



Agribusinesses' Projects in Contribution to Broad-Based Black Economic Empowerment in South African Agriculture:

Individual Case Study Reports

Agricultural Business Chamber Report

Compiled by:

Johan van Rooyen and Johann Kirsten

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¹ Johan van Rooyen and ² Johann Kirsten

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Senwes Case Study

1. Introduction and company overview

Senwes is a diversified agri-business that provides agricultural production inputs, market access to agricultural products and value-adding services to its customers. As an agricultural business SENWES focuses on:

- the development of access to markets for agricultural produce; and
- the supply of input products to the agricultural producer;
- adding value to role players in this chain.

Founded 101 years ago, Sentraalwes played a leading role in the South African agricultural industry. The business has grown steadily and diversified, and on 10 April 1997 the old co-operative business form made way for a new public company, Senwes. Senwes conducts extensive activities in sectors such as the grain industry, supply of farming inputs, the mechanisation market and financing services focused on agriculture; with presence in Free State, North West, Northern Cape and Gauteng provinces.

The company owns silo infrastructure (67 silos) with a capacity of 4.6 million tons which constitutes more than 25% of the total South African commercial storage capacity. Senwes silos handle about 30% of the country's grain and oil-seeds in a normal agricultural production year.

The trade and mechanisation side of the business provided via a network of 24 branches is aimed at providing agricultural producers with exclusive and competitive value and service packages. Value is added for producers through relevant input cost financing packages. The sundry operations of the Group comprise the processing and packing of seed and production of wine as well as the rendering of financial services through an insurance brokerage.

During 2006 SENWES entered into a broad based black economic empowerment transaction with the Bafokeng Consortium. This is not the only dimension of SENWES approach to BEE. Senwes has a comprehensive black economic empowerment strategy which is based on six pillars. It is an approach that combines a variety of elements into a coherent process which include:

- Ownership and control
- Employment equity
- Skills development

- Preferential procurement
- Enterprise development
- Corporate social responsibility

Senwes has made a strategic decision to provide for black equity ownership that would result in the company being classified as black empowered. This positioning should result in significant black participation in governance and executive control. The transaction with the Bafokeng Consortium made this a reality.

Senwes also actively pursues the goal to develop a diverse workforce and achieve equity at all levels of operations through a holistic approach. Senwes's approach to employment equity seeks to change not only the demographics of the organisation, but also the attitudes and perceptions of people.

Senwes as an organisation relies primarily on highly skilled employees. For this reason the company has in place a variety of skills and management development programmes, on the job training, mentoring, coaching and support. All of these programmes seek to develop, nurture, maximise the deployment and management of critical skills and competencies.

Through the element of preferential procurement Senwes has committed itself to broaden its supplier base through the provision of opportunities for previously disadvantaged enterprises and individuals to supply goods and services on a preferred basis. The preferential procurement strategy will be based on commercial sustainable principles, and not on a social responsibility basis.

Under the Enterprise Development element of the BEE strategy Senwes facilitates the establishment and expansion of targeted sustainable and commercially viable small and medium enterprises in the black community. More specifically, and more related to the topic of this investigation, Senwes is involved in the development of emerging black commercial farmers, through the provision of technical support, facilitation of access to capital, training, input supply and mentorship. This is the main focus of the remaining sections of this document.

2. Overview of the Senwes programme to support developing farmers

2.1 Responsibility and management

The new executive management of Senwes under the leadership of Mr Johan Dique in 2001 gave the instruction to establish an agricultural development section within the Agricultural

Services Department of the company. The mission of the Agricultural Services Department is to supply specialized agricultural services to enhance the decision making processes of producers. These services range from agricultural economic services and agronomic services to livestock and pasture management services as well soil classification. It is within this division that Senwes runs an emerging farmer development programme which it provides comprehensive technical and financial assistance to a total of 11 developing grain producers.

