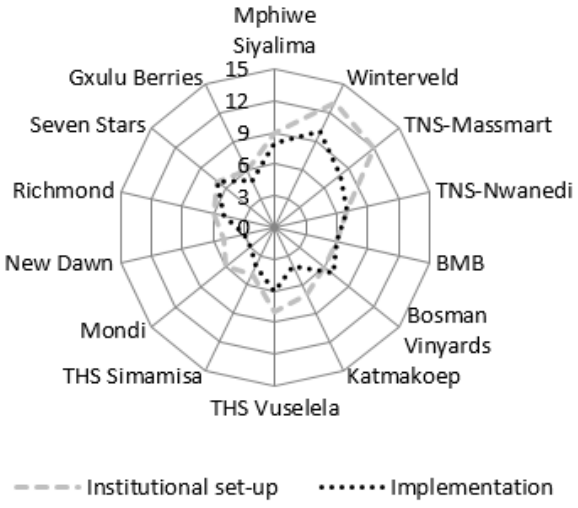
Source: Author

In the actual IB implementation, the ownership levels are lower than those on paper, especially where smallholders operate independently (Figure 4.1). Often, these individuals lack the financial means to establish their own farms and depend on short-term land leases from the government. The South African government places stringent conditions on these leases, requesting the lessee to share responsibility of the farming activities with a mentor or strategic partner. Due to these land ownership limitations, fixed asset ownership is only achieved by those smallholders who are organised in a collective. Better results can be achieved when moveable assets are considered, but once again, limited financial means prohibit individual smallholders, as well as beneficiary collectives, from accumulating productive assets. In contrast, produce ownership for individual smallholders, although still very low, is higher than envisaged where beneficiaries are able to produce both independently and under contract for a commercial offtaker.

4.3.2 Voice

In line with the ownership dimension, individually operating smallholders are, on paper, able to obtain the highest participation in decisions pertaining to 'their' land (Figure 4.2). Asset ownership gives them the right to participate in decisions affecting these assets (Baumann, 2000; de Koning & de Steenhuijsen Piters, 2009). Some inclusive instruments can assist in obtaining a higher level of decision-making power for smallholder farmers, while others potentially sideline them from meaningful participation. Mentoring NGOs can express the interests of smallholders and open information channels (Cheyns, 2014). Collective

organisation increases the overall voice of the beneficiaries (Baden, 2014; D. C. Hall, Ehui, & Delgado, 2004), although 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 4.2, are in a lesser position to individually influence what happens during both the design and implementation phases of the project. In the best case, their individual voices are represented through the (democratic) election of the members' representatives, and individual members have the option to exit the collective at the end of the IB contract. The influence on the farming activities further reduces when the IB incorporates a supply or lease/management contract. Whereas a supply contract transfers decision-making power partially to the offtaker, lease arrangements in this study place all the decision-making power with the commercial lessor. However, the limited period of these contracts does give the beneficiary (collective) the option to alter the IB's construction in the long term. Beneficiaries who have temporarily transferred their individual land to a collective organisation (i.e. THS) can equally opt out of the collective at the end of the agreement, and thus retain the power as to the long-term decisions for activities on their land.



	Institutional set-up	Implementation
Pre-implementation	2.43	2.21
Day-to-day	2.36	2.07
Long-term	2.57	1.64
Total	**7.36**	**5.93**

Figure 4.2: **Inclusiveness per case – Voice**

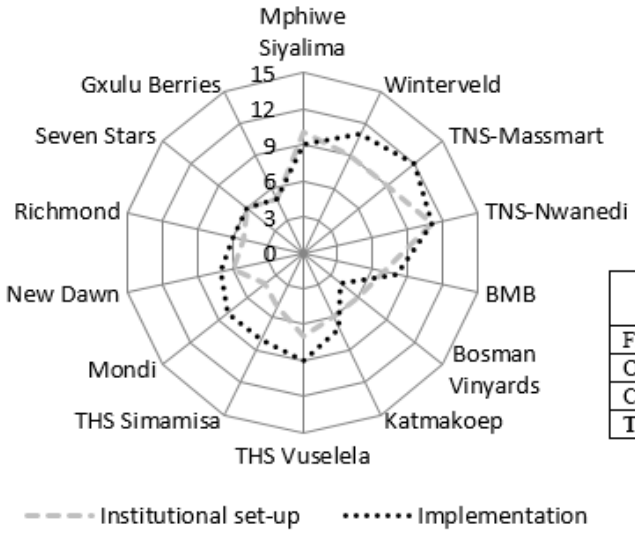
Source: *Author*

In practice, many cases demonstrate that less decision-making power is transferred to the farmers than was expected. Several reasons can be identified. Firstly, the inherent, significant power discrepancies between the often small-scale farmers and the generally large-scale offtakers or business partners, lead to farmers' voice, although improved, remaining inferior. This entrenched power disparity is particularly the case in South Africa, historically

characterised by biased (racial) relationships (Cochet et al., 2015). But whereas several beneficiaries remark that they accept, and appreciate, operational control by the commercial partner over the IB, they are frustrated by their lack of voice in the collective organisation and their ability to influence the decisions made by their representatives. Secondly, the lack of financial capacity often does not allow for greater voice, as financial dependency renders the beneficiaries dependant on the commercial partners in any case. This is particularly an issue for those beneficiaries with land access through a short-term lease who lack opportunities for accumulation and are not in a position to make any medium- to long-term plans for 'their' farms. 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 (see also Section 4.3.4). It also transpires that beneficiary empowerment often takes longer than planned, certainly in the framework of large community set-ups.

4.3.3 Risk

The risk aversion attitude of the smallholder farmers (Patt, Suarez, & Hess, 2010; van Averbeke & Mohamed, 2006) is confirmed by the cases: the average risk score for the institutional set-up is the lowest of the four different dimensions (Figure 4.3). Risk aversion is particularly the case where beneficiaries enter into lease/management agreements where all activities and decisions, and thus also the risks, are transferred to the commercial partner. Individually operating smallholders are the most exposed, especially to the operational risks related to the uncertain farming activities. Whereas these risks can be mitigated by a supply contract or a mentorship, joining a collective organisation adds alternative risks.



	Institutional set-up	Implementation
Financial	2.07	2.07
Operational	2.29	2.86
Community	2.50	3.00
Total	**6.86**	**7.93**

Figure 4.3: Inclusiveness per case – Risk

Source: Author

In practice, however, risk is related to the effective implementation of the IB. Figure 4.3 illustrates the point that the average implementation score is higher than the institutional set-up. The power and information asymmetry allows the commercial partner to thus transfer risk to the less influential smallholders, resulting in the highest score for this dimension, when looking at the implementation. Even in set-ups where the commercial partner is fully responsible for the farming operation, it is still able to allocate a share of the operational risks to the smallholders, for example through a profit-share clause in a lease agreement. Most beneficiaries can only gain access to an IB through a collective organisation, further increasing their actual risk exposure through internal and external tensions, such as the free-rider challenge, and the control and influence cost problems (de Koning & de Steenhuijsen Piters, 2009; Ortmann & King, 2007).

The wishes of individual members do not align with those of the collective, causing friction that can negatively impact on the performance of the IB. In some cases, these frictions extend to the external community in which the IB operates. Thus, whereas a collective organisation reduces individual risk exposure, the added complexity nullifies this benefit and in practice results in a higher overall risk to the IB.

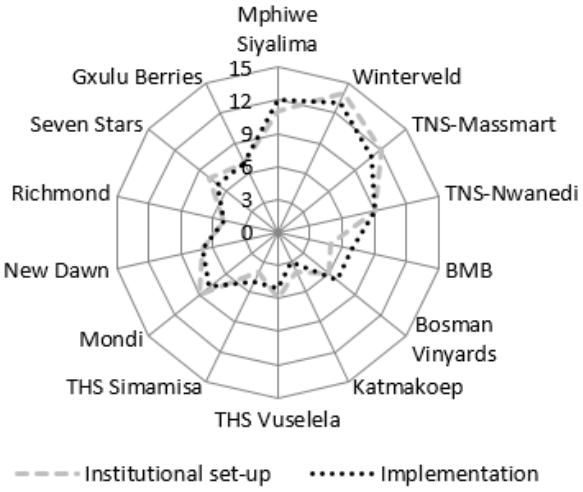
4.3.4 Rewards

The anticipated rewards, both monetary and non-monetary, for the beneficiaries compromise a main driver for the stakeholders supporting IBs. This study confirms this anticipation, with rewards being the second-highest scoring dimension of inclusiveness, both in structure and implementation (Figure 4.4). In theory, inclusive instruments contribute in different ways. Mentorships and equity allow beneficiaries to directly gain access to knowledge and information. This transfer of knowledge is envisaged in most of the IBs covered in this study. Collective organisations enable their members to reach certain thresholds, either related to offtake volumes, by enhancing the ability to negotiate conditions/margins, or by legitimising demands, such as access to public services or jobs. Equity, lease agreements and supply contracts each ensure a degree of certainty of rewards in the form of an asset base, secure market access or regular rental income, respectively.

This study also illustrates the point that IBs can place pressure on potential benefits. This is often related to the extent and use of benefits, particularly in the framework of larger collectives, and to the inherent nature of the set-up of these IBs where engagement of the smallholders – and with it, the benefits – are limited.

Two observations were made regarding the application of financial proceeds from the IB, in the form of both monetary income and asset growth. Firstly, in collective organisations, monetary rewards can be marginal for individual beneficiaries, notwithstanding that the overall rewards for the collective as a whole are considerable. During fieldwork interviews, community members often expressed their frustration with the lack of benefits, confirming academic criticism that questions the core essence of such set-ups for beneficiaries (Binswanger-Mkhize, 2014; Lahiff et al., 2012; McCusker, 2002). This pressure on potential individual rewards relates to the misalignment of priorities of a collective with that of its individual members, or where the collective's priorities differ from those of the (equity) partners. Particularly in cases where the first years of the partnership are marked for (re)development of the farm, cash flows are invested in asset growth instead of dividends to individual beneficiaries. Payments to individual members are further delayed if their (collective) equity is financed through loans that need to be repaid before dividends can be declared. In contrast, the THS cases illustrate the fact that individuals can benefit directly from financial streams, despite being part of a collective. It needs to be said, though, that it is

the commercial partner who fully controls these payments, refusing the cooperatives the right to generate assets to allow for diversification of income-earning activities or build community infrastructure. Furthermore, although direct payment to the individual beneficiary results in a higher inclusivity score, this score does not reveal the disappointingly low amounts received by the individual beneficiaries.



	Set-up	Implementation
Market access	2.07	2.07
Financial	2.43	2.57
Skills & jobs	3.14	2.93
Total	**7.64**	**7.57**

Figure 4.4: **Inclusiveness per case – Reward**

Source: *Author*

Secondly, the engagement of smallholders and community members in the IB tends to be limited. This is attributable to, among other things, a lack of capacity, the initial structure of the IB, and the unequal power relations between smallholders and commercial entities. On the one hand, this results in limited control over financial rewards. For example due to a lack of produce ownership and operational voice the beneficiaries are unable to negotiate a favourable output price. In addition, the social benefits for the smallholders are often minimal. For example, despite significant promises, job creation for beneficiaries remains limited due to the protection of rights of existing workers, a lack of skills to engage in more senior positions, and an unwillingness among the beneficiaries to engage in low-skill labour activities. Equally, skills development programmes have either been absent or have been disappointing in their results. Low commitment not only on the side of the commercial partner to invest in skills development, but also from the beneficiaries selected for training programmes, have led to unsatisfactory outcomes.

Thus, in practice, the rewards for the smallholders and beneficiaries are often less advantageous than were expected (Figure 4.4). It thus happens that beneficiaries observe economic activity on 'their' land, but reap little, if any, rewards for themselves.

4.4 DISCUSSION

Assets create dependencies between a smallholder and the agribusiness partner, and as such form the basis of an IB and the institutional set-up of that IB as illustrated in the preceding chapters. Johnson et al. confirm that "assets can influence the design, implementation, and outcomes of programs by determining who participates (and who does not participate) in the programs as well as how and how much they benefit" (Johnson, Kovarik, Meinzen-Dick, Njuki, & Quisumbing, 2016, p. 296). Furthermore, assets are important, considering the positive relationship between asset ownership and development (Carter & Barrett, 2006; Meinzen-Dick et al., 2011). Assets provide people with a means by which to earn an income, which allows them to structurally reduce their levels of poverty (Carter & Barrett, 2006). In particular, a more equal distribution of assets seems to drive development (Birdsall & Londoño, 1997; Deininger & Olinto, 2000). However, as demonstrated in Section 4.3, the smallholders reviewed here mostly enjoy ownership of land. Full ownership does not go much beyond this, with assets and produce shared with a commercial partner, if it all. The dependency of these commercial partners thus does not stretch further than the smallholders' land. This confirms the lack of resources and skills of the smallholders that are needed to independently operate their land. There is no asset base that allows smallholders to enter onto a path to accumulation, which questions the potential for IBs to drive development.

Whereas ownership implies access to a resource, voice refers to the ability to use and control this resource. Power asymmetry allows for the more powerful partner to influence the terms of the contract to its own favour (Argyres & Liebeskind, 1999), in effect breaking the relationship between ownership and voice. Smallholder farmers and low-income communities are particular groups whose voice is often not heard (James & Sulemana, 2014; Stringer, Twyman, & Gibbs, 2008). Their low socio-economic status (Béné, 2003; Friedmann, 1992) and the existing power barriers (Cheyns, 2014; V. Nelson & Tallontire, 2014) are among the challenges that smallholders face when dealing with other stakeholders in the commercial value chain. Commercial agribusinesses that enter into an IB have a particular interest in the inclusion of smallholders. Thus, an IB in theory offers opportunities

to empower beneficiaries by allowing them to gain access to the decision-making processes. Nevertheless, challenges in practice have been found, specifically regarding compromising the smallholders' voice to the benefit of more powerful stakeholders either inside a collective of beneficiaries, or vis-à-vis the commercial partner (Bernard & Spielman, 2009; Hendrickson, Gilles, Meyers, Schneeberger, & Folk, 2014). More importantly, through the inherent power imbalance, the commercial partner in an IB can abuse its power to exclude the smallholders from the decision-making process. This study shows that equal decision-making is rarely obtained, even in cases where ownership should ensure the beneficiaries a position to exert an impact on the activities of the IB in general, and on their assets specifically. The result is that, despite ownership over resources, the smallholders are denied control over these assets (Béné, 2003; Fréguin-Gresh & Anseeuw, 2014). Insufficient beneficiary empowerment places a question mark over the long-term ability of the beneficiaries to become independent players in the agricultural sector, and hence the attainment of true transformation.

Poor smallholders are highly risk-averse, considering the immediate and severe impact that harvest failure would have on their livelihoods (Dercon, 2004). As part of their risk-minimisation strategy, they limit themselves to low-risk activities, which also tend to be low-income activities. This diverts these households from higher-earning activities that could effectively break the poverty trap (Dercon, 1998; Kamanga, Waddington, Robertson, & Giller, 2010). Market imperfection is often cited as a reason for the risk-aversion strategy: poor smallholders do not have access to risk-mitigating insurance, and lack collateral to obtain credit (Dercon & Christiaensen, 2011; Patt et al., 2010). IB participation can potentially serve as a risk reduction strategy: it can diversify the smallholders' activities, enable access to inputs or credit to obtain these inputs, and spread risk over a collective (either with other smallholders or with a commercial partner). Conversely, commercial engagement incurs risks related to a potentially higher level of financial investment, and working with a more powerful partner (Berdegué et al., 2008; Sivramkrishna & Jyotishi, 2008). Considering the information asymmetry between smallholder farmers and commercial agribusiness, it is likely that both decision making and decision control lies with the commercial partner, as confirmed by the analysis of the voice dimension. In this study it is observed that individual beneficiaries can certainly experience alleviated risk in the framework of an IB, even when they operate as individual smallholders. Financial exposure of the beneficiaries is minimised through grant funding or favourable financing. The operational expertise of the commercial partner restricts the operational risk, albeit with the

loss of decision-making power. Nevertheless, the risks related to the highly complex and multilevel constructions in practice place severe strains on the beneficiaries. Collective organisations are often established specifically for the IB. The leadership thus needs to build a cohesive collective, manage its multifaceted internal affairs and IB matters, and must establish its position in a potentially volatile environment of excluded community members. This makes for an uncertain business partner. An equally important finding is that the commercial partner indeed seems to be able to transfer an unequal share of the IB-related risk to the beneficiaries. This is illustrated by the implementation scores which, only for this dimension, are higher than the institutional set-up scores.

For IBs to become a pathway to rural development and poverty reduction, not only do the beneficiaries need to have a fair share in ownership, voice and risks, the rewards from the IB need to enable them to gain a way out of poverty. It is often argued that access to assets alone will not result in income growth, but that this needs to be combined with market access (Sabates-Wheeler, 2008). This aspect refers to both input and output markets (da Silva & Ranking, 2013). Access to input markets can generate higher farm productivity, and access to crop markets allows for the absorption of bulk production, although not always at a more favourable pricing (Kirsten & Sartorius, 2002a). Through participation in a network (the IB), participants gain access to new knowledge through repeated interaction with other members in the network (Inkpen & Tsang, 2005). Thus, IB participation grows the social capital of the beneficiaries, allowing them to potentially become independent farmers. This is a particularly strong argument in support of IBs, as these are characterised by a large knowledge gap between the beneficiaries and the agribusiness. Reality shows that the transfer of social benefits is subordinate to the economic performance of the IB.

Overall, despite the fact that smallholders and low-income communities are integrated into commercial agricultural value chains, their effective inclusion in the IB processes remains limited, certainly in the implementation. Inclusion takes time, requiring a long-term commitment from both partners, and the corresponding management of the beneficiaries' expectations.

4.5 CONCLUSION

Applying an in-depth, holistic methodology, this chapter analyses four dimensions, i.e. ownership, voice, risk and reward, which characterise the degree and the manner in which smallholder farmers/low-income communities are included in complex IBs. A variance in levels of inclusiveness results from the instruments that are combined in the IBs. The analysis shows that the complexities of the value creation process within an IB obstruct the effective inclusion of the beneficiaries, even where the IB performs positively as a project. Indeed, IBs can be profitable, but benefits for smallholder farmers/low-income communities remain often marginal.

Firstly, although these beneficiaries have a certain level of asset ownership, this does not necessarily mean they have control over their assets. Ownership does not extend much beyond land, with moveable assets and produce, at best, being shared with a commercial partner. Beneficiaries regularly become mere rent-seekers. Secondly, while the beneficiaries might have a fair share in the decision-making processes within the IB on paper, they need to be empowered to become relevant negotiators. Practice shows a large divide between commercial partner and beneficiary, both in skills required for the management and operation of the farm, and in overall business acumen and financial participation. Effectively, the decision management and decision control are both in the hands of the commercial partner. Thirdly, the beneficiaries limit their risks through participation in an IB, through partnering with a technically/financially strong company, or through favourable funding. Whereas individuals could further reduce their personal risks by entering a collective, the overall risks might increase due to the complexities of managing a collective organisation. Nevertheless, in practice the more powerful commercial partner is often able to transfer risk to the smallholders during the implementation of the IB. Lastly, benefits for individuals are limited and slow to materialise. Farm development requirements, non-involvement in the IB, and lack of commitment to skills development hamper the rewards for the individual beneficiaries. Overall, this impairs the local economic development impact that IBs might have, certainly in the short term. The most significant benefit seems to come from gaining market access for beneficiaries who (initially) are not able to operate independently. The next chapter will explore how these findings impact on the overall developmental contribution IBs can make.

Considering the long time required for achieving beneficiary capacitation and positive cash flow, IBs might become more inclusive in the future, aligning the implementation scores to the institutional set-up scores. A longitudinal study of IBs seems to be necessary for gaining a better understanding of the empowerment process of the beneficiaries (Kirsten, Machethe, Ndlovu, & Lubambo, 2016).

CHAPTER 5 INCLUSIVE BUSINESSES AND LAND REFORM: CORPORATISATION OR TRANSFORMATION?[8]

5.1 INTRODUCTION

Inclusive businesses (IBs) are commercially viable business partnerships between large-scale farms, agribusinesses or large corporations (the commercial partner) on the one hand, and smallholder farmers and low-income communities (the beneficiaries) on the other. These partnerships, which can take various forms as has been described in previous chapters, are considered to play an increasingly vital role in developing countries, not only in terms of creating local jobs, improving livelihoods and food security, supporting gender diversity, and enhancing economic options, but also in respect to transferring skills, technologies, quality management and sound business standards along value chains, particularly in favour of the smaller farm entities and low-income communities (J. Nelson et al., 2009). IBs are increasingly complex institutional set-ups, combining numerous levels of organisation, as well as different instruments, aimed 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. The combination of instruments, embedded in IB structures, partly relates to the well-documented shortcomings of individual instruments. These interlinked instruments further aim to overcome uncertainty and indicate a power imbalance between the commercial partner and the beneficiaries.

In addition, in the particular case of South Africa, IBs are presently being promoted as "win–win" strategies for smallholders and agribusinesses, and as a solution for revitalising stagnating land reform and agricultural development, particularly among smallholders and emergent farmers (DAFF, 2013; EDD, 2011; NPC, 2011; Vink, 2014). Firstly, the country is characterised by concentrated land ownership and a highly dualistic agricultural sector. The government aims to address this skewed land ownership through its land reform policy framework. This framework is built on three pillars: land restitution to return land to communities that were forcefully removed during the apartheid era; land redistribution to increase ownership of land for black farmers; and land tenure reform aimed at enhancing tenure security under different legal and traditional arrangements (R. Hall, 2004). Box 3.1 in

[8] This chapter is adapted from Chamberlain, Wytske O. and Anseeuw, W., 2018. Inclusive Businesses and Land Reform: Corporatization or Transformation? *Land* 7(18) DOI: 10.3390/land7010018.

Section 3.3 outlines the main policy initiatives implemented by the South African government to bring about sectoral transformation. Secondly, the government is seeking to bring about a more equal agricultural sector with increased participation by the formerly excluded black population through a policy framework aimed at sector transformation and empowerment. To achieve these dual reforms, the government actively supports certain forms of partnerships such as strategic partnerships between the land claimant community and a commercial operator for redistributed or restituted farms, grants to establish farmworker equity share schemes to alter land ownership, and prescribed mentorships with commercial partners as a condition for emerging farmers to gain access to government land and grant funding (Jacobs, Lahiff, & Hall, 2003; Knight, Lyne, & Roth, 2003; Lahiff et al., 2012). It envisages these IB partnerships as tools to provide smallholders with, among other things, technical assistance and market access, but also financial contributions, to prevent the failure of the many land reform projects in South Africa (Binswanger-Mkhize, 2014; Logan, Tengbeh, & Petja, 2012). These partnerships fit the narrative of an efficient, market-led model of land reform that supports the large-scale commercial farming model (Aliber & Cousins, 2013; Logan et al., 2012).

The question that arises in this context of commercial contribution to developmental goals set by government is how these IBs contribute to beneficiary empowerment, transforming land distribution and generating agrarian reform. This question is imperative considering that the commercial partner potentially prioritises its profit drive over the government's aim of transformation (Khan, 2004), and as such, jeopardises the essence of IBs.

This chapter aims to provide an answer to this question based on strong and extensive empirical evidence, as it presents insights from primary research on 14 IB cases across South Africa. Each of these case studies, active in various agricultural sub-sectors and provinces, was selected for its unique organisational structure and its relatively stable and sustainable state. The case studies' unique structures reflect the diversity of IBs and the combination of instruments, and allows for the assessment of diverging results for IBs as a project and the impact of these combinations of instruments with regard to the inclusion of smallholder farmers and poor communities in particular. The choice of stable and sustainable IB cases was retained to allow for conclusions to be drawn from concrete evidence based on relative success stories or good practices.

Following this contextualisation and problem-statement introduction, the next section 5.2 provides a brief description of the theoretical framework that underlies the formation of complex IB structures and presents the case studies and instruments which were empirically assessed for this project. Section 5.3 links the theoretical and policy frameworks to provide an answer to the first question on how the policy framework influences the establishment of IBs. Sections 5.4 and 5.5 present insights into the multi-level impact of the performance of IBs and their contributions to development. Section 5.4 analyses the IBs from a project level, whereas Section 5.5 analyses the performance relating to individual beneficiaries in particular. While referring back to the theoretical framework, Section 5.6 analyses the structural limitations of IBs as tool for beneficiary empowerment and South Africa's broader development and transformation objectives. This leads to Section 5.7 which outlines recommendations to make IBs more for public development. In conclusion, Section 5.8 places IBs within the wider debate on land reform and agricultural transformation.

5.2 FROM THEORETICAL FRAMEWORK TO CONCRETE SET-UP – IBS AS COMPLEX ORGANISATIONAL STRUCTURES

This section briefly addresses the questions as to why partnerships between agribusinesses and smallholders/low-income communities are established, why these partnerships implement unique organisational structures using standard instruments, and how these instruments are combined. The answers lie in three sequential steps (Figure 1.1, p. 15). Firstly, resource dependence theory (RDT) argues that partners are driven to minimise uncertainty related to dependency on external parties for their core activities (Pfeffer & Salancik, 1978). Rather than aiming for efficiency, partners try to obtain power over the resources of another stakeholder (Hillman et al., 2009). This thinking is particularly relevant to IBs which are inherently uncertain due to the unfamiliarity between the agribusiness and the low-income community (Schuster & Holtbrügge, 2014) and the power imbalance favouring the commercial partner (Vellema & D'Haese, 2016). RDT thus identifies the likely partners and the core instrument implemented by the more powerful partner to overcome uncertainty related to resources owned by the partner. Secondly, the more powerful commercial partner then aims to transact as efficiently as possible with the low-income community and to protect its IB-specific investments, core arguments of Transaction Cost Economics (TCE) (Williamson, 2002). The greater financial means of the commercial partner are likely to drive safeguards in the contractual agreement that favour this stakeholder,

potentially at the expense of the smallholders/low-income community in that IB. Once the partnership is operational, the principal (the commercial agribusiness in an IB) wants to ensure that the agents (smallholders or low-income community) act in accordance with the contract entered into as reasoned by Agency Theory (AT) (Eisenhardt, 1989a). Principals are faced with moral hazard (shirking by the agent) and adverse selection risks. Reducing these risks requires observation costs. The principal's aim is to balance these risks and costs, with goal alignment a critical tool to obtain this balance (Eisenhardt, 1989a). Instruments are thus implemented in the overall IB structure to minimise shirking risks and observation costs, once again with the likelihood of benefiting the commercial partner more than the beneficiaries. The central elements binding these theories are power imbalance and uncertainty reduction, as expressed through different risk profiles between the partners (Hayami & Otsuka, 1993). See Chapter 1 for a detailed argumentation and application of this theoretical framework.

To gain insight into the contribution of IBs to the development and transformation goals of the South African government, 14 case studies have been selected. Interviews with the commercial partner, beneficiary representatives and randomly selected individual beneficiaries, as well as external stakeholders such as financiers or government officials, provided insights into the organisational structure, the drivers behind IB participation, and the impacts of these IBs. The case studies, which have all achieved a certain level of sustainability, vary greatly in terms of scale, crop, location, and type of beneficiary (Table 3.1, p. 70). To illustrate, Mphiwe Siyalima only has one beneficiary who is fully dependent on the IB for his livelihood, whereas cases such as Mondi, New Dawn and Richmond have over 1,000 beneficiaries, who are not actively engaged in the IB and rely on alternative income streams such as social grants and non-IB related employment. Other beneficiaries, such as in the Tongaat Hulett Sugar (THS) and Seven Stars Trust (SST) cases, are passive landowners who are unable to independently cultivate their land and consider IB participation as a way to supplement their non-IB related income with land rental.

Each of the standard instruments identified can be implemented for the production of a range of crops, and are thus not crop or sector specific. Nor are the IBs crop and sector specific, although certain combinations of instruments tend to fit certain contexts better. For example, THS and other sugar producers source sugarcane directly from small-scale farmers through a simple supply contract and through two models included in this study, whereas several

models have been implemented in the forestry sector, varying from large-scale plantations (the Mondi case in this study) to supply contracts from smallholder farmers (Kirsten & Sartorius, 2002a). IBs only seem less suitable for highly mechanised grain production where economies of scale dominate (Vermeulen & Cotula, 2010).

Figure 3.1 on page 73 summarises the combinations of instruments as observed in my 14 case studies. Each of the IBs is centred on the instrument best suited to gain access to a specific resource (in *italic* in Table 3.1, p. 70), thus overcoming an initial dependency. Additional instruments are then added to the IB structure to reduce transaction costs, to safeguard IB-specific investments, and to ensure that the smallholders/low-income communities adhere to the contract that they agreed upon. These motivations create unique organisational structures, interlinking up to five different instruments, for the integration of IB beneficiaries into commercial value chains.

Firstly, a lease agreement provides a commercial agribusiness with access to land owned by smallholders/low-income communities at minimum risk. In this study, this instrument is always combined with a collective organisation that either holds the land title, as dictated by government to land restitution communities (Mondi, New Dawn and Richmond), or is a gathering of individuals, each with a small area of land (THS cases). The collective organisation allows the commercial lessee to minimise transaction costs. Shared equity with the landowners in the operating farm company provides the commercial partner access to favourable financing earmarked to assist poor landowners to engage in activities on their land (New Dawn), underlining the resource dependency argument. It also aligns the goals of both equity partners, reducing the risk of shirking as argued by AT. Shared equity requires a supply contract and a management agreement by the commercial partner to gain control over the produce and operation respectively, effectively allowing the commercial partner to appropriate the output of its efforts as operator (Ghatak & Pandey, 2000). A supply contract is also implemented where the beneficiaries own both the land and the productive assets such as sugarcane roots (THS-Vuselela) or trees. A lease plus mentorship prepares the landowners for independent farm operations whilst allowing the offtaker to closely monitor the activities of the landowners (Mondi). Lastly, a commercial lessor enters into a management contract with a third party to reduce transaction costs related to the interaction with the smallholders (THS-Simamisa).

Secondly, a supply contract rather allows the commercial partner to gain access to produce instead of land, involving smallholders actively working their land. These smallholder farmers are unfamiliar with the business of supplying the commercial value chain and thus require additional support in the form of a mentorship (TNS-MM). This instrument not only improves the skills of the smallholder, but also allows the offtaker to observe the smallholder's behaviour and warrant the smallholder's adherence to the contractual obligations as argued by AT. Working with a collective of smallholders reduces the offtaker's transaction costs. In several cases (TNS-MM, WUFA), the smallholders have been provided equity in downstream facilities, increasing their interests in supplying this particular channel, and, in theory, reducing extra-contractual sales as argued in the comparison between the TechnoServe Massmart and Nwanedi cases in Chapter 2.

The third instrument – equity – is applied to establish joint ventures that can gain access to favourable financing earmarked to bring about transformation and stimulate development through increased ownership by poor communities. The availability of favourable financing creates external dependency by the commercial partner on these communities and is the main driver for the choice of this instrument. In this study, equity always involves a collective organisation of beneficiaries to efficiently manage the shareholding of these beneficiaries (Blue Mountain Berries, Bosman Vineyards). A supply contract subsequently transfers ownership of the produce fully to the offtaker, whereas a management contract transfers control over the IB operation to the commercial partner (Katmakoep Boerdery). Both instruments diminish the IB-related risks for the commercial partner, but also reduce the inclusion of the beneficiaries, undermining the development goal that underlines the funding.

Fourthly, a collective organisation potentially allows smallholders to overcome scale issues and increase their appeal as a partner for a commercial agribusiness argued by RDT. This collective can consist of active farmers entering into a supply contract (WUFA), or passive landowners leasing out their land (SST). In the first scenario, mentorship and equity improve the business case for the smallholders and align goals between the farmers and the firm. In the second scenario, shared asset contribution between the partners motivates the commercial partner to negotiate an additional management contract to gain control over the farming activities.

Lastly, a smallholder can search for a mentor to enable him/her to gain access to the commercial value chain (TNS-Nwanedi). In the particular case of South Africa, the institutional environment compels farmers signing a land lease with the government to enter into such a mentorship, thus directly dictating the instrument choice for the lessee (Mphiwe Siyalima). A supply contract anchors the smallholder's business, whilst the independent mentor reduces the smallholder's dependency on this particular offtaker through the development of the farmer's skills and the opening up of diversification opportunities.

