Joint ventures in South Africa's land reform programme: strategic partnerships or strategic resource grab?

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1. Introduction

Over the past three years, growing attention has been paid to the large-scale acquisition of land in developing countries by foreign investors (GRAIN 2008; von Braun and Meinzen-Dick 2009; World Bank, 2010). Vermeulen and Cotula (2010:1) report examples from across Africa, Asia, Latin America and Eastern Europe. Countries such as China, India, South Korea and the Gulf States are among those at the forefront of this type of agricultural expansion, as these countries seek new avenues to supply in their growing food and energy needs. Von Braun and Meinzen-Dick (2009) estimates that between 15 and 20 million hectares of farmland in developing countries has changed hands since 2006.

The rise in the volume and scale of cross-border land deals appears to be driven by the desire of 'finance rich but resource poor countries' to control large land holdings beyond their own national borders in order to supply their energy and food needs into the future (Borras and Franco, 2009). At the same time, developing countries, particularly in Africa, are making strenuous efforts to attract such foreign investors and reap some of the benefits such deals might produce. Such acquisitions may entail the outright purchase of land or long-term leases, usually granted by national governments, but controversy persists regarding protection for existing user rights and the fate of local communities that depend on such resources (Hallam, 2011:594).

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While much of the initial commentary focused on the negative implications of such ‘land grab’, attention has more recently been paid to identifying alternative ways of structuring agricultural investments where outside investment is needed to sustain agriculture and improve productivity and livelihoods. Such alternative forms of investments may include a variety of collaborative arrangements between large-scale investors and local smallholders, including contract farming schemes, joint ventures, management contracts and new supply chain relationships (Hallam 2011 and Liversage, 2010).

Robertson and Pinstrup-Anderson (2010) argue that what they term ‘inclusive business models’ could offer better opportunities local communities and for sustainable development over the longer terms, although Cotula cautions that these arrangements often involve “partnerships between players with different negotiating power, resources, information and skills” (Cotula etal, 2010:2). Moreover, specific terms and conditions of these agreements could result in better local control of businesses on the one hand, but inappropriately designed, they could deliver only nominal influence over key decisions and little or no dividends as profits (Vermeulen & Cotula, 2010:6). There is therefore a pressing need for a better understanding of the specific details of such inclusive business model arrangements. This paper is an attempt to contribute to this understanding through an analysis of joint ventures that have been initiated as part of the South African land reform programme.

This paper is based on ongoing research in the Limpopo province, and focuses on a series of so-called ‘strategic partnerships’ involving the Moletele community in South Africa’s subtropical lowveld. The land reform programme, and particularly the restoration of ancestral lands - much of it now highly developed - has drawn many relatively poor communities into the ambit of high-value agricultural production. It has also created opportunities for existing actors within the commercial agri-food sector to gain access to valuable land and water resources, control of upstream and downstream processes and lucrative government grants. The paper briefly sketches the policy imperatives for introducing joint venture initiatives in the context of land reform before looking in some detail at the evolution of four joint venture arrangements involving the

Moletele community and a range of private commercial partners. Research methods included field observations since 2009, analysis of company accounts and contractual agreements, and interviews with a wide range of community members, commercial partners and state officials. The paper argues that while land reform is undoubtedly transferring nominal land ownership to community groups, the emphasis on strategic partnerships with the large-scale commercial sector means that the lion's share of benefits may actually be captured by others. This does not conform to the emerging pattern of land grabs internationally, not least because the land is not being alienated from the local owners and commercial partners are 'national' as opposed to international. Nonetheless, it does represent an alliance between highly unequal groups – separated by wealth, race and business know-how – that has to date failed to deliver significant material benefits to those who hold the rights to the land.

2. Joint Ventures within the South African Land Reform Programme

Post-apartheid South Africa, acting on the urging of the World Bank and others, opted for a moderate and largely market-based land reform, epitomized in the slogan 'willing-buyer, willing-seller' (Lahiff 2007). Three distinct aims of land reform were given effect in the country's 1996 Constitution. In Section 25, the Constitution makes explicit provision for restitution for victims of past racially discriminatory laws or practices, including the return of land where practicable; redistribution of land to enable people to gain access to land on an equitable basis; and tenure reform aimed at securing land rights for all land occupiers. Despite strong political support, and substantial budgets, land reform in South Africa is widely perceived to be performing poorly in virtually all important aspects (Greenburg 2010).

The restitution programme, in particular, has been criticized for an emphasis on cash compensation over return of land and, where land has been restored to the former occupiers, a general failure to translate this into material benefits for the intended beneficiaries (Greenburg, 2010). A study conducted by the Community Agency for Social Equity (CASE, 2005: 1) concluded that "the most striking outcome of restitution has been beneficiaries who have received no material benefit whatsoever from restitution in the form of cash income or even access to land". Of particular concern to policy-makers and commentators has been a perceived decline in productivity on land restored to restitution claimants and difficulties experienced by new owners in mobilizing the necessary skills and finance to engage in profitable enterprises.

In response to the collapse of some high-value farms restored to claimants, the South African government has promoted various forms of joint ventures between claimants and the private sector, commonly referred to as 'strategic partnerships' (Derman, Lahiff & Sjaastad 2006). Under this model, restitution claimants enter into agreements with agri-business partners to manage the land on their behalf, with benefits to be shared between the partners (DLA, 2008). This approach has been particularly prominent in the Limpopo province where large areas of high-value agricultural land and associated facilities are in the process of being transferred to community groups. Although this model appears to have been imposed by the state as a condition for land restoration, it responds to a demand from claimant communities for technical and financial assistance in managing large agricultural enterprises. For the private sector partners, some of them former owners of the land in question, it presents opportunities to preserve or even expand commercial activities within the agri-food sector, albeit under new conditions. The abrupt withdrawal of a number of private sector partners in recent years, and the collapse of a number of large-scale projects, raises concern regarding the viability of these joint ventures and highlights the need to fully interrogate the expectations, interests and motivations of the actors involved.