The support services provided to these farmers include:

- Finance
- Technical support
- Market access
- Production inputs
- Risk mitigation
- Training and mentorship
- Production implements

2.2 Staffing and approach followed in the programme

In order to be of value to this new clientele it was necessary for Senwes to recruit and appoint agriculturists of colour. The first of these specialist staff was appointed in 2002 while Senwes also started to engage mentors to assist groups of new farmers. Initially two animal scientists and two agriculturists were recruited but high staff turnover resulted in the staff position dedicated to the emerging farmer programme changing regularly and currently the programme makes provision for the following staff complement: one animal scientist; two agronomists (one vacancy) and one agricultural economist. Coordination within the programme as well as mentorship of staff in the programme is critical and requires substantial input from the manager of the division and the agricultural economist. The reality is however that the agriculturalists employed are relatively inexperienced and undergo a coaching and mentoring period for at least two years.

The philosophy of Senwes in the farmer development programme is one farm – one farmer (family) – or at the most a partnership. Due to previous bad experiences the company has decided not to provide any support or services, and especially not production finance, to groups of farmers on one farming enterprise. The selection of farmers qualifying for financial and other forms of support is therefore very strict. The identification of farmers could take place from various angles. In some cases the engagement by Senwes was requested by a provincial Department of Agriculture while in other cases farmers might have approached Senwes for support and advice or he/she applied for production finance.

In the case of an application for finance the application is treated like any application for production finance and the collateral value of the land as well as the potential of the land in terms of its location and soil characteristics are assessed. Once the application is approved Senwes will provide the full suite of technical support as a way to grow and mentor the farmer but also to limit the risk for potential default on the production loan. It should however be mentioned that technical and financial support is usually only provided after a comprehensive resource and competency as well as feasibility analyses as discussed in detail in later sections.

Some of the farmers currently member of the support programme acquired land via the LRAD and PLAS programmes. In the case of the beneficiaries in the PLAS programme the land still belong to the state and farmers thus do not have any collateral. In order to provide production finance to these farmers, Senwes had to introduce some form of guarantee in case farmers defaulted on these loans. An 'Enterprise Development Fund' was established for that purpose and around R2 million ring-fenced to make provision for possible bad debt. The extent of this provision depends on the number of farmers to whom finance is made available. The production finance is provided to farmers at prime interest rate plus 1-2% which is relatively favourable considering the large risk involved.

In addition to the guarantee that Senwes introduced the company basically engage all supported farmers in some form of contract growing scheme which involves comprehensive input insurance; hands-on support and assistance with the costs related to contractors (ploughing and harvesting).

Senwes is also in the fortunate position that some of the costs related to the support programme are covered by industry partners. The Maize Trust for example provided a grant to Senwes to cover the cost of the comprehensive insurance and some elements of the support activity such as liming of soils. This support however only applies to maize while Senwes subsidises the costs related to sunflower production from its own funds. Most technical advice and support are provided free of charge to all farmers except soil sampling and soil analyses.

The conditions of support to these farmers also require that farmers buy their inputs from Senwes and that they deliver their grain to the nearest Senwes silo. Grainlink – the Senwes subsidiary responsible for grain storage and marketing – is linked through the central computer system to the credit control division and will only make payments to farmers for grain delivered, after provision was made for the outstanding production loan.

Another important dimension in the Senwes approach to supporting developing grain and livestock farmers relates to capacity building and skills transfer. Skills transfer is based on practical assistance through the 'learning by doing' principle and mentoring. Mentoring

plays an important role in building capacity amongst the new farmers. The process of 'continuous improvement' is applied through the identification and addressing of specific areas of improvement within a specific time frame.

2.3 The support model and methodology followed by Senwes

The engagement by Senwes in supporting developing farmers takes place through an interaction of major role players which are: the Senwes agri-specialist, the mentor, Senwes divisions (Credit/Village and Grainlink). The support programme follows a specific process which involves the following steps:

Step 1: Assessment

The potential new farmer is assessed by means of a scoring sheet consisting of a number of criteria such as the ownership of the farm, number of beneficiaries, farming experience, state of natural resources and management skills.

Step 2: Comprehensive analysis and planning

This step entails a complete needs and resources analysis which includes the following:

- Chemical and physical status and classification of arable land
- Mechanization planning
- Enterprise planning
- Compiling of a production plan
- Feasibility study (enterprise - and cash flow budget as well as balance sheet)
- Financial needs assessment
- Training needs
- Identification of a mentor

All the above is the responsibility of the agri-specialists and is being done in collaboration with the farmer. The above steps are also deemed necessary for pro-active risk management.