This short elaboration on the interlinkage of instruments illustrates that the power imbalance allows the commercial partner to indeed dictate the organisational structure of the IB. Control over the IB structure is further increased by the risk attitude of both partners. Risk averse smallholders without full information regarding both the highly complex contracts and commercial market operation appear to accept a lower share of the rewards of the IB in return for a lower risk exposure, whereas the risk-taking commercial partners are able to appropriate the results of high input of efforts (Braverman & Stiglitz, 1982; Ghatak & Pandey, 2000; Otsuka, Chuma, & Hayami, 1992). Risk reduction, specifically in the form of moral hazard by an unfamiliar partner, drive the agribusinesses in particular to implement interlinked instruments, within the specific policy framework of South Africa (Hayami & Otsuka, 1993).

5.3 LAND REFORM POLICIES AS A DRIVER OF IBS

The IBs analysed in this study strongly reflect the South African government's transformation goals, and land reform policies in particular, which not only promote but also shape the implementation of IBs and their organisational structure. Two areas of policy impacting on the institutional set-up have been identified, namely indirect and direct policy. Indirect policy is related to the country's land redistribution and restitution policies, which change the ownership structure of land, thus affecting the access to land and produce. This results in the creation of dependency – either for land or produce – of commercial businesses on smallholders/low-income communities as new landowners, indirectly stimulating the establishment of IBs. Land dependency tends to stimulate IBs based on the lease instrument, especially where the new landowners are inexperienced and have no technical or financial capacity to develop their farming activities. Vice versa, the new landowners, conditioned by government to continue the often high-value, commercial activities on their newly acquired land, are dependent on a commercial operator, driving equity- and mentorship-based IBs.

Agribusiness dependency on smallholders in the South African context is extended through the AgriBEE policy. Under this scheme, agri-processing companies are stimulated to increase their supply from smallholders and low-income communities. Agribusinesses affected by this policy can implement IBs centred on a supply contract with historically disadvantaged farmers. Dependency between agribusiness and smallholders is further deepened by the availability of favourable government funding to achieve the policy goals of land reform and agricultural transformation. Thus, the policy framework creates a stimulating environment that reinforces smallholders and low-income communities (Baumann, 2000), but the stakeholders are flexible in the organisational structure they implement.

In addition, the government supports, and even forces, the implementation of favoured instruments, and thus directly drives the structure of an IB, illustrating that the institutional context limits the contract choice between partners (Hayami & Otsuka, 1993). As such, the Limpopo provincial government forced land claimant communities and commercial partners to enter into joint venture structures where both partners share equity in a newly established operating company (New Dawn) (Lahiff et al., 2012). The government in the Western Cape Province rather favoured farmworker equity schemes, providing grant funding to numerous projects under its jurisdiction to transfer land/farm ownership from a commercial farmer to his/her employees (Blue Mountain Berries, Bosman Vineyards) (Tom, 2006). Furthermore, under the national land redistribution framework, emerging farmers gained access to government land rental on condition of a mentorship by a commercial farmer/agribusiness (Mphiwe Siyalima). Lastly, smallholders across the country are stimulated by government to organise themselves into cooperatives in order to offer scale to a commercial partner (SST).

Despite the positive impact of the policy framework on the initiation of IBs, this study also illustrates the shortcomings of government engagement. Financing for beneficiaries' equity, be it to land claimant communities or farm workers, has either been cumbersome or has not materialised at all, putting IBs with an equity component under significant financial, and subsequent operational, strain. The drive for collective organisations is not backed up by the capacitation of these communal bodies, leaving the beneficiaries in a vulnerable position vis-à-vis the commercial partner. Even government-initiated mentorships have been more beneficial to the mentor than to the mentee (Chamberlain & Anseeuw, 2017). Contract constraints, although aimed at assisting the IB beneficiaries, can thus result in an opposite effect (Hayami & Otsuka, 1993).

Nevertheless, the socio-political context of South Africa has forced agribusinesses to create partnerships with smallholders and low-income communities. However, these partnerships do not necessarily align with their profit objective. To reduce their risk in relation to these unfamiliar partnerships, the commercial partner will aim to safeguard control over the IB according to the theoretical framework. This has driven many of the complexities observed in the studied IB structures, with most of the additional instruments implemented to benefit the commercial partner rather than the smallholders/low-income communities. The risk is thus of corporate control over low-income community-owned resources, rather than the envisaged development of the beneficiaries IBs aim to assist (Otsuka et al., 1992). This will be further analysed in the next two sections elaborating on the results of IBs.

5.4 VARYING RESULTS AT IB PROJECT LEVEL

The IBs studied show different outcomes, not only as a business, but also for the beneficiaries included. The IBs performances on these two levels subsequently lead to varying impact on the overall government goals of agricultural sector transformation and land reform. The same instruments can lead to different results, depending on factors such as the combination with other instruments, as well as the specific conditions in operation. This section analyses the results of the IB as organisation, whereas the next section focuses on the impact on the individual beneficiaries. The remaining sections refer back to the wider public debate.

At project level in particular, the assessments of the IB cases studied show positive results, as envisaged by proponents of IBs (BCtA, 2015; Kanu et al., 2011; J. Nelson et al., 2009; 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, the accumulation of assets and infrastructure, and the accrual 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 considering external linkages. Although linkages to the local economy were in some cases minimal, with few spatial spin-offs (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 and technological development, enabled certifications, and created job opportunities for the local community. As such, IBs – as complex combinations of inclusive instruments – have been shown at project level to have the capacity to create

conditions for the sustainable inclusion of smallholders and low-income communities in modern value chains.

However, a few notes of caution are necessary. The IBs analysed were selected because they had been in existence for some time and were in a medium to longer state of maintenance (required for assessment purposes). Even the cases that were struggling at project level, and which were evolving into new structural set-ups, showed regular and significant income at project level. This purposive selection bias has to be taken into consideration when drawing conclusions from this work, and when generalising the impact of IBs. One should indeed be careful not to overrate the overall impact (positive and less positive) of these IBs, even at project level. Many of the IBs in South Africa do not reach the implementation phase, or fail during implementation (Machethe, Anseeuw, Lubambo, & Mukoya, 2014), thus illustrating the many challenges to be overcome before being able to start operating. In no case can the results based on this study's analysis lead to a quantification of the overall impact, when all IBs – success stories and failures – are considered. The positive impact of the IBs described here should be seen as a positive outcome of successful cases, or in other words, as potential benefits and rewards when an IB is successful.

The results of 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 related to land reform policies. Two emerging farmers gained access to government-owned land on a leasehold, on condition of a mentorship agreement. Whereas little knowledge transfer occurred for one farmer, the other farmer seems to have gained from the mentorship agreement. Similarly, farmworker equity is implemented in different ways, leading to vastly different outcomes at project level (Gray, Lyne, & Ferrer, 2004). 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 IB company. Whereas a commercial partner might be vital to 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.

5.5 RESULTS TO BE NUANCED AT SMALLHOLDER AND BENEFICIARY LEVEL

The outcomes and results on IB level as presented in the previous section also need to be nuanced at smallholder and beneficiary level. Even when IBs show positive results at project level, the outcomes for individual beneficiaries might be less optimistic. This is certainly the case when the IBs are assessed in practice: the effective impact on smallholders is often less positive than the theoretical and potential impact.

One of the most significant challenges is the lack of rewards, whether financial or material, for the beneficiaries. The benefits for the smallholders and low-income community members at individual levels are often very low—if they exist at all. This is confirmed by other evaluations. For example, Lahiff et al. write 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" (Lahiff et al., 2012, pp. 52–53). Several aspects can be noted here. Firstly, the financial revenues for individual beneficiaries are often low when the case involves a large collective of often passive smallholders/beneficiaries among which IB funds need to be divided. The limited revenues from the IB 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 and thus few have disbursed dividends to the beneficiaries, even though many members expected these to be the main form of revenue received from the IB where equity is concerned (de Koning & de Steenhuijsen Piters, 2009). Rental incomes for individual landowners and landowning collectives have been equally disappointing. In many cases, the IBs are new or neglected farms where any revenues realised need to be used for reinvestments, farm 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 goal incongruence 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 for the individual beneficiaries in the short term (Richards, Klein, & Walburger, 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) observed, 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 to be abusing their position of power for self-enrichment, and preventing any residual claims from flowing through to the general members (Timse, 2015). Even active smallholder beneficiaries who (partly) depend on the IB activities for their livelihoods, such as the smallholders operating under a mentorship, struggle with the high levels of debt related to their commercial activities, negatively impacting on their income. Social benefits, such as jobs and skills transfer for the IB beneficiaries have been disappointing. Lastly, positive outcomes from the IB at project level, such as market access and certification, often remain at the level of the IB as a whole and do not trickle through to the individual community members.

An IB cannot be considered inclusive without an equitable partnership between the commercial partner and the smallholder farmers/low-income community. This implies that the beneficiaries should actively participate in the decision-making processes regarding objectives, planning, operating methods and the like (James & Sulemana, 2014). As such, the beneficiaries' voice is central to an IB. Historically, smallholders' and farmworkers' voice and influence on decision making has been limited (V. Nelson & Tallontire, 2014). Several instruments provide potential to increase the active participation of the smallholders in the IB. Firstly, equity/ownership 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). However, this study illustrates that IBs are not able (in the short term) to overcome the unequal balance of power between corporate partner and beneficiaries. Lack of knowledge and (financial and material) resources often leave the smallholder/low-income community in a dependent position. The skills development of the beneficiaries 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 on the part of the smallholder farmer. This paints a bleak picture for the long-term capability of the beneficiaries to independently operate their assets. As remarked by Hendrickson et al. (2014, p. 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 to the smallholders a non-corresponding share of the risks related to the farming operation, despite the general risk-averse character of the smallholders. Instruments such as mentorship and supply contracts leave the smallholders exposed to a high degree of operational risk in particular, with crop failure and price changes having a direct impact on their income (Eaton & Shepherd, 2001). The lease agreements in this study are often based on a small profit-/produce-sharing basis, once again transferring to the beneficiaries a portion 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. 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, Guirkinger, & Platteau, 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). However, 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. Individual beneficiaries are rarely exposed financially on a personal title. 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 and/or secure rights, especially of land, are often crucial to the beneficiaries. Most commercial partners are driven to engage with smallholders by the need to access this land. As such, ownership and/or long-term secure rights give the smallholders concrete

negotiating power in the partnership, although this alone is not a panacea, as illustrated in the previous paragraph. Ownership/secure rights take on different forms. As such, equity in an IB has allowed beneficiaries to grow their asset bases. This is illustrated by considerable investments by the IB in the development of the land and fixed assets of an IB farm. However, 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. Overall, whereas the IB, certainly at project level, generally opens up markets and gives the smallholders access to inputs, equipment and the like, the level of ownership generally reduces.

5.6 IBS AND THEIR LIMITATIONS FOR TRANSFORMATION

Analysis of the IB cases, as multi-instrument set-ups, and their outcomes provides insights into the structural limitations of these IBs as tools for agricultural sector transformation and general development. According to the theoretical framework presented in section 1.5, the starting point of an IB partnership lies in the drive to limit uncertainty related to external dependency. In the case of the IBs analysed in this study, this dependency is predominantly created by the policy environment aimed at land reform and transformation of the agricultural sector. This forced dependency is the first challenge to obtaining inclusiveness: commercial agribusinesses are not motivated to enter into partnerships with smallholders to develop these IB beneficiaries or the communities in which the IB operates, rather these partnerships become a necessary cog in their profit-focused strategy. However, whereas most commercial partners are only partly dependent on low-income communities for their activities and income, the reciprocal dependency, both for beneficiary communities and individuals, is much stronger, considering the beneficiaries' lack of knowledge and finances to enter into commercial agricultural operations. This power and knowledge asymmetry allows for contracts that foremost benefit the commercial partners, undermining the inclusiveness objective from as early as the design phase. This is apparent for example in the addition of a management contract that transfers control to the commercial partner.

The second challenge for IBs to contribute to transformation and development lies in the conflicting IB-specific investment safeguard goal of the commercial partner as argued by TCE. Since financial contributions to the IB are skewed towards the better resourced commercial partner, contractual safeguards foremost benefit this agribusiness or other commercial entities. Hence, the inclusion of clauses such as the repayment of loans before dividends can be declared. The inclusion of collective organisations in most of the IBs further underlines the challenge of the resulting governance structure to achieve government's development goals: whereas these collectives enable the commercial partners to decrease the costs related to transacting with multiple beneficiaries, these organisations generally add complexity and challenges for the member beneficiaries. This has a particularly adverse effect on the financial impact from the IB for the individual beneficiaries. Combining multiple instruments within an IB has not been able to overcome the challenge of skewed financial contributions. Complexity, unbalanced power relationships and corporate control all contribute to continued financial imbalanced tilted towards the commercial partner.

Thirdly, as the principal in the IB partnership, the commercial partner is able to include mechanisms that align the beneficiaries' goals. Equity in downstream facilities and produce-/profit-share based lease contracts are designed to incentivise the smallholders to maximise IB production, although the price determination lies with the commercial partner as owner of the crops. As such, the internal profit drive of the commercial partner, through optimal farm operation, often abolishes the distributive objective of the IB. Furthermore, the implementation of the contract is driven by the commercial partner, based on the organisational set-up that assigns control over the IB to this stakeholder, and which is reinforced by the asymmetry in knowledge and financial contribution. The community is often not able to enforce certain clauses detailed in the contract designed for effective enactment of inclusiveness aspects, specifically training and empowerment activities. Effective implementation of the IB tends to lag behind the commercial objectives of the IB as a result.

The financial contribution, experience and networks that the commercial partners bring to an IB allow for positive developments at project level, as observed in farm development and production growth. However, the structural differences of objectives and the overarching knowledge gap, both during design and implementation, makes any true inclusiveness in the

short term a serious challenge, certainly for the individual beneficiaries involved, regardless of how the IB is structured and operated.

5.7 RECOMMENDATIONS – TOWARDS MORE SUSTAINABLE AND EQUITABLE INCLUSIVE BUSINESSES

Certain lessons are to be learnt from this research that can be applied by stakeholders active in the field of IB and land reform to create more equitable and sustainable business set-ups. These lessons are all related and complementary.

The first step regarding the empowerment of smallholders as beneficiaries is ownership. This can be achieved through ownership of, and/or secure rights over, 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 (Carter & Barrett, 2006; Meinzen-Dick et al., 2011), regarding IBs it also relates to the state of being an owner, i.e., engagement, willingness to contribute, contribution to own development and to self-determination, contribution to decision making, and balancing of power structures (Hendrix, 2008). Although ownership and/or long-term secure rights are 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/low-income communities. Ownership contributes to this, 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 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 timeframe, 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 as organisation require support. This study showed that, contrary to expectations, IBs are not a substitute for the support and investment required to achieve agricultural transformation or rural development, whether from the State or a third party. Indeed, private financial resources are needed, as many IBs are either new farming businesses, or are set up to reinvigorate neglected farmland, both of which require significant funds to develop. Large agribusinesses 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 agribusinesses to enable sustained operation. At the same time, however, this financial asymmetry can possibly aggravate the power disparity between the partners, as discussed in the previous paragraph. Besides limiting the risks for agribusinesses to engage in community partnerships, grant funding or subsidised loans can play a fundamental role in overcoming the financial burden of such projects, as well as the financial inequality in the partnership, and with it, an overall imbalance of power within the IB. But support also involves mediation, the safeguarding of smallholders' assets, the balancing of power relations, the monitoring of compliance with contractual agreements, and the exploring of 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, smallholders/low-income communities can benefit from professional assistance, during both contract negotiations and the implementation phase when the 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 cause the perceived lack of decision-making powers of the beneficiaries. A third aspect where outside involvement can benefit IBs as organisation, and their beneficiaries in specific, is the mentoring of the collective when beneficiaries are organised in a collective organisation. Whereas the commercial agribusiness partner generally provides knowledge related to the operational and management aspects of a commercial farming business, the responsibility for the internal management of the collective smallholder organisation is often unclear and beyond 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 must be accompanied by clear accountability, practiced from the first negotiations. Transparency also contributes to evaluation and impact measurement. Due to a lack of transparency, many smallholders are unable to understand how the IB operates, and specifically why their level of reward is so low. This in turn impacts negatively on their support of the IB. For transparent communication to be effective, the beneficiaries must have a basic understanding of business management, which will have to form part of the overall knowledge development programme. Transparency and accountability must 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 redeveloped, when reviving previously productive areas. However, this is not the only reason. The capacitation of smallholders, the effective transfer of knowledge and know-how, and the building of 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. This can lead to frustration, especially when expectations diverge. 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 questions both the effectiveness of the use of public funds, and the expectation management of the beneficiaries of both their renewed land ownership and the community-private partnership (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.

5.8 CONCLUSIONS: IB AS A NEW PARADIGM FOR DEVELOPMENT AND STRUCTURAL TRANSFORMATION?

IBs are considered to contribute to the public objectives of development and transformation. Partnerships between corporate agribusiness and smallholder farmers and low-income communities are, among other things, an avenue to provide access to the commercial value chain, to develop skills and to improve the livelihoods of IB beneficiaries. However, the results presented in this chapter illustrate that IBs are not a panacea for development and transformation.

Land reform processes and transformation focused policies play a vital role in the establishment of IBs. The change in land ownership brought about by a diversity of land reform policies triggers a situation where commercial agribusinesses become dependent on the new landowners for access to land and produce. These new landowners often lack knowledge, financing and market access, leading to a reciprocal dependency. Partnerships between commercial agribusinesses and landowning communities can overcome these dependencies. As such, government supports IBs in general, and even prescribes specific partnership structures as a condition of land reform beneficiation. However, the power asymmetry that is tilted in favour of the commercial partner allows the agribusiness to adjust the organisational structure of the IB to suit its primary objective, namely the generation of profit. Whereas this might enhance the performance of the IB as a business organisation, the developmental aspect of the IB is reduced in importance, if not completely ignored. Thus, whereas land reform is generally achieved, the underlying transformation and beneficiary development objectives are severely compromised.

Although it is shown that IBs can lead to positive results, particularly at project level (see also Vermeulen and Cotula (2010) for other examples), in practice the outcome for beneficiaries has to be nuanced. This is even the case for the projects examined in this study, which purposively focused on relatively stable and sustainable IBs, and avoided those that were the worst off and those that had failed completely. 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). The extent of the participation of smallholder farmers in IBs thus appears insignificant. In addition, the replicability of many of the complex IBs is limited, leaving behind the hope for a broad-based snowball effect (Chamberlain & Anseeuw, 2016). The number of IBs remains low, the IBs that are successful and sustainable are few, and the IBs have a mixed impact, so it therefore 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.

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. IBs contribute to agricultural investment needs, particularly in the case where the State has little capacity and where investment is needed from the private sector (Collier & Dercon, 2014; Deininger & Byerlee, 2011). It is thus important to learn from the implemented cases and to take note of the recommendations in order to improve these models. The study 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).

These insights also apply to global debates on agricultural and rural transformation, and in particular to the global phenomenon of large-scale land investments and acquisitions, where a similar power asymmetry between investor and local community plays out (Nolte & Väth, 2015). There is a growing call to make these investments more inclusive for the local communities, for example through the implementation of outgrower schemes, representing one of the inclusive instruments (Cotula & Leonard, 2010; de Schutter, 2011). The results of these kinds of initiatives have remained equally mixed and largely disappointing (Schoneveld, German, & Nutako, 2011; West & Haug, 2017), strengthening the dual observation of the limited effectiveness of such inclusive models and the need for other – often complementary – development paradigms to initiate large-scale agricultural and rural transformation. The question of development approaches focusing more on smallholder

farmers and on their endogenous growth, instead of on the linkages between small and big, remains highly relevant.

CHAPTER 6 CONCLUSION: INCLUSIVE BUSINESSES – POTENTIAL WITH PITFALLS

6.1 INTRODUCTION

The private sector is increasingly regarded as a crucial partner in achieving economic growth in the developing world (OECD/WTO, 2015; Warner & Sullivan, 2017). Notions such as 'public-private partnerships' and ' 'corporate social responsibility' are illustrative of this trend to include commercial enterprises into developmental objectives. This study analyses Inclusive Businesses, which can also be considered as commercial sector contribution to economic growth opportunities for low-income communities. In this final chapter, I revisit the background on IBs, in particular in the agricultural sector, and the two-part conceptual framework presented in Chapter 1 to analyse IBs (Section 6.2). The findings relating to these two sections, namely the complex institutional set-ups analysed (Section 6.3) and the inclusiveness of these set-ups (Section 6.4) are then linked back to this framework. This allows me to formulate an answer to the questions if and how IBs can serve as a tool for wider development and, in the particular case of South Africa, sectoral transformation (Section 6.5). Recommendations to improve the contribution of these IBs lead from these overall findings (Section 6.6). The chapter concludes with suggestions for future research (Section 6.7).

6.2 FRAMING IBS IN THE SOUTH AFRICAN CONTEXT

Inclusive Businesses have been regarded as a tool for economic growth by various stakeholders in the development sphere, such as the World Bank, the UNDP and GIZ. IBs are considered to contribute to economic growth and development opportunities in low-income communities through avenues such as job creation, skills transfer, dissemination of technology and the implementation of sound business practices (J. Nelson et al., 2009). Creating commercially viable business linkages between corporations and micro, small, and medium enterprises in developing countries have shown positive effects on livelihoods at the Bottom of the Pyramid (BCtA, 2015; Graf et al., 2015; USAID, 2014).

The high instance of dependence of the poor on the agricultural sector makes a particularly compelling case for IBs to engage in this specific segment. According to the FAO around 1.5 billion people in poor countries live in smallholder households, one billion people are

dependent on the food and agricultural sector, and 80% of the food supply in Asia and Sub-Saharan Africa is produced by these smallholders (FAO, 2012). Developments in the global structure of agricultural value chains further enhance the relevance of IBs in this sector. Liberalisation policies and the global financial and food crises have resulted in an increasingly corporatised and vertically integrated globalisation in the supplying, processing and retail segments (Ducastel & Anseeuw, 2017; Reardon et al., 2009). These developments have had a largely exclusionary effect on smallholder farmers in developing countries (Reardon et al., 2003).

It is for these reasons that smallholder farmer inclusion into commercial value chains has gained renewed interests, particularly with engagement of the corporate sector. Although partnerships between (large) corporations and smallholder farmers in themselves are not new, the explicit focus on the developmental aspect leads to the notion that IBs can make a crucial contribution to the sustainable growth of the agricultural sector in poor communities. More recently implemented partnership initiatives are more innovative and focus on areas such as skills development, improving access to inputs, financing and technology, productivity increase, and enhancement of marketing opportunities (Gradl et al., 2012; Graf et al., 2015; USAID, 2014). Beyond the direct business partners, these partnerships often include a wide range of stakeholders, governments, financiers, and NGOs (London & Hart, 2004; J. Nelson, 2007).

Current IBs in the agricultural sector illustrate more complex forms of organisational structure compared to the traditional partnership arrangements that used to be based on a supply contract or a farmers' cooperative (Cotula & Leonard, 2010; de Koning & de Steenhuijsen Piters, 2009; Guidi, 2011; Sopov et al., 2014). In these recently initiated IBs, inclusion also extends beyond active small-scale farmers to encompass passive landholders and farm workers who are engaged in the farming entity beyond an employment contract (Lahiff et al., 2012; Louw et al., 2008; Vermeulen & Cotula, 2010). Overall, a large diversity of composite, unique, hybrid structures have evolved which allows for adaptation to the heterogeneity of rural areas (Ashley & Maxwell, 2001). Taking these considerations into account, the definition underlying this study is that

> an inclusive business is a profit-oriented 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.

As such, this study focuses on the production of primary crops, excluding purely agro-processing initiatives and smallholders as consumers. Beneficiaries are included as suppliers of land, produce or value-sharing employment.

Against this background of increasingly diverse and complex partnership structures, this study establishes a conceptualisation of these organisational set-ups and assesses the level of inclusion that these IBs achieve in their value creation and appropriation process. Three schools of thought related to organisational theory are combined to explain the governance structure within an IB. Resource Dependency Theory identifies the likely partners based on interdependency on resources, Transaction Costs Economics argues for efficient transactions between the partners, whereas Agency Theory focuses on the control over the agents' actions, in this case those of the beneficiaries. This hierarchy of thought leads to the interlinking of five standard instruments into hybrid organisations: collective organisation, equity, lease/management contracts, mentorship, and supply contracts. The interaction between these instruments then determines the inclusiveness of the complex organisational structures as expressed in terms of ownership, voice, risk and reward.

Applying this conceptual framework contributes to our understanding how commercial partnerships between corporate agribusinesses and smallholder communities are designed, and why these IBs are established. Insight in the drivers of each of the stakeholders involved in IBs, the theoretical understanding of the organisational structure of the IB, and the actual implementation on the ground together allow for a thorough understanding in how IBs contribute to beneficiary inclusion into the value creation and appropriation processes within the IB. As such, it provides insight into the avenues and extend to which IBs in general, and in more detail specific structures, can bring about the stated public objectives of development and transformation.

This study focuses specifically on South Africa, where the case for IBs is pertinent. The country's agricultural sector is dominated by a small segment of large-scale, mostly white, farmers who produce for concentrated retail and export channels. On the other side of the

spectrum are over one million smallholder and subsistence farmers with limited access to formal markets (Cochet et al., 2015; Ledger, 2017). This duality in the primary production structure is amplified by the global developments of increasing concentration, globalisation and standardisation (Louw et al., 2008). The national government has implemented multiple policies with the aim to overcome this duality through land redistribution and agrarian reform. This policy framework aims to rectify historical land expropriation, increase access to land for previously disadvantaged people, and to drive transformation in the agricultural sector. The private sector, for example through participation in IBs, is expected to contribute to these developmental goals (NPC, 2011).

An empirical case study approach using 14 relatively mature IBs situated across South Africa and active in diverse segments of the agricultural sector was used to gain the insight required to answer the central research question "How do IBs, as institutionalised partnerships between commercial agribusinesses and low-income communities, facilitate inclusive value-creation and appropriation processes?"

6.3 A RENEWED CONCEPTUAL FRAMEWORK – INCLUSIVE BUSINESSES AS COMPOSITE ORGANISATIONAL STRUCTURES

The analysis of the case studies illustrates the multi-instrument structures of IBs, which are difficult to capture in a static typology. Common instruments are combined to form unique hybrid organisations: collective organisation, equity, lease/management contracts, mentorship, and supply contracts. Each of these building blocks, or instruments, has its own way of integrating smallholders or low-income communities into the commercial value chain, and transferring a share of the IB's value addition to these beneficiaries. An IB in this context is thus considered as the relationship between smallholder(s)/low-income community and a commercial partner as defined by the *combination of instruments* that is implemented. As demonstrated by the cases selected for this study, these innovative organisational structures of IBs are increasingly complex and dynamic.

As posited in the conceptual framework, the starting point of a partnership between a commercial agribusiness and smallholder(s)/low-income communities lies in a dependency between these stakeholders as argued by RDT (Hillman et al., 2009). This ex-ante dependency condition for partnership primarily lies in the agribusiness's need for land or

produce owned by smallholders, or on favourable financing. The policy framework in South Africa plays a considerable role in creating corporate dependence on smallholders/low-income communities. Vice versa, the smallholders are searching for market access, knowledge, and financing. Access to these resources cannot be obtained through the market, and a fully hierarchical structure is not desirable to one or both parties, resulting in a hybrid governance structure lying between these polar organisational forms (Ménard, 2004). The IB partnership is aimed to reduce the uncertainty caused by the dependency on the external partner and to gain control over the resources owned by that partner. External partner dependency and high levels of uncertainty related to this dependency are particularly relevant for corporate entities engaging in an inclusive business considering the high risk of transacting with smallholder farmers and the general unfamiliarity of the environment in which these IBs operate (Schuster & Holtbrügge, 2014; Suzuki, Jarvis, & Sexton, 2011; Vorley et al., 2009).

The initial dependency, which is actor and context related, defines the core instrument around which the IB is built (in italics in the following paragraphs). Chapter 2 illustrates this by using the two TechnoServe cases with Massmart and in Nwanedi. Whereas this NGO mentors smallholder farmers in both cases, the core instrument differs. Massmart depends on these smallholders for produce, hence this case revolves around a supply contract. For the Nwanedi smallholders no off-taker with dependency is engaged in the IB, hence the centrality of a mentorship in this particular case. Additional instruments are then interlinked with this core instrument to make the transactions more efficient and to safeguard IB-specific investments (TCE), to minimise the costs related to agency behaviour (AT), and to address reciprocal dependency by making the value proposal more attractive for the business partner (RDT). Some of these instruments favour the smallholders and low-income communities, especially mentorship, and can be implemented by the beneficiaries or by third parties as illustrated by the role of TechnoServe. But, whereas the initial dependence of the agribusiness tends to trigger the establishment of the IB, this does not mean that the smallholders/low-income communities dictate the structure of the IB. Most of the additional instruments rather favour the commercial partner who seems able to exploit the initial unequal power relationship which is reinforced by unequal financial investments and capacities. The resulting composite structure benefits the commercial partner through securing control over agents and the resources they own, in an efficient way, while reducing the risk to their investment.

Lease: Lease-based IBs have interlinked a collective organisation in all the studied cases. Community organisation is necessary to reach a minimal scale to become attractive for a commercial partner to engage within a large-scale farming operation (Berdegué et al., 2008; Bijman, 2008; Guidi, 2011). The collective organisation can either be the land-owner itself such as in the form of a CPA, or it can be a collective of members with individual land rights. The inclusion of a collective organisation lowers transaction costs for the commercial lessee who only has to engage in one partner. But, it also transfers issues related to a collective organisation, such as free-riding and organisation control, to the low-income community members of this collective (Ménard, 2004; Ortmann & King, 2007). Individual members, who have already transferred control over their land through the lease, often at unfavourable terms due to information asymmetry and power imbalance (Daniel, 2012), loose even more control over and insight into the activities on their land by the IB partnership through the interposition of the collective organisation. Shared equity in the farming operation in theory increases the inclusiveness through additional income (dividend) and control over the farming activities (board representation). In practice, Chapter 3 illustrates that adding this instrument tends to further obscure the complex structure of, and their role in, the IB for the beneficiaries. The subsequent addition of a management contract transfers operational control fully back to the commercial partner, while the risk related to the IB remains partially with the community as equity partner. Any increase in inclusiveness that their equity might have brought to the beneficiaries is hence compromised in this structure. Even a mentorship, which equally aims to increase the inclusiveness of the mentees in IB, confirms that the agribusiness is able to maintain tight control over the IB's activities. The two THS cases described in Chapter 3 illustrate the importance of context for the implementation of additional instruments. In the Vuselela model, grant funding allowed the land-owner cooperatives to own the cane roots as productive asset. Hence, a supply contract was required to transfer ownership over the cane itself to THS as the commercial offtaker. In the Simamisa model, THS itself owns the cane roots, and thus the cane. Rather, the company opted to implement a management contract to outsource the actual activities on the cooperatives' land to a third party. Overall, the inherent exclusion resulting from a lease agreement is, at best, only partly compensated for by the combination with other instruments.

Supply contract: Cases centred on a supply contract have more involvement by the smallholders and thus are potentially more inclusive (Yaro et al., 2017). The combination

with a mentorship adds to the smallholders' benefits in the form of gaining expertise and access to a wider network of actors in commercial value chains. A third-party mentor also allows for a favourable change in the balance of power with the offtaker for the smallholder (Prowse, 2012). Nevertheless, smallholders interviewed for this study stated that frequently reported issues, such as debt dependency and low prices, remain (Baumann, 2000; Eaton & Shepherd, 2001). Collective organisation potentially aggravates smallholder challenges: whereas the off-taker can benefit from scale increase at limited transaction costs, the smallholders are unable to take advantage of a novel, un-established organisation. On the positive side, collective organisation allows for the smallholders to obtain equity in the downstream facility that they supply, as illustrated by WUFA in Chapter 3. It is argued that this combination has a favourable impact on the relationship between the firm and the farmer (Singh, 2008). This study shows that the potential lack of transparency added by the collective organisation instead obscures the advantages for the smallholders in practice.