The move towards private sector involvement in South African land reform clearly reflects 'dominant development thinking' not only in Southern Africa, but also globally (Brinkerhoff 2002; SLSA Team 2003). A central tenet of this thinking is that market-orientated strategies and private sector involvement required basis for sustainable economic development. Private sector involvement in development projects is thus increasingly seen as a way of meeting social justice requirements whilst at the same time maintaining productivity and profit. In many instances, private sector involvement is pursued in the form of 'partnerships'. The term partnership is widely used but often very differently defined – to some it is a legally based contractual agreement, while to others it is any form of dialogue between two parties (Roe et al 2001). In this regard, emphasis is often placed on *sharing*. The Business Partnerships Unit of the UK's Department for International Development (DFID), for example, defines partnerships as being where "the partners agree to work together to fulfil an obligation to undertake a specific task by committing resources and *sharing the risks as well as the benefits*" (emphasis in original). Another definition, which captures well what is happening at Moletele, is provided by IIED (1998:11) in its work on the forestry sector:

> *Partnerships refer to the range of relationships, which are actively entered into, on the expectation of benefit [by the private sector and communities]. Partnerships may be formal schemes, contracts and agreements or informal arrangements; in some cases they may involve the brokerage or mediation of third parties, such as government agencies or NGOs. In some contexts, several of these forms of collaboration may overlap.*

Partnership is not an entirely new concept in the South African land reform context. The Centre for Development and Enterprise (2005: 15-16), a pro-business lobby group, refers to various private sector land redistributive initiatives in South Africa and maintains that "small, local private sector and civil society initiatives throughout South Africa are working to make the agricultural sector more equitable, stable and profitable for everyone involved." Furthermore, the CDE (2005:16) asserts that these private sector initiatives "could be doing at least as much for land reform as government programmes but the extent of their success are often hampered or limited by government policies or bureaucratic delays".

On foot of various policy directives, strategic partnerships have become increasingly prominent in cases of large restitution settlements, particularly those involving high-value (e.g. irrigated) agricultural land, many of which are found in Limpopo province (Commission on Restitution of Land Rights 2007:22). For Derman, Lahiff & Sjaastad (2006), the establishment of strategic partnerships in restitution signals an important policy shift in emphasis away from *land access* by claimants and towards *the maintenance of agricultural productivity*, and raises questions about the realisation of benefits among claimants and the extent to which the objectives of the South African land reform programme are being achieved. Similarly, Fraser (2007:299) argues that "even though the approach is being promoted by government as a way to protect the viability of the land and ensure the transfer of skills to the beneficiaries, the approach may turn out to be less favourable for the beneficiaries." Reporting on the case of Levubu, also in Limpopo province, Greenburg (2009) casts doubts over the financial viability of the commercial partners, the capacity of the South African state to facilitate such complex deals and the prospects for any material benefits reaching the intended beneficiary communities.

3. The Moletele Land Claim

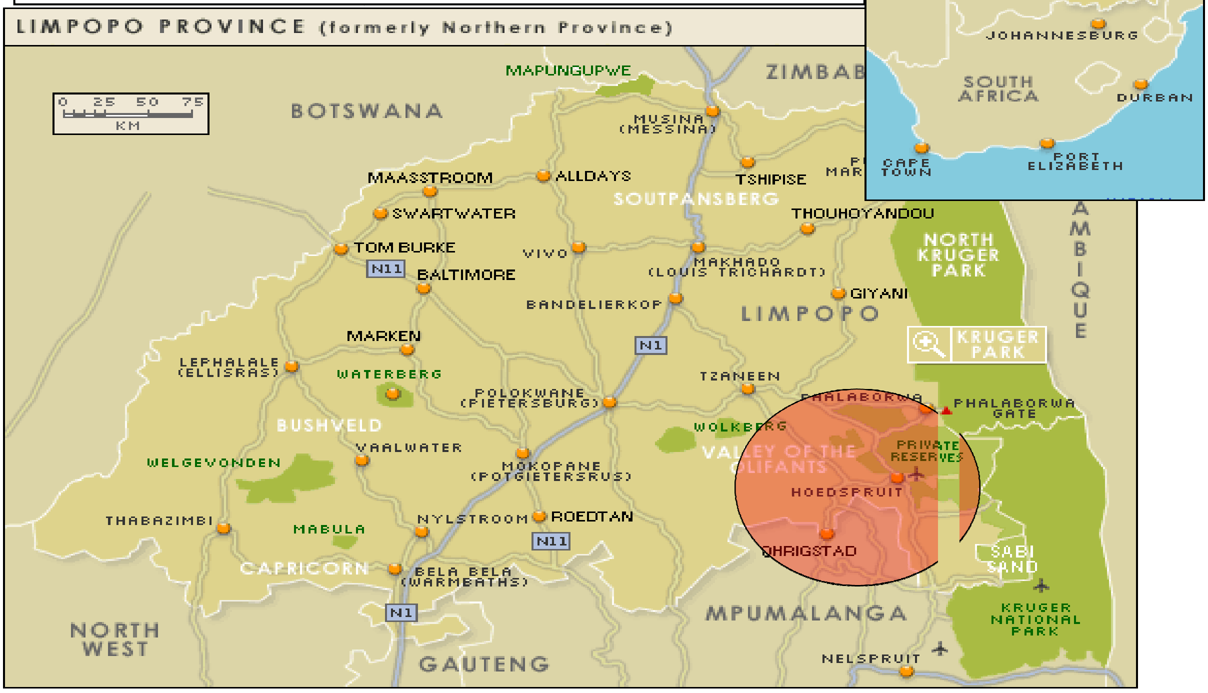
The Moletele community land claim, located in the Hoedspruit area of south-east Limpopo (See Figure 1), involves a community of over 13,000 people who have lodged a claim for 78,000 hectares of land in a prime export-oriented subtropical zone (*Moletele Bulletin*, October 2008). To date, a total of 7,142ha of land has been restored to the community, less than 10% of the total area under claim, at a cost for land alone of R183[2] million (approximately US$26 million).The claimants, members of the historical Moletele community, are organised under the Moletele Communal Property Association (CPA), led by an elected community, which has taken ownership of the land in freehold title on behalf of the community.