Step 3: Credit Application (if applicable)

The farmer is introduced to the Agricultural Input Sales agent who compiles a credit application' and attach the agri-specialist's report. The application is then assessed against normal criteria which include the provision of collateral with the only exception in cases where property has not been transferred. In these cases where permission is then requested to ring fence funds allocated for Entrepreneurial Development.

Step 4: Appointment of a mentor

The farmer is requested to identify a mentor who would be willing to assist him as and when needed. In some cases Senwes might insist in signing a formal tri-partheid mentorship agreement. In these cases the mentor will work in close collaboration with the AgriServices Specialist who monitors the proper execution of the agreed production plan. At present The Maize Trust has made funds available to assist Agri-businesses such as Senwes in the payment of mentors.

Step 5: Post settlement and - credit approval support ("Aftercare")

Comprehensive technical advice and assistance are being provided in order to successfully execute the production plan. This implies various farm visits during the different stages of the production process. Progress reports are submitted on a regular basis. The farmer is also linked to the SMS messaging service for access to the latest market information. Other interventions include the attending of organised farmer days and the facilitation of formal technical training courses presented by commodity organizations such as Grain SA. In cases where farmers have insufficient mechanization capacity, SENWES facilitates the process of acquiring the services of a contractor and or with the buying of equipment.

Step 6: Information capturing

A data base has been developed where all relevant demographic, enterprise specific and project progress are being captured.

Step 7: Evaluation of continued support

The overall performance of the farmer is evaluated at the end of the production season where after a decision is made for further future assistance. A three to five year period of intensive support is envisaged if production performance remains satisfactory.

3. Statistical overview of the Senwes programme

The number of farmers participating in the formal support programme operated by Senwes fluctuates between 8 and 11 over the last three seasons as is clearly illustrated by Table 1 below.

Table 1: Statistics related to the farmers in the developing programme of Senwes

Season	# of farmers	Hectares	Senwes Finance
2007/8	8	435 (maize) 438 (sunflower)	R921 000
2008/9	11	683 (maize) 987 (sunflower)	R6.7 million
2009/10	8	1 220 (maize) 860 (sunflower) 106 (groundnuts)	R6.5 million

In addition to these numbers there are annually between 20 and 30 black farmers part of the Continuous Improvement Programme in animal production. We should also take note of the 170 black farmers in the Taung/Vaalharts region producing barley under contract for SAM Maltsters. The only engagement by Senwes in this activity is that these farmers deliver their barley to the silo depot at Vaalharts.

There are also an unknown number of black farmers in the Senwes service region that do business with the various trade and mechanisation centres and with the silos on a cash basis for which limited records are available. Some of these farmers are also farming on a sharecropping basis where they share the operations with white commercial farmers. All these farmers as well as the hundreds of livestock farmers are all making use of the Senwes service network. Many livestock farmers buy feed and veterinary medicines from the Senwes trading stores which per definition illustrates the point that the service network is providing more support to farmers than is visible through the formal support programme. (It is estimated that 30% of the total turnover of Senwes could be related to cash transactions). Although the large service infrastructure and network is accessible and available to all farmers it is true that the extent of access to finance is rather limited. Out of the total credit book of R1.3 billion only R32 million is provided to black farmers – a mere 2.46%. The risk to the company due to limited collateral of these clients and the lack of state or Land Bank guarantees are all to blame for this reality.

The extent of Senwes' engagement in farmer development beyond the formal development programme is also reflected in Table 2 below which presents the statistics on the activities in the Agricultural Services Division. The costing model of the company requires the division to keep track of all activities. A distinction is made between farm visit by agriculturalists to a black farmer or to white commercial farmer. The same is done for office visits, telephone enquiries and production plans and feasibility studies and ad hoc enquires.

Table 2: Agricultural Service Division support and advice to developing farmers

Season	Farm visits		Office visits		Telephone enquiries		Production plan		Ad hoc enquires	
	Devel	Total	Devel	Total	Devel	Total	Devel	Total	Devel	Total
2008/9	363	817	81	668	434	1 983	320	817	17	73
2009/10	162	439	52	525	397	1 547	72	302	539	2 209

Many of these farmers are non-Senwes members but still make use of the services of the company. It is estimated that during the 2009/10 season Senwes agricultural services contributed R1 268 000 in value added to these non-Senwes members.