Equity: As described in Chapter 3, cases specifically built on the equity instrument underline the aforementioned challenges for the beneficiaries, namely those of lack of insight and participation. As with the lease-based cases in this study, all the IBs centred on shared equity have incorporated a collective organisation in order to efficiently manage beneficiary ownership within the framework of the IB. Beneficiary equity serves multiple purposes: to increase the value proposition for beneficiaries through inclusion in controlling bodies and the right to residual income; and goal alignment between the equity partners (de Koning & de Steenhuijsen Piters, 2009; Meinzen-Dick et al., 2011). Several cases have been highlighted that have indeed been beneficial to these shareholding smallholders (de Koning & de Steenhuijsen Piters, 2009; Guidi, 2011). These smallholders in these cases have actively been farming prior to inclusion in downstream activities. The shareholding beneficiaries in the IBs in this study tend not to be active farmers. I find that in these cases a lack of farm/business related experience among community representatives leads to a situation where the beneficiaries' contribution to decision-making is negligible in decision-making bodies in all cases where equity has been implemented (Cramb, 2013). Little is done to empower the leadership of these bodies, let alone the individual beneficiaries. Responsibility for this empowerment is often not clearly determined and the commercial partner is generally not equipped to take on this task. Effective control by the beneficiary shareholders over the IB joint venture is further limited through the additional implementation of a management contract which transfers operational control to the commercial equity partner, or a supply

contract which transfers produce ownership away from the beneficiaries. This study moreover illustrates that the residual income for beneficiaries through equity is generally low (Cramb, 2013). Factors that contribute to this disappointing monetary benefit are: loans used for equity funding need to be repaid before a dividend is declared; operation of the collective organisation requires significant funds; and the community is required, as equity partner, to invest in the IB. Through the implementation of other instruments in addition to the shared equity, the commercial partner seems to benefit more than the smallholders/low-income communities from the equity instrument, at least in the short term, although it is exposed to higher risks.

Collective organisation: Whereas most IBs in this study have implemented some form of collective organisation, this is often a secondary instrument aimed to reduce transaction costs related to the core instrument (Berdegué et al., 2008; Guidi, 2011). As such, a collective is combined with other instruments - a contract to formalise the supply relationship between farmers and firm, or a lease/management contract for the commercial partner to control smallholder land. Nevertheless, collective organisation is a first step for smallholder farmers to gain access to the commercial value chain and a range of services (Chagwiza, Muradian, & Ruben, 2016; Markelova et al., 2009). In cases of considerable dependence by the commercial partners on the smallholders' collectives, equity in downstream facilities is offered by off-takers that source from the collective to increase the value proposition for the smallholders. Incapacity of the collective organisation, and its leadership in particular, has been observed in most of our case studies as detailed in Chapter 3. Hence, the application of a mentorship agreement which concentrates not just on the technical aspects of farming, but equally on the management of a commercial farming operation can be beneficial (Guidi, 2011). However, this costly set-up is unlikely to be implemented in IBs where commercial partners with low levels of dependency and limited IB-specific investments, are the main drivers. Collective capacitation is performed by an external partner, such as an NGO, if this happens at all. Overall, whereas in theory a collective allows beneficiaries to bolster their voice, in practice it transfers additional challenges to the members, and, in combination with additional instruments, complicates the overall IB.

Mentorship: This study underlines the importance of capacity building through a mentorship (London & Hart, 2004; Reficco & Márquez, 2012). As illustrated by the TechnoServe-Nwanedi case in Chapter 2, one of the main contributions of a mentor is in introducing new

crops and establishing market access through a supply contract for the individual smallholders, this being the only combination of instruments for mentorship-based IBs in this particular study. Effective capacitation through a mentorship can open up diversification options for the smallholder, by decreasing dependency on the supply contract. If not provided by external parties, a mentorship arrangement requires the agribusiness to invest resources in effective capacity building that does not result in direct benefits (Schuster & Holtbrügge, 2014). Only in situations of considerable dependency of the agribusiness on the beneficiaries, which requires substantial IB-specific investment in need of safeguarding, will the commercial partner be likely to invest in non-core activities such as capacity building. In these cases the result in terms of actual knowledge transfer between the dissimilar partners remains limited (Bojica et al., 2018). Third-party funded mentors, instead, are able to adjust the balance of power and are able to extend their support beyond the commercial off-taker.

This study highlights that IBs are indeed innovative and complex organisational set-ups, situated between pure market and hierarchical transactions as posited in the conceptual framework. Structured around a core instrument, established to overcome uncertainty related to external dependency such as access to land, produce, or market, and influenced by the operational and policy context, IBs subsequently integrate additional instruments in the institutional set-up to safeguard IB-specific investments, reduce transaction costs and control agency behaviour. As such, IBs are contingent relationships through which power imbalances are addressed and which ease the initial uncertainty over time. While in theory these composite structures allow for greater inclusion of the beneficiaries in terms of ownership, voice, and rewards (see next section), the cases analysed show that due to its dominant power position, the agribusiness is able to shape the set-up of, and control over, the IB to reduce its uncertainty pertaining to the relationship with the beneficiaries, and not vice versa (W. Vellema, 2015). Nevertheless, the value proposal to the low-income community needs to be attractive for an IB to be established. Thus, despite their subordinate role, beneficiaries are able to gain experience from their engagement in commercial agricultural activities; positive for some, more disappointing for others.

The individual models that emerge depend on many variables, such as the context in which they operate, the drivers and experiences of the business partner, the stakeholders that contribute outside the direct value creation process. A particular institutional set-up can thus not be replicated with the expectation of a similar outcome. The answer to the question “what

works where?" is thus elusive. As expressed by Guidi "There is no *panacea* or single form of superior approach, but rather different circumstances may suggest the appropriateness of a certain business model versus others at a certain point in the social and economic rural development timeline"(Guidi, 2011, p. 55).

6.4 INCLUSIVENESS ASSESSED

To assess the level of inclusiveness of an IB, a holistic methodology based on four dimensions has been developed. These dimensions, taken from Vermeulen and Cotula (2010) are: ownership, voice, risk and reward. Each of these dimensions can contribute to the public goal of economic growth, while reducing inequality. From a conceptual point of view, this methodology provides an in-depth measurement on how beneficiaries are empowered and included throughout the value creation and allocation process within IBs. It does so by assessing a diversity of aspects such as the everyday operation of the IB and the division of income from the activities, but also by taking a more longitudinal view that stretches from pre-implementation of the IB to the long-term options of the beneficiaries.

Two results from this assessment in practice come to the fore. Firstly, this study illustrates that a distinction is required between the level of inclusiveness that is envisaged on paper, and the level achieved in the actual implementation of the IB. In Chapter 4 it is outlined that several factors, including a lack of beneficiary skills and limited dedication to the developmental aspect from the side of the commercial partner, lead to inclusivity levels often lagging behind the intended inclusion, at least in the short term. Secondly, whereas IBs, as business projects, can achieve positive results, this does not necessarily reach the individual beneficiaries. Particularly monetary benefits, as often anticipated by the community members, frequently remain at an IB level rather than filtering through to the individual beneficiaries.

Ownership: The distinction between theoretical and achieved inclusiveness immediately becomes apparent in the ownership dimension of inclusiveness. On paper, ownership levels are high where individual smallholders actively farm with a certain level of independence, such as in a mentorship contract. In practice, these individuals lack the financial means to establish their own farms, and depend on short-term land leases with restricted opportunities to accumulate assets. Intermediate levels of inclusiveness occur where collective

organisations are part of the institutional structure. Collective organisation in theory enables the members to obtain fixed and moveable assets, although in practice this occurs at very limited levels or using government funding. Generally, co-owning of moveable assets, either within a beneficiary collective or between beneficiaries and commercial partners, is rare in the IBs studied, with employee equity share schemes being the exception. Particularly the lease instrument results in a low level of ownership, which does not go beyond (collective) land title. Additional instruments do not compensate for the exclusionary effect of a lease. Thus, whereas assets owned by low-income communities create dependencies between these communities and agribusiness partners and as such form the basis of an IB and the institutional set up of such an IB (Johnson et al., 2016), these communities mostly enjoy ownership of land, with moveable assets and produce shared with a commercial partner, if it all. The dependency of these commercial partners thus does not stretch further than the smallholders' land. High levels of power imbalance and low mutual dependence characteristic of IBs prevent deeper organisational integration between commercial agribusinesses and the IB beneficiaries. Particularly the larger financial power enables the commercial partner to keep assets from being shared with the beneficiaries. This outcome confirms the lack of resources and skills of the smallholders to independently operate their land and consequently remained trapped in poverty (Carter & Barrett, 2006; Naschold, 2012). The asset base of the beneficiaries is often too small to allow them to enter on a path to accumulation, which questions the potential for IBs to drive development.

Voice: In line with the ownership dimension, individually operating smallholders are, on paper, able to obtain the highest participation in decisions pertaining to 'their' land (Figure 4.2, p. 106). Asset ownership gives them the right to participate in decisions affecting these assets (de Koning & de Steenhuijsen Piters, 2009; Louw et al., 2008). Beneficiary influence on the IB is reduced by supply and particularly lease/management contracts, with collective organisation compromising the voice of the individual members. In practice, this study shows that equal decision-making is rarely obtained. This holds true for individual members feeling frustrated by being side-lined within a collective body, and for the effectual management of decision-making and control between commercial partner and beneficiaries. Thus, even in cases where ownership should ensure the beneficiaries to impact on the activities of the IB in general and their assets in specific, this ability is severely compromised in practice. The inherent, significant power discrepancies between the often small-scale farmers and the generally large-scale off-takers or business partners, which is particularly evident in South

Africa (Cochet et al., 2015), lead to farmers' voice, although improved, remaining inferior. Indeed commercial partners do not seem willing to allow smallholders a stronger bargaining power as illustrated by a case of smallholder farmers in India whose increase in power resulted in the commercial partner terminating its relationship with these farmers (Berdegué et al., 2008). Financial dependency by the beneficiaries on the commercial partners reinforces the subordination of the smallholders/low-income communities. Of concern is that the lack of capacity in general, and of capacity transfer in particular, does not allow these voice biases to be overcome. The overarching power of the commercial partner allows this stakeholder to control the decision-making within the IB (Argyres & Liebeskind, 1999), despite the implementation, on paper, of governance bodies where both stakeholders have representation. The result is that, despite ownership over resources, the smallholders are denied control over these assets (Béné, 2003; Fréguin-Gresh & Anseeuw, 2014; Hendrickson et al., 2014).

Risk: This study observes that individual beneficiaries can certainly experience alleviated risk in the framework of an IB, even when they operate as individual smallholders. For example, supply contracts reduce marketing risks, and collective organisation allows for risk mitigation for the individual members (Guidi, 2011; Vorley et al., 2009). As such, IBs offer opportunities for smallholders who tend to have a risk averse attitude (Patt et al., 2010; van Averbeke & Mohamed, 2006). Financial exposure of the beneficiaries is minimised through grant funding or favourable financing. The operational expertise of the commercial partner restricts the risk albeit at the loss of decision-making power. Nevertheless, the risks related to the highly complex and multilevel constructions in practice place severe strains on the beneficiaries. An equally important finding is that the commercial partner indeed seems to be able to transfer an unequal share of the IB-related risk to the beneficiaries (Suzuki et al., 2011; Vorley & Proctor, 2008). This is illustrated by the implementation scores which, only for this dimension, are higher than the institutional set-up scores (Figure 4.3, p. 108). Even in set-ups where the commercial partner is fully responsible for the farming operation, it is still able to allocate a share of the operational risks to the smallholders through a crop-share component in the lease contract (Allen & Lueck, 1992). Most beneficiaries can only gain access to an IB through a collective organisation, with a highly heterogeneous membership, further increasing their actual risk exposure through internal and external tensions, such as the free-rider challenge, and the control and influence cost problems (Kalogeras, Pennings, van der Lans, Garcia, & van Dijk, 2009; Ortmann & King, 2007; Zylberberg, 2013).

Rewards: Rewards accrue to the beneficiaries in the shape of financial income and asset growth, skills development and job opportunities, and through market access, one of the main aim of IBs. As such, IBs can form a pathway to rural development and poverty reduction (Guidi, 2011; Kirsten & Sartorius, 2002b; Sabates-Wheeler, 2008; Vorley et al., 2009). But, this study also illustrates that IBs can put pressure on potential benefits, certainly in the short term. Firstly, this is related to the extent and use of benefits, particularly in the framework of larger collectives. Requirements from both the IB (in case of collectives with equity) and the overall collective organisation reduce the amount of available residual income, if generated at all, needing to be distributed among a large number of members (Cramb, 2013; R. Hall, 2007). Secondly, limited engagement of the smallholders both within the set-up of these IBs, or even the collective organisation through which they participate in the IB, and in their implementation, reduces the benefits from engagement in these businesses (R. Hall, 2007). This is expressed in low numbers of jobs created for local community members who often have limited skills, but also through the few reward streams under the tightly company-controlled institutional set-up. The diversification of reward options through the implementation of multi-instrument organisational structures does not seem to result in positive results for individual members of a beneficiary collective (McCusker, 2002; Mnwana, 2014). The diversification strategy does seem to result in positive outcomes for individually operating beneficiaries through contract farming arrangements within an IB (Baumann, 2000; Simmons et al., 2005). Overall, in practice, rewards for the smallholders and beneficiaries are often less advantageous than expected (Binswanger-Mkhize, 2014; Lahiff et al., 2012). Despite the fact that smallholders and low-income communities are integrated into commercial agricultural value chains, the effective inclusion in the IB processes remains limited, certainly in the implementation. It thus happens that beneficiaries observe economic activity on 'their' land, but reap little, if any, rewards for themselves. The disappointing rewards for the smallholders/low-income communities does not automatically imply that the commercial partner reaps significant income from the IB. The financial requirements to build up the IB equally puts pressure on the agribusiness to invest any positive cash-flow into the partnership (Suzuki et al., 2011; Vermeulen & Cotula, 2010), a challenge which has resulted in the failure of a number of IBs (Lahiff et al., 2012).

6.5 IBS AS TOOL FOR TRANSFORMATION AND DEVELOPMENT, IN SOUTH AFRICA AND BEYOND

This research confirms that IBs can lead to positive results, particularly at project level (Cotula & Leonard, 2010; Zylberberg, 2013). This is expressed in increased land under production, growth in farm assets, job creation, skills development and financial injections into the agricultural sector. Agricultural production has been re-invigorated on land owned by smallholders who were not capable of productive activities independently. Other previously disadvantaged farmers have been able to gain skills to prepare them for sustained commercial activities in the long term, using a diversified production strategy. Farm workers have gained ownership and a share in decision-making processes in the farms they work on. And communities that were historically disowned now share in high-value production activities on "their" land. This indicates that using a range of standard instruments, IBs are able to integrate a diversity of smallholder farmers and low-income communities into the commercial value chains while growing the agricultural output (Cotula & Leonard, 2010; Zhang & Donaldson, 2008).

A supporting policy framework is often cited as essential to stimulate IBs and smallholder engagement with commercial value chains (Berdegué et al., 2008; Vermeulen & Cotula, 2010). This study confirms that indeed land reform processes and transformation focused policies play a vital role in the establishment of these IBs, particularly in South Africa (Greenberg, 2013; R. Hall, 2004, 2007). The drive towards a change in land ownership brought about by a diversity of land reform and sector transformation policies triggers a situation where commercial agribusinesses become dependent on poor communities and smallholder farmers for access to land and produce or favourable capital (Lahiff et al., 2012; Makhathini, 2010). These communities often lack knowledge, financing and market access in an agricultural model that supports large-scale commercial farming, stimulating a reciprocal dependency on these agribusinesses (Aliber & Cousins, 2013; Logan et al., 2012). Partnerships between commercial agribusinesses and landowning communities can overcome these dependencies.

A number of structural obstacles have been identified that threaten the potential of IBs concerning the public objectives of development and transformation. Firstly, forced dependency driven by the policy framework in which they operate portend that commercial

agribusinesses are not motivated to enter into partnerships with smallholders to develop these IB beneficiaries or the communities in which the IB operates. The necessity to incorporate poor communities into their business model stimulates the drive for the commercial partner to make a commercial success of these partnerships (Vermeulen & Cotula, 2010), but they do not stimulate positive results for the included communities. Rather these partnerships become a necessary cog in their profit-focused strategy. The power asymmetry that is tilted in favour of the commercial partner allows the agribusiness to adjust the organisational structure of the IB to suit its primary objective, namely the generation of profit (Cramb, 2013; Elder & Dauvergne, 2015; Kumi, Arhin, & Yeboah, 2014). Whereas this might enhance the performance of the IB as a business organisation, the developmental aspect of the IB is reduced in importance, if not completely ignored (Guidi, 2011; Vorley et al., 2009). Related to this first challenge is the IB-specific investment safeguard goal of the commercial partner which tends to conflict with the developmental aspect of the partnership (Schuster & Holtbrügge, 2014). Since financial contributions to the IB tend to be skewed towards the better resourced commercial partner, contractual safeguards foremost benefit this agribusiness or other commercial entities. This is particularly the case in the face of the highly uncertain environment with which the commercial partner is unfamiliar (Thompson & MacMillan, 2010). Thirdly, as the principal in the IB partnership, the commercial partner is able to include mechanisms that align the beneficiaries' goals and control the operation and decision-making of the IB. This effect is particularly noticeable in value chains where asset specificity is high (Guidi, 2011). Effective implementation of the IB tends to lag behind the commercial objectives of the IB as a result, as illustrated in Chapter 5. Even where the economic development motivates the formation of the IB, this does not necessarily result in direct livelihood opportunities for the beneficiaries. Gxulu Berries, which was particularly formed as development opportunity for the Gxulu community, ranks as one of the cases with the lowest levels of overall inclusiveness. Besides a developmental objective, an active involvement of the beneficiaries is required for the IB to make a contribution to the overall transformation of the agricultural sector and wider development.

Aside from the structural shortcomings of IBs as driver of wider development goals, it also needs to be noted that successful partnerships between corporate actors and smallholders/low-income communities 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 so-called former homelands (DoA, 2010). The extent of the participation of smallholder farmers in IBs thus appears insignificant. In addition, the replicability of many of the complex IBs is limited, leaving behind the hope for a broad-based snowball effect (Chamberlain & Anseeuw, 2016). The number of IBs remains low, the IBs that are successful and sustainable are few, and the IBs have a mixed impact, so it therefore 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. It confirms the observation based a more global analysis that IBs are merely a (relatively small) number of "islands of effectiveness" (Levy, 2014; Vorley & Proctor, 2008, p. 28), which do not seem to have the capacity, nor the muscle, to profoundly restructure the sector. Government support for endogenous smallholder growth remains necessary. In the words of Berdegué et al. "no country has developed its agriculture on a model of pure private sector development" (Berdegué et al., 2008, p. 35).

Inclusive businesses, as observed in this study, tend to base themselves on the existing production model of large-scale agricultural structures (Aliber & Cousins, 2013; Logan et al., 2012). The promotion of this production model leads to corporate control over resources owned by smallholders and low-income communities. Paradoxically, IBs thus drive a corporatisation of the agricultural sector, rather than stimulating smallholder engagement. In view of this efforts are required to identify land use and production models that seem better suited to smallholders, which can generate more sustainable and equitable outcomes.

The low potential for structural transformation, in the specific context of South Africa and on a larger scale, should not, however, lead to a repudiation of the IB model and paradigm. IBs contribute to investment needs, particularly in the case where the State has little capacity and where investment is needed from the private sector. Through private sector partnerships, poor communities have access to basic services such as water (Gebauer & Jennings Saul, 2014), health care (Angeli & Jaiswal, 2016) and energy (Goyal et al., 2014). Commercial initiatives in the financing sector have shown to have a poverty reducing effect (Yunus, Moingeon, & Lehmann-Ortega, 2010). The many case studies, both in the agricultural sector and outside, illustrate that the private sector can indeed stimulate growth opportunities at the bottom of the pyramid (Graf et al., 2015; USAID, 2014; Vorley & Proctor, 2008). Continued optimism on the potential for business contribution to development is underlined by the fundamental role the private sector has been given to achieve the Sustainable Development Goals (SDGs) set

out by the United Nations (UNDP, 2015). However, this study, as well as other research, underlines the short-comings of private-led development and thus the need for other development models, such as those focusing more on endogenous growth of smallholder farmers and non-farm income opportunities, will be needed if structural transformation and broad-based inclusion of smallholder farmers are sought in South Africa or elsewhere on the continent and beyond (Scheyvens, Banks, & Hughes, 2016).

6.6 RECOMMENDATIONS – CONDITIONS FOR IBS TO BECOME (MORE EFFECTIVE) TOOLS FOR DEVELOPMENT

To increase the positive developmental impact of IBs a number of lessons can be taken from this study. The following recommendations aim to achieve more equitable and sustainable partnerships. They can be applied by practitioners, businesses and other stakeholders active in the field of IB, as well as policy makers. These recommendations do not warrant success, but rather are critical factors that need to be moulded to the particular context in which an IB operates. These lessons are all related and complementary.

The first step to enhance the empowerment of low-income beneficiaries is ownership (Stoian, Donovan, Fisk, & Muldoon, 2012). Particularly for IBs in the agricultural sector this relates to ownership of, or secure rights over, land and produce (Vermeulen & Cotula, 2010). This ownership can be extended to equity in joint ventures, which is considered an essential enabler for smallholder to increase their control over the value chain (Guidi, 2011). Ownership, particularly of land, has been demonstrated to be closely related to development (Carter & Barrett, 2006; Meinzen-Dick et al., 2011). Ownership also relates to the state of being an owner, i.e., engagement, willingness to contribute, contribution to own development and to self-determination, contribution to decision making, and balancing of power structures (Guidi, 2011; Hendrix, 2008). Although ownership and/or long-term secure rights are not a cure-all (as others might still control the asset), it certainly serves as a stepping stone to be built upon.

Secondly, the smallholders/low-income communities need to be capacitated (Vermeulen & Cotula, 2010; Vorley & Proctor, 2008). Whereas asset ownership contributes to this, effective capacitation requires knowledge development. This should not only cover operational and technical skills; equally important are managerial and financial skills, overall business

knowledge and the actual organisational structure of the IB (Berdegué et al., 2008). To reduce information asymmetry, the beneficiaries need an understanding of commercial farming activities and the context in which the agricultural business operates. Considering the importance of collective organisation in most of the IBs, capacitation needs to extend to the internal management of such a collective (Louw et al., 2008; Markelova et al., 2009). Within these collectives, it is equally important to implement a program that ensures knowledge distribution between the beneficiaries to prevent dependency on a limited number of leaders who become difficult to replace. A last point where the need exists for capacity development is in the ability 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 (Hendrickson et al., 2014). Thus, whereas smallholders can be integrated into the commercial agricultural supply chain within a short timeframe, it will take much longer to empower them to become equal partners, or for the beneficiaries to engage independently in the commercial value chain (Berdegué et al., 2008).

Thirdly, IBs as organisation require support. This underlines the importance of wider partnerships with a diversity of partners outside of the direct value creation process (London & Hart, 2004; J. Nelson, 2007; Schuster & Holtbrügge, 2014). This support is foremost in the form of financing. Significant funds are needed, as many IBs are either new farming businesses, are set up to reinvigorate neglected farmland, or work with smallholders who lack productive assets. Each of these scenarios require considerable funds to develop. Large agribusinesses are often in a better position to engage in these potentially volatile partnerships. Operational and even developmental costs are thus likely to be borne, or guaranteed, by the more financially endowed agribusinesses to enable sustained operation (Vermeulen & Cotula, 2010). Whereas this reduces the financial risks of the beneficiaries, the resulting financial asymmetry possibly aggravates the already existing power inequality caused by disparity in knowledge and capacity. To limit the risks for agribusinesses to engage in community partnerships, grant funding or subsidised loans play a fundamental role in overcoming the financial burden of such projects. Very few cases, in this and the myriad of other IBs documented, have been established without financial support from government, DFIs or favourable financing streams (Gradl et al., 2012; Graf et al., 2015; Guidi, 2011). A positive effect of external funding is that it ameliorates the financial inequality between the smallholders and the corporate business, and with it, the overall imbalance of power within

the IB. IB support also involves mediation, the safeguarding of smallholders' assets, the monitoring of compliance with contractual agreements, and the exploring of new legal aspects and dispute resolutions, as well as more flexible options for land use. The public sector thus plays an important role in creating a secure and stimulating environment (Berdegué et al., 2008; Guidi, 2011; Vermeulen & Cotula, 2010).

Fourthly, related to the previous point, the involvement of a third impartial party can play a pivotal role within an IB. Intermediaries operate in a myriad of fields, facilitating information sharing, providing knowledge, training or technology, or to bring legitimacy to name a few (Dahan, Doh, Oetzel, & Yaziji, 2010). As such, they enable power and knowledge asymmetry between the smallholders and the commercial partner to lessen. Often, smallholders/low-income communities can benefit from professional assistance, during both contract negotiations and the implementation phase when the contractual obligations of both parties need to be monitored. The emergence of "doubly-specialised intermediaries" illustrate the increasing importance of a third party when implementing an IB (Berdegué et al., 2008; Vorley et al., 2009). These intermediaries combine the development goal with a business orientation and thus can be particularly efficient in connecting commercial enterprises with smallholder communities and facilitating the transactions between them (Zylberberg, 2013). Amadlelo Agri, the corporate partner in the Seven Stars Trust, and TechnoServe are examples of such intermediaries in this particular study. As mentioned above, external assistance in the form of funding positively impacts on the financial power imbalances. A third aspect where outside involvement can benefit IBs as organisation, and their beneficiaries in specific, is collective organisation support (Markelova et al., 2009). The governance and management of these collectives are often weak (Guidi, 2011; Vermeulen & Cotula, 2010) Whereas the commercial agribusiness partner generally provides knowledge related to the operational and management aspects of a commercial farming business, the responsibility for the internal management of the collective smallholder organisation is often unclear and beyond the scope and capabilities of the commercial partner (Markelova et al., 2009). 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, the establishment of a sustainable partnership depends on a high degree of transparency, both between the partners and internally where a beneficiaries are organised in a collective organisation (Nawir, Holding Anyonge, Race, & Vermeulen, 2002; Vorley &

Proctor, 2008). Transparency is enhance through evaluation and impact measurement (Gradl et al., 2012). Many smallholders fail to understand the mechanics of how the IB operates, and specifically why their level of reward is so disappointing. This in turn impacts negatively on their support of the IB. Effective and transparent communication is impaired by the beneficiaries' lack of basic understanding of business management, as highlighted earlier. Equally important is a realistic expectation management for smallholders to understand that benefits, both financial and social, will take time to materialise.

Lastly, time and realism are required for partnerships with smallholders/low-income communities to develop and achieve results (Berdegué et al., 2008; London, 2007). The development of an innovative partnership structure between unfamiliar actors is the first time consuming step. The capacitation of smallholders, the effective transfer of knowledge and know-how, and the building of 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 (Knight & Lyne, 2002). Secondly, the implementation of the IB operations, which in many cases requires the development or redevelopment of previously productive areas, to reach the stage of positive income flows is often a long-term project. This can lead to frustration, especially when expectations diverge (Lahiff et al., 2012; Tapela, 2008). The lack of material benefits for the smallholders/low-income communities in the short term is a weakness often highlighted by the beneficiaries. Particularly relating to IBs that are implemented and sustained with public funds, questions are raised regarding the effective use of these funds. With monetary benefits being elusive in the short term, beneficiaries that have regained ownership of land after historical dispossession also fail to gain from access to "their" land (Binswanger-Mkhize, 2014). For commercial IB partnerships to be sustainable, it is critical that smallholders and communities benefit from the enterprise, financially, through the implementation of diverse land use systems, or through alternative benefits such as housing and employment (Stoian et al., 2012). In an environment where large groups of smallholders, beneficiaries and communities are engaged, this is certainly a complex but vital challenge for the IB to overcome.

6.7 FUTURE RESEARCH

This study has provided valuable insights in the complexities of inclusive businesses in the agricultural sector. It has provided answers to questions such as: what do IB structures look

like, why are these structures so complex, how inclusive are these partnerships, and are they a tool for equal development? But, the field of IB is large and many-faceted. This particular research implemented a well-rationalised scope that excluded several important fields of interest. The insights gained from this study can serve as a platform to widen and deepen our understanding of the IB phenomenon in these particular fields.

Firstly, the results of this research are based on a single point-in-time observation of the case studies. But, the IB structures have proven to be of a dynamic nature which change over time (Guidi, 2011). This is particularly relevant to IBs who have implemented instruments with a timespan of a few years, such as a mentorship or supply contract. The conceptual framework contributes to the understanding of an initial IB structure. Longitudinal research, revisiting the IBs studied, is required to gain insight in the long-term dynamics of these organisational structures that adjust to changes in relationships, opportunities and experiences, within the IB itself and in the wider operating environment. Longitudinal research equally allows an understanding on beneficiary involvement over time. Revisiting the case studies permits a comparison not only between the initial and current structure of these partnerships, it also provides insights into the experiences of the beneficiaries, highlighting whether and how inclusion improves or decreases over time, whether beneficiaries opt out of a partnership, and what these beneficiaries consider as factors for success and failure a number of years after the initial survey. The studied IBs were still in a developmental phase at the time of research, making this longitudinal study essential to establish the long-term development of IBs as organisational structures and as tools for wider development. As noted by Berdegué et al. (2008, p. 33) “Sustainability of inclusion is a much more difficult and elusive objective than gaining initial access to dynamic markets”.

The second area for further study concerns the impact of IBs. This research focused on the four dimension of inclusion (ownership, voice, risk and reward), implying that the overall impact of an IB is related to the level of inclusiveness. However, aspects such as food security, social standing and gender-related dynamics are equally important when trying to establish the effect an IB has on the beneficiating households. A Sustainable Livelihood or Asset-Based Approach can gain further insight into the deeper impact IBs have on their beneficiaries (Stoian et al., 2012). In addition, the impact of an IB goes beyond the direct beneficiaries, as the enterprise does not operate in isolation. Linkages with the wider community, as well as potential environmental aspects are equally important when

determining if an IB should be considered as a contributor to rural development and poverty reduction. To fully understand the potential of IBs on rural development, external linkages and the local embeddedness need to be further researched. Lastly, a rigorous impact assessment that distinguishes beneficiaries and a random control group is needed to establish evidence of the causality of IBs.

Thirdly, the scope of cases should be broadened. Within South Africa, a large number of operational IBs, with similar but also divergent structures, offer the opportunity to validate the conceptual framework and develop a deeper understanding how the standard instruments can be implemented in different ways. The research of failed IBs adds to understanding the factors that can undermine the sustainability of IBs, and what the consequences of such failure are. Successful and failed IBs are two sides of the same coin, and thus require equal understanding to ensure future IBs do not fall into the same trap of failure as previous IBs. The scope should also be widened geographically. The applied boundaries result in findings that specifically apply to South Africa. Policy frameworks, the structure of the agricultural and financing sector, and land ownership arrangements, are among the parameters that are likely to impact on the structure and success of the IBs that are implemented. Taking the conceptual framework to other countries can both underwrite the validity of this framework, as well as strengthen our understanding of the impact of the institutional context in which IBs are implemented. This is particularly relevant to the global discussion around large-scale land investments and acquisitions, where a similar power asymmetry between investor and local community plays out (Nolte & Väth, 2015). There is a growing call to make these investments more inclusive for the local communities, for example through the implementation of out-grower schemes, representing one of the inclusive instruments (Cotula & Leonard, 2010; de Schutter, 2011). The results of these kinds of initiatives have remained equally mixed and largely disappointing (Schoneveld et al., 2011; West & Haug, 2017), strengthening the dual observation of the limited effectiveness of such inclusive models and the need for other—often complementary—development paradigms to initiate large-scale agricultural and rural transformation. The question of development approaches focusing more on smallholder farmers and on their endogenous growth, instead of on the linkages between small and big, remains highly relevant.

CHAPTER 7 REFERENES

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APPENDIX A CASE STUDY DESCRIPTIONS[9]

This appendix describes in-depth the 14 cases studied in this research. The structure for each of the descriptions is according to a standard pattern. A short overview of the IB is followed by how the IB was first established, covering the actors involved and the financial support for the project. This is illustrated graphically, highlighting the instruments implemented (Figure A.1). The implementation is then detailed, to give further insight into the functioning of the IB. Based on these descriptions, an analysis is made of the inclusivity of the beneficiaries. The following sections assess the outcomes of the project, the issues, the success factors and the sustainability of the IB.