The farms claimed by Moletele community currently produce high value horticultural commodities – sub-tropical fruits and vegetables - with a combined turnover estimated at over R1 billion ($US142 million) per annum[3]. Economic activities on the land include mango, citrus and litchi orchards, cattle ranching, ecotourism ventures and production of vegetables under shade netting. Although rainfall in the area is little more than 500mm, the area is well-supplied with irrigation water from the nearby Blyde River Dam.

As part of the restitution process, co-operative landowners (virtually all white) were bought out by the state, on behalf of the claimants, at prevailing market rates. To date,

[2] R = South African Rand. Value at 01 April 2011 R7.03 = US$1.
[3] *MCPA Property Portfolio Report*, April to June 2010

Figure 1: Map of the Study Area



only the land of such co-operative owners has been transferred; much larger areas under claim remain in the hands of owners who are either opposed to the process or are holding out for better prices. The possibility of expropriation of such land by the state, with or without market-related compensation, is a legal option open to the state but, in line with prevailing national policy, has not be applied to date at Moletele. As well as purchasing the land on behalf of the claimant community, the state has also agreed to provide substantial development grants, payable to the new joint ventures, but, by the end of 2010, only a small minority of such grants had actually been paid out.

As part of the restoration process, the various farms restored to the claimants were divided into four main clusters by the Commission on Restitution of Land Rights and the Limpopo Department of Agriculture, and expressions of interest in strategic partnerships were invited from the private sector. The Moletele community claim is unusual among South African land claimants, not only for the size (and value) of its land claim, but also because it is simultaneously engaged in multiple joint ventures with a range of private sector partners, as well as perusing a number of commercial activities in its own name. This strategy was broadly supported by the community members, who recognised the need for technical, financial and managerial assistance in making use of their restored land but wished to avoid the risk of “putting all the eggs in one basket” (i.e. with just one partner)[4].

Since the return of the first lands to the Moletele community in 2007, a range of strategic partnerships have been initiated: by 2010, some had already collapsed, new partners had entered the process and key elements of the original strategic partnership model were being radically revised. Initial partnerships were all with former white landowners – those who had sold their land for restitution – but, latterly, largely corporate interests in the agri-business sector have become involved. The evolution of these four main clusters is outlined below, and the evolving model of strategic partnership, and its implications for wider issues of land reform and development policy in South Africa, is critically assessed.

4. Strategic Partnerships at Moletele

Between 2007 and 2010, four large agricultural enterprises were created on the 47 restored properties, referred to here (and generally in the locality) as New Dawn, Batau, Dinaledi and Richmond. The following table shows the main current, or planned, land uses associated with these enterprises. Together, these activities constitute slightly less than half of the total land restored to date: the rest comprises approximately 2,000h of land reserved for direct use by the community (communal grazing on the farms Scotia and Eden) and approximately 1,600 hectares of unirrigated land on Richmond (albeit with potential for irrigation if the Blyde irrigation scheme is expanded in the coming years, as expected), along with a smaller area (150ha) that is leased directly by the CPA to a number of neighbouring farmers (i.e. outside of the joint ventures).

[4] *Moletele Bulletin*, 2010.

Table 1: Agricultural land use for the four partnerships on Moletele CPA land (hectares)[5]

	Agricultural Land Use								Sub-leases	*Total*
	Current						*Planned*			
Entity	Citrus	Mango	Litchi	Guava	Papaya	Grazing	Type			
New Dawn	140	246	-	7	3	326	Citrus	249	79	*1,050*
Batau / Bono Safe	72	62	5	-	-	669	-	-	13	*821*
Dinaledi	320	-	-	-	-	-	Citrus	310	116	*746*
Richmond	515	70	-	-	-	-	Sugar cane	240	-	*825*
Total	**1,047**	**378**	**5**	**7**	**3**	**995**		**799**	**209**	*3,443*

5. Structure of the Moletele Partnerships

Each of the four main partnerships in place at Moletele involves a contractual agreement between the Moletele community, represented by the Moletele Communal Property Association[6], and a private-sector company. The CPA is supported, in terms of both grant finance and advice, by a range of state agencies from national, provincial and local government, and by the Mabedi initiative, a local development initiative set-up by a local business group. See figure 2 for a simplified representation of the range of partnership agreements on Moletele land.

New Dawn and Dinaledi, and the original ventures at Batau and Richmond, are described locally as strategic partnerships, a term widely used in the context of South Africa's land reform to signify a multifaceted joint venture between a community that owns land and a private-sector operator with relevant financial resources and commercial expertise. This approach requires the creation of a jointly-owned company (a separate one for each partnership) that will operate all agricultural activities along

[5] Source: Moletele CPA *Property Portfolio Report*, June 2010

[6] A Communal Property Association (CPA) is a relatively new form of legal (corporate) entity designed to take ownership of land on behalf of a community under South Africa's land reform programme.

commercial lines, but does not take ownership of the land. At the outset, it was anticipated that the CPA would own 52% of the new enterprises and the strategic partners would each own 48%, and that this would be reflected in the composition of the respective boards of directors and in the distribution of profits (dividends). But, as will be shown below, this model has evolved over time and many of the expected activities and benefits have not materialized. Notably, early proposals to include the farm workers as minority shareholders in the joint venture companies have dropped, apparently due to opposition from both the CPA and the strategic partners.