As mentioned earlier, Senwes had to create an additional 4 positions in order to be able to run the support programme and general advisory services for developing farmers. This meant additional office space as well as vehicles and other office equipment. The total cost to company of this activity is as follows:

2007/08 financial year: R928 000
 2008/09 financial year: R1.3 million
 2009/10 financial year: R1.5 million

4. Lessons to be learned for up-scaling of activities and for replication by other

The Senwes developing farmer programme has highlighted some important lessons:

- Mentorship is absolutely critical and if the appropriate mentor was appointed more success is achieved. This experience provided an important lesson to the company in that they will rather do up scaling of the programme through the use of mentors than through expanding the staff in the Agricultural Service Division. The extra overheads as well as the additional coaching burden of these new staff members do not compare favourably with the immediate benefits that can be obtained from the correct selection of mentors. Under the same theme of mentorship it became clear that trust and respect between farmer and mentor is critical.
- Senwes believes in the value of farmers who want to make a living from farming and who are full-time farmers and who are independent from any group. The Senwes experience has affirmed the reality that part-time farmers are rather problematic since they are not always present for training and advice resulting in their productivity being substantially less than the rest of the farmers in the programme. The learning by doing

principle is in particular valuable for capacity building and if farmers are not engage in all processes nothing is really been achieved.

- In order to minimise the risk of production failure and then default on production loans Senwes believes in a hands-on approach but also in a strong participative manner. It is for this reason that Senwes find it difficult to allocate more company resources beyond the existing numbers. Up scaling will thus only happen once partnership with government and financial guarantees are in place.
- One critical lesson is however, that agribusiness should not at this stage rely on any support or effective engagement from all spheres of government.
- Finally, it is clear that too many role players involved in such projects and support programmes can be problematic. Thus Senwes believes in the involvement of not more than two role players to ensure swift implementation of decisions and strong co-accountability.

5. Failures VS Successes

This programme has matured and grown the farmers that benefited from the variety of services provided through the programme. The programme is also viewed as a success due to the fact that only a small provision for bad debt had to be made during the past two seasons. This speaks a lot about the farmers' willingness to work with Senwes but also illustrates the value of a hands-on approach with a small group of beneficiaries.

MGK Case Study (TEMO Agriservices)

1. Introduction and company overview

MGK was established in 1930 and has since grown into an influential agricultural role-player in South Africa. MGK was formerly known as “Magaliesbergse Koring Koöperatiewe Maatskappy Beperk” and in 1949 changed its name to “Magaliesbergse Koringkoöperasie Beperk”. In 1969 the organisation was renamed the “Magaliesbergse Graankoöperasie Beperk”. In 1998 the cooperative converted to a company and was renamed MGK Operating Company (Pty) Ltd. MGK has become a prominent role player in the Northwest, Limpopo, Mpumalanga and Gauteng provinces and recently expanded to the Vaalharts irrigation area in the Northern Cape. MGK’s main focus is irrigation farming and it offers a wide spectrum of agricultural services through its various operating units. Agricultural equipment and input products can be sourced at MGK’s retail division trading under the Obaro name. Prodsure offers services relating to grain marketing, sales and storage of grain as well as oilseed processing. Prodsure owns and operates five grain silos, which are located in Brits, Northam, Rustenburg, Randfontein (Battery) and Pretoria West respectively Prodsure’s fleet was recently expanded to 10 trucks in order to facilitate transport of grain directly from the farm immediately after the crop has been harvested. Prodsure’s fleet provides transport to other industries during the off season.

All-Gro Seed is a household name in the grain seed industry and has the sole right to distribute the successful Duzi and Krokodil wheat seed cultivars. All-Gro Brands sells pet food, organic fertilisers and organic pest control products. Statusfin offers farmers various financing products as well as crop and short term insurance. MGK’s Temo Agri Services division has an exceptional track record with regard to empowering and supporting emerging farmers since 2004. MGK also invests in technology and innovation through its Information technology subsidiary Info-Gro, which offers IT solutions to small and medium enterprises especially in Brits and surrounding areas, and provides IT support to MGK’s different business divisions.