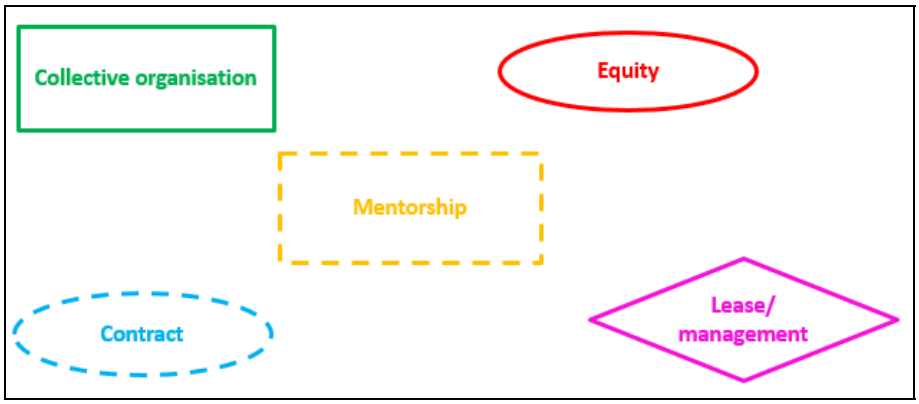

Figure A.1: Graphical representation of instruments

Source: Author

A.1 BLUE MOUNTAIN BERRIES

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.

[9] Most of these case descriptions have been adapted from a previously publication Chamberlain & Anseeuw (2017)

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 et al., 2014).

This case study report describes 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.

A.1.1 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 by BMB and is non-white.[10] 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 his/her score

[10] The IDC set the criteria. A recent proposal to allow 15% of the trust members to be white was rejected by the BMB board.

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.

A.1.2 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 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.

A.1.2.1 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:[11] 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

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

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 Werkers Trust, 2006). This is to be achieved through its 33% equity share in BMB.

A.1.2.2 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.

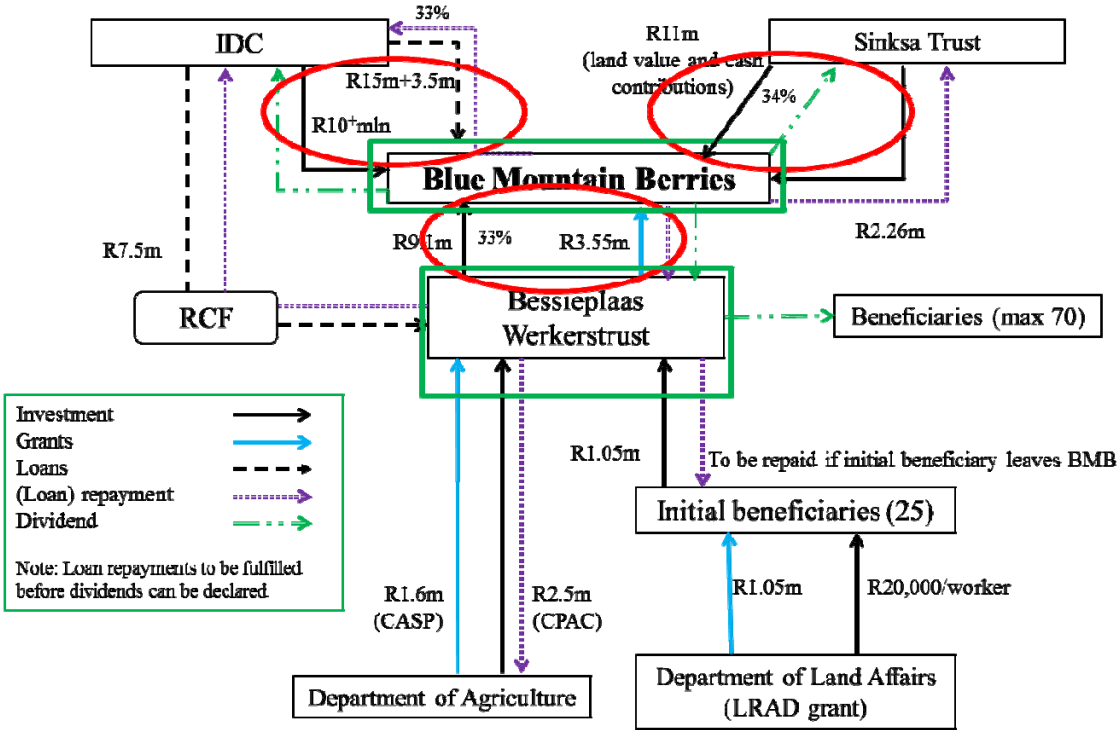

Figure A.2: **Financial set-up Blue Mountain Berries**

Source: *Author*

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.

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 A.2 summarises the financial structure of BMB.

A.1.3 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 (Hoffstätter, 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.

A.1.3.1 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 A.3, 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 Consumer Price Inflation (CPI). In addition, he shares in the annual incentive bonus pool, together with all BMB employees.

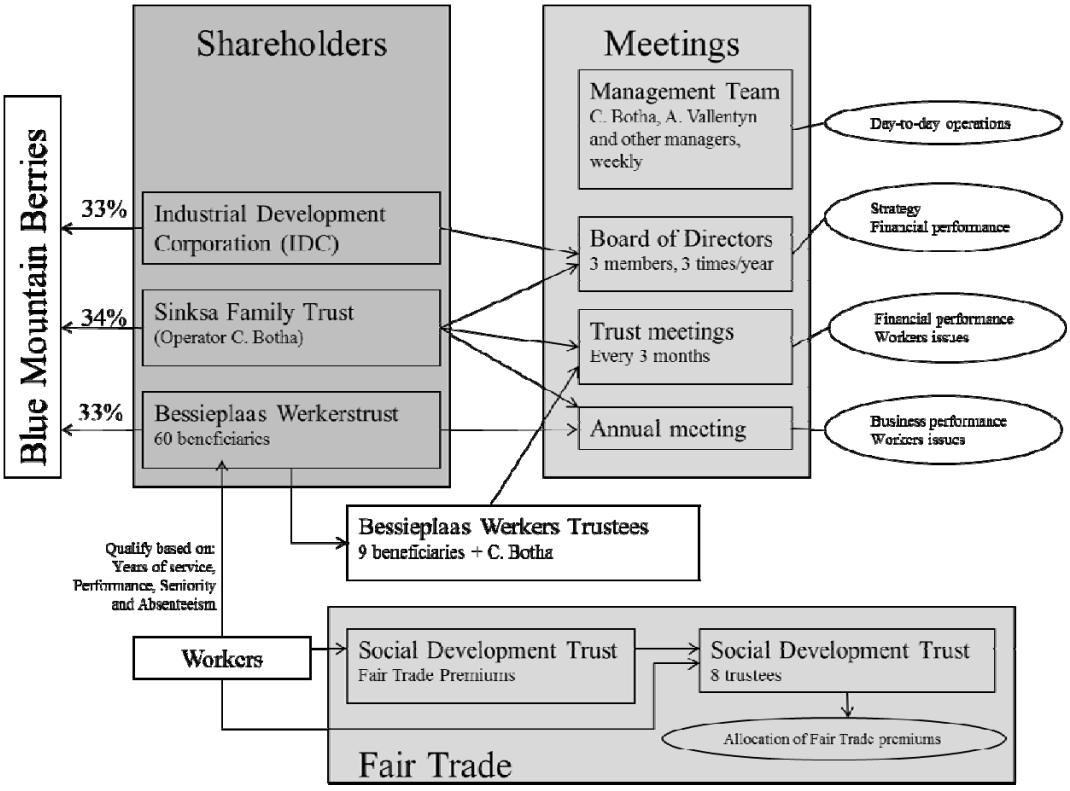

Figure A.3: **Institutional set-up Blue Mountain Berries**

Source: *Author*

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.

A.1.3.2 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 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 which aims for "prosperous, sustainable communities on member farms" (Waitrose Foundation, 2014). 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.

A.1.3.3 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.

A.1.4 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.

A.1.5 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 investment 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[12] 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 farmworkers 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

[12] The Fairtrade organisation opposes this bonus, stating it discriminates against sick people.

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.

A.1.6 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 Werkers Trust, 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.[13] 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'.

A.1.7 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

[13] 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.

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.

A.1.8 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 (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.

A.1.9 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 (R. Hall & du Toit, 2014).

A.2 BOSMAN VINEYARDS

Equity share schemes have been implemented throughout South Africa, particularly the Western Cape province where this model was widely supported. Employee Equity share schemes (ESS) are an intermediate form of land redistribution, where land is not directly transferred but a grant is provided by government to be used for the purchase of ownership rights to an existing or newly established agricultural company that owns land. Rather than breaking up the actual farming unit, ownership is divided between previous owner/investor and workers. The government makes a fixed amount of money available per worker which is used to buy shares in the company. These shares give workers a right to dividends and decision-making power. Such a scheme is attractive for several reasons. First, by leaving the farming unit intact, beneficiaries benefit from existing production structures, such as economies of scale, on-going contracts, and management experience. Second, it creates an incentive for the white farmer to give up ownership rights to (part of) his land. In equity share schemes, the farmer voluntarily gives up some ownership in exchange for a capital injection, the size of which is based on the market value of his land and the number of participating workers.

A.2.1 Project description

The Bosman farm is located near Wellington, in the South African province of the Western Cape. The farm was founded in 1699 and has been in the hands of the same family since 1798. It is currently managed by the 8th generation. Although it was traditionally a wine business, since the middle of the last century the family started focusing more on their vine nursery. This shift in focus paid off: they currently operate the largest vine nursery on the continent. In 2007 the winemaking business was actively re-started by attracting a master wine maker and re-investing in their 250-year old wine cellar. Wine making currently generates 30% of company revenues. The estate covers 430 hectares and employs 260 workers. It is the largest equity share scheme in the wine industry.

Bosman Family Vineyards has a history of empowering their workforce which began before they set up the equity share scheme. With the end of Apartheid in 1994, a workers' committee was created with two bi-annually elected representatives from each of the eight farms making up the company. This workers committee functions like a labour union,

representing the workers towards farm management and sharing information regarding company strategy and finances with the workers.

In 2008, the company initiated an employee equity sharing scheme on their farm. Part of their land and equipment was transferred to a joint venture company co-owned by farm employees. This new venture was managed jointly with the original farm, no separate management structure was installed. Through an elected trust committee, employees obtained representation on the board of directors and the executive committee. The board of directors is responsible for long-term strategic decision making and the executive committee focuses on day-to-day management (execution). To ensure equal treatment of current and future employees, governance structures were created that allowed new employees to join the scheme. The project has been a great success. Profit and revenues have grown substantially and both company and employees are enthusiastic about the project.

A.2.2 Inception

In 2007, at an information meeting held by the company's accountants, Jannie and Petrus Bosman first learned about employee equity share schemes (ESS). They immediately realised the potential for their own company. When they found support for their enthusiasm with their family board members, the idea was shared with the workers' committee. The workers' committee visited all farms one by one, proposing the idea to the workers where the idea was positively received.

The decision was made to hire a consultant to provide guidance in the process. His fees were paid for by the company. Based on meetings with the workers' committee and company management, he suggested an extensive training programme to familiarise all employees with finances and management. These trainings were meant to develop a complete understanding of what the project entailed before implementation. The outline of a business plan was completed by the consultant in early 2008. After discussions with the committee and employees on what was needed and what was feasible, the business plan was finalised and presented to the government on 14 July 2008. It was accepted the same day.

A.2.2.1 Actors and drivers

Three main groups of actors were involved in realising the equity share scheme: the government, Bosman family and the farm workers. Although other parties including external consultants and training organisations contributed to the process, they did not have any decision-making power. The government was represented by the national Department of Rural Development and Land Reform (DRDLR) and the provincial Department of Agriculture (DoA). Representatives from both departments were present during the presentation of the business plan. DRDLR was interested in the scheme because it would contribute to achieving the land redistribution target set out in the national land reform programme. They were responsible for verifying listed land values and existence of participating beneficiaries as well as providing financing. The economic viability of the business plan was evaluated by the provincial DoA.

The Bosman family wanted to take the empowerment of their workers to the next level. At the time they heard about the existence of government-funded Employee Equity Share Schemes they already had a long history of empowering their workers. They hoped to increase their workers' intrinsic motivation by actively involving them in the running of the farm as co-owners. Since the structure required to successfully integrate their workers in the operation of their farm was already largely in place, the project required little investment. At the same time, it provided a large injection of interest-free funds provided by government which could be used to take the development of their wine-making business to the next level.

Most workers qualifying for participation in the scheme under B-BBEE legislation considered the chance to become co-owner of the business they were working for as an opportunity. Their active involvement in the process and the willingness of management ensured that none of the existing reward structures, including bonus payments, were changed. In addition, the workers would receive dividends whenever a profit was made – however small these payments might be, this resulted in increased income. Furthermore, employees or their families became entitled to receive the market value of their shares in cash upon passing away or being discharged. All employees who had worked at the farm for at least three years were eligible for participation, as were all recently retired employees. Every eligible employee participated. Farm workers are organised in the Adama Appolo Trust, who holds the shares on behalf of the employee members.

A.2.2.2 Support

The most significant support for the project was undoubtedly the initial financial transfer provided by the government under the LRAD policy. Although the process of empowerment was already well underway at the Bosman farms, without the employee equity share scheme it would have taken much longer to reach the current level of involvement of workers in management and decision-making at the company. At the same time, this support would likely have been far less useful if the employees would have been less prepared to handle these responsibilities. In addition to the initial investment, funding was made available through Casidra, a semi-governmental development organisation residing under the provincial DoA. This funding was used to expand the business through developing already owned but not used land for vineyards.

Extensive training of all company staff before embarking on the development of the business plan was crucial to make effective use of the initial government funding. Topics for the trainings were suggested by the consultant in agreement with the workers, and primarily concerned finance and management. Both the consultant and the trainings were paid for by the company. By ensuring all employees understood the implications of the change before negotiating the terms and conditions of the business plan, a sense of common purpose was created which increased the willingness of the partners to accept their responsibilities and honour their commitments.

To ensure the continuous development of the programme, the board decided to hire an external consultant, who was regularly asked for advice regarding how to make the best use of existing regulations to the benefit of the joint venture, in particular regarding optimising the company's B-BBEE score and accessing available funds. Since the objectives of management and employees are well-aligned in the company structure, the benefits of his suggestions are shared.

A.2.2.3 Phases in business model development

Only rarely is business model development a once-off exercise. Usually the business model changes in response to internal learning or external market pressures. In the case of Bosman Family Vineyards, two clear phases can be distinguished. The first phase concerns the business model as it was originally conceived. After several years in operation, both partners

agreed to a complete overhaul of the model, in order to increase cooperation and efficiency and reduce costs. The phases are clearly interdependent. It is unlikely the model would have started at all if it was designed in the integrated form of the second phase. Furthermore, it is the experience and trust generated during the first phase that defines the success of the second phase.

Phase 1: Establishment of the Employee Equity Share Scheme

Bosman Family Vineyards consisted of eight separate farms and one 'running farm'. The separate farms had only land on their balance sheet; all equipment was owned by the running farm. This structure was favourable for the implementation of the ESS because it allowed the government to spend most of their money on land acquisition, the redistribution of which was the main justification for the financial transfer. Through the LRAD fund R110,000 was made available for investment per worker, allowing the purchase of 50% shares in two of the larger farms and a 5% stake in the running company. Annual income for the two farms within the ESS was calculated as a share of the profit of the overall holding, correspondent with actual production on the two farms (Figure A.4).

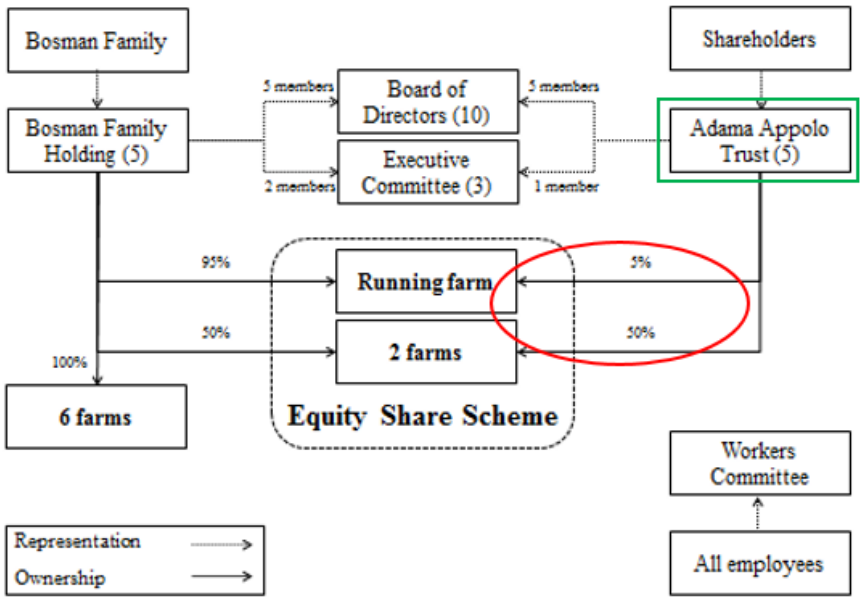

Figure A.4: **Institutional set-up Bosman Vineyards Phase 1**

Source: *Author*

In October 2008 the initial transfer of R24 million took place, equalling R92,307/worker. Of these funds, R22.3m was used to purchase land, the rest was used to purchase other assets.

The remainder of the funds was planned to be transferred later. In reality these funds never materialised, because the government stopped investing in employee equity schemes.

Although the money was transferred to the Adama Appolo Trust, the LRAD funds were intended for individual employees providing them capital rights. As soon as they leave the company, the trust is obliged to pay them back the value of this LRAD fund plus any increases in capital value. New employees do not have these capital rights. Instead they receive shares which give them rights to dividends. In other words, new employees do share in company profits but do not receive a capital payment when they leave the company.

The provincial DoA committed to an additional transfer of R5.2 million for investment in equipment needed to make currently unused lands on the purchased farms ready for wine grape production on condition that the Bosman family matched this amount. The equipment was put on the balance sheet of the two ESS farms, which previously contained only land assets, in order to justify the 50/50 co-investment structure and to make the separate farms as viable as possible. Whenever the equipment owned by the farms was insufficient, they could rent equipment from the running company. Over time, as equipment needs fluctuated between farms, the ESS farms also started renting out their equipment to the 100% Bosman-owned farms at the same rate, creating a situation where ESS farms and running company rented equipment from each other.

The Bosman Family committed land and equipment to the joint venture, valued to equal ownership given the LRAD grant. Furthermore, they matched the R5.2 million provided by the DoA for (Figure A.5). In addition, employees were given full access to existing management structures and information, even though their decision-making power was initially restricted to operations within the employee equity share scheme.

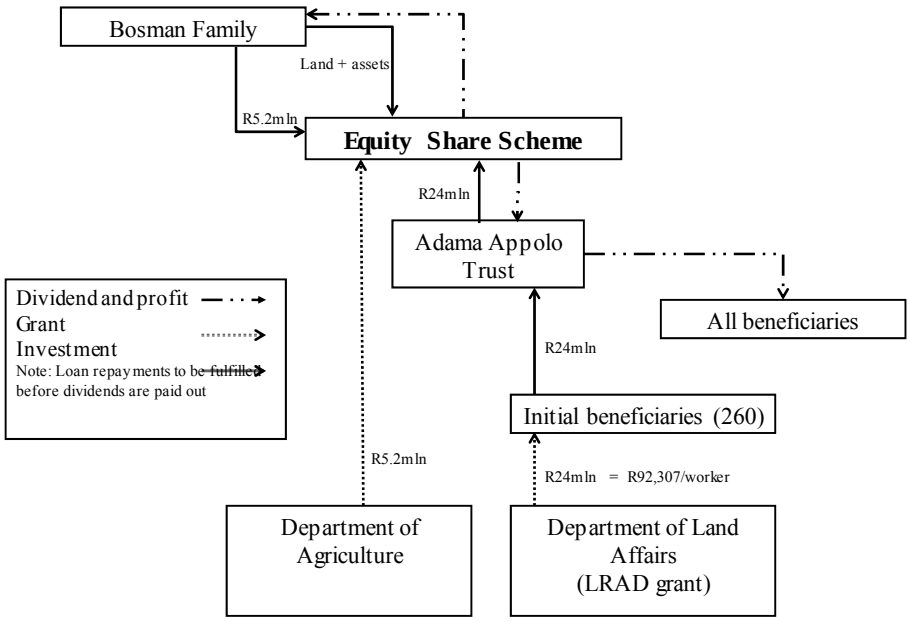

Figure A.5: **Financial flows Bosman Vineyards Phase 1**

Source: *Author*

Phase 2: Re-organisation

The employee equity share scheme was initially structured to accommodate the preferences of company management, workers, and the government. The structure where ownership was balanced between company management and workers for two of the farms was preferred by the government, as it allowed them to invest the bulk of the money in land assets. Moreover, on paper it ensured an equal distribution of ownership and hence power between owners and workers. However, well-functioning farms require more than just land. The inclusion of equipment in the farm units partly overcame this hurdle but introduced the problem of equipment rentals. This proved administratively burdensome. In addition, because the workers owned shares in three separately registered companies, three government audits were required to verify compliance. The overall administrative burden was further increased when the vineyard acquired Fair Trade certification, which also required separate audits and hence payments. Other motivations to change the company structure concerned taxes and cash flow. In the old structure, it could happen that one of the companies was paying taxes while another was making a loss. Similarly, one company could have a large positive cash flow while another needed to borrow to maintain liquidity.

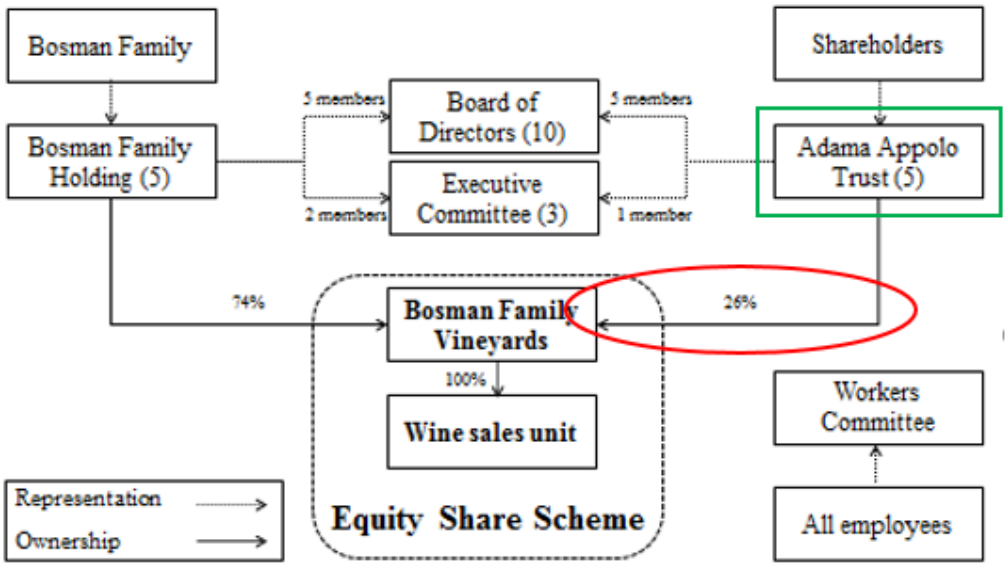

Figure A.6: **Institutional set-up Bosman Vineyards Phase 2**

Source: *Author*

To counter these issues, in 2012 the various farms and companies were merged into one, as illustrated in Figure A.6. This company contained the assets of the entire farm, both land and productive assets. Wine sales were organised in a separate company, which is a 100% subsidiary. The new company is owned by the Adama Appolo Trust (26%) and by the Bosman family through a holding company (74%). The management organisation of the company has hardly changed. Each farm still has a farm manager who is responsible for overseeing all activities and employees still work primarily on the farm where they live.

The initial structure proved useful because it forced all actors to accurately keep a record of equipment rentals. This forced accountability removed possible sources of distrust, enabling the new partners to get used to the new way of running the business. After four years in operation, sufficient trust had been built up to enable a structure which relied less on paper trails and accountability and more on trust.

A.2.3 Implementation

A.2.3.1 Committees and meeting

Employees are represented by the workers committee and the workers trust. The workers committee is composed of 16 members. For each of the eight farms, two representatives are chosen at bi-annually held elections. The workers committee is the voice of the workers in matters concerning working conditions and other labour relations. Since the start of the ESS,

it is also responsible for selecting the members of the trust. The workers trust is composed of five members and represents the workers in their position as shareholders. It participates in board meetings and shares information regarding the financial position and management strategy of the company with all employees. The annual meeting of the trust is held in October each year.

The company board consists of the workers trust and Bosman family members involved in the company, currently consisting of Jannie Bosman, his daughter, and three sons. The board meets quarterly to review financial performance and discuss company strategy. Decisions regarding large investments are made at these meetings. Day-to-day management is the responsibility of the executive committee, which consists of Jannie Bosman, his oldest son, and one of the workers trust members.

A.2.3.2 Shareholding structure

Rights and responsibilities of the shareholders of the workers trust are defined in the Trust Act. There are three types of shares:

1. Type A shares are those held by original beneficiaries and give rights to yearly dividends and to a final capital payment based on the annually determined market value of the shares. At the end of each financial year, the share market value is determined as the difference between assets and liabilities of the Adama Appolo Trust divided by the number of outstanding A and C type shares. Each person eligible to receive shares when the ESS started, received 11 shares. After retirement, beneficiaries continue to receive dividends. When a holder of type A shares passes away or is discharged, his shares are converted into Type C shares.
2. Type B shares only give rights to receive dividends and are given out to new employees i.e. those who joined the company after the scheme had started. After working for the company for four years, new employees receive the first five shares. Four years later, they receive an additional six shares. Type B shares do not give rights to a capital payment as these employees were not included in the LRAD fund.
3. Type A shares are converted into Type C shares when holders lose their right to receive dividends due to death or having been discharged. They are held until the trust is able to pay out the shares in cash but always within five years after the date at

which the right to dividends was lost. Type C shares do not give a right to receive dividends, but holders receive an annual return of 5% over the outstanding value of their shares until they are paid out by the Trust.

Only type A shares are transferrable after being held for at least five years or when the Trust grants an exemption to this rule. When an employee wants to sell shares, he or she first has to offer them for sale to the workers trust. When the trust cannot or does not want to buy the shares, the shares are then offered to other Type A shareholders. The shares on sale are distributed evenly between all interested buyers unless the trust considers this inappropriate, in which case they are distributed amongst interested buyers through a lottery system. When shares are sold internally, the price is determined by their market value, which depends on the market value of assets and liabilities of the Adama Appolo Trust. Only when neither the trust nor any of the beneficiaries is interested in buying the shares, can they be offered for sale to employees who are still in the process of receiving their first shares. Only when none of these parties are interested in buying the shares, the shares are converted to type C shares, making the holder eligible to receive their fair value at the latest within five years after their conversion.

A.2.3.3 Employee development

Employee development was a core component of the employee equity share scheme at Bosman Family Vineyards and has continued to be one of the driving factors of its success. Even before employees were asked whether they supported the idea of starting an ESS on the farm, extensive trainings took place to familiarise everybody with accounting, financial management and company management. Although the extent to which each individual benefited from these trainings is hard to gauge, for the group of employees as a whole it did generate sufficient understanding of the risks and benefits of the plan to make an assessment of its desirability. Because trainings were conducted in groups, they allowed identification of more knowledgeable individuals to later elect as representatives on the board of trustees.

Through participation in management functions, knowledge gaps between functions were identified that led to specific scholarships for children of employees who had done well during the secondary education. These scholarships, mostly in financial management and

human resource management, allowed access to higher education, which in turn led to several children now fulfilling administrative functions both within and outside the company.

Since the restructuring that completely integrated the joint venture with the rest of the company, a company-wide training programme has been set up. Across the board, in consultation with employees, areas were identified which could benefit from skill-specific training. These trainings often consist of several levels, such that the training programme will run over several years. Currently the most prominent training is on financial skills, training of which was prioritised for all individuals in leadership positions. Due to the growth the company has experienced since the start of the ESS, sufficient opportunities for growth within the firm exist, and hence the issue of employee "poaching" has not presented itself at Bosman Vineyards.

An additional factor which is as much a signal of employee development as well as a potential trigger for increased development in the future is the non-replacement of farm managers. Over the last years, two of the eight farm managers have left their position. So far, the company has not replaced them, because employees have taken up the responsibility of organising matters amongst themselves. If this trend is to continue, additional training for effective resource allocation and input procurement is likely.

A.2.4 Inclusivity

In evaluating the value sharing of agricultural investments four criteria ownership, voice, risk and reward are applied (Vermeulen & Cotula, 2010). The advantage of the suggested criteria is that they are not limited to transfers between partners, such as income or dividends, but encourage delving deeper into the relationship between beneficiaries and other partners.

Under the current structure of the ESS, the Adama Appolo Trust owns 26% of the shares of the entire company, giving them a direct entitlement to share in net profits. The share in the profit of individual employees depends on the number of shares they own and the profit per share. Employees can own a maximum of eleven shares. There are three types of shares, A-type, B-type, and C-type. Each beneficiary at the time of inception of the ESS received 11 A-type shares, giving them capital, income, and voting rights. No new A-type shares have since been issued. Upon leaving active service for the company, type-A shares are converted into

type-C shares, which only give capital rights. As soon as the trust has sufficient funds, it will buy back the shares based on their current market value. Until that time, holders of type-C shares receive 5% annual interest over the outstanding value of their shares. New employees receive five B-type shares after four years of continuous employment for the company, and an additional six shares after four more years, which give them income and voting rights but no capital rights. Therefore, financial ownership in the scheme is limited to the original 260 beneficiaries, although all new employees have the opportunity to enjoy dividends and voting rights.

Employees have a direct voice in decision-making through the general assembly, and indirect influence through the Trust members. In the general assembly employees have voting rights equal to the amount of A-type and B-type shares they own. They can directly vote on the election of trustees, the choice of financial auditors of the trust finances, and the share of profit which is handed out as dividends or kept as retained earnings. Trust members represent the employees on the board of directors, which is responsible for making large investment decisions. Furthermore, one of the trust members is a member of the Executive Committee, responsible for day-to-day management. The Trust has the obligation to regularly organise information meetings, which should be no more than 180 days apart, during which financial statements and information regarding company activities are shared. If there are particularly important decisions to be made, any two trust members or any ten employees can request a general assembly to discuss the issue. This request has to be honoured.

Risk to employees is limited, mainly because their shares have been financed by government and did not require any financial contribution from themselves. As shareholders, they run business risk. However, because the revenue from dividends is limited, so is the impact on their overall income. For holders of type-A shares, the financial risk has reduced because of the ESS. Now, when they lose their employment for reasons outside their control, they at least receive a substantial capital pay-out. For holders of type-B shares this benefit does not exist. Overall, to the extent that dividends are extra income, the additional risk is limited to this extra income, and therefore cannot be said to have increased much by the introduction of the ESS.

Rewards have increased because of the ESS. Wages have grown with inflation as before and bonus schemes were kept in place. Since the implementation of the scheme, employees

receive dividends on top of their normal income. Fair Trade premiums, for which the ESS was essential to qualify, increased the number and quality of facilities on the premises, including the day-care centre. Furthermore, original beneficiaries benefit from the overall growth of the company through the increase in the market value of their shares. This benefit can only be obtained when they sell the shares. Shares can only be sold to the Trust, and all trustees need to agree with the sale. Therefore, in practice this capital value can only be realised when an employee leaves the company or can convince the Trust that there is an emergency situation. A final factor increasing rewards is the increased opportunity for employees to apply to management level functions within the company. The increase in training activities has been an important factor in this increased engagement at all levels.

Aside from internal inclusiveness, an IB also has linkages with its immediate environment. The stronger these linkages, the more impact a business can have on regional development. Bosman Family Vineyards has two main activities: vine and wine production. Linkages with other parts of the economy occur through consumption and production linkages. Consumption linkages occur through local spending of wages earned at the farm. Production linkages occur through local purchases of inputs and machinery, and by providing vines and wine to local markets.

The farm employs over 260 permanent workers. In times of peak labour demand, they employ temporary staff from Wellington, the nearest town. Most permanent workers live on the farm. As few workers own their own transport and the only public transport is the school bus to Wellington, it is likely most wages are spent locally.