Contractually speaking, each partnership is defined in terms of a *Shareholders' Agreement*, which sets out, in broad terms, the aims of the new company and the responsibilities of the respective partners. The provision of working capital, which has proved problematic in most of these ventures, is not dealt with in detail in this contract, but it was widely assumed – specifically by the CPA and the stage agencies – that this would be the responsibility of the private-sector strategic partner. Under a separate *Lease Agreement*, the operating company (i.e. the specially-formed joint venture) undertakes to pay annual rent to the CPA for the use of the land, expressed as a percentage of the purchase price. A third contractual agreement, the *Management Agreement*, makes provision for payment of a management fee to the strategic partner for day-to-day management of the joint venture. These various agreements are for a fixed period of either ten or fifteen years; at the end of this period, the partners have the option to either renew the agreement or to terminate it, in which event control of the operation should revert to the CPA. Such a take-over would, however, require the CPA to first repay any investments or outstanding loans made to the company by the strategic partner.

The existing workforce on the farms, which is drawn from a wide geographical area, has largely been retained through the transition to joint ownership, although there is an expectation that in any future employment preference will be given to members of the Moletele community. Various initiatives have also been proposed to involve community members in farm management and to provide training in a range of technical and business skills. This is intended to maximize the involvement of the community in all aspects of farming and to prepare them to eventually take over the entire business.

This describes the broad model of strategic partnerships deduced from official policy statements, company reports and interviews with all the main parties involved. An ongoing difficulty, however, is the somewhat vague nature of many of the key agreements, changing (and often conflicting) perceptions between the parties and over time, and the failure of many of the anticipated benefits of the model to materialize, as shown below. Furthermore, Richmond, the latest of the four partnerships to be established at Moletele, differs from the other three in a number of respects. First, it is located on a single relatively large property, rather than being spread across multiple properties; second, the property is relatively underdeveloped, although and there are plans to substantially expand the area under irrigation and introduce sugarcane for purposes of ethanol production; and third, the nature of the partnerships is closer to a conventional lease rather than a joint venture. This arrangement is referred to locally as a ‘Community-Private Partnership’, to distinguish it from the other ‘strategic partnerships’ but, in practice, the difference between these ventures may not be so great.

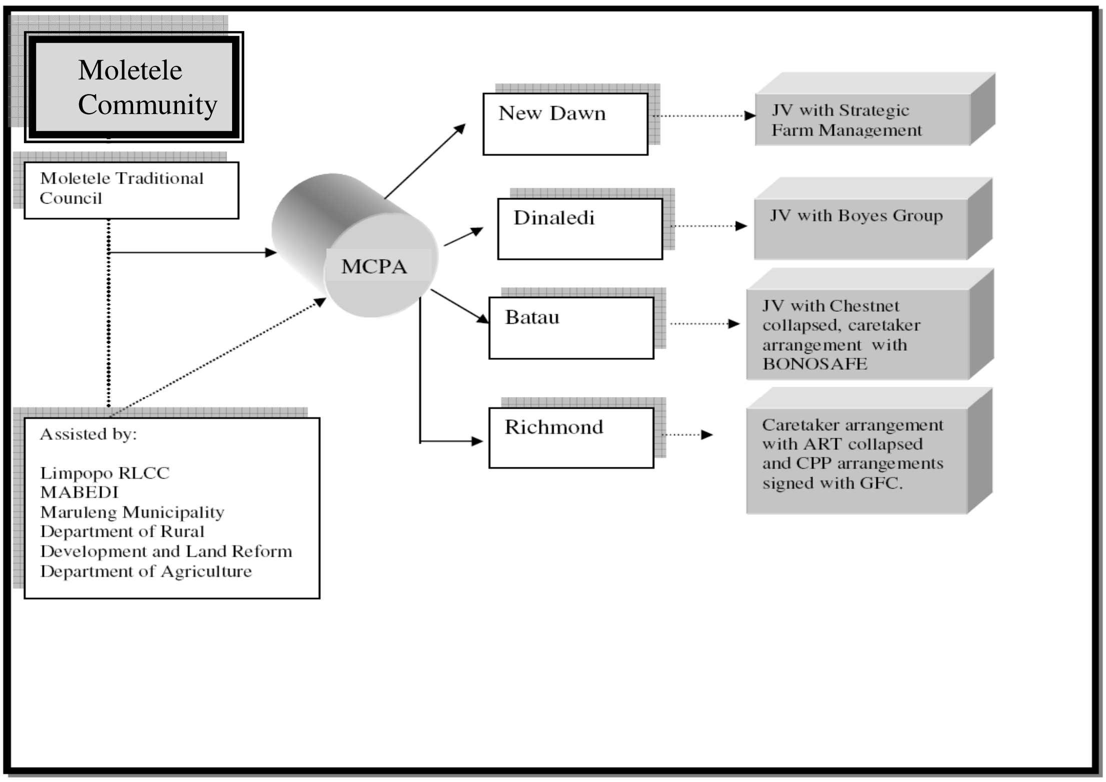
5.1 New Dawn

New Dawn Farming Enterprise (Pty) Ltd) was formed in 2008 as a joint venture between the Moletele CPA and Strategic Farm Management (SFM), a company formed specifically for this purpose by a group of local landowners who were bought out as part of the restitution process. In its original form, New Dawn adhered closely to the general model of strategic partnership then being promoted by office of the Regional Land Claims Commissioner and the Limpopo Department of Agriculture but it has since suffered a number of setbacks that have forced departures from the original model.

