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Innovative joint ventures can boost agricultural production and promote agrarian transformation

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Growing agriculture can reduce poverty, create economic opportunities in rural and peri-urban areas, and boost employment, particularly for semi- and unskilled workers. We review several successful joint ventures across South Africa which comprise a range of partnerships between smallholders, commercial farmers, agribusinesses, industry associations and government. Many of these partnerships have generated significant returns and transformational benefits. Well-designed joint ventures can complement existing government initiatives to drive more rapid agrarian transformation and increase production.

Introduction

Several features of agriculture make it important for the pursuit of inclusive economic growth: its rural linkages, ability to absorb less skilled labour, large multipliers due to extensive links with the rest of the economy, globally competitive labour productivity and importance for export-led growth. A growing agricultural sector can help address our challenges of unemployment and low growth and counter rural poverty.

Despite these advantages, the sector continues to experience low growth and declining employment. Commercial agriculture has suffered subdued capital investment, low growth, rising debt and policy uncertainty (whilst remaining largely profitable). Smallholder farmers, who are a potential source of job creation, struggle with access to finance, agronomic challenges such as disease management and seed quality, product quality and insufficient support from extension services. Given our woeful history of distorted land tenure and land ownership, it is critical to grow the sector whilst simultaneously addressing the unequal distribution of income and assets. This includes the important role of asset ownership in securing loans which can unlock wealth and improve productivity in the long run.

All this implies that agrarian transformation is crucial, requiring a fundamental change in the systems and patterns of ownership and control in agriculture and the creation of vibrant, equitable and sustainable rural communities (Cousins 2013). In this article[1] we discuss how innovative joint ventures between smallholders, commercial farmers, agribusinesses, industry associations and government can help drive agrarian transformation and address the binding constraints faced by smallholders.

Key lessons and principles from a review of selected successful joint ventures

Some are critical of joint ventures as a panacea for agriculture and land reform in South Africa (see Anseeuw et al. 2015). They point to the limited number of success stories, unequal power relations and skewed benefits between partners and communities, a loss of control and decision rights over production and resources, and a (questionable) implicit assumption that the commercial farming model is superior. Yet they acknowledge that joint ventures can yield encouraging results for smallholders. These include increased production, access to services such as training and technical assistance, access to inputs and production credit, as well as access to formal markets (including compliance with standards).

There indeed are many examples of commercial farmers, farmers' organisations and other private-sector institutions that have elected to drive agrarian transformation through partnerships. These aim to overcome the challenges faced by the sector. We draw key lessons from a review of fifteen case studies – initiatives that have contributed significantly towards agrarian transformation. These case studies were selected through a desk-top exercise with some site visits. This was followed by contacting the people involved in the initiatives to verify information and request permission for the information to be included in our review.

Table 1: Selected initiatives categorised by general theme

Improving access to markets, land and finance		**Implementing unique institutional models**	
1	Lambasi agricultural initiative (Lambasi, Eastern Cape)	**6**	Berekisanang Empowerment Farm: water-use rights model (Upington, Northern Cape)
2	Massmart Supplier Development: retailer-led supply chain linkages (various provinces) e.g. Lethabo Milling (Ventersburg, Free State)	**7**	Bosveld Group: lease-back model with Moletele community (Hoedspruit, Limpopo)
3	AmaNgcolosi Community Trust (Kranskop, KwaZulu Natal)	**8**	Mondi: sale-and-lease-back model (Various provinces, including Mpumalanga and KZN)
4	Witzenberg PALS: integrated development involving multiple stakeholders (Western Cape)	**9**	Cedar Citrus: equity share scheme with strong export linkages (Citrusdal, Western Cape)
5	Tongaat Hulett: contract farming with small-scale growers on communal land (KZN)	**10**	Constitution Road Wine Growers: equity share scheme (Robertson, Western Cape)
Generating economies of scale: cooperative farming		**Training, mentoring and technical assistance**	
11	Suurbraak Grain Farmers' Cooperative: dynamic funding model (Suurbraak, Western Cape)	**14**	National Wool Growers' Association training and development programme (Eastern Cape)

[1] The views expressed in this article are those of the authors and do not necessarily represent those of the National Treasury. While every precaution is taken to ensure the accuracy of information, the National Treasury shall not be liable to any person for inaccurate information, omissions or opinions contained herein.

12	Grassland Development Trust: leveraging centralised infrastructure (Tsitsikamma, E Cape)	**15**	Rosle Citrus: workers' trust, equity share scheme (Marble Hall, Mpumalanga)
13	Amadlelo Agri: empowerment investment company (Eastern Cape)		

Based on this review, we outline a common set of principles and success factors to guide such initiatives, citing some examples.