Vines are developed and grown on the farm, and because of the specialised nature of their production offer little scope for sourcing from other sectors. Almost all vines are sold to wine producers in South Africa. Being located in the heart of the wine region, most of these wine estates are in relative close proximity. Wines are sold both locally and internationally.

A.2.5 Outcomes

Before starting the project, each of the stakeholders had clear expectations. The company expected increased employee commitment and productivity, the workers expected increased

incomes, and the government expected successful employee empowerment. All interviewed parties indicated the outcomes of the project exceeded these initial expectations.

A.2.5.1 Company growth

The company has seen considerable growth since the start of the project. In 2008, the year in which the project started, company revenues were R26 million. By 2012, these revenues had more than tripled to R85 million. Integrating the ESS with their long-term growth strategy allowed the company to constructively re-invest the LRAD funded equity injection into their business. A large share of the funds was allocated to developing their wine production capacity.

Fast growth enabled consistent dividend pay-outs. In the run-up to the project, care had been taken to create realistic expectations regarding the size of the dividends. Employees were told that it could be many years before the first dividends would be paid out and the size might be limited. In fact, in the first year of the project the company made a substantial dividend pay-out, even though the funds could have been used for additional investment. These above-expectation pay-outs increased the confidence of the employees in the potential of the project.

A.2.5.2 Employee involvement

Employees are actively included at different management levels in the company. Whenever a position opens up, employees are given an opportunity to fill the position. Whereas 20 years ago all employees were general staff, now several have joined management positions. Education of employees and their families is encouraged. Each year several scholarships are given to promising students to pursue tertiary education. After obtaining their degree they are encouraged to apply for work within the company. There are now several children of employees occupying administrative positions at company headquarters. These increased opportunities for both employees and their families might have an even stronger effect on employee satisfaction than the dividend pay-outs. As one employee remarked: "we are all family here".

Not only do employees grow through promotions, they also start taking more responsibility for their work without being promoted. Even though the company has almost tripled in size since the start of the project, field management staff has not been increased. In fact, two farm

managers who left the company in the last two years have not been replaced because the farm workforce is able to work independently.

A.2.5.3 Certification

In 2009, Bosman Family Vineyards obtained Fair Trade accreditation for all their wines. Currently as much as 70% of all their wine is sold under the Fair Trade label, with the majority going to the United Kingdom. For every bottle of wine sold, a fixed sum is transferred to the Adama Foundation Trust, which is registered as Public Benefit Organisation (PBO). Over the four years the company has been certified, this fund has received about R2.5 million in Fair Trade premiums and an additional R3 million of voluntary contributions. One of the funded projects is the construction and operation of a day care centre for children of the employees. Funds have also been used for trainings and organising transport. All employees, with and without shares, benefit from these premiums.

Talks are underway with the government to make benefits that are currently available to all companies in the wine sector restricted to B-BBEE-certified companies. These benefits include tax reductions and preferential access to the European export market. Companies can attain B-BBEE certification if they score high enough on including previously disadvantaged people in the fields of ownership, management, employment equity, skills development, preferential procurement, enterprise development and socio-economic development. Bosman Family Vineyards is already fully certified, such that if the planned changes to the preferential treatment for certified companies are implemented, the company will be able to benefit from these regulations.

A.2.6 Success factors

Employee equity share schemes have proven difficult to implement, with a number of issues recurring (Fast, 1999). Bosman Family Vineyards has been able to successfully tackle some of these. Firstly, an ESS that is formed through a split of a going concern often shows a high level of dependency on the main farm from which it is split. As such, the assets acquired by the Adama Appolo Trust were essentially non-viable to the extent that the ESS would not have been able to operate independently of the main Bosman farm. However, through the goodwill of the Bosman Family Vineyard owners and the setting of reasonable renting rates for equipment, the Adama Appolo Trust was able to operate efficiently from inception.

Secondly, a lack of real decision-making authority side lines the employees in the ESS. In the case of Bosman Family Vineyards, employee involvement in the ESS was clear from the very beginning. Although the process was initiated by the farm owner, the employees were fully informed about the plan and asked explicitly for their permission before the actual proposal was submitted. Furthermore, extensive training on finances and management was given to ensure employees understood the full implication of the scheme. Finally, after having completed the trainings, the employees were involved in drafting the business plan through consultations with an external consultant.

The inequality which is often inherent in an employer-employee relationship was definitely present at the company, although it might have been less severe than in some other cases. There were already several community projects active even before the end of apartheid. The knowledge gap was likely lower than on average. Several schooling initiatives had been implemented on the farm, and talented children were encouraged to develop. Moreover, the extensive training helped overcome part of the gap in management-specific knowledge. The power inequality was also reduced through the engaged leadership of some employees, who took responsibility and maintained open communication between management and other employees.

Thirdly, additional income from the ESS has often been very disappointing. Bosman Family Vineyards made sure that employee incomes were maintained at least at their pre-ESS levels. All wages and bonus payments were continued as usual at both the company and the ESS farms. Furthermore, dividends have been paid out every single year since the very start of the scheme.

A.2.7 Issues

One issue that might affect the long-term success of the ESS at Bosman Family Vineyards is the future of share ownership. Although the participation of new employees is ensured by issuing type-B shares, no new type-A shares are issued. Therefore, over time the capital base of the ownership will erode. It is not yet clear how this will affect the share in the profit of the workers trust. There are two alternatives. The first option is to reduce the equity share of the trust in the overall company with every capital payment to an employee beneficiary. However, the number of people who have a right to share in company profit increases with

every new issue of type-B shares. Therefore, over time, the profit per share will fall until the last capital payment on type-A shares takes place, at which point dividends will be zero. The alternative solution is to maintain the initial 26% equity stake as the percentage of profits the holders of type-A and type-B shares have rights to. However, in that case there is no underlying equity justifying this profit distribution. Currently this issue is not salient, because very few type-A shares have been paid out. Over time, however, as more type-A shareholders retire and claim their capital pay-out, this problem could jeopardise the survival of the employee equity share scheme.

A.2.8 Sustainability and scalability

A necessary pre-condition for scaling any IB is that the model is successful in delivering both commercial and social returns. Both conditions are met by the ESS at Bosman Family Vineyards. In the five years since its inception, company revenues have more than tripled, and this success can at least be partly attributed to the equity scheme. Social returns have also been substantial, as expressed in increased incomes, increased participation of employees in management functions and reductions in staff turnover. Through funds generated by Fair Trade certification, there is also an increase in social activities and quality of life, for example through the acquisition of a school bus.

Due to the structure of the ESS business model, scalability can only be increased by growing the business or replicating the business model in other organisations. Business growth over the last few years has been considerable, but this has not yet had a large impact on the number of people the company employs. If current growth rates are sustained, over time it should create new employment opportunities. The success of the expansion of the business model depends crucially on the sustained demand for company products, especially in the wine business, and the availability of land suitable for vineyards. For the foreseeable future, the business model is unlikely to require structural changes to sustain growth.

A more promising expansion of the business model is replication by other companies. These companies do not need to be in the vine or wine business in order for the model to work, and therefore do not necessarily pose a threat to Bosman Family Vineyards. Although ESS support was officially discontinued by government in 2008, discussions regarding farmworker equity remain (R. Hall & du Toit, 2014). Without government grants, it is

extremely unlikely that farmers will decide to hand over a large share in their company to their employees. Bosman Family Vineyards does illustrate however that ESS can be a successful tool for farmworker empowerment, albeit the wider experience with these schemes has not been altogether positive (R. Hall, 2007).

A.2.9 Conclusion

Bosman Family Vineyards has successfully implemented a transition in farm ownership that empowers the farm workers. Government grants to fund this ownership transfer was effectively used to grow the business, which enabled the company to benefit both the traditional farm owners and the farm workers. A long history of cooperation between the Bosman family and the workers enabled an environment of trust which was essential to build and develop this IB. Similar to the Blue Mountain Berries case, a crucial factor to the success of Bosman Family Vineyards was the genuine wish to empower the farm workers. As such, this IB demonstrates the possibilities for transformation of the agricultural sector and provides valuable lessons for future equity schemes envisaged under the new Strengthening Relative Rights of People Working the Land policy.

A.3 GXULU BERRIES

The Amathole Municipality, located in the Eastern Cape province, 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.

A.3.1 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.

A.3.2 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.

A.3.2.1 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,[14] 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.[15] 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.

[14] Census 2011 available at http://census2011.adrianfrith.com/place/273068
[15] A pre-season offtake agreement has been signed between the village cooperative and the commercial partner, determining the price to be paid at harvest.

A.3.2.2 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 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,[16] 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.

[16] 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.

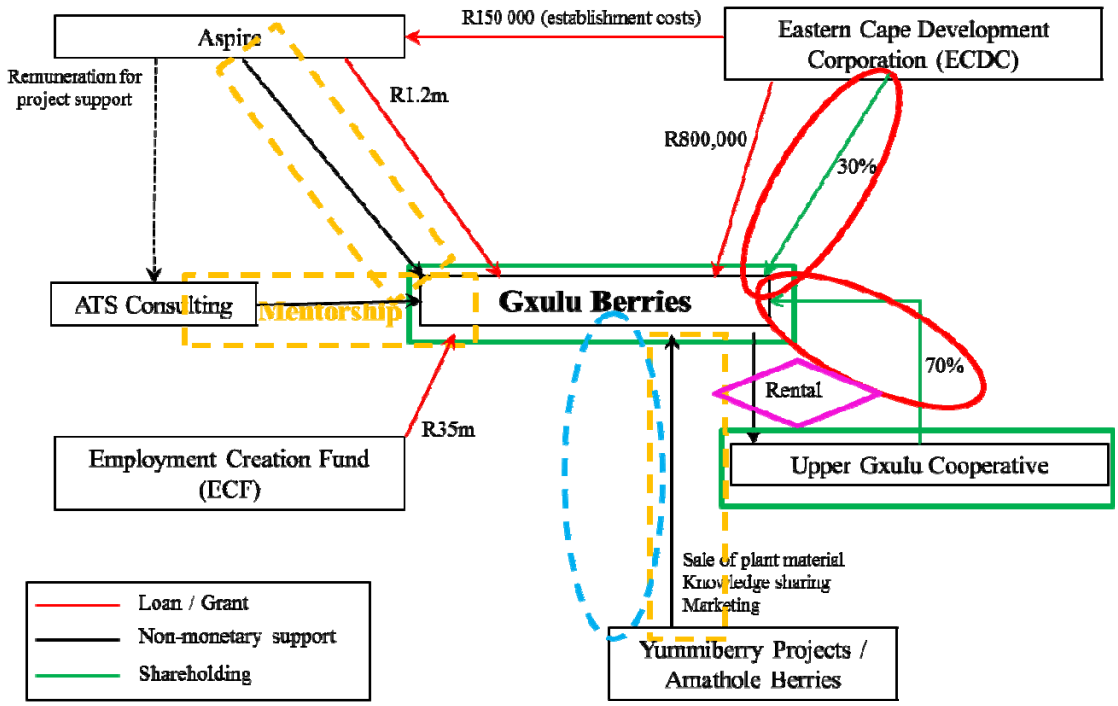

Figure A.7: Institutional set-up and financial support structure Gxulu Berries

Source: Author

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 A.7 summarises the stakeholders and their responsibilities.

A.3.3 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 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 paperwork 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.

A.3.3.1 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.

A.3.3.2 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.

A.3.3.3 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.

A.3.4 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 landowner, 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.

A.3.5 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.

A.3.6 Issues

A.3.6.1 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.

A.3.6.2 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.[17] 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 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

[17] 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.

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.

A.3.7 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.

A.3.8 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,[18] 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.

A.3.9 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

[18] 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.

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.

A.4 KATMAKOEP BOERDERY

The South African government has set out to redistribute 30% of agricultural land to HDP. 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, Swanepoel, Nesamvuni, Nyamande-Pitso, & Stroebel, 2004). HDP often lack the means and skills to purchase land and equipment and manage their own farms.

This case study looks 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.

A.4.1 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 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 case study description. 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 area 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 offtaker 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.

A.4.2 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 offtake for the produce from the farm.

A.4.2.1 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 offtake 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.

A.4.2.2 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.

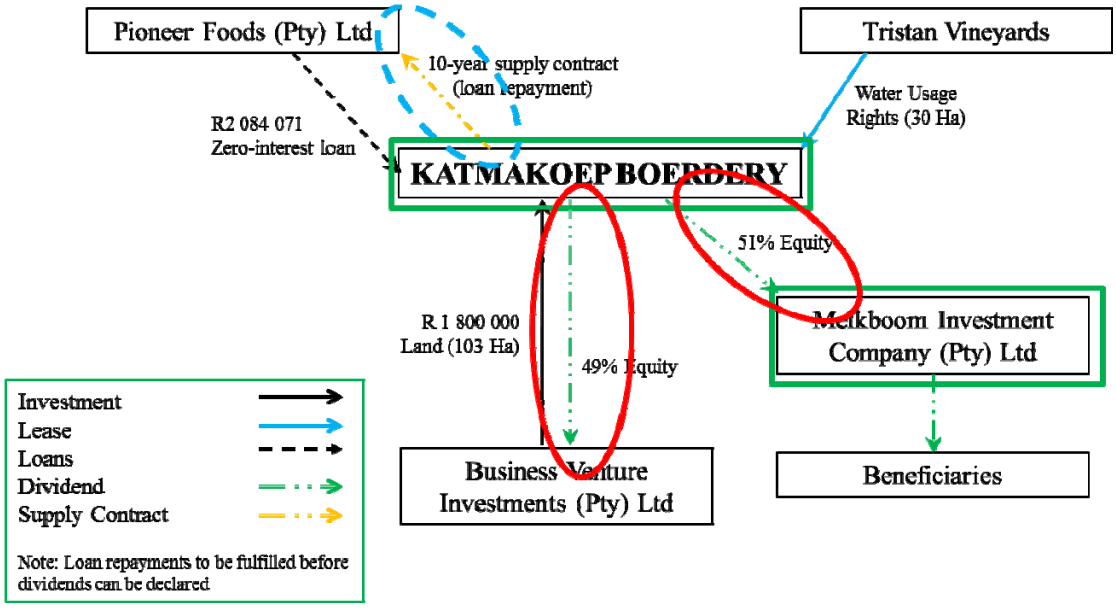

Figure A.8: **Institutional and financial structure Katmakoep Boerdery**

Source: *Author*

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 A.8). 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 A.8). 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.

A.4.3 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.

A.4.3.1 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.

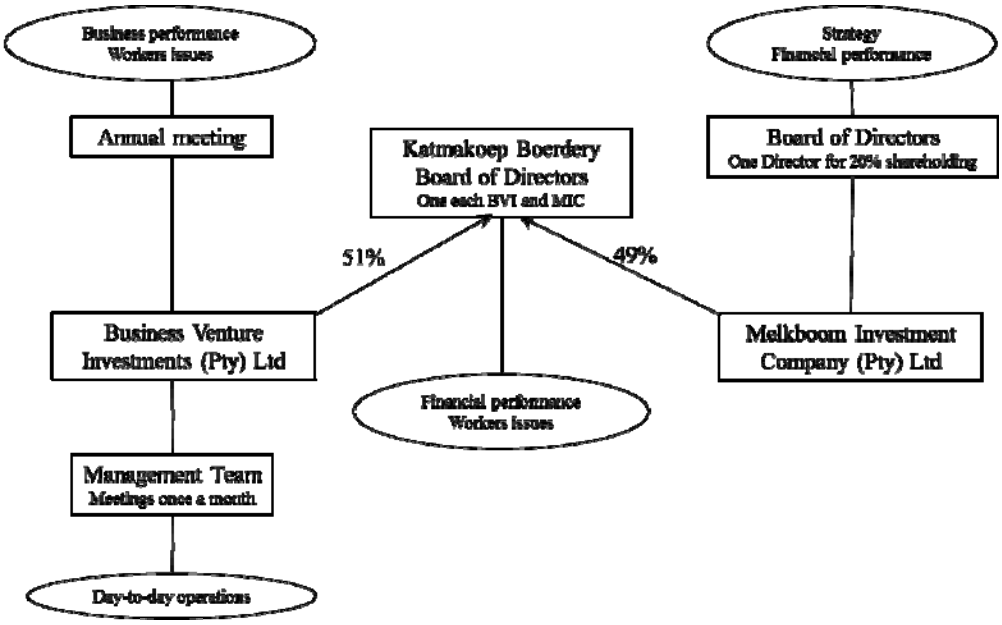

Figure A.9: **Functional framework Katmakoep Boerdery**

Source: *Author*

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.

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 A.9 illustrates the functioning of Katmakoep and of its two shareholders.

A.4.3.2 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.

A.4.3.3 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 8,500 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.

A.4.4 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 offtaker 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 A.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 offtake 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.

Table A.1: Expected viability Katmakoep Boerdery (per annum)

Average yield	24.73 tonnes/ha
Average income per tonne	R3,495
Expected cost per ha	R86,432
Average cost per ha	R33,139
Provision for replacement	R11,632
Net profit per ha	R41,674
Project profit at 18 ha	**R750,132**

Source: Author

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.

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 AgriBEE scheme. The instruments of equity and contract are hence interlinked in this particular case.

A.4.5 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 B-BBEE 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.

A.4.6 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 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 B-BBEE 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 AgriBEE 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 B-BBEE 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 B-BBEE 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.

A.4.7 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.

A.4.8 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.

A.4.9 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.

A.5 MONDI PAPER

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 case study looks into the first claim the division worked on, located in the area of Kranskop.

This case description 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 (Table 1.3, p. 27).

A.5.1 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, 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[19]) 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 CPI +2%, and re-assessed every five years, and adjusted accordingly. The stumpage fee is also paid into the claimants' community trust account,

[19] Not all the land under the land claim is forested. Some land is used for sugarcane, 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.

giving the communities the power to decide how the funds are used (Makhathini, 2010). Table A.2 summarises the annual payments received from both rental and stumpage fees since the commencement in April 2009.

Table A.2: Rental and stumpage fees received by community trusts from Mondi, 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	326,500
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 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.

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 A.10 illustrates the stakeholders and the institutional structure of the Kranskop project.

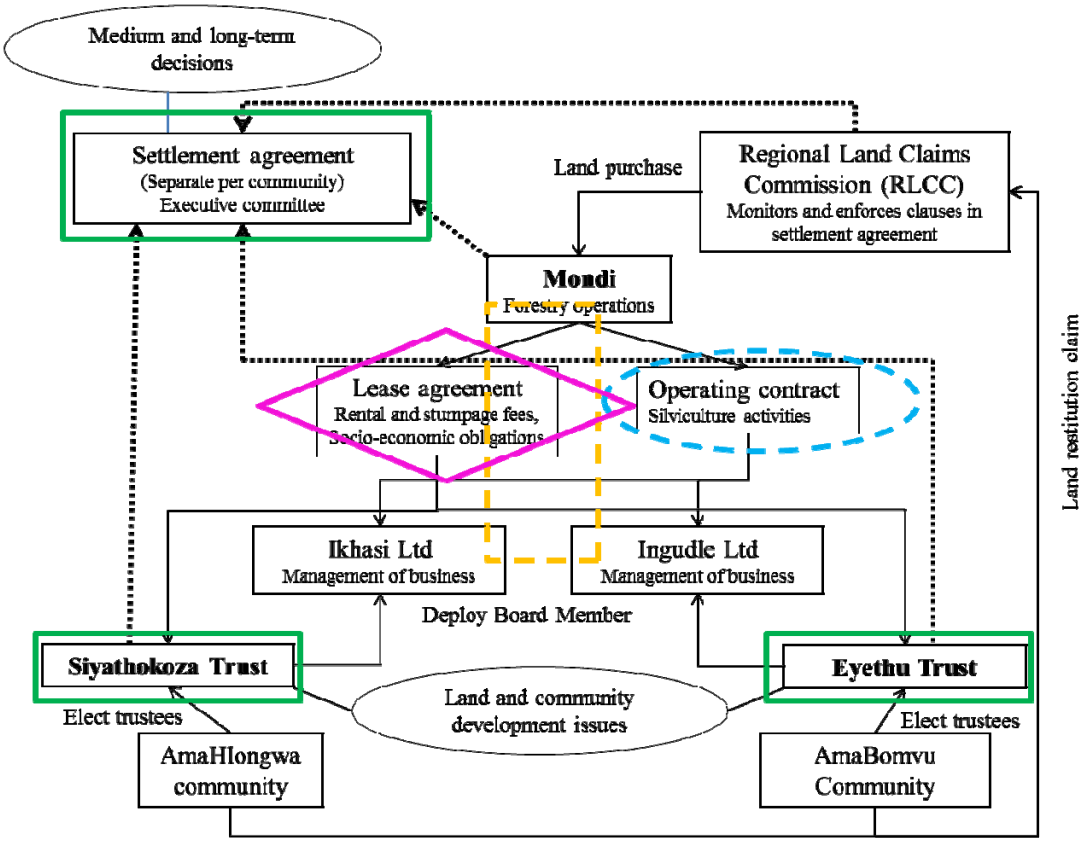

Figure A.10: Institutional set-up Mondi and Kranskop communities

Source: Author

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,[20] 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

[20] The Mondi bursary scheme does not allow for resitting of terms

the sugarcane 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.

A.5.2 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).

A.5.2.1 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 offtaker 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[21] 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

[21] The government has finalised lists of the beneficiaries per claimant community and has gazetted these.

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.[22]

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.

A.5.2.2 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.

[22] 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 A.11 summarises the financial structure of the Kranskop agreement.

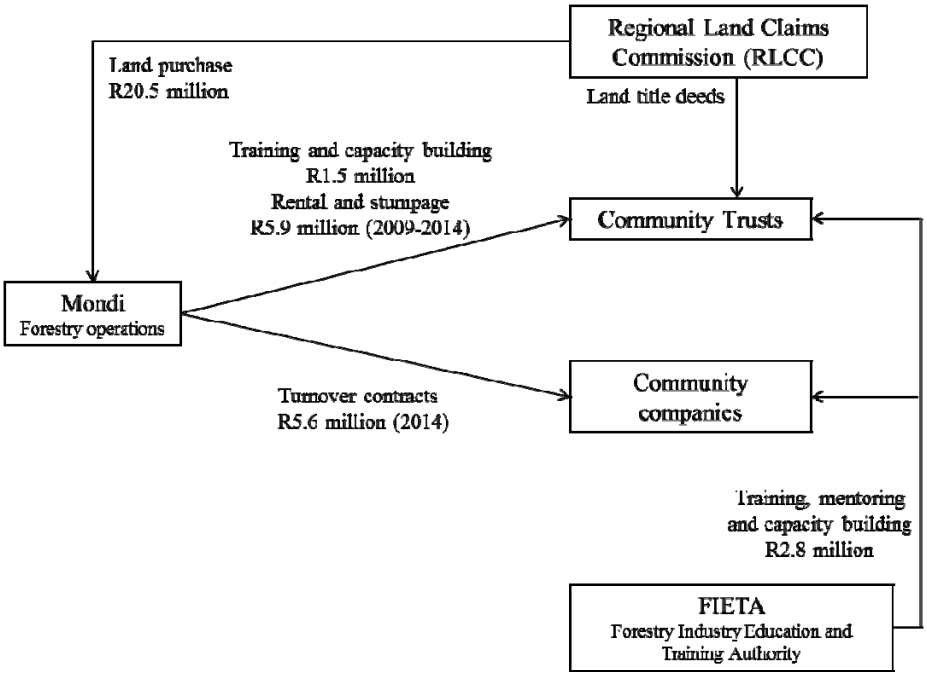

Figure A.11: Financial structure Mondi and Kranskop communities

Source: Author

A.5.3 Implementation

A.5.3.1 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.

A.5.3.2 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.

A.5.3.3 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 sugarcane 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.

A.5.4 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 sugarcane, 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.

A.5.5 Issues

A.5.5.1 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, pp. 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, p. 32) and has been able to roll out its sale-and-leaseback model to different land claim projects.

A.5.5.2 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.

A.5.6 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, pp. 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.

A.5.7 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, p. 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, p. 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.

A.5.8 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.

A.6 MPHIWE SIYALIMA

This particular case study will look deeper into such a new landowner 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.

A.6.1 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 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.

A.6.2 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.

A.6.2.1 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.

A.6.2.2 Support

Numerous stakeholders have provided (financial) support in order to establish the farming activities of Mphiwe Siyalima. This is schematically illustrated in Figure A.12.

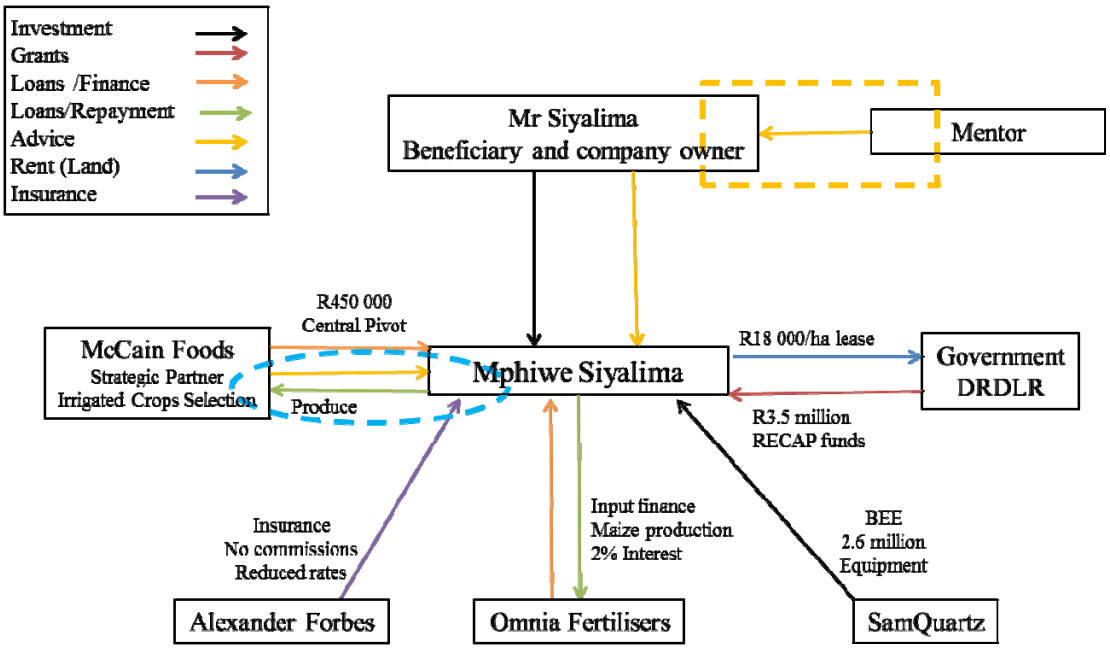

Figure A.12: Institutional set-up and financial support Mphiwe Siyalima

Source: Author

McCain Foods

McCain Foods SA (Pty) Ltd is the key offtake 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.

A.6.3 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.

A.6.3.1 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.

A.6.3.2 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.

A.6.3.3 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.

A.6.3.4 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.[23] 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. 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.

A.6.4 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, p. 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

[23] 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.

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, it must be considered 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. It is also 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.

A.6.5 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.

A.6.5.1 Common issues

All instruments described in existing literature have their own challenges, opportunities and degrees of inclusivity. In reality, what is seen 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, Lahiff, & Sjaastad, 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 offtaker 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, 2013). 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 Mphiwe 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.

A.6.5.2 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.

A.6.5.3 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.

A.6.6 Success factors

In sum, Mphiwe Siyalima can be considered 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 offtaker.

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, the establishment of co-management and mentorship with McCain can be considered as another success factor. 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.

A.6.7 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, it can be inferred 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, 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 must be taken into account. These aspects 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.

A.6.8 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.

A.7 NEW DAWN

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, 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 Estate 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 section A.8.

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 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 case study description 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 information in this case study description 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.

A.7.1 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 section, 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.

Table A.3: Overview key characteristics per MCPA joint venture 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% SFM 49%	MCPA 50% Boyes Group 50%	MCPA 52% Chestnet group 48%
Irrigate area (ha)	1,000 ha	500 ha	Information lacking
Productions IB (ha)	600 ha mango, 126 ha citrus and a further 270 ha under development (160 ha 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 on Scotia and Eden farms. These uses fall outside of the IB arrangements of New Dawn, Dinaledi and Batau. 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 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 (households)	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
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 (33.5 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 (33.5 million spread over the three partnerships)	Land and water use rights (33.5 million spread over the three partnerships)

Source: *Author*

All three enterprises mainly produce tropical fruit, including citrus and mango (Table A.3). The majority of the produce is exported through the marketing operations of the strategic partners to the European Union, Russia and other overseas markets.

Each of 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.

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.

A.7.2 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 (Figure A.13), 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.

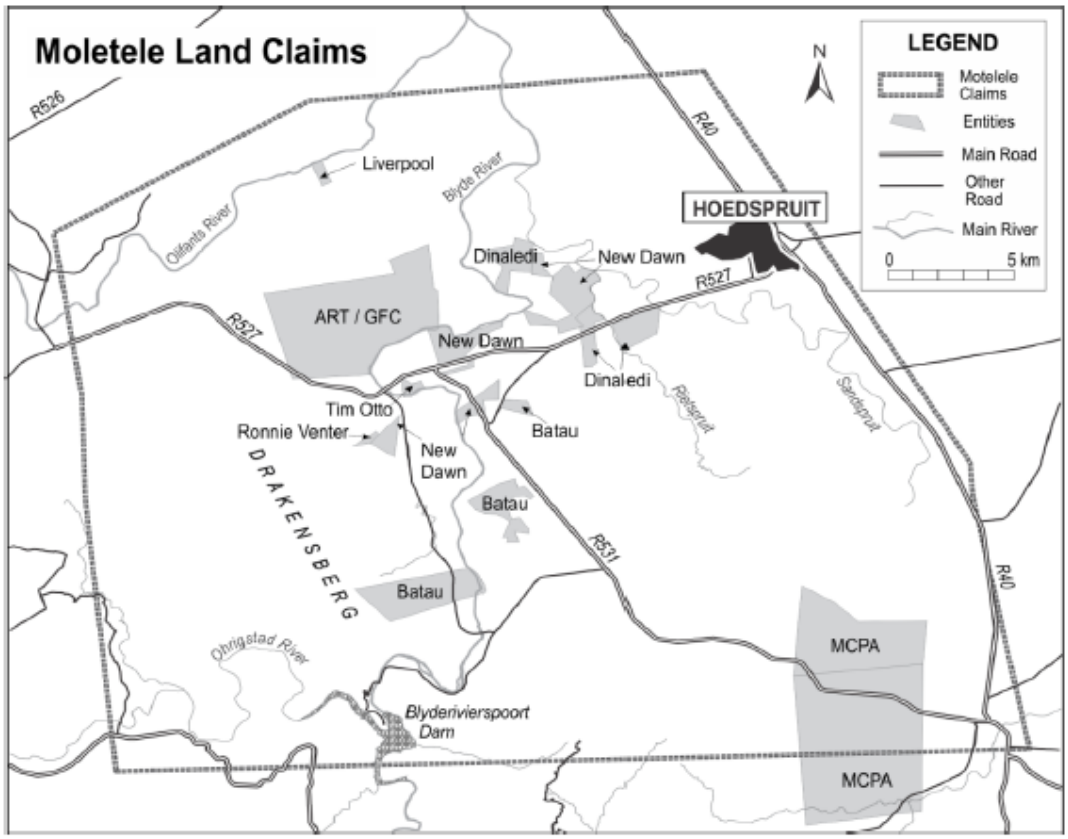

Figure A.13: **Map depicting consolidated farming units of the Moletele partnerships**

Source: *Map produced by Ingrid Booysen, Cartography Unit, University of Pretoria, 2011*

To facilitate the implementation of the strategic partnerships, the Maruleng and Bushbuckridge Economic Development Initiative (MABEDI),[24] 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, 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 A.13). 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 section A.8), while they opted to use subsequent land transfers, such as the Scotia, Eden, and Liverpool farms, for grazing purposes.

The MCPA 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

[24] Since 2011, MABEDI has been re-instituted and is currently operating as the Vumelana Advisory Fund.

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.

A.7.2.1 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.

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.