The partnership encompasses a total of 1,019 hectares of land, 296 hectares of which is currently under irrigation, consisting mainly of mangos and citrus. Plans have been drawn up to establish a further 249ha of citrus under irrigation. Water for irrigation is supplied from the Blydepoort Dam and, under a subsidy scheme of the Department of

Water Affairs, is provided at a reduced rate, saving the enterprise an estimated R700,000 per year in water charges. In addition, 326ha of non-irrigated land are used for grazing of cattle, and 79ha are leased to a neighbouring farmer. The farm, which consists of four former properties, is well supplied with internal roads, houses, sheds, a fruit packing house and an *achar* (pickle) factory. New Dawn currently employs 69 permanent workers and about 117 seasonal workers. This is planned to increase to about 148 permanent and 323 seasonal workers once the proposed developments have been implemented (*New Dawn Feasibility Study*, 2008).

FIGURE 2 : MANAGEMENT STRUCTURES AND INTEREST GROUPS ON MOLETELE LAND



The Moletele CPA owns 52% of the shares in New Dawn Farming and SFM owns the remaining 48%. The Board of Directors has seven members: three representatives from the Moletele community, three from SFM and a non-voting (ex officio) member representing the Limpopo Department of Agriculture. In terms of the lease agreement with the community, New Dawn is supposed to pay the CPA annual rental equivalent to 1.25% of the land purchase price of the land, and an additional payment for the use of the water rights – a total of R630,000 per annum, due from the first full year of production. In terms of the Management Agreement, SFM is expected to manage the project for a period of 15 years, for which it will be paid 5% of the gross annual turnover (i.e. regardless of profitability). In the event of the venture making a profit, and being in a position to pay a dividend, this will be proportional to the shareholding of the respective partners.

A total of R11 million in grants is due to be paid to the community by the state, as part of the restitution award, and intended for investment in the joint venture, but, to date, only R1.8 million has been paid over, which was used for the purchase of pack house equipment. This one-off payment was only made in 2009, three years after the land was transferred to the community and nearly a year after the joint venture was formed. By August 2009, SFM had already invested R1.7 million in the joint venture in order to maintain production on the farm, and contributed a further R624,000 in the form of movable assets.[7] This long delay in release of grants has seriously hampered day-to-day operations and delayed investment in new facilities.

To date, New Dawn has not made a profit and so no dividend has been paid out to the shareholders. Moreover, no rental was paid to the CPA in 2008-2009 (the first year of formal partnership) but for 2009-2010 the company did manage to payy R381,000 in rent. At the same time, the management fee due to SFM for managing the farm has also gone unpaid during this period so, apart from the absence of dividends, both partners are effectively running at a substantial loss.

In the light of the non-transfer of grants from the state agencies, New Dawn has sought alternative sources of capital, including a loan from the state-owned Development Bank of Southern Africa. A potential obstacle to such loan financing is the nature of the guarantees required by the bank – either a substantial financial bond payable by the strategic partner, pledging the land lease agreement with the community as collateral,

[7] Interview with Managing Director, New Dawn, 7th July 2010.

or personal guarantees by CPA committee members, none of which were seen as acceptable by the partners. As part of the loan application, a detailed feasibility plan was drawn up by the strategic partner, which included proposals for new infrastructure and equipment, especially the fruit packing facilities, and expansion of the citrus orchards, with a total capital requirement of R35 million.

As far as can be established, the New Dawn partnership has been unable to maintain either the productivity or the employment levels that prevailed on the farms prior to their return to the historical owners. Long delays in releasing promised development grants have stymied plans to expand production and invest in new processing facilities. Each of the partners have absorbed considerable losses in terms of rental, in the case of the CPA, and management fees, in the case of SFM, and, in the absence of operating profits, no dividends have been forthcoming. This has undoubtedly put strain on the relationship between the partners, and on their relations with the state agencies involved, but it has also fuelled tensions within the Moletele community, most of whose members have yet to see any material benefit from the return – at considerable pubic expense - of their ancestral land.

5.2 Batau

The second strategic partnership signed by the Moletele CPA was with Chestnet (Pty) Ltd, resulting in the Batau Farming Enterprises partnership. As with New Dawn, Chestnet was a group of former land owners who were interested in remaining involved in farming operations on their former land. The agreements signed for this partnership are very similar to those for New Dawn outlined above. The shareholder agreement in this partnership again stipulates a term of 15 years, with the Moletele CPA holding 52% of the shares in the company and the strategic partner (Chestnet) holding 48% of the shares.

The land in question consists of 11 separate properties which were purchased for a total price of R25 million (US$3.5 million). All fixed assets that came with the farm (e.g. sheds and irrigation infrastructure) were deemed to belong to the MCPA while semi-fixed assets (which were not included in the land purchase agreement) remained the property of the former owners who, in this case, were also the incoming strategic partners.

As with New Dawn, Chestnet Farming Enterprises, as a strategic partner, was expected to manage the farm on behalf of the partnership, and to provide training to members of the community so that they can take up management positions on the farms and prepare for full control when the partnership period comes to an end. Land rental was set at 1.25% of the purchase value of the land per annum.

On establishment, the Batau Farming Enterprises undertook production of both fruit and vegetables, based on existing crops, including 62 hectares of mangos, 72 hectares of citrus (grapefruit, lemons and oranges), five hectares of litchis and approximately ten hectares of vegetables (peppers and tomatoes) under shade netting. In addition, nine hectares were rented out to a private farmer for vegetable production under shade netting, with the rental income going directly to the CPA.