The private sector led the design and implementation across the selected projects

The private sector has played a critical role in the success of these projects from their inception. Significant buy-in and commitment from private sector players, including commercial farmers, large-scale agri-processors, retailers, large and small-scale cooperatives and industry associations are clearly shown as an important factor of success in each project. In most cases, the various players took it upon themselves to address and expedite agrarian transformation in their respective subsectors and regions. Due to their established position in the market, private-sector partners are able to help beneficiaries overcome their unique financing and working-capital constraints as well as risk-management concerns.

An example is Cedar Citrus, the citrus industry's first farmworker-equity share scheme (project 9 in table 1). It is jointly owned by the owners of ALG Estates and 23 long-term employees of ALG Estates. The employees own 50% of the farm. Cedar Citrus was established, led and funded by the owners of ALG Estates as part of a land redistribution programme on their property. The owners of ALG Estates donated 36 hectares of water-use rights to Cedar Citrus, took out loan finance to establish 36 000 citrus trees – partially funded by the Industrial Development Corporation (IDC) – and covered all operating costs until the orchards reached production. These support measures were crucial to the success and profitability of Cedar Citrus, which has paid dividends to beneficiaries since 2010 and is expanding production further.

Access to finance is essential for the implementation and long term sustainability of agrarian transformation

Most of these initiatives require funds from a combination of private and public sources. These include the commercial farmers, agribusinesses, public finance corporations, development finance institutions and government departments. The type of financing varies significantly across projects. Types of support include soft loans, government grants, provision of infrastructure and moveable assets, infrastructure and asset sharing, and direct funds from commercial partners. Each of these constitutes a form of concessional finance.

- The Grassland Development Trust (GDT; project 12 in table 1) is a successful empowerment project benefitting 49 current and past employees of Grasslands Agriculture, a large commercial milk producer. GDT purchased the Schoonfontein dairy farm with grant funding from the Land Redistribution for Agricultural

Development (LRAD) programme of the Department of Land Affairs. The grant covered 35% of the purchase price, while the remaining 65% was funded by a private loan from Standard Bank under its Khula Land Reform Empowerment Facility (LREF). Grasslands Agriculture contributes all working capital including cows, tractors and other implements to the farm. In return it receives half of the revenues from milk sales. The initiative has transferred 100% land ownership to the beneficiaries of the trust and provides substantial financial benefit, mentoring and training to them. GDT (as the landowner and employer) has final authority, resulting in genuine empowerment.

- The Suurbraak Grain Farmers Cooperative comprises smallholders farming on communal land in Suurbraak in the Southern Cape (project 11 in table 1). It applied a dynamic funding model during its first five years of operation. Production costs were fully funded by an allocation from the Commodity Project Allocation Committee (CPAC) of the Western Cape Department of Agriculture, which was phased out over four years. Members of the cooperative contribute 10% of their annual gross harvest earnings towards the cooperative's central reserve fund. This fund assists members to farm sustainably by sharing the cost of machinery, for example. In 2016, the cooperative's whole crop was funded by the smallholder farmers from reserves built up in this fund and with loans obtained from Sentraal-Suid Co-Operative (SSK) and SAB Miller. The farming business has become commercially successful and has spurred farming activities on other land available to the community, particularly in sheep farming.

Successful joint ventures usually possess unique institutional arrangements

The complexity of successful agrarian transformation demands project-specific institutional arrangements that are tailored to the commodity and region in which the project is situated. A one-size-fits-all approach, in particular to address land reform, should not be adopted, given the complexity of issues at hand.

- Mondi (project 8 in table 1) decided in 2008 not to contest any claims lodged in terms of the Restitution of Land Rights Act, 1994 as amended. Instead it pursues a programme of large-scale settlements to bring claimant communities into their business. Since 2008, Mondi has settled and implemented 17 land-claim partnership agreements. The company has transferred payments of over R60 million to claimant communities in the form of rental payments, production incentives and claimant contractor payments.
- The Berekisanang Empowerment Farm (project 6 in table 1) in the Northern Cape was initiated by Afrifresh, a large fruit exporter and owner of Galactic Deals, a table-grape farm. Afrifresh consulted workers on the farm to gauge their interest in a joint project involving water-use rights. In 2012, a farmworkers' trust comprising 24 farmworkers on Galactic Deals was granted 500 hectares of water-use rights by government. Afrifresh then partnered the Galactic Deals farmworkers trust and the

IDC to purchase the adjacent Berekisanang farm. The farmworkers trust used its allocated water-use rights to contribute to the equity and purchase of Berekisanang. This unique institutional arrangement shows how the approval of, and ease of access to water-use rights can be used to foster innovative transformation partnerships led by the private sector that empower emerging farmers.