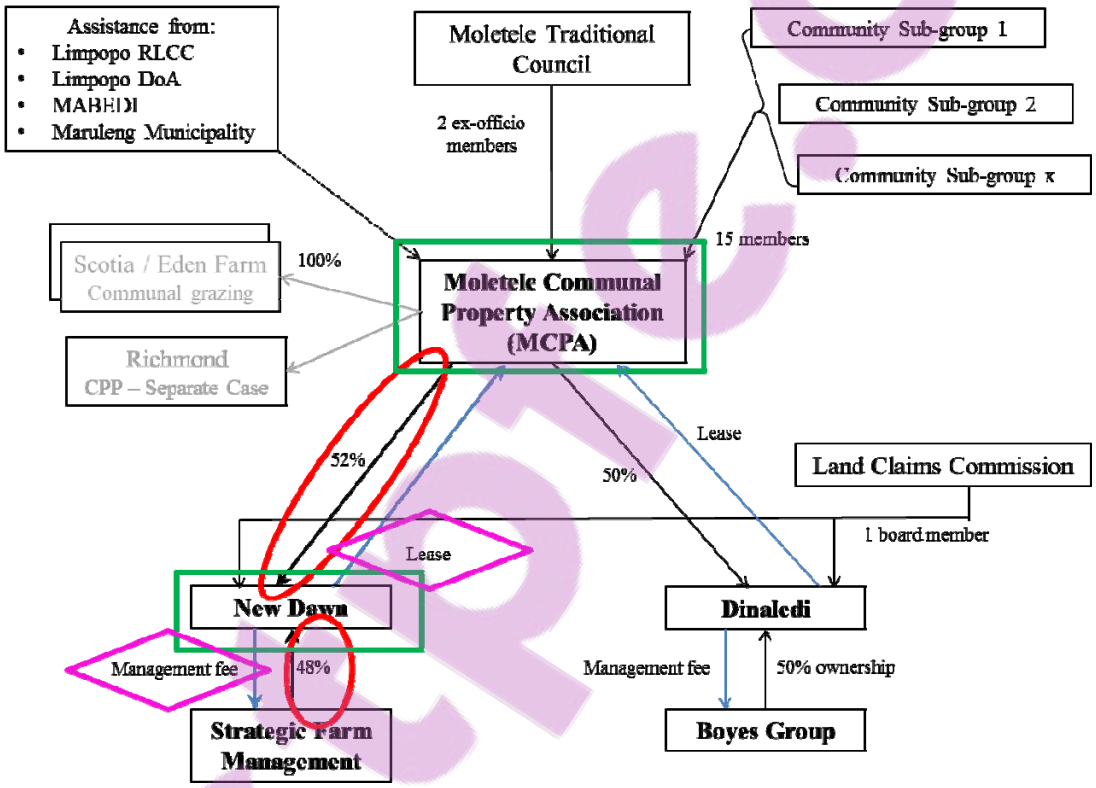

Figure A.14: **Organisational and management structure Moletele CPA joint ventures**

Source: *Author*

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 Regional Land Claims Commission (RLCC) and the Limpopo Department of Agriculture (DoA) 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, and verifying the legitimate beneficiaries (MCPA, 2008). The DoA is represented on the board of directors to monitor the progress of the partnership (Figure A.14).

A.7.2.2 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).

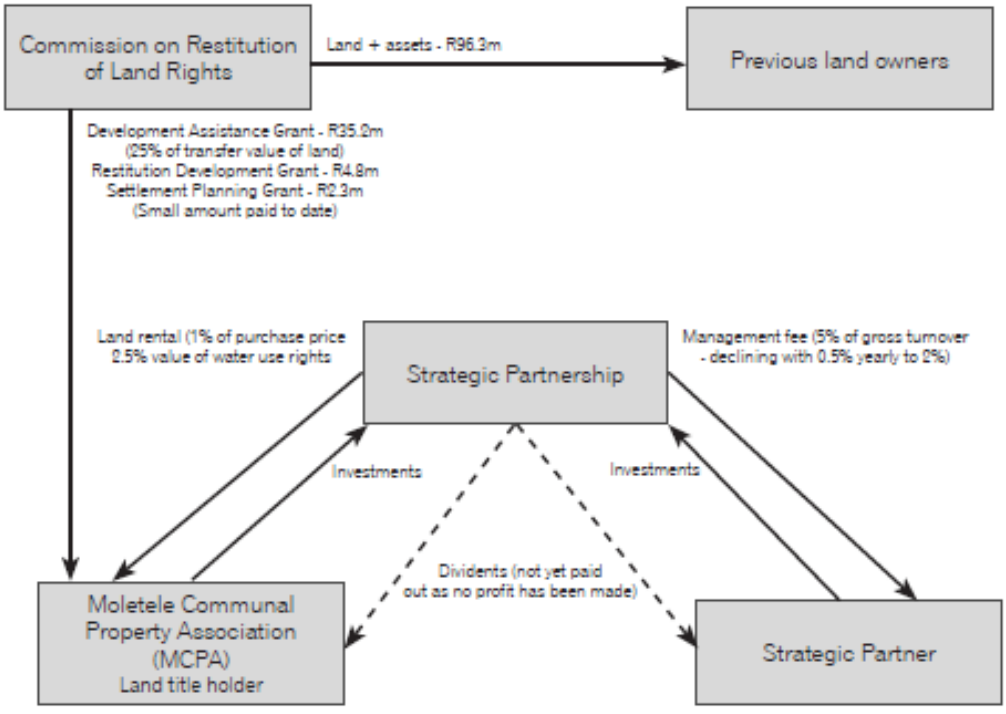

Figure A.15: **Financial structure MCPA joint ventures combined**

Source: *Author*

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 A.15 presents an overview of the financial structure of the partnerships.

A.7.3 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.

A.7.3.1 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 DoA (Figure A.14). 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 (AGMs) 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.

A.7.3.2 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 A.4). 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 A.4: Employment by MCPA membership (April 2014, all MCPA-owned farms)

Category	MCPA	Non-MCPA	Non-South African	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	5	0	23
Seasonal labour	421	130	0	551
Sub-total	**432**	**166**	**0**	**598**
TOTAL	**581**	**642**	**60**	**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.

A.7.3.3 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 A.4).

A.7.3.4 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.

A.7.4 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 DoA 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 look 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 DTI, to improve the packhouse, and renew parts of the irrigation and production infrastructure. Nevertheless, the position of the MCPA is still 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 A.4, 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.

A.7.5 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 DoA, to monitor and regulate the contractual agreements between the parties (Davis, 2014; Lahiff et al., 2012; Spierenburg, Cousins, Bos, & Ntsholo, 2012). These issues remain, even six years after the agreements were signed, putting the sustainability of this model into question.

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. 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.

A.7.6 Issues

A.7.6.1 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, 2015). 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 land ownership, 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.

A.7.6.2 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.

A.7.6.3 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.

A.7.7 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.

A.7.8 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 strategic 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.

A.7.9 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.

A.8 RICHMOND ESTATE

As described in section A.7, 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 A.7, and the community-private partnership (CPP) model which will be analysed in this case study description.

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. Information is based on a number of field visits made between 2010 and 2014 when all stakeholders were interviewed.

A.8.1 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 landowners 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 (Section A.7). 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.

A.8.2 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.

A.8.2.1 Actors and drivers

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 section A.7) and the continued struggles with the remaining two joint ventures, New Dawn and Dinaledi (see section A.7), 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 offtake 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 (Figure A.16)

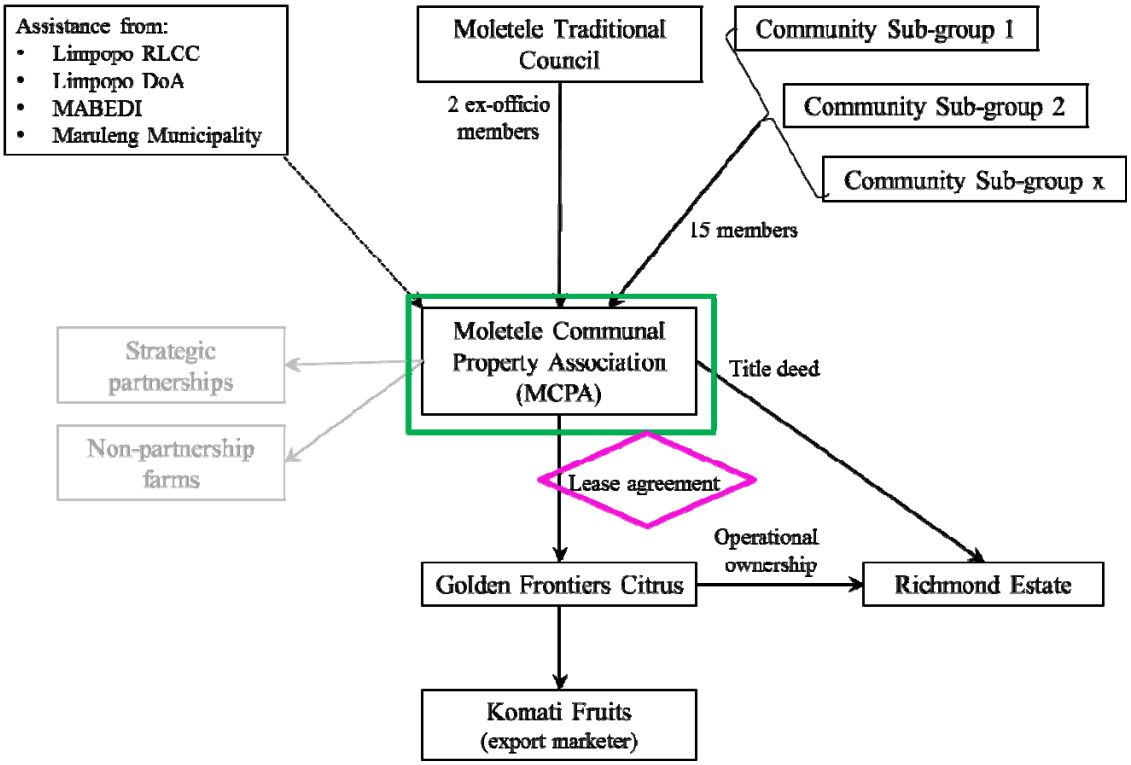

Figure A.16: **Institutional set-up Richmond Estate CPP**

Source: *Author*

A.8.2.2 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 (Figure A.17). It should be noted that these cash payments have been the only payments from the grants received by community members, to date.

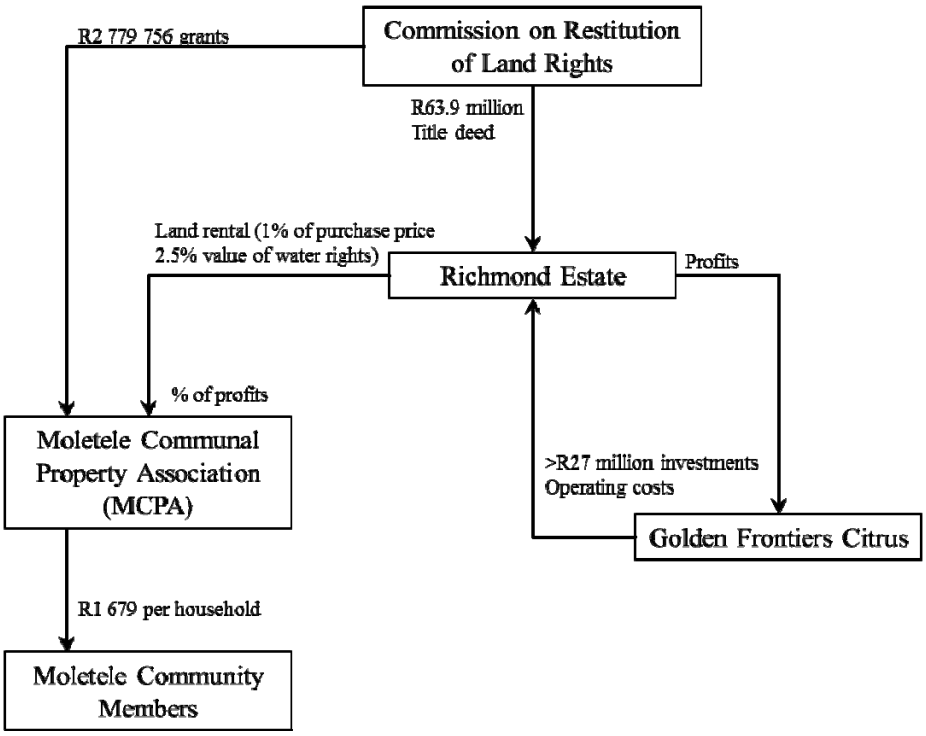

Figure A.17: Financial structure Richmond Estate

Source: Author

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, p. 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 Advisory Fund, n.d.).

A.8.3 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 sugarcane 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.

A.8.3.1 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 AGM 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.

A.8.3.2 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.

A.8.3.3 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.

A.8.4 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.

A.8.5 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 sugarcane 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.

A.8.6 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, p. 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 GFC representative. 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.

A.8.7 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.

A.8.8 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 (Cochet et al., 2015; R. Hall, 2004), and where agriculture is increasingly understood as being an emerging asset class (Ducastel & Anseeuw, 2017).

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 'Sugarcane 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 sugarcane 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 refers to this process as the "blackening of the land ownership structure" (R. Hall, 2004). 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.

A.9 SEVEN STARS TRUST

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 (DoA) to organise themselves into cooperatives along the lines of the old production units. These primary cooperatives together formed the Seven Stars[25] 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.

A.9.1 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[26] 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 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

[25] 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.

[26] 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.

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.

A.9.2 Inception

The Seven Stars Trust was established in 2009, after the Provincial DoA 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.

A.9.2.1 Actors and drivers

The overall structure of the Seven Stars Trust has multiple levels, as illustrated in Figure A.18. 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.

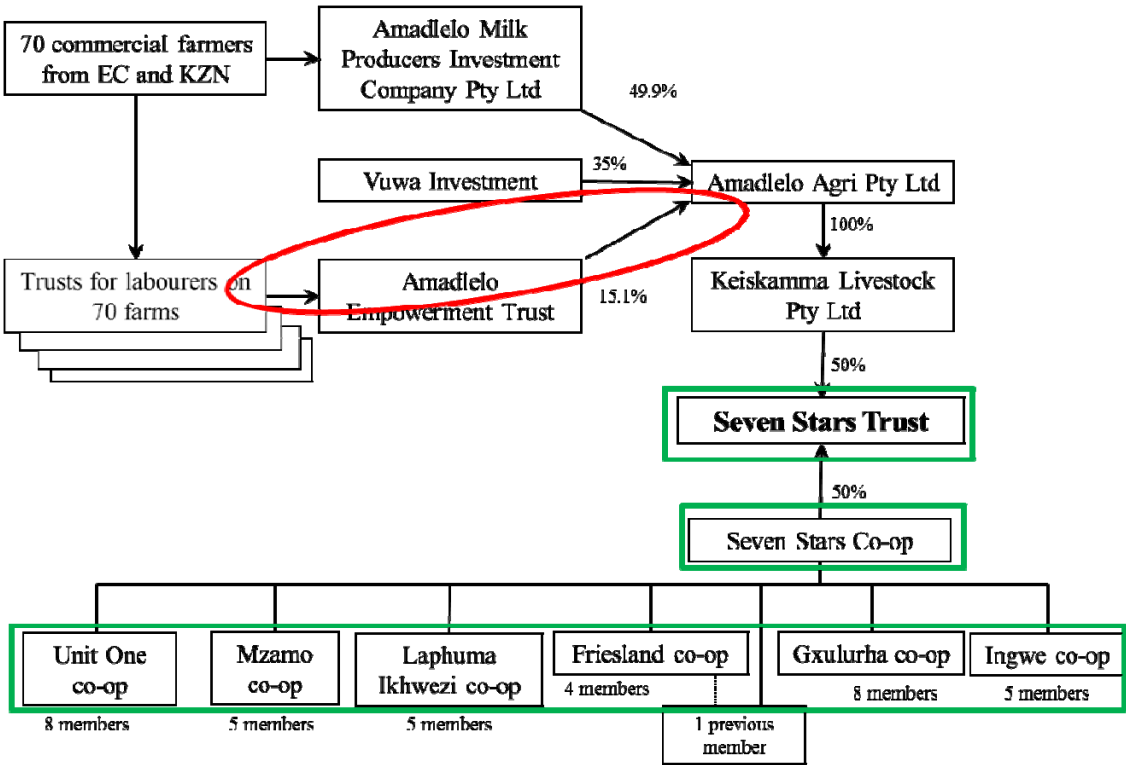

Figure A.18: **Institutional set-up Seven Stars Trust**

Source: *Author*

The establishment of primary and secondary cooperatives in the derelict irrigation schemes across the province was driven by the Provincial DoA. 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, n.d.). 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 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 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.

A.9.2.2 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 (Figure A.19).

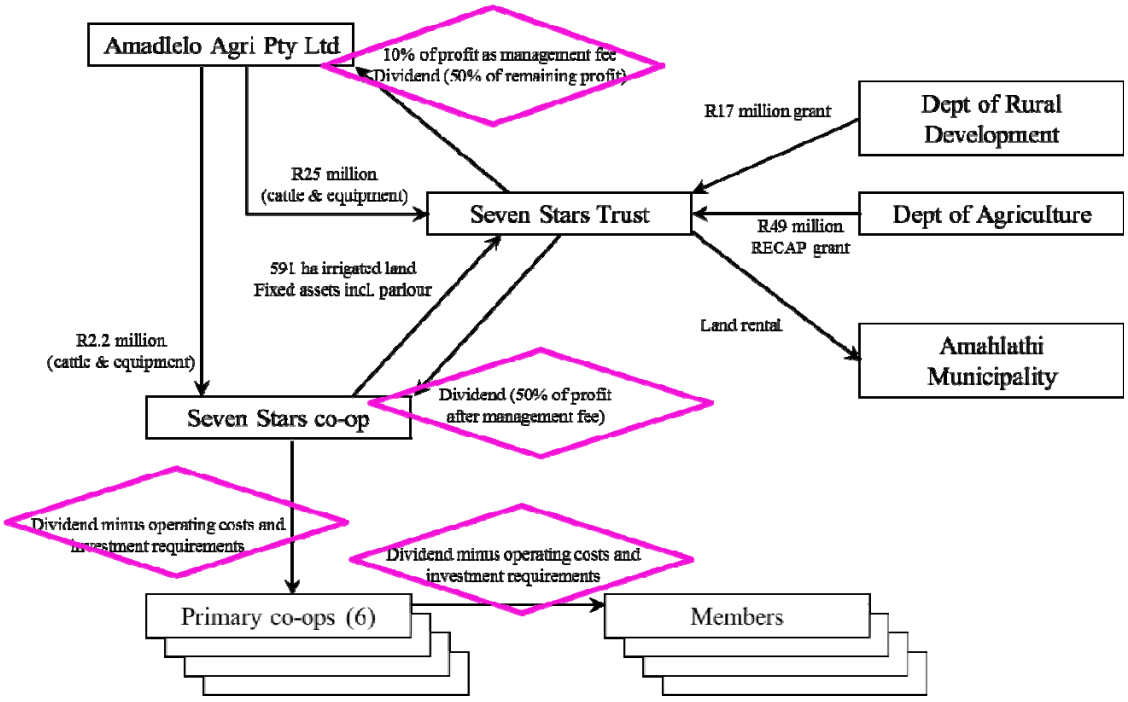

Figure A.19: Financial flows for Seven Stars Trust

Source: Author

Eastern Cape Department of Agriculture

Upon inception of the partnership between Seven Stars Co-op and Amadlelo Agri, the Provincial DoA 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.

A.9.3 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.

A.9.3.1 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 KwaZulu-Natal. Vuwa Investment has two members on the board of Amadlelo Agri and the Employee Trust also holds two board positions.

A.9.3.2 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.

A.9.4 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.

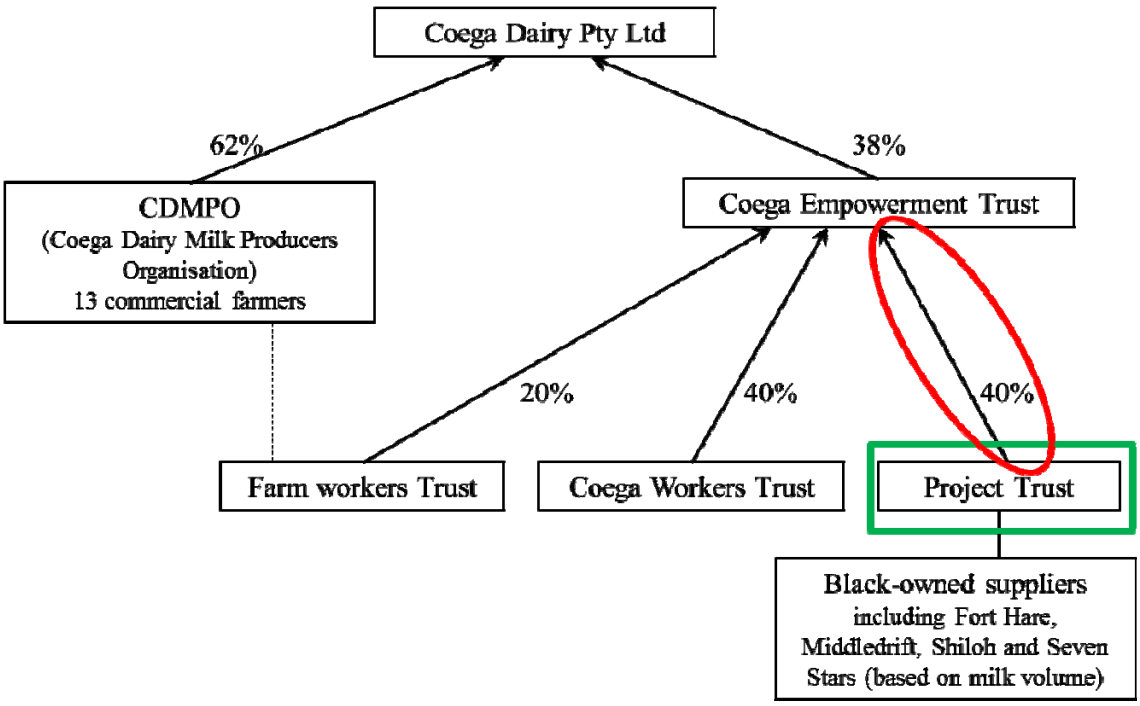

Figure A.20: **Coega Dairy shareholding structure**

Source: *Author*

A further reward accruing to the trust, and hence to both the landowners and the sharemilker, is equity share in Coega Dairy Pty Ltd, the buyer of the bulk of the milk produced by Seven Stars Trust. As illustrated in Figure A.20, 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. The 'Project Trust', which is an umbrella entity for black-owned suppliers, owns 40%. These suppliers include four dairy operations in which Amadlelo is a partner as well as 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.

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.

A.9.5 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.

A.9.6 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 land ownership 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.

A.9.7 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.

A.9.8 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.

A.9.9 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.

A.10 TECHNOSERVE – MASSMART

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, n.d.). The organisation has worked in more than 40 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 section will look into the collaboration between TechnoServe and Massmart as financial sponsor and offtaker of the vegetables produced under the programme, whereas the next section, A.11, will detail an alternative IB involving TechnoServe.

A.10.1 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 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.

A.10.2 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 available infrastructure, including suitable land and water. In other cases, farmers contacted TechnoServe requesting to join in the project.

A.10.2.1 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.

A.10.2.2 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).

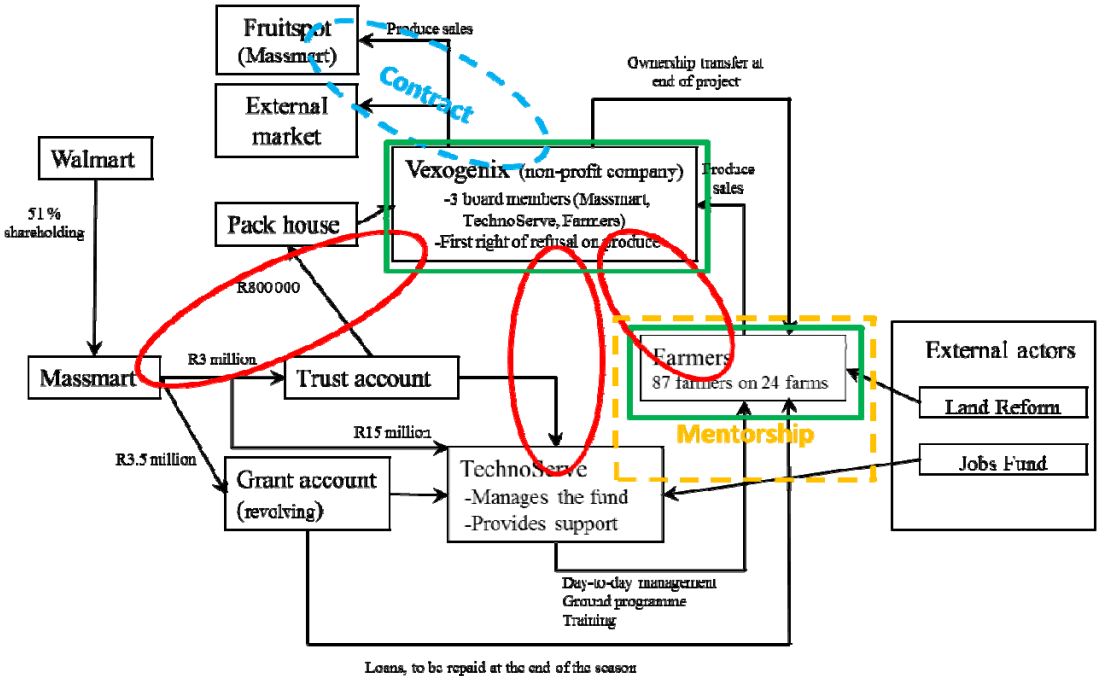

Figure A.21: Institutional set-up and financial support TechnoServe – Massmart

Source: Author

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" (The Jobs Fund, 2012), 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 A.21 summarises the stakeholders, their contributions and responsibilities, and the relationships between them.

A.10.3 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.

A.10.3.1 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.

A.10.3.2 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 A.22:

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.

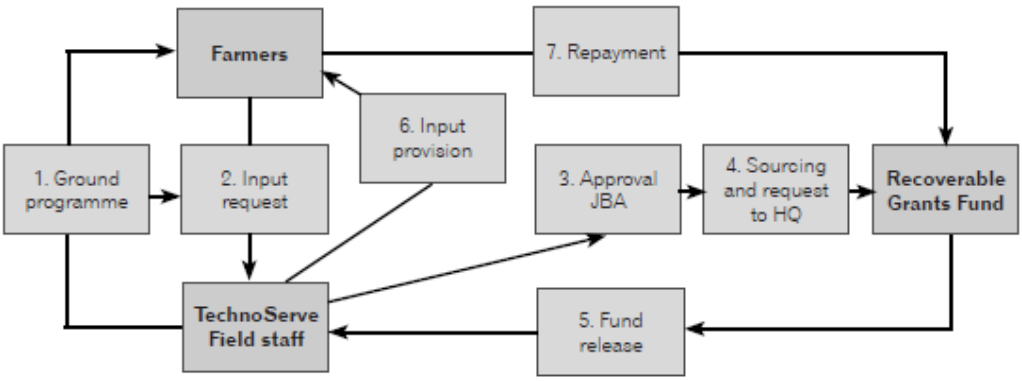

Figure A.22: Recoverable grants fund functioning

Source: Author

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.

A.10.3.3 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.

A.10.4 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 offtaker 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 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, in absence of access to commercial bank lending. 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 offtake 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.

A.10.5 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 offtaker. 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 higher debt level 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.

A.10.6 Issues[27]

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

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

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 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. 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.

A.10.7 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 offtake 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.

A.10.8 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.

A.10.9 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.

A.11 TECHNOSERVE – NWANEDI

As outlined in section A.10, TechnoServe is an NGO that actively mentors and supports smallholders in developing countries, to enable them to participate in commercial value chains. The organisation has been active in South Africa since 2003 and in 2014 was working with approximately 300 high-growth smallholder farmers across six programmes in six different provinces, focussing on agricultural value chain development, enterprise development and local economic development.

The models implemented by the NGO not only differ per country, but also take on diverse set-ups depending on the context in which the organisation operates. This and the previous case study descriptions serve to illustrate this variance, offering a detailed insight into the set-ups and operations of these IBs. Comparison between the Massmart and the Nwanedi cases, which is detailed in Chapter 2, underwrites the theoretical framework presented in Chapter 1.

A.11.1 Project description

Nwanedi is located in the northern part of the Limpopo province, around 60 km from the town Musina, which is close to the Zimbabwean border. Over a time span of 3 years, 50 individual farmers are mentored by TechnoServe. Since inception with 44 farmers, six farmers have been added to the programme. This mentorship includes technical assistance for the farmers in order to grow butternut, the management of loan facilities in order to obtain inputs (the farmers do not receive any inputs for free), as well as training in financial and marketing related topics. TechnoServe field staff visit the mentored farmers once or twice a week. Aside from the butternut activities, the vast majority of the mentored smallholders are engaged in a standard contract farming arrangement with a tomato processor. TechnoServe informally supports these tomato activities.

To ensure the success of the smallholders, TechnoServe is also responsible for the development of a marketing channel. As such, it has established offtake contracts for butternut with two wholesalers, Farmwise and Fruitspot. These contracts can be considered as an intermediate form of contract farming (Eaton & Shepherd, 2001) where TechnoServe acts as the intermediary between the offtaker and the smallholder farmers. The butternut wholesalers specify the quality and the quantity of produce required, but transfer the implementation of these contract specifics to TechnoServe. The NGO organises centralised collection of produce from the smallholders after which this produce is delivered directly to the offtaker. Informal sales, for butternut and other produce, occurs, for example to the local supermarket.

This project is sponsored by several Development Finance Institutes, amongst others the Women Development Bank (WDB) and Irish Aid. These funders provide TechnoServe with financial capital. TechnoServe firstly secures the (loan) financing, secondly disburses the loans to selected smallholders, and thirdly manages the funds on behalf of these farmers. These offtake contracts negotiated by the NGO serve as guarantees for the financial loan providers. No financial support is received from commercial agribusinesses in this IB.

Thus, this particular IB is largely made up of a range of contracts between TechnoServe and three financers, between TechnoServe and two offtakers, and between TechnoServe and the individual smallholders

A.11.2 Inception

TechnoServe was invited to the area in 2012 by Standard Bank, one of the leading commercial banks in South Africa. This bank had provided loans to 24 smallholders in the Nwanedi area but experienced a high default rate. Standard Bank attributed this lack of repayment to the inferior farming strategies implemented by the smallholders, preventing them from generating a sufficient income that would allow repayment. The intention of Standard Bank was to ask TechnoServe to assist the indebted farmers with their farming activities.

An initial assessment by TechnoServe, which included field visits to the smallholders involved, highlighted that the farmers failed to keep records of their farming activities, that they mixed up personal and farm-related funds, and that these smallholders failed to find a market for their produce. Together with the provincial Department of Agriculture (DoA), TechnoServe organised a meeting where smallholders could sign up for a mentorship contract with the NGO. The project started with 44 smallholders, including some of the 24 indebted to Standard Bank. Despite the key role Standard Bank played during the inception of this project, the bank is not a stakeholder in the IB.

A.11.2.1 Actors and drivers

TechnoServe is the main actor of this project. Since the activities required in the Nwanedi area aligned with its core objective, the NGO decided to get engaged in this IB. The organisation supports the selected farmers to improve their business and technical skills, as well as to create sustainable relationships with the financial services sector. To support the smallholders, the NGO engages a number of staff. First, there are the Business Advisors divided in three levels: Senior Business Advisors responsible for managing the projects in a geographical area, farmer selection and fund management. Secondly, there are Business Advisors and Junior Business Advisors who both implement the projects in the field, meet with the participating farmers on a regular basis and monitor their production. Thirdly, there is a Technical Specialist who is responsible for the development of country-wide cropping programmes that define the production process containing information on variables such as when to plant and which fertilizer to use. For the Nwanedi project, TS employs one Senior Business Advisor, two Business Advisors, one Junior Business Advisor, one business analyst and one staff member for administrative tasks. The business advisors work together with the

technical specialist regarding the basic programmes. Two of these are staff members are regularly in the area for the actual implementation of the project.