Since its inception, however, the Batau partnership has been plagued by many of the same problems as New Dawn, especially the non-payment of the promised state grants. The total value of the Section 42 C grant (commonly know as the development assistance grant) that has been promised to the Moletele CPA in terms of the first 27 properties transferred, has been set at a total of R 35 million. As previously stated, of the total value of the grant, R 11 million was to be allocated to the New Dawn joint venture leaving the remaining R 24 million to be divided between the Batau and Dinaledi partnerships. To date, however no grant payments have been made in terms of any of the partnerships. In addition this challenge, the Batau enterprise suffered from the scattered nature of its holdings, spread across 11 non-contiguous plots of land. Unlike New Dawn, this enterprise did not come with on-site processing facilities, and has been obliged to truck its produce to external facilities. Substantial losses in the first two years of operations resulted in no dividends being paid out to the shareholders and no rental being paid to the CPA. The strategic partners were not in a position to provide working capital and attempts to raise loans from the commercial banks were not successful. Low productivity and a lack of capital for day-to-day operations led to a situation where, by June 2010, Batau was no longer able to pay its creditors and was facing liquidation, and production on the farms effectively ceased.

In July 2010, the community entered into a temporary (caretaker) agreement with Bono Holdings to manage the farm and save the citrus harvest. Bono Holdings is a management and empowerment company owned by SAFE Farm Ventures (South African Fruit Exporters) and a black South African entrepreneur. It operates a number of agricultural joint ventures with communities throughout South Africa. SAFE has a global customer network and plays an important role in the total fruit export from South Africa and Zimbabwe.

By August 2010, the community was contemplating a long-term lease with Bono. Rental would comprise of a fixed and a variable component (based on profit), and the company would be required to give certain assurances in terms of employment and training of community members, but no joint venture would be formed. This arrangement is referred to locally as a 'community-private partnership', to distinguish it from the joint venture-based 'strategic partnership' model.

5.3 Dinaledi

Dinaledi is a partnership between the Moletele CPA and the Boyes Group, a family-run agri-business company in Limpopo. The land in question comprises 701 hectares in five portions, which were purchased between November 2007 and October 2008 for a total price of R31.7 million (US$4.5 million). The farm is engaged almost exclusively in citrus production, with substantial orchards of oranges, grapefruit and lemons, much of which is exported to Canada, the EU, Russia, Middle East, Japan and Mauritius, providing 270 permanent jobs and seasonal employment for some 450 workers. By August 2010), the farm had 320 ha of land under citrus production and was planning to extend this by an additional 310ha.

Ownership of the Dinaledi joint venture is structured as a 50:50 partnership between the CPA and Boyes Group. According to community informants, granting the commercial partner a full half-share (as opposed to the 48% minority share granted to other strategic partners) was necessary in order to allow the Boyes Group to engage effectively with financial institutions and be able make day-to-day-decisions on their own, without having to always consult a majority shareholder. Boyes is seen as an attractive partner as the group has its own finance and isn't dependent on cash inputs from either the community or state agencies. A distinctive feature of this project, seen by the participants as a good indicator of future success, is the large contiguous area under citrus.

No development grants have been received by this partnership to date but, according to community informants, Boyes Group have been able to invest substantial amounts in the project, either from their own resources or commercial credit that they have raised. To date, capital has been invested in a new pack house and some expansion of orchards, as well as in day-to-day operations. It would appear, however, that further investment will be dependent upon receipt of promised development grants from the state.[8]

As with the other farms, annual rent is set at 1.25 % of the land value at the time of transfer. In 2009-2010, Dinaledi paid a total of R622,000 in rent to the CPA[9] making it the second biggest contributor to the community. Some disquiet was expressed by community members, however, that none of this income had yet been passed on to ordinary members[10]. According to community leaders, the Dinaledi partnership has also shown a strong commitment to the skills development and promises of training. The Boyes group donated computers for training of young people in the Moletele community and has invested money to improve the CPA offices, including a fully-equipped reception area and boardroom on Scotia farm.

5.4 Richmond

Richmond farm has an area of 2,434ha and was purchased for R63.9 million (US$9.1 million) in April 2009 from African Realty Trust (ART, a group of locally-based white landowners). Unlike other farming operations at Moletele, Richmond comprises just a

[8] Moletele CPA Office manager
[9] Moletele CPA Income Statement 2009-10
[10] Focus group meeting with Moletele community members, 9th July 2010.

single portion of land, on one title deed. It is considered to be well equipped, with its own packhouse on site and a large area (over 400ha) under established citrus production.

At the time of land transfer, ART entered into a joint venture agreement with the Moletele community, but this lasted only six months (April-October 2009). As with the other joint ventures, the partners did not receive the expected development grants from the state, despite numerous promises from ofificals and senior politicians, and, according to community informants, the farm was allowed to 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 reportedly required an injection of R500,000 to restore it to a basic level of production.[11] The community subsequently entered into a temporary agreement with another company, Golden Frontier Citrus (GFC) to manage the farm between October 2009 and June 2010, at which point a lease agreements was signed with GFC.

GFC is a large citrus production company, created as a black-empowerment venture by TSB Sugar (formerly Transvaal Sugar Board), one of the largest sugar companies in southern Africa, and the state-owned Industrial Development Corporation (IDC). According to community representatives, GFC presented a comprehensive turnaround strategy and the farm has since greatly recovered. GFC was seen by the community as having the advantage of access to substantial capital of its own, as part of a large conglomerate (and in contrast to the former local landowners who were the strategic partners on the other joint ventures). GFC first entered on a short-term lease basis but this was subsequently converted into a so-called community-private partnership (CPP) on a twenty-year lease – the longest such agreement at Moletele. In effect, the 'partnership' with GFC is a lease agreement, covering the entire property: it is not clear what other elements, such as preferential employment or training for community members will be forthcoming. The main benefit to the community will be in the form of rental income; a further advantage is that the community is not required to provide any investment funding (e.g. grants) or to participate in senior management of the operation.