Capacity building by means of training programmes, mentoring and hands-on technical assistance is a key feature of the projects reviewed

'Training and Development for Communal and Emerging Wool Farmers' is a programme of the National Wool Growers' Association (NWGA; project 14 in table 1). It has directly supported over 24 480 small-scale wool growers in communal areas in the Eastern Cape since 1997 (Okunlola et al. 2016). This programme has been highly successful in increasing the production of wool, income and position in the wool export industry of these farmers, who run their flocks on communal land. The project breaks the stereotype that only private property and freehold titles can provide a secure basis for market-oriented agricultural development.

Contract farming can be an effective method of expanding small-scale farming

Contract farming typically involves agribusinesses' providing small-scale farmers with key inputs (financing, seeds, fertiliser, training, etc.) and then purchasing a certain percentage of the farmers' output. Such partnerships support smallholders to achieve higher productivity, scale, access to inputs and markets and can ultimately help them to advance towards commercial status.

- Tongaat Hulett (project 5 in table 1) uses a variety of programmes to partner with local communities in Kwa-Zulu Natal, including contract farming agreements with small-scale sugar farmers. This provides these farmers with guaranteed market access through the supply of sugarcane to three of Tongaat's sugar mills according to a fixed delivery schedule. Tongaat has a team of technical experts and engagement specialists that support the network of contract farmers – a crucial aspect of the initiative. Through partnerships such as this, the aim is to expand sugarcane production, support socio-economic and infrastructure development and transfer skills to participants.
- Massmart (project 2 in table 1) established a R242 million Supplier Development Fund in 2012. This was part of the approval conditions set by the Competition Commission for Wal-Mart's purchase of a majority stake in Massmart. This fund assists developing small-scale farmers and emerging agribusinesses through purchase agreements, extension services, merchandise safety and quality compliance, in-store promotional and merchandising assistance and financial and business training. The fund is a notable example of how competition policy can be used to trigger support for small-scale farmers and emerging food producers via the procurement requirements of large agribusinesses or retailers.

Access to domestic and export markets is a significant barrier to entry for small-scale farmers as well as less-established emerging farmers

Co-operation with commercial farmers and large agribusinesses (and, in certain cases, with retailers) is crucial in order to provide smallholder and emerging farmers with an effective channel to access domestic or international markets. Being incorporated into existing market linkages and value chains (of their commercial-farmer or agribusiness partner) is decisive in enabling these farmers to expand and diversify production.

- The Lambasi agricultural initiative is a jointly-owned farming operation in the Eastern Cape (project 1 in table 1). It was established through collaboration between Anglo American's enterprise-development arm, Zimele, and the Jobs Fund. The funding was used to finance land preparation, input costs, planting, harvesting and training, as well as technical support. The initiative successfully aggregated 900 hectares of arable land into a single commercial farming entity, representing 490 individual landowners. The smallholder farmers in Lambasi obtain market access through an agreement with Farmwise Grains to buy their produce. This is known as an 'offtake agreement' and is one way to provide smallholder farmers with an effective channel to access markets.
- The Bosveld Sitrus Group – through its fully-owned subsidiary Richmond Kopano Farming – leases and operates the Richmond farm from the Moletele Community, who are the land claimants and property owners (project 7 in table 1). This farm formed part of a land restitution claim in 2004. The Moletele community benefits in several ways: they receive rental income (which increases each year) as well as an amount based on the turnover of the farm; there are employment opportunities on the farm; employees are given training and skills development; and they have the option to purchase up to 50% of Richmond Kopano Farming at any stage of the partnership. The model allows for community members (landowners) who have an interest in agriculture to become part of the business process. Crucially, the Moletele Community benefits from access to the scale and market linkages of the larger Bosveld Sitrus Group through Richmond Kopano Farming – the commercial partner. This allows for the negotiation of discounted prices with the suppliers of packing material, chemicals, fertilisers and also shipping lines.

The experience, expertise, regulatory compliance and strong brand reputation of larger agribusinesses is vital for emerging partners to access domestic downstream markets as a first step, and to subsequently have any chance of entering the export market.

Conclusion

Joint ventures are not intended to replace existing government initiatives to drive agrarian transformation. However, by utilising the financial resources and expertise in the private sector, they can be used successfully to complement existing government interventions such as training and extension services to targeted subsistence and smallholder producers. Some have raised questions about the ability of joint ventures to contribute to effective agrarian transformation. However, having reviewed several successful projects, it is clear that many of these factors can be overcome through the careful design of the partnerships and the models implemented.

Joint ventures remain an important complement to existing government interventions that are aimed at achieving agrarian transformation while ensuring that agricultural production is not compromised. These examples of successful joint ventures can be replicated in some form across the country, as long as specific local conditions are taken into account. Moreover, joint ventures can be scaled up if government creates a more enabling environment for investment in agriculture through well-designed policies. It is important, however, to emphasise that joint ventures constitute just one type of model for agrarian transformation and typically require significant investment from large commercial farmers and agribusinesses.

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