The selected farmers are the main stakeholders of this project. The majority of these farmers have an individual Permission to Occupy allocated by the local traditional authority. A few smallholders gained access to land through the land reform policies such as LRAD and PLAS. They are motivated to take part in the IB in order to enhance their farming and management skills to develop a sustainable farming business.

Farmwise and Fruitspot are the distributors that have entered into a supply contract with TechnoServe (Figure A.23). Each of the distributors focus on a specific butternut species, requiring two specific growing programmes to be drawn up by the NGO. The Farmwise contract is tied to the financing provided by Irish Aid (see section A.11.2.2).

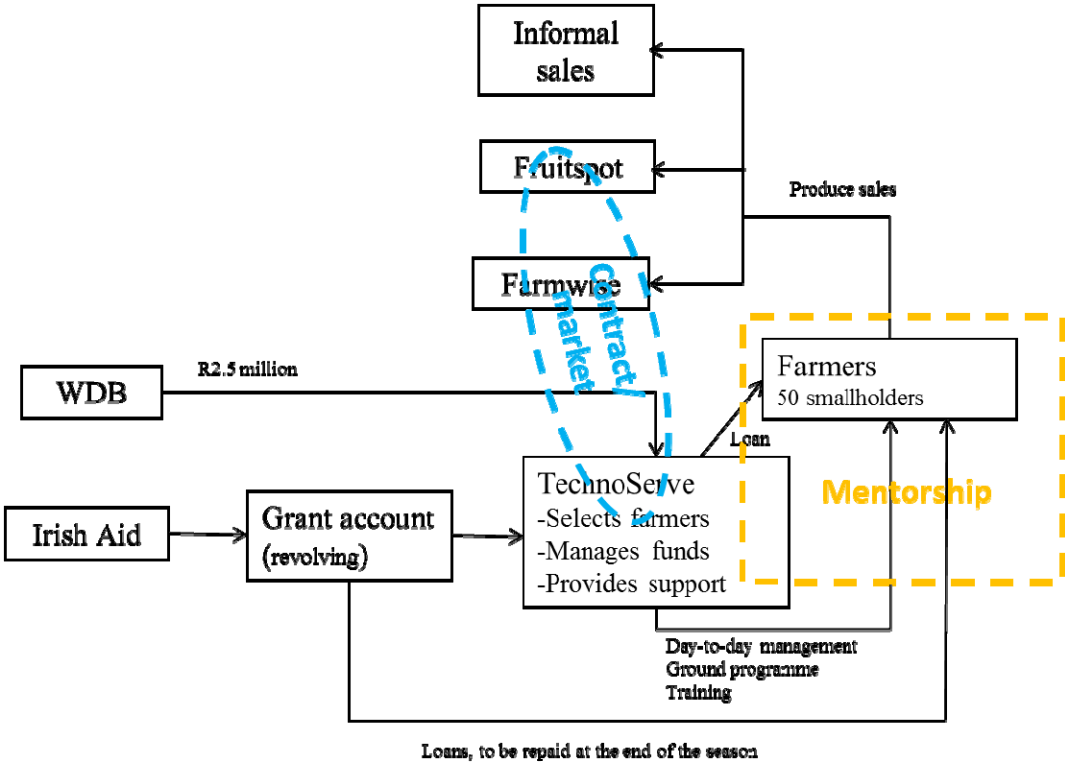

Figure A.23: **Institutional set-up TechnoServe Nwanedi**

Source: *Author*

Lastly, the provincial Department of Agriculture as well as another NGO provide training to the smallholder farmers in Nwanedi area. These trainings relate to farming skills, but also general farm management skills.

A.11.2.2 Financial support

Unlike the Massmart project described in section A.10, no commercial offtaker provides financial support. TechnoServe has successfully secured funding from two DFIs. This funding is not sufficient to assist all the mentored farmers. Only a few smallholders selected by TechnoServe receive loan financing, the other smallholders need to secure their own funding. No grants are provided in this particular IB.

The Women Development Business (WBD) Investment Holdings established a Trust in 1991 with the aim to support rural women enterprises and households by giving them access to credit and business skills. In 2014, the WBD provided TechnoServe with R1 million to be divided into five loans with a 14% annual interest fee for female farmers in the Nwanedi region. These smallholders sign a contract with WBD. One female smallholder received a R250,000 loan, three selected farmers were provided a R200,000 loan, with the remaining R150,000 loaned to another female farmer. Although the selected farmers are free to choose the crops they want to grow (butternut or otherwise), they need to adhere to the crop plan provided by TechnoServe. TechnoServe manages the finances for these farmers. Two of these farmers managed to pay back their loans within two months. In 2015, another five female farmers will be able to make use of these funds, which have been increased to R2,500,000 (Figure A.23). These loans have served as a stepping stone for the selected farmers to grow their farming businesses (Tau, 2015).

Irish Aid is the official agency for international development from the Government of Ireland. As such, it aims to reduce poverty, hunger and providing humanitarian aid, particularly in sub-Saharan Africa. Irish Aid provided financing to TechnoServe, which the NGO used to establish a revolving grant fund available to a small number of mentored smallholders. These funds are solely earmarked for the purchase of inputs for the production of the Pluto butternut variety supplied to Farmwise. The farmers do not have to pay interest over this funding.

A.11.3 Implementation

The implementation of this project has seen positive developments among the participating smallholders. Through the inclusion of butternut, the farmers have been able to increase their diversity of crops, with an alternative and guaranteed market. Several smallholders have been able to bring additional land under production to accommodate for this new crop. Especially those farmers selected for financial support have been able to increase both the quantity and quality of their produce. The relative success of the IB is reflected in the growth in number of participating farmers, from 44 at inception to 50 two years later.

A.11.3.1 Functioning: meetings and day-to-day operation

The partnerships between the smallholders, TechnoServe, the funders and the offtakers are of a rather loose character. This can be explained through the lack of dependencies between the stakeholders (see Chapter 2). Supply volumes from the Nwanedi smallholders to each of the offtakers is insignificant, as is the height of the loans provided. Vice versa, the income for the smallholders only partly relies on the butternut production, with the vast majority of the farmers also engaged in the growth of other crops, most notably tomatoes on a supply contract with Tiger Brands. Only a few formal meetings take place, focused on training of the farmers. In addition, the TechnoServe field staff make regular visits to the farmers to ascertain if the smallholders are performing according to the requirements and to assist with any issues faced by these smallholders.

Despite this loose character of the partnership, TechnoServe has a considerable influence on the operation of the farms which relates to butternut production. Firstly it determines the quantities to be produced by each of the participants, based on the overall supply contracts signed with the wholesalers. Secondly, it requires the smallholders to adhere to the cropping plan detailed by the NGO, outlining details such as how much fertiliser to apply and when. Thirdly, for those smallholders which receive loan financing, it manages the financial flows and purchases inputs required from these funds. The non-funded farmers also have to go through TechnoServe for seeds and other inputs which purchases these items in bulk. Finally, TechnoServe is the organisation that organises produce collection from the farm and delivery to the offtaker, also collecting the revenue from the sales before distributing it to the farmers. Nevertheless, farmers consider themselves as operating with a large degree of independence, mentioning that the TechnoServe staff visits only happen infrequently.

A.11.4 Inclusivity

As with the other case studies, this section will analyse the value sharing activities according to the four dimensions proposed by Vermeulen and Cotula (2010), namely ownership, voice, risk and rewards. It also shortly discusses the linkages with the local community.

The vast majority of the smallholders in the Nwanedi area have access to land through a PtO, assigned by the local traditional authority. Two CPAs exist in the area from whom individual farmers can lease land. In both situations, the farmers don't have private ownership rights over the land, severely limiting the option to use their land as collateral. The farmers however don't feel threatened in their access to land. The low levels of income have had a negative impact on their ability to purchase moveable assets such as machinery or even a pick-up truck to transport their produce. Private contractors are generally hired when needed. Lastly, most of the produce within the IB also does not belong to the smallholders. Butternut is produced on a pre-agreed supply contract with one of the two wholesalers. Furthermore, the tomatoes that are grown by the majority of the farmers are equally grown on a supply contract, with Tiger Brands. Only other vegetables, such as beans, spinach and peppers belong to the farmers.

The agreement with TechnoServe does limit the farmers in their say as to what happens on their farms. Since most of their crops are grown on a supply contract, the conditions for growing these crops are rather strict, and the marketing channels and prices are fixed. But, the smallholders can decide overall how much land to cultivate overall (depending on circumstances such as availability of land and water) and what to plant on any land not dedicated to the contracted crops. For these crops, they are free to choose their own production plan and marketing channel. Furthermore, the contracts are of a short duration, with the TechnoServe mentorship agreement lasting three years. This provides them with full decision-making power over their own farm for the mid- to long-term.

Participating farmers remark that through the TechnoServe partnership, their risks have reduced, particularly because market access is guaranteed. In this particular set-up, the farmers are still fully exposed to operational and price risks though. For example, bad weather can destroy their crops and no support is available to the smallholders to soften the impact of such occurrences. The trainings provided by TechnoServe do mitigate some of the

risks. Disease detection and prevention have increased for example. The absence of strong communal organisations and traditional authorities, and the option for every willing smallholder to opt in to the project minimise the risks related to the internal and external community.

The rewards that accrue to the smallholders lie mostly in improved access to market. Indeed, this seems to be the most important driver for the participating farmers. Furthermore, knowledge on record keeping, farm management but also crop-related knowledge has increased through the partnership with TechnoServe. It needs to be noted that other organisations, notably the DoA and another NGO are equally engaging the smallholders in training projects. Although the overall financial gains are relatively low in absolute terms, the increase in land under production for a crop with guaranteed market access, combined with improved production processes, have had a positive effect on the income levels of the smallholders.

Regarding the local linkages, this IB mostly contributes to provision of crops to the local supermarket as well as to some school feeding projects. As such, it has enabled the local population better access to fresh vegetables. The fast majority of the produce however is destined for the domestic market. Even the non-contracted produce is mostly delivered to the fresh produce market in Johannesburg, a 6-hour drive from Nwanedi. Inputs are dictated by TechnoServe, which procures these in bulk on behalf of the smallholders, from suppliers outside the area. Tomato farmers are equally supplied with inputs by the offtaker. The local farmers cooperative store is likely to have increased sales for goods required for the non-contracted crops as well as other general merchandise through an overall increase in disposable income of the smallholders. Employment effects of the IB are limited as butternut is a fairly labour extensive crop and the beneficiaries mostly operate their own family farms with low usage of external farm workers.

A.11.5 Outcomes

From the previous sections, it can be concluded that the outcomes of this IB are mostly positive. Land under production has increased for most of the participating farmers. They have been able to diversify their income streams. A guaranteed market, combined with technical (and for some financial) support, have given these smallholders the confidence to

enter into the production of a new crop. Although the income effects have been small, it still has enabled a number of beneficiaries to invest in assets such as a car for transporting produce.

The material gains have been equalled by the non-material gains. Smallholders have been introduced to record keeping methods and have gained in financial management knowledge. This understanding can be applied by the beneficiaries to their overall farming operation and will benefit them for a long period of time. Exposure to alternative, commercial value chains has grown their confidence as farmers who now realise they are capable of supplying this market, albeit still with the well-known challenges such as lack of financing. Although the partnership with TechnoServe has since come to an end, smallholder support in the area continues with DoA operating an information centre for training and employing a number of extension officers in the area. ZZ2, a large commercial tomato producer, has recognised the potential for tomato production by the smallholder farmers and supports the set-up and operation of the Nwanedi New Farmers cooperative (Swiegers, 2016).

A.11.6 Issues

Issues specifically related to the IB evolve mostly around extra-contractual sales of butternut, especially when the price offered by local hawkers is higher than the price set in the contract with the wholesaler. Sales at the farm gate also result in direct cash-in-hand for the farmer, whereas sales through the contract goes via TechnoServe, and thus a delay in income. The farmers also lack an understanding in the price setting between TechnoServe and the wholesalers, and subsequently between TechnoServe and themselves. Extra-contractual sales are only an issue where the smallholder engaged in this activity has been provided with loan financing that needs to be repaid. Overall, side-selling has not jeopardised the project.

Larger issues are not IB specific, but rather relate to the smallholders in general, whether supported by TechnoServe or not. As such, most of the participating smallholders have limited to no access to irrigated land. Irrigation infrastructure is simply unaffordable for the majority of small-scale farmers within the project and the wider Nwanedi area. This problem is aggravated by a lack of access to finance, which continues to be a challenge for the Nwanedi smallholders. Whereas TechnoServe has been able to relieve these challenges, it hasn’t been able to overcome these issues altogether.

A.11.7 Success factors

This IB is a fairly simple set-up with very short communication lines between the mentor and the individual beneficiaries. This allows for a higher transparency in the activities of both the key actors. Furthermore, the IB offered an opportunity to the smallholders that didn't demand a financial contribution (although the majority of the farmers still has to provide their own inputs) or to compromise existing activities. Rather it was an opportunity in addition to their established farming operation. The small scale of the project, focused on a low-value crop, without any large capital outlay by any of the stakeholders, contained the expectations of all actors involved.

The presence of a second NGO, and the activities and facilities of the DoA in the area provided additional impetus for the knowledge development, in addition to the trainings and field support provided by TechnoServe. The well-established tomato production chain ensured that experienced (although not necessarily well-trained) smallholders were easily found and an open space for butternut packaging and loading was available. As such, the IB formed part of a wider and more holistic smallholder environment.

A.11.8 Sustainability and scalability

The TechnoServe managed project in Nwanedi has a time period of three years. After these three years, the smallholders will have to continue without the NGO's support. With the termination of the TechnoServe activities, the funding from the WDB and Irish Aid will mostly likely dry up, as will the guaranteed offtake through Farmwise and Fruitspot. TechnoServe enabled channelling of information, funding and administration through a central point. The funders and the offtakers are unlikely to be willing to deal with the smallholders directly, whereas the administrative burden on the smallholders will equally be detrimental. Nevertheless, the smallholders have been able to gain experience in the production of butternut, which they are still able to sell through the more traditional channels available to them: local hawkers or the fresh produce markets in Gauteng province. Furthermore, they are able to continuously implement the wider farm management and financial knowledge into their farm operation.

The simplicity of the project, without large project-specific capital outlay, makes this project easy to replicate across the country. The TechnoServe in this particular case is paid out of the

government operated Jobs Fund (see A.10.2.2). Limited loan amounts from DFIs are the other financial contribution. However, the simplicity also sets limitations to the scale of the project. The short communication lines are key to this IB. Interposing collective organisations of smallholders enables many more farmers to participate in such a mentor-based IB, also increasing its attractiveness to potential offtakers looking for large produce quantities. But, as illustrated by the TechnoServe-Massmart case in section A.10, the added complexity creates its own risks and challenges.

A.11.9 Conclusion

A lack of loan repayments by smallholder farmers to a commercial bank initiated this project. Thus, the core of this IB lies in mentoring, including on financial management, individual smallholders. With a minimum of funds, the beneficiaries were able to engage in a diversification of their farming activities with guaranteed market access. Although the partnership only covered a three-year period, the farmers have been exposed to a new value chain and have gained experience that can be applied to their overall farming activities. The existence of a wider agricultural platform, including DoA facilities and staff and commercial tomato offtakers, ensure that these farmers can continue to operate after the mentorship programme terminates.

But, despite the support the smallholders have received over the three years, the core of their issues remain. A lack of financial resources and access to credit prevents them from overcoming challenges related to the purchase of seeds, fertiliser and other inputs. They are also not able to invest in irrigation infrastructure or productive machinery to increase their productivity. Whereas the IB might allow them to climb up a step, they remain at the so-called bottom of the pyramid.

A.12 TONGAAT HULETT SUGAR – VUSELELA

A.12.1 Introduction

This case study report focuses on the first of two models implemented by sugar producer Tongaat Hulett Sugar (THS), a division of Tongaat Hulett, in the province of KwaZulu-Natal (KZN). The Vuselela model precedes the Simamisa (see next section A.13). The context in which the cases operate are similar. This section describes this context in the form the

specifics of sugar production and characteristics of the overall sugar sector, which are also relevant for the Simamisa model.

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 (THS, 2014). It is the 14th largest employer of companies listed on the Johannesburg Stock Exchange (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,[28] 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 is administered by the Ingonayma Trust Board (ITB). Well over 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. All cane is supplied to THS operated sugar mills throughout the KwaZulu-Natal province, located along the east coast between Tongaat in the south, and Richards Bay in the north.

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,

[28] 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.

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.

A.12.1.1 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, depend on the sugar industry for a living (SASA, n.d.). 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, n.d.).

According to the South African Sugar Association (SASA), in the 2015/16 season, sugar was grown by approximately 21,889 registered sugarcane growers, of which 1,327 were large-scale commercial farmers and 20,562 were small-scale growers. Around 20 million tonnes of sugarcane were produced; 81.5% by large-scale growers, and 10.3% by small-scale growers. The remaining 8.2% was grown on sugar estates owned by milling companies (SASA, 2016).

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)[29] 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.

A.12.1.2 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

[29] 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).

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.

A.12.2 Project description

THS established the Vuselela model in 2009 and has been rolled out mainly around the Maidstone mill in the south. The projects was implemented 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[30] with the cooperative. The cooperative in turn, has a 10-year supply agreement with THS (Figure A.24). The sugarcane roots, an asset for a period of 10 years, are owned by the cooperative and are partially paid for by the KZN provincial government (see section A.12.3). 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

[30] 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.

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.

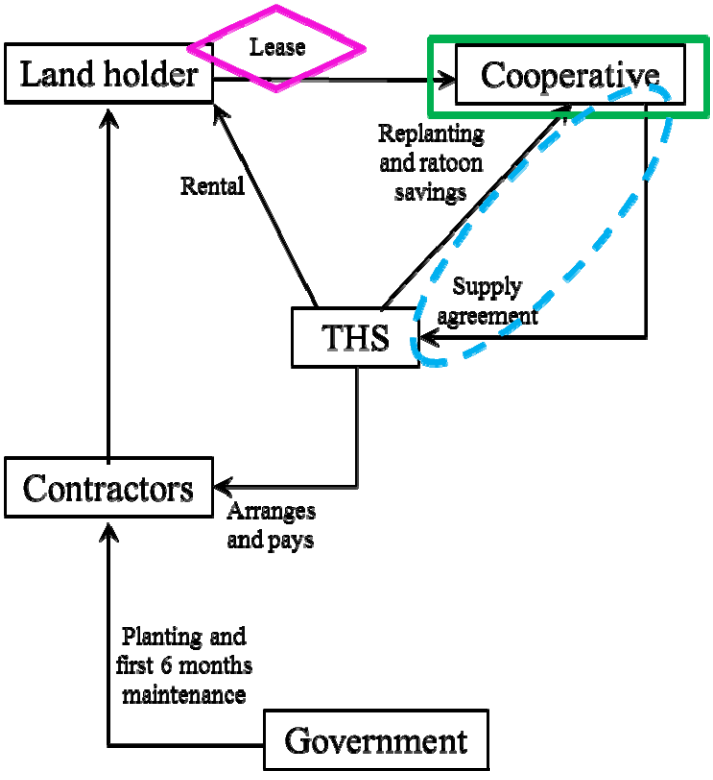

Figure A.24: **Institutional set-up THS – Vuselela model**

Source: *Author*

The cooperative receives rental income which is calculated as 10% of gross proceeds[31] 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 for ratoon maintenance, directly into this savings account.[32] 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

[31] 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.
[32] In 2013 the amount set aside for ratoon maintenance was R130/tonne and included costs for fertiliser and herbicides as well as labour.

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.

A.12.3 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 offtake 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.[33] 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.

A.12.3.1 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-operating 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

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

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 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.

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.

A.12.3.2 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 3,700 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 A.25).

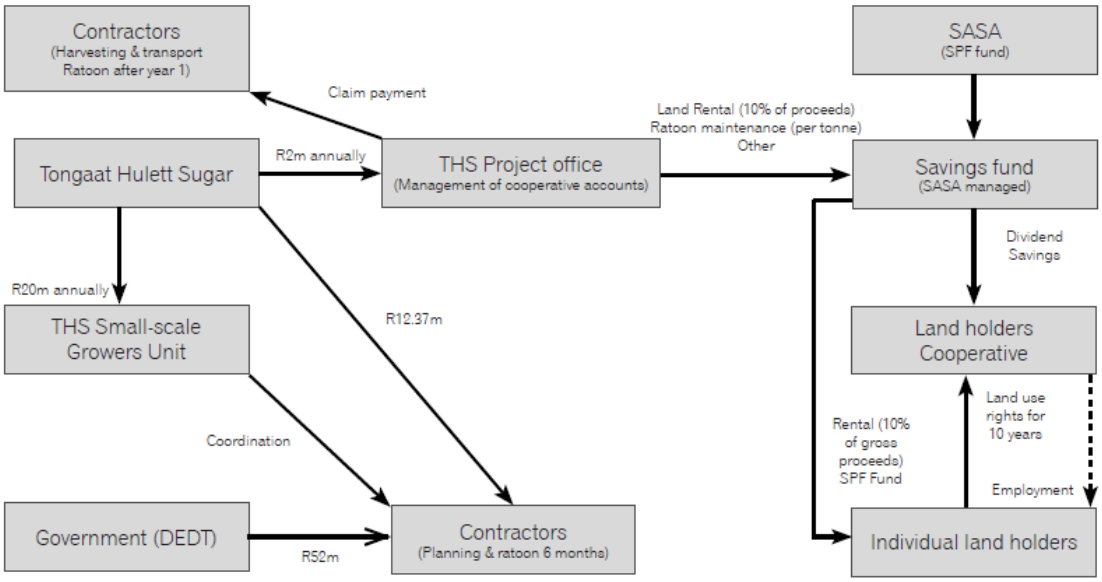

Figure A.25: Financial structure THS – Vuselela model

Source: Author

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.

A.12.4 Implementation and outcome

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.

A.12.4.1 Functioning: committees and meetings

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.

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.

A.12.5 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.

The output market for sugarcane 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.

To assess the degree of inclusivity of the smallholders in the Vuselela project, and thus their empowerment, the four criteria suggested by Vermeulen and Cotula (2010) are used: 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. None of the cooperatives own any equipment. Through the lease construction, THS has full ownership of the sugarcane 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. THS 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. THS is 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.

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 & 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 sugarcane fields.

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 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.

A.12.6 Issues

A.12.6.1 Challenges

This section lists the challenges encountered by THS when implementing the Vuselela model. These relate to the management of the cooperatives and the contractors.

Cooperatives

The initial planting of the sugarcane 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.

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 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.

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 considerable 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.

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.

A.12.6.2 Actions undertaken

The cooperatives are closely managed by THS. The company organises cooperative meetings and sends representatives to inform all the beneficiaries on the status of the crop, planned activities, any issues, and expected payments. During these meetings, THS continually educates the members on their roles and responsibilities as cooperative members, and as to what they can expect for the near future. THS also attends cooperative executive meetings, during which schedules are formulated for the following months. Through the presence of THS 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 THS to keep tight control over the cooperatives.

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.

A.12.6.3 Unaddressed issues

Looking towards the future, it is not certain how the model will perform after the first 10-year cycle is finished. 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.

Another question which needs to be answered in the next few years, is that of payment to members wanting to leave the 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 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. Regarding health and safety, 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. Owing to the lack of skills at the cooperative level, these cooperatives are not in a position to assist THS in the coordination of the activities of the contractors on their fields.

A.12.7 Increasing inclusivity

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.

While the Vuselela cooperatives have some responsibility through their ownership of the cane roots and the availability of the saving accounts, in practice, the model has not empowered the cooperatives to become self-standing bodies which are able to manage their internal affairs. In effect, THS runs the cooperatives and makes 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.

Because of the involvement of the government, emphasis is given to the inclusion of women in sugarcane production. This is an aspect 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. Women are furthermore included as landholders.

A.12.8 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. 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 by the cooperatives, 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).

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.

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.

A.13 TONGAAT HULETT SUGAR – SIMAMISA

The Simamisa model was implemented a few years after the inception of the Vuselela project (Section A.12), but is largely build on the same principles: sugar production on land with fragmented ownership. There are however significant differences, particularly in the funding and management aspects. Tongaat Hulett Sugar has also been able to learn from the

experiences with the Vuselela model and has therefore made certain changes to improve on the concept.

A.13.1 Project description

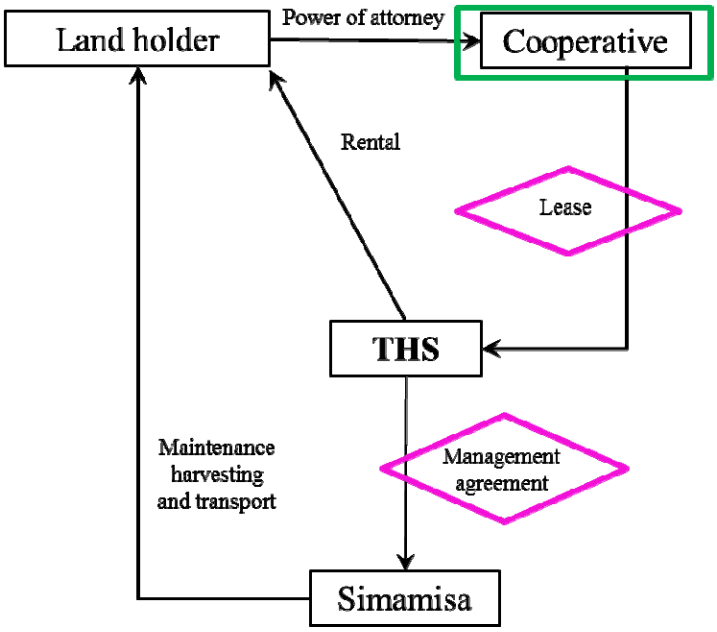

Figure A.26: Institutional set-up THS – Simamisa model

Source: Author

Similar to the Vuselela model, the Simamisa model is also based on a cooperative of members with a PtO. Rather than a lease agreement, the individual members sign a power of attorney with the cooperative, allowing the cooperative to lease their land on their behalf to THS for a 10-year period (Figure A.26). As such, the lease is between THS and the cooperative, rather than between the landholder and the cooperative. In this model, no government funding was available for the purchase of the cane roots. Instead, THS supplies the roots and as a consequence maintains ownership over this asset for the 10-year lease period. THS then outsources the operation and management to a third party called Simamisa. Due to this construction the exposure of THS is higher than in the Vuselela project and this model is more focused on the efficient operation. As such, the company aims to plant the full area in one season, rather than spreading this over multiple years. The options available to individuals who wish to join after the initial setting up of the cooperative are hence 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 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. This model operates mainly in delivery zones of the Amatikulu and Felixton mill areas to the north of the KZN province.

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.

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 projects aim to create a total of 726 permanent, and over 6,000 seasonal jobs. When fully up and running, the land within both the projects 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.

A.13.2 Inception

The Simamisa model was implemented in 2012, three years after the Vuselela project was established. It continued with the aim set out by THS then, namely the increase of unproductive smallholder land under cane production. This section details the stakeholders involved and their drivers.

A.13.2.1 Actors and drivers

Tongaat Hulett Sugar

The sugar producer operates four sugar mills in the province. Supply from the traditional farmers (either large-, middle- and small-scale) is not sufficient to run these mills at capacity. Hence it was looking for an increase in supply. Considering the limited area from which cane can be sourced, the company looked at ways to bring unused land under the ITB into production. 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. Aside from advantages in planning, and operation, extension services could also be offered more efficiently. In order to reach this scale, land units would need to be grouped together into larger farming units, which could be managed more effectively. Thus,

for the Simamisa model, THS engaged the support of the ITB to set up cooperatives on land administered by this trust. Through the agreement[34] 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.

Small landholders

Land ownership around the sugar mills is largely administered by the ITB. Members under the traditional leadership have access to land under a Permission-to-Occupy. This gives user rights, but is not an individual title. This ownership structure cannot be used by the holder to obtain financial credit for example, making sugarcane farming challenging. Thus, large areas around the Amatikulu and Felixton mills are lying fallow. Opting in to the THS cooperative scheme provides the holders of the PtO over these lands to gain a source of income. Their land can become productive without physical exercise required. Although every interested smallholder can participate, the local chief has a deciding say in what land will be leased to THS. Particularly landholders whose land is located further away from any infrastructure can be excluded as it is not considered efficient to include them into the cooperative structure.

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.

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

A.13.2.2 Support

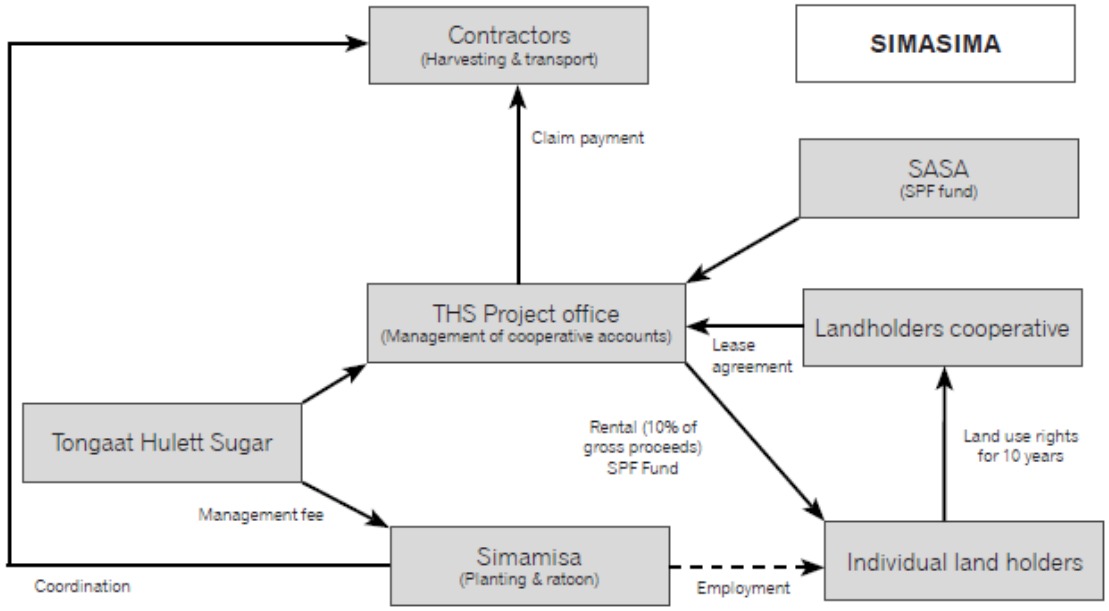

Figure A.27: Financial scheme THS – Simamisa model

Source: Author

This project is operated without government support, but is funded entirely funded by THS (Figure A.27). This includes costs for the sugarcane roots, all other inputs, planting, maintenance and harvesting activities. For the management of the cane field operations, THS engages Simamisa on a management contract for which Simamisa is paid a management fee. For the management of the payments to the landholders, THS uses the services of its Project office it had established a few years prior for the Vuselela project. As all small-scale producers, the members of the Simamisa cooperatives are supported financially by the industry body SASA.

A.13.3 Implementation and outcome

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 more centralised character of this model and 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. In the 2.5 years since the inception in 2012, around 6,700 ha of sugarcane has been planted, 81% more than the area planted in the Vuselela project. This was done on land owned by over 6,6000 landholders organised in 18 cooperatives. These cooperatives, supported in their establishment by the Tribal authorities, are much larger in size than the Vuselela collectives. THS does not have to go through a government tendering process, nor does it rely on local contractors, which are in short supply in the region, for the planting activities. This allowed for all land contributed by a cooperative to be planted in full in the first year, rather than the staggered planting adopted in the Vuselela project. Both the scale and the lack of government intervention seem to make the roll-out of the planting more efficient.

The efficiency of the Simamisa model is also reflected in the yields. 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 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.

A.13.3.1 Functioning: committees and meetings

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 cooperatives on planned activities. Simamisa and THS also meet regularly to discuss progress, budgets, and issues.

The cooperative members several times a year to discuss progress, issues, member (dis)satisfaction, and other topics related to the sugar production activities and cooperative management. These meetings are organised and attended by Simamisa staff. The finances and administration is in the hands of the THS project office which was created specifically for the small-scale grower projects. This office, which employs three staff, authorises the release of payment from SASA to the cooperatives and also to the individual cooperative members.