[11] Interview with the chairperson of the Moletele CPA, November 2010

No dividends were paid to the community under the partnership with ART in 2009 but an amount of R611,000 was paid to the CPA in rent. Since the arrival of GFC, a total of R954,000 in rent has been transferred to the CPA, making this the highest contribution from any enterprise to date.[12]

Much of Richmond is currently uncultivated but could be used for production of sugar cane if the anticipated expansion of the Blyde irrigation schemes goes ahead. There has been much speculation about a large biofuel plant to be built in the Hoedspruit area. The state-owned Industrial Development Corporation and Central Energy Fund are reportedly interested in biofuel capacity in the area, and various feasibility studies have been undertaken.[13] 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 in order to keep developments away from prime tourist attractions and lodges.

By August 2010, efforts were underway to extend the citrus production on another 115ha of land, and a further 240ha of land has been earmarked for sugarcane plantations with a view to production of ethanol. This would be a logical area of expansion for Golden Frontier Citrus, given its close ties to TSB Sugar. It has been reported that production of sugarcane for biofuel on Richmond could lead to the employment (direct and indirect) of up to 12,000 workers, which would include out-growers in the neighbouring communities.[14]

6. Discussion

Strategic partnerships with commercial operators haves been widely promoted as a means of maintaining productivity and facilitating access to high-value markets for South African communities regaining their land under the restitution programme. This approach is intended to maximise benefits to community members while preserving

[12] Moletele CPA Income Statement, June 2010.

[13] Programme for Basic Energy and Conservation (ProBec), Biofuel Newsletter, 18th July 2009

[14] Interview MCPA portfolio manager 29th November 2010

valuable assets and growing the rural economy. The case of Moletele described here suggests that the experience to date is not meeting these expectations and is proving problematic in economic, social and political terms.

Moletele is a vast and complex restitution case, although only one-tenth of the total land under claim has been transferred to date. Current budgetary and other constraints on the part of the relevant state agencies raise doubts as to how much more land will actually be restored to the community, and whether the promised 'development grants' will ever be paid out.[15] Initial experiments with joint ventures involving former land owners experienced major difficulties, particularly around access to working capital, with two out of three collapsing. This has led to the negotiation of new 'community-private partnerships' with more powerful commercial partners such as Golden Frontier Citrus and Bono-SAFE.

While much attention has been focused (in the South African media and elsewhere) on the struggle to maintain productivity on the restored lands, much less has been paid to the general failure of promised benefits to reach the ordinary members of affected communities. At Moletele, as with other strategic partnerships in South Africa, the promise was of substantial cash income in the form of rent and dividends, employment and training opportunities, and the prospect of claimants eventually owning and running their own successful commercial farming operation. Experience to date suggests that those prospects remain very distant.

Twelve years after the lodgement of their restitution claim, and five years after the return of the first lands, most households have yet to see any positive impact on their livelihood[16]. This is obviously 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. Lack of direct access to the land by community

[15] Mail and Guardian, 05 July 2010 – *Land reform beneficiaries owed R 3,4bn by Government*
[16] Feedback from focus group meetings held July 2010 and November 2010.

members – for residential purposes or small-scale agriculture – adds to the sense of disappointment.

The limited revenues that have been received by CPA to date have been in form of land rentals, which have been intermittent and generally far below the expected rates. None of the enterprises studied have yet made a profit – indeed, substantial losses have been the norm, so in this sense the community has not benefitted at all from its involvement in commercial agriculture. Considerable confusion exists around what has happened to the limited revenues received by the CPA, although it is clear that none has been paid out directly, in cash or kind, to the general membership. Some of the income has been used to fund CPA activities, including paying for office overheads, reimbursing the expenses of committee members, transporting community members to meetings and employing one CPA committee member on a full-time basis. Other revenue has been reinvested in farming activities, or used to pay debts owed to banks and other suppliers. At Dinaledi, CPA funds were reportedly invested in a new packhouse. Very few 'public goods' have been provided to community members, an exceptions being the provision of computer training for young people, again sponsored by Dinaledi.

All of the farms at Moletele have struggled to retain their existing workforce, and there have been very limited opportunities additional employment of community members. Although no reliable figures could be found, anecdotal evidence suggests that employment levels on virtually all the farms is below what it was under the previous owners. Some workers have faced periods without wages and there would appear to have been a considerable shift from permanent to seasonal contracts. Apart from some training opportunities, and perhaps a somewhat more humane regime, no evidence could be found of significant improvements in the general wages and conditions on the community-owned farms. Current policy is to retain existing workers but to give preference to community members in all new recruitment, but it is difficult to point to any significant gains for the community in terms of employment.

The appointment of community members to supervisory and management positions within the new enterprises, and the provision of relevant training has occurred to a limited extent (although not on all the farms), but is constrained by the ongoing financial problems facing the enterprises. At New Dawn, for example, trainee managers have been appointed on short-term contracts but cannot be confirmed until the financial situation improves. A certain amount of training has also been provided to the wider community membership and particularly to the CPA committees, either by the strategic partners themselves, as in the case of computer training provided to school leavers by Dinaledi, and training in book-keeping provided by GFC. To this extent, a limited transfer of skills is occurring, but has yet to reach the majority of community members.

The Moletele case clearly raises serious questions about the strategic partnership model. The initial preference of the Moletele CPA was for a comprehensive joint venture arrangement with the selected strategic partners. This was defended by community leaders as having the potential to involve the community in all aspects of agriculture, maximise benefits to the community in terms of income, jobs and management skills, while preparing them for the eventual take-over of the enterprises after ten or fifteen years. While all parties consulted at Moletele had a litany of problems and complaints, three main issues stand out as barriers to the success of joint ventures.

First is their sheer complexity, and the challenge of involving relatively inexperienced community representatives in complex management issues. Second is the failure (whether due to inability or unwillingness) of the commercial partners to access sufficient working and investment capital. Implicit in the original vision of strategic partnerships, as espoused by the state agencies and echoed by most community leaders, was the assumption that strategic partners had both the necessary technical expertise to manage the enterprises and the ability to independently access capital – that is, to use their own resources or guarantees, and without putting community members or their property at risk. The third main obstacle to success of the joint ventures is the failure of promised state grants to materialise or, to materialise in time; this greatly exacerbated the lack of creditworthiness of the operations, hampered operations from the very start and undoubtedly contributed to the failure of some of the ventures.