A.13.4 Inclusivity

Inclusivity in this study is assessed according to the four dimensions of ownership, voice, risk and reward. Also assessed is the impact on the wider environment through linkages with the community. These linkages are fairly limited in the Simamisa case, considering the extensive infrastructure already in place for commercial sugar production. A positive effect is seen in the form of an increase in financial services. Simamisa has partnered with Nedbank and assists cooperative members in opening bank accounts. These are needed to receive the rental payments. Whereas the Vuselela project created opportunities for local contractors to establish themselves, this effect is opposite in the Simamisa model as Simamisa prefers to use local workers for its activities, rather than contractors. 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.

Regarding ownership, the beneficiaries have land rights through a PtO, rather than a land title. Through the power of attorney, the smallholders effectively sign over the rights to their land to the cooperative, and consequently to THS, for a period of 10 years. Simamisa cooperatives, or their individual members, do not have any other ownership in this model.

The cane roots are financed and owned by THS, and consequently so is the harvested sugarcane. All the equipment is owned by Simamisa or external contracts.

Individual landholders are mostly able to express their voice at the inception of the cooperative. During the initial information meetings, they can offer to assist in the organisation of the cooperative. More importantly, they have the choice to opt-in or opt-out of the collective. This choice is nevertheless compromised by the centralised decision by the local chiefs on the area they wish to contribute to the project. Once a landholder has signed the power of attorney, he or she effectively transfers control over the land to the collective, which subsequently hands this over to THS through the lease agreement. As a member of the cooperative, the landholder gains the right to vote for the cooperative leadership or stand to be elected into such a leadership position. Cooperative management is made up of members, the local headman is excluded from such a position. Furthermore, all the cooperative members have a right to share in the profits made by the organisation. In effect, during the lease period, the landholders, through the cooperative, only have an indirect on the project overall and their land in particular.

However, because the cooperatives together represent a substantial part of the THS sugar supply, general landholders' concerns are increasingly heard by the company. Furthermore, the experience and operational scale of Simamisa, which also manages other cane plantations on behalf of THS potentially allow for a more efficient and successful channel of communication with the sugar producer. Simamisa staff meets on a very regular basis with the cooperatives to ensure they are aware of the issues faced by the landholder collectives. Despite the bundling of voice through Simamisa, concerns raised to THS 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 these smallholders 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.

The operational and financial risks related to the sugarcane production are borne by Simamisa and THS. Nevertheless, rental income for the beneficiaries is fully determined

based on cane production by the cooperative, rather than a fixed amount per hectare. This still exposes the members to operational risks, such as adverse weather conditions, but also harvest loss due to fires and grazing, the largest risks particularly in the communal areas. To prevent sucrose loss, 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. A similar logic holds for damage caused by cattle grazing. This risk is reduced y Simamisa through the deployment of cattle guards in the fields. The costs for these guards are absorbed into the payment of proceeds to the cooperative. In general, financial risks are mostly carried by the commercial partners with the remaining risks shared at the cooperative level, reducing the risk exposure for the individual landowners compared to the independent smallholder system in place before the cooperatives started.

On the other hand, risks related to the management of a community organisation are considerable. For example, there is the chance of power abuse 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. Thus, THS pays the cooperative members directly, bypassing cooperative management, in an attempt to avoid corruption and abuse of funds. Cooperative executives serve in any of these positions voluntarily, and thus cannot claim money for activities performed, further reducing the potential for abuse by these elected leaders. In the case of conflicts within a cooperative, THS and Simamisa, in agreement with the cooperative, have the right to withhold payment to members.

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.

Beneficiary rewards are primarily through 'rental' income. Each member's share of the cooperative income is equal to the share of the land he or she has brought in. The members also benefit from the SASA support for small-scale producers. Although rewards per hectare for the landholder are low, this comes at little effort to the landholder. The cooperative members might possibly have been able to earn a higher income from alternative farming activities, but this would require the landholders to actively work the land themselves. An additional challenge is that markets for alternative produce are limited. Most land brought into production by the project was lying fallow, an indication that independent farming activities on a very small scale was economically unviable. The Simamisa project allows landholders an opportunity to earn an income from land that was previously unproductive.

Aside from the 'rental' income, landholders can make money by working for Simamisa. The company employs over 6,000 people to manage all cane under its care (small-scale producers and large-scale farms). The project has created a significant number of job opportunities in the region. The low wages and physically demanding nature of work nevertheless leave the incentive to work low.

A.13.5 Issues

The Simamisa model has been able to learn from some of the issues experienced in the Vuselela project, and thus, seems to run smoother.

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. Free-rider challenges related to cattle grazing has been actioned by the implementation of cattle guards, who also act as fire guards, funded by the cooperatives. Furthermore, Simamisa tends to have closer collaboration with the contractors whom they actively develop, mitigating non-contractual behaviour. Outsourcing the operational activities to Simamisa appears to also have lessened the sub-minimum wage remuneration to contractor employees as the management company has implemented tighter control and cooperation with the contractors.

Simamisa reduces possible tensions within the cooperatives through a close relationship with the local headmen and chiefs, aside from the tight control over both activities and payments. By ensuring the support of the traditional leaders, 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.

These measures are partly attributable to the different aims of the schemes. 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, the model still faces a number of challenges similar to those experienced in the Vuselela project. These relate to the lack of understanding of the scheme in general and the financial calculations in particular. Whereas the income for the landholders depend on the area contributed by the member, the amount is determined by the complex price calculation of the overall sugar RV supplied by the cooperative as a whole. The payments are further obscured through input cost deductions and SASA savings. All calculations are done by the THS project office, bypassing the cooperative management. The lack of comprehension, combined with the low levels of remuneration, undermine the trust in the cooperative management and the overall scheme.

The inexperienced and weak management of the cooperatives exacerbates these challenges. The cooperatives face issues such as irregular elections and clashes between leaders. The collective becomes highly dependent on the few members who do have sufficient skills to manage the organisation. On the one hand, this leaves the cooperatives vulnerable to these people leaving the organisation, whereas on the other hand there is the threat of power abuse by these leaders. These internal challenges prevent the cooperative to focus on its core activity, namely the management of its members and the cane fields, which thus remain mostly executed by Simamisa and THS.

One of the main drivers behind the Simamisa model is profitability through economies of scale. It does not receive any government 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.

The single biggest issue regarding the Simamisa model relates to the sustainability of the model. This will be detailed further in section A.13.7.

A.13.6 Success factors

The relative success of the Simamisa project can partly be contributed to the lessons learned in the Vuselela project. The Simamisa model could benefit from the project office that had been put in place by THS to support small-scale growers. Particularly important were the challenges relating to both the creation and management of the cooperatives and of the contractors in the Vuselela model. Both of these actors required a large amount of support from THS, impacting negatively on the actual planting and production activities. Whereas the government grants were a positive factor in the establishment of the Vuselela project, the additional conditions related to this funding reduced the efficiency of the project.

Simamisa, as professional operator and manager of sugar plantations, is an actor who can coordinate and support the cooperatives better than THS. In the absence of government funding, the developmental aspect of the model becomes less important and more emphasis is put on the profitability of the model. As such, the economies of scale become more prevalent, with the model restricted to areas with lower population pressure. Simamisa is able to coordinate and manage the operations directly rather than through external contractors, improving the overall management overall and extending the lifespan of the sugarcane roots. Lastly, it has established a relationship with the traditional leaders to mitigate potential internal conflicts within the communities.

A.13.7 Sustainability and replicability

The single biggest challenge is the potential sustainability of the model. Firstly, the cooperatives have no savings for replanting, as the roots belong to THS. Accordingly, THS will have to plan for the next cycle, rather than the cooperatives as independent entities.

Considering the continued pressure on cane supply to its mills, THS is likely to want to maintain sugar production on the ITB land under PtO. The second issue concerns the possible fragmentation of the cooperative if members should decide to exit, resulting in a more fragmented landholding. This would have a negative pressure on the efficiency of the model, potentially threatening the viability of the model in its current set-up. The last question to answer going forward concerns the role of the cooperative versus the role of Simamisa as the managing agent appointed by THS. In the current set-up, the cooperatives are largely by-passed rather than being equipped to engage in a more active role in the management of the activities on their land.

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, within a delivery zone of an existing mill and good infrastructure, but that is not yet in production. These areas will be increasingly hard to find.

The model itself can be implemented in areas where small-scale landholders are unable to use their land productively. In these areas, cooperative leases can be established to bring these land into production. Economies of scale need to be achieved to carry the administrative burden and to operate the activities efficiently and profitably. Important is that the corporate operator is able to manage the collective organisations, taking into account the many challenges that these collectives experience.

A.13.8 Conclusion

The partnership between THS and Simamisa is an efficient model to bring previously unused land into production. It has filled THS' demand for additional land to supply its cane mills, while at the same time providing a source of income for the landholders and business expansion for Simamisa. In a short period of time a large area of land has been planted with sugarcane, including several thousands of landholders into their supply chain.

But, whereas the model itself is profitable, the developmental aspect plays an inferior role. Smaller and more remote landholders are excluded as they put negative pressure on the

efficiency on the model. Also, the traditional leaders play a larger role, potentially undermining the options and voice of the individual landholders. The cooperatives themselves only play a minor role in the model.

Nevertheless, the efficiency-focus of this model has enabled the landholders to profit from the increase in activities in the land, without much effort from the side of the landholders. It can be argued that if exclusion leads to higher income, the landholders might prefer such a situation to a more inclusive, but less economically beneficial, set-up.

A.14 WINTERVELD UNITED FARMERS ASSOCIATION

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 et al., 2008; Reardon & Timmer, 2005). To counter this development, contractual agreements have been proposed, for example by the FAO, to offer smallholder farmers access to the commercial value chain (da Silva & Ranking, 2013). Contractual agreements are expected to lead to secured markets and stable income for the farmers and more control over production for the offtaker, 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, 2002a). 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; Guidi, 2011). As such, farmers have improved access to both input and output markets through aggregation and bulking (Markelova et al., 2009).

This IB 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 offtaker 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.

A.14.1 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[35] 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

[35] Five (5) morgens are approximately equal to 4.3 ha.

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.

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.[36] 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 A.28 illustrates the overall supply chain of oranges produced under the WCP.

[36] One ordinary share is equivalent to one tonne of fruit (Banda, 2012)

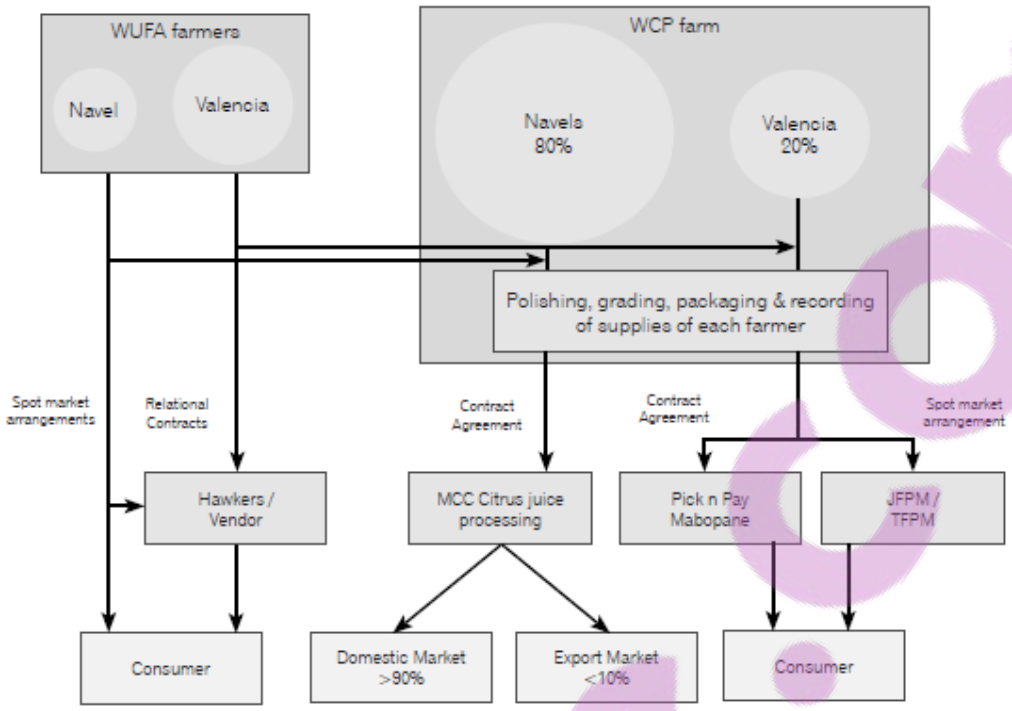

Figure A.28: Supply chain WUFA orange production

Source: Author

Secondly, WUFA farmers also grow a range of vegetables, including spinach, lettuce and onions (see Figure A.29). 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.

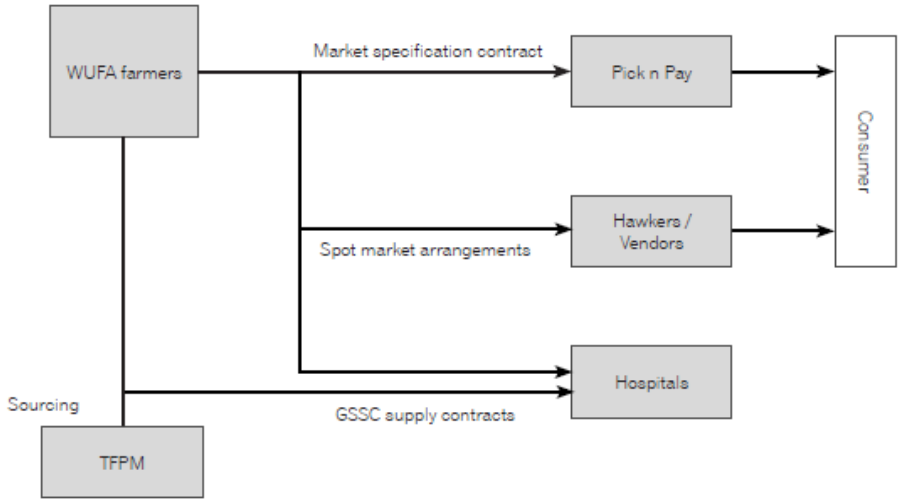

Figure A.29: WUFA supply chain vegetables

Source: Author

Thirdly, WUFA farmers deliver vegetables to the local PnP 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 PnP supermarket does take place.

Table A.5 sums up the three contractual arrangements.

Table A.5: 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 and 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, p.42**

Lastly, as illustrated by Figure A.28 and Figure A.29, 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 A.6 illustrates the importance of each of the marketing channels for the produce grown by the WCP farm and the WUFA member farmers.

Table A.6: Average quantity of produce sold per market channel (2009/10)

Type of produce	MCC	PnP	GSSC	TFPM	Hawkers	Farm gate
Valencia (7kg bag)	20,188					
Navels (7kg 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, p. 69**

A.14.2 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.

A.14.2.1 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.

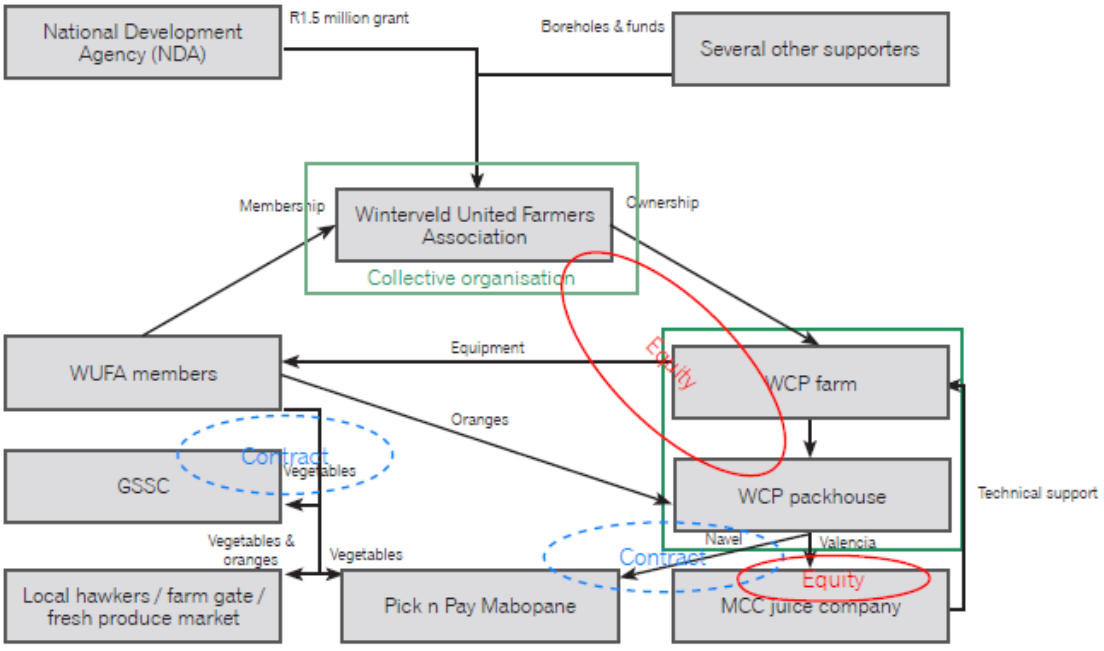

Figure A.30: WUFA institutional set-up

Source: Author

MCC – Agri-BEE status

Magaliesberg Citrus Company (MCC), 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 (Figure A.30). 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.[37]

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.

[37] The B-BBEE policy was 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.[38] 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: PnP 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 PnP 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 PnP 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 PnP Mabopane store is procured from local smallholder farmers.

A.14.2.2 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

[38] This activity of the GSSC has since been discontinued.

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 A.31). In March 2007, the Board of the National Development Agency (NDA) provided a grant of R1.5 million (Chamberlain & Anseeuw, 2017). 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 as cited in Chamberlain & Anseeuw, 2017, p. 50). 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 (Chamberlain & Anseeuw, 2017).

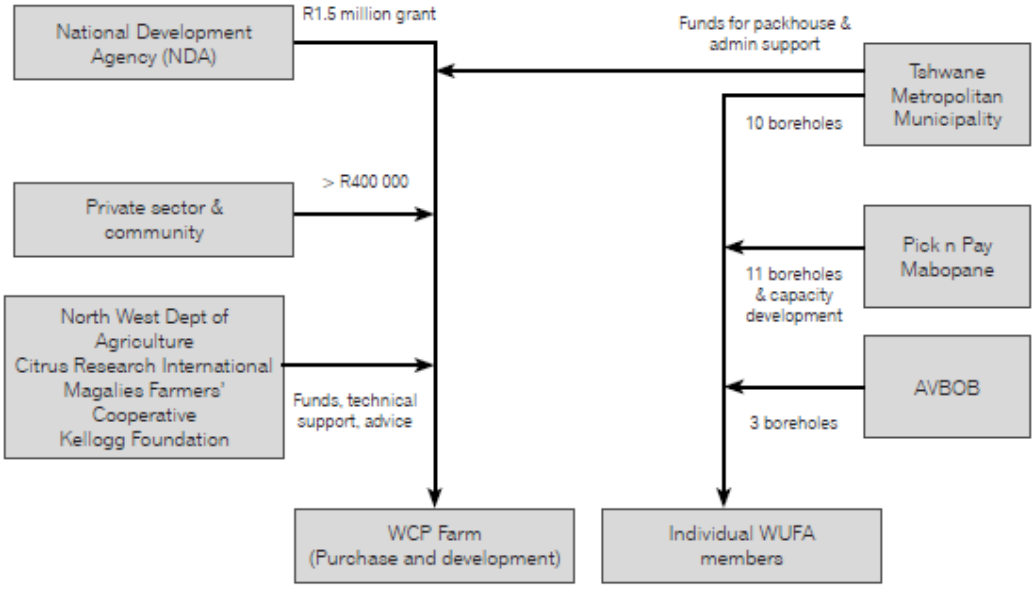

Figure A.31: **WUFA financial support**

Source: *Author*

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 PnP 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.

A.14.3 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.

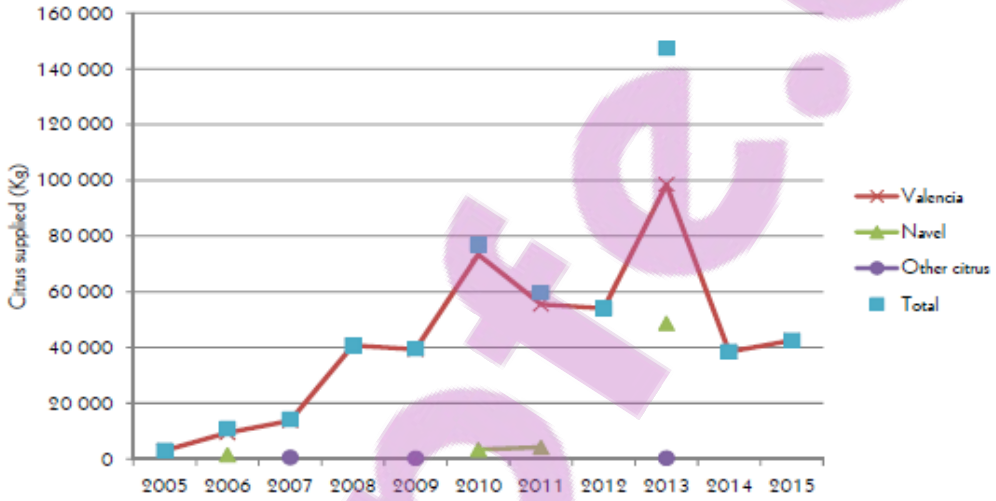

Figure A.32: **WCP deliveries to MCC including rejects, 2005-2015 (Kg)**

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

The first harvest of oranges by individual farmers took place in 2005 and amounted to three tonnes of fruit (Figure A.32). 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.

The farmers' association also engages in collective price and delivery talks with the PnP 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 PnP, 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 PnP 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. PnP pays the individual farmers a week after delivery by deposit to the individual's bank account.

A.14.4 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 pay-out 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 offtaker. 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 offtaker. 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 PnP) 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 offtaker 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 PnP 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 offtaker 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 PnP 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, PnP 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 AgriBEE points, since WCP is considered a previously disadvantaged shareholder. AgriBEE qualification is required for receiving lucrative government contracts and subsidies. PnP 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.

A.14.5 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 offtaker 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 PnP 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 A.6) (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 A.7, 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 PnP serve as bulk offtakers 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 offtake.

Table A.7: Average produce price per market channel, 2000/10 season (rounded to nearest Rand)

Type of produce	MCC	PnP	GSSC	TFPM	Hawkers	Farm gate
Valencia (7kg bag)	3.00					
Navels (7kg 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, p. 68)**

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.

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 AgriBEE accreditation. Equally, the gentlemen's agreement with PnP has not been renewed, mostly due to low prices. Nevertheless, the member farmers continue to supply the retailer, but on a spot market basis.

A.14.6 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 AgriBEE 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 PnP and the GSSC. With regard to the relationship with PnP, 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 PnP 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 PnP. Some members have even opted out of the farmers' association altogether.

A.14.7 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 PnP 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 offtakers 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.

A.14.8 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 (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.

A.14.9 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 offtaker. 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.

APPENDIX B SEMI-STRUCTURED SURVEY SAMPLE PHASE II

(TECHNOSERVE-MASSMART CASE)

I - Interviewee/interview details

Date	day:	month:	year:
Interviewer			
Name of the case-study/model			
Name of the farm			
Name of person interviewed			
Age			
Gender	M	F	

How are you engaged in the IBM? *Several options are possible*

	Tick	Since when?
Farmer		
Head of coop/trust/cc/ CPA		
Member of coop/trust/cc/ CPA		
Board member IBM/packhouse		
Other - detail:		

In what capacity will you respond to the questions?

II - Overall farm details

What is the institutional set-up of this farm?

	Tick
Individual farm	
CC	
Cooperative	
CPA	
Trust	
Other - detail:	

Communal Property Association (on communal/chief land)

In the case of a CC, cooperative, trust, ..., in a few words, can you explain the set-up and functioning?

II - Household Details

Not applicable if interviewee answers on behalf of a cooperative/community

Status in the household	Tick
Head	
Spouse	
Son	
Daughter	
Other	

Household size _____

Resident on project Y N

Beneficiary through	Tick	Since when
Farmers cooperative		
Restitution Claimant community		
Land reform farm		
Workers trust		
Contract with agribusiness		
Other		

Multiple options are possible

Non-agricultural activities	Year under	Amount invested	Income generated (Rand)
Renting out land			
Hunting			
Lodging			
Tree cutting / forestry			
Minerals			
Other (specify)			

Does your household/community/cooperative have any income outside the IBM?

	Tick	Who	Income (Rand/year)
Off-farm employment			
Government grants			
Land rental			
Other (specify)			

Multiple answers are possible

III - Land & land use

What is the size of your land (ha)

What type of land is it? What ownership do	**Tick**	
Private land – I am the owner		
Private land – The trust/CC is the owner		
Communal land – under the chief – I have a PTO		Permission to occupy
Communal land – under the chief – without PTO		
Other – Detail:		

How did you acquire/gain access to this la	**Since whe**	**Explain if necessary**
Redistribution SLAG		
Redistribution LRAD		
Redistribution PLAS		
Restitution		
Private transaction		
Other (specify)		

What are the different land types on the land owned/rented by you as part of the IBM?

Land type	**Tick**	**Size (ha)**
Irrigated land		
Arable dry land		
Orchards		
Grazing		
Non-arable land		
Other (specify)		

Do you have access to land outside the IBM? (Same level as previous question. If coop, then has coop other land; if individual, has individual other land?)

	Tick	**Size (ha)**	**Since whe**	**How acquired**	**Use**
Own land					
Rental land					
Communal land					
Other (specify)					

IV - Crops and livestock

Crop production last season (entire farm)

Crop	Area cultivated (ha)	Yield/ha (tonnes)	Amount sold (either in % or in tonnes/kg)	Price received (Rand per tonne or kg)	Income for: *Household *Cooperative *Other
			Massmart:	-	
			Private:	-	
			Massmart:	-	
			Private:	-	
			Massmart:	-	
			Private:	-	
			Massmart:	-	
			Private:	-	
			Massmart:	-	
			Private:	-	
			Massmart:	-	
			Private:	-	

For your private sales, which markets did you use? ***Several options possible***

	Tick
On farm - myself	
On farm - buyers coming on farm	
Other packhouses	
direcly to other local shops	
Johannesburg/Pretoria markets/auctions	
Side of the street	
Other - detail	

For your private sales, do you have contracts with other off-takers?	Y	N

If so, with whom?

Crop production before inclusion in IBM

Crop	Area cultivated (ha)

Livestock - current activities

Livestock ownersh	Number	Number sold last year	Average price per unit sold	Income for: *Household *Cooperative *Other
Bulls				
Cows				
Calves				
Oxen				
Goats				
Sheep				
Chicken				
Pigs				
Donkeys				
Horses				
Other - detail				

Livestock numbers before inclusion in IBM	
Livestock ownersh	Number
Bulls	
Cows	
Calves	
Oxen	
Goats	
Sheep	
Chicken	
Pigs	
Donkeys	
Horses	
Other - detail	

Your activities have significantly grown / decreased / stagnated ... how do you explain that? Please detail...

What are the main obstacles you encounter at this stage? Please detail ..

According to you, has this increase/decrease/stagnation any thing to do with the IBM/Massmart? Please detail..

Y	N

V - Assets

Social infrastructure	Tick	Year acquired	Source of funding *Own funding *Through IBM *Other
Sanitation			
Electricity			
Borehole water			
Municipal Water			
Other			

	Full ownership (coop/indiv farmer)			Rental or co-ownership	
Item	Number	Year acquired	Source of funding *SLAG, LRAD, CASP, RECAP *Own funding *Through IBM	Specify: Rental or co-ownership	Owned by *Co-operative *Strategic partner/ mentor *Other (specify)
Tractor					
Trailer					
Plough					
Planter					
Irrigation equipment					
Truck					
Water pump					
Bakkie					
Other (specify)					

Overall, in which way has inclusion into the IBM project given you access to agricultural equipment?

VI - Responsibilities

Who decided what you would plant? How much? Etc…

	Tick	Explain
Myself		
Technoserve		
Massmart		
Together (myself/technoserve/…)		
Other – detail:		

Has this changed since the start of the IBM	**Y**	**N**

If so, how has this changed?

If so, can you give details on why this change was made?

In general, do you feel confortable with these changes? Explain please…

Y	**N**

VIII - Benefits

In your opinion, does inclusion in the IBM lead to any benefits?

Y	N

If no – Please, detail

What kind of benefits - even indirect - do you perceive through inclusion in the IBM? Please explain…

	Tick	Explain
Market access		
Government grants		
Inputs		
Access to credit		
Infrastructure		
Fair trade benefits		
Training		
Housing		
Other (specify)		

Where there any criteria you had to meet to qualify for any of these benefits?

Y	N

If yes, please detail:

Overall, are you satisfied with these benefits?

Y	N

Please detail:

VIII - Support

Have you received any government support for your farming activities other than grants since the IBM started?

	Tick	What kind of support?	When
Dept of agriculture			
Dept of land affairs			
Dept of public works			
Dept of water affairs			
Other (specify)			

Are you satisfied with the support from the government?

Y	N

Please explain:

Have you received support from any other organisation such as an NGO or corporate sponsor since the IBM started?

Organisation	Kind of support	When

The fact of being part of an IBM, did it facilitate access to these other supports?

Y	N

Please explain:

Last year, how many training sessions did you get?

Which ones?

Type of skill	Tick	From who?	Detail if necessary
Technical skills			
Operation of equipment			
Disease control			
Managerial skills			
Book keeping			
Human resources			
Conflict resolution			
Marketing skills			
Other skills			

IX - Strategic Partner / Mentor

Other than the IBM, do you have a strategic partner / mentor? *If not go to next section*

	Tick	Explain why
Strategic partner		
Mentor		
Both		
None		

How was the strategic partner/mentor appointed?

	Tick	Detail
My own choice		
By beneficiaries/participants		
Imposed by... (specify)		
Imposed but we had a choice		
Open tender		
Other (specify)		

What role does the strategic partner/mentor have on the project?

	Tick	What has mentor done to execute this role	Are you satisfied with the performance	If NO, why	If NO, what would you like him/her to do?
Funding (specify amount)					
Providing technical expertise					
Providing management training					
Providing output markets					
Providing input markets					
Other (specify)					

How many days does the mentor spend on the project per month? _____

Is this sufficient? Y N

Is the amount of time according to the agreement? Y N

How would you describe your relationship with the strategic partner/mentor?

	Tick	Detail
Employer - employee		
Equal partner		
Other (specify)		

According to you, what is the benefit for the strategic partner/mentor to engage with you?

	Tick	Explain
Benefits from Agri-BEE		
Financial payment		
Input of crops		
No benefits		
Other (specify)		

Are you satisfied with the strategic partner/mentor Y N

If no, what are the problems/challenges with the strategic partner/mentor

	Tick	Explain		
Is not serious about this project				
Does not have the capacity for this project				
Does not spend enough time on the project				
Does not involve us in decision making				
Other (specify)				

What can change?

XI - Impact

Overall, what has been the biggest impact since you became part of the IBM?

Since you became part of the IBM, did your economic situation change?

	Tick	Detail if necessary
Did your income improve?		
Did you/your activities grow?		
Other (specify)		

Since you became part of the IBM, did your social status change?

	Tick	Detail if necessary
Now respected member of		
Family has restored dignity		
Less isolated		
Other (specify)		

Since you became part of the IBM, has your food security/diet changed?

	Tick	Detail if necessary
I can afford more food		
I have a more diverse diet		
I eat more meat		
Other (speficy)		

XII - Inclusiveness

Rate your answer from 1 (very negative) to 5 (very positive), 3 = no change

How has, according to you, the IBM project impacted on ownership of the project? Distinguish land, fixed assets and moveable assets

Score _____

Details _____

According to you, how has the IBM impacted on the negotiation and decision taking power of the beneficiaries?

Score _____

Details _____

How has, according to you, the IBM project impacted on risks related to the farming activities?

Score _____

Details _____

How has, according to you, the IBM project impacted on the benefits received from the farm?

Score _____

Details _____

XIII - Challenges

In general, do you feel that you have a say in how the farm is operated and that you are listened to? Please detail your answer.

What are the biggest problems / challenges with the IBM overall?

What would you like to see done?