With the collapse (or near-collapse) of the initial enterprises, the Moletele community is moving away from joint ventures towards what it calls community-private partnerships (CPPs). The emerging CPP model entails a lease on the land accompanied by some added social benefits, such as management training and mentoring for community members, with the expectation again being that the community could eventually take direct control of the operation. Rental is set as a combination of a fixed amount plus a variable amount based on operating profits, over a twenty-year term[17]. An important difference between a CPP and a joint venture in that, under the CPP, the commercial partner retains full ownership of the operating company, and of any capital it invests in the venture, without the requirement for the community to match this investment. This effectively gives the commercial partner a free hand when attempting to raise capital from the market, and complete control over commercial operations.

From the community's perspective, the CPP model is easier to manage as they do not have to sit on a board of directors, contribute resources or participate directly in management decision, while still retaining full ownership of the land. This is expected to avoid the problem of inequality of knowledge and expertise between the two sets of directors within a joint venture. Although this arrangement excludes the community from the potential benefits of a share in profits or downstream (added-value) activities, this is, from the perspective of the community, more than off-set by the increased chance of commercial success for the venture, which is in turn essential to the sustainability of rental income and employment of its members.

7. Conclusion

This study has examined a case of innovative business models in the agricultural sector arising in the context of South Africa's land reform programme. It illustrates how a dispossessed community, whose experience of agriculture was largely limited to small-scale farming in communal areas, and low-level employment on commercial farms, has found themselves involved in highly-developed and complex farming operations. In an effort to preserve productivity, and provide benefits to community members, the South African state has promoted a model of partnership between communities and

[17] Interview with Chairperson of Moletele CPA, November 2010

commercial operators. For a variety of reasons, some to do with inherent weaknesses in the business model, and some to do with the behaviour of the key actors themselves, these partnerships have largely collapsed, some with spectacular losses. Benefits to communities to date have been negligible and it would appear that the farms in question have experienced considerable decline in terms of employment, profitability and contribution to the local and national economy. Nonetheless, there are signs that the community, with support from some few private-sector operators, are in the process of restoring productivity on the farms and developing alternative business models that can replace the now-discredited strategic partnership model.

Strategic partnerships were an ambitious, and experimental, effort to include communities in all aspects of the agricultural enterprises. Among the key weaknesses in this model identified in this study are: vast difference (in knowledge and experience) between communities and their commercial partners; lack of agreement around precise responsibilities of the commercial partners, particularly with respect to provision of working capital; long delays on the part of the state in transferring the land and releasing grant funding; and a failure, particularly on the part of the provincial Department of Agriculture, to monitor and regulate the contractual agreements between the parties.

Commercial partners appear to have been motivated by a number of factors to participate in these ventures. For some, such as the former landowners of New Dawn, Batau and African Realty Trust, it was an opportunity to remain involved with the farms they had built up over many years, and perhaps to expand upstream and downstream activities. For established corporations, such as Boyes Group, Bono-SAFE and Golden Frontier Citrus, it was an opportunity to expand their operations and to secure supplies for the downstream processing and export industries they control. There can be little doubt, however, that the prospects of large profits, management fees and government grants were also important in attracting commercial partners to these ventures. Whether this was matched by a sense of social responsibility is difficult to say. Many of the partners – especially the former landowners - are too small to realistically include social responsibility as part of their mission. The larger ones, including Boyes, GFC and Bono-

SAFE, align themselves to some degree with the broad national programme of black economic empowerment, but the murky picture emerging from some of the ventures makes it difficult to determine what this translates into in practice. Overall, it is too early to say whether the corporate partners at Moletele are truly committed to developing 'inclusive' business model that empower communities or are attracted more by the prospective of more conventional economic gains.

Despite many problems, there are signs of positive developments on some of the farms at Moletele. These involve a retreat from the complexity of joint ventures and efforts to reduce the risks to communities. The downside of this may be some lost opportunities in terms of management training and sharing of profits, which have been largely ephemeral to date, in favour of a more reliable income stream. The so-called community-private partnerships are effectively long-term lease agreements, with some additional social benefits for the community. Partners such as GFC and Bono-SAFE, with extensive interests in the agri-food sector, would appear to offer reliable partnerships, although monitoring of compliance with contracts will remain a concern. Largely unaddressed under this newer model, however, is the question of long-term development of the farming assets, particularly in areas such as replanting of orchards, and there remains the risk that lease agreements could lead to the erosion of asset values over time.

For the ordinary members of the Moletele community, land reform has been a mixed experience, combining the joy of having their ancestral land restored to them with frustration at the failure to translate these valuable assets into material benefits. Much of this frustration relates to the speed with which state agencies moved to impose a model of strategic partnership that dictated continuity in farming systems –i.e. centralised commercial production – and introduced a range of private-sector operators who were not among the intended beneficiaries of land reform and who now effectively control production. Initially optimistic scenarios for land reform in the high-value agri-food sector – and the promise of generous state support - suggested that production and profitability of the farms could be maintained, or even expanded. The strategic partners who joined the process – a mix of former land owners and major players in the agri-food sector – clearly viewed this as an opportunity to remain, or grow, within the sector, as relatively small units of production were centralised under a single ownership. The commercial setbacks experienced during the transition phase has clearly deterred some, but not all, of the initial partners, and those that remain are perhaps taking a more realistic view of their prospects. The arrival of new partners – all major players in the agri-food sector – does, however, suggest that the prime sub-tropical irrigated land under community ownership at Moletele is still seen as a source of potential profit. Whether the benefits of such enterprises will ever actually reach the wider community remains an open question.

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