2. Overview of the MGK programme to support black farmers

MGK through its venture with Temo BEE Farmers Share Trust established Temo AgriServices which has a development program through which it mentors and develops emerging grain and oilseed farmers to become commercial farmers. Temo Agri Services operates as one of MGK business divisions and 100% owned by MGK Business Investments Ltd. This is illustrated in figure 1 below.

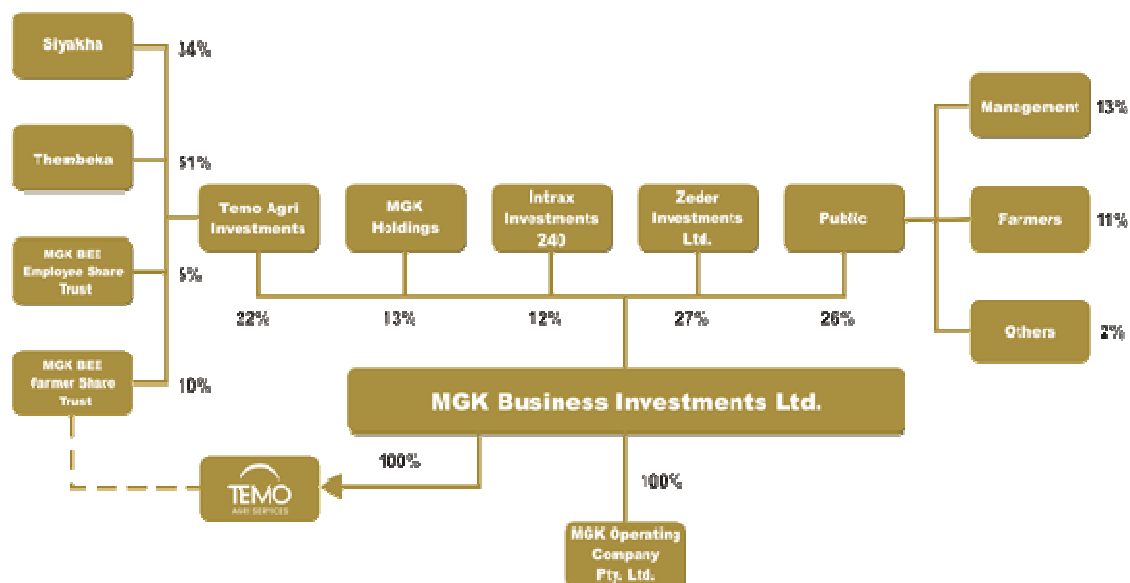


Figure 1: MGK business model

All farmers that join the program are beneficiaries of the Temo Farmers Share Trust that owns 2,2% indirect shares in of MGK Business Investments (Ltd). Temo Agri Services provides the following services:

- Production loans;
- Crop insurance;
- Production inputs;
- Marketing & logistics; and
- Mentorship.

The central activity of the programme implemented by Temo AgriServices, and perhaps the strength of the company, lies in its mentorship program which is designed to train and develop emerging farmers. These mentors are all full-time employees of MGK. Key to the success and achievements of the programme are the mentors. The objectives of this programme are the following:

- To ensure that farmers acquire the necessary technical skills required to succeed in grain and oilseed farming
- To train farmers on farm management
- To train farmers in finance planning and budgeting
- Train farmers on HR Management
- Provide administrative assistance regarding procurement
- Assistance in obtaining credit

It is evident that mentorship and training are two of the main activities in the programme. Farmers are assisted in the making of key and important decisions on the farm and in practical terms it implies that the farmer and mentor jointly agree on decisions related for example to:

- Land preparation
- Planting and harvesting (especially the timing of these activities)
- Crops to be planted and cultivars
- Appointment of contractors

An account is opened for the farmer at the beginning of the contract. This account is used to buy all the inputs and rent the farm implements. At the time of the harvest the difference between the value of the crop and the account will be paid to the farmer. The farmer is not charged for the technical assistance.

Between 2003 and 2008 there has been significant increases in the number of farmers involved in the project, together with an increase in the number of hectares (See Table 1 below) and the number of jobs created. However, for further expansion Temo needs additional mentors, as well as partners willing to share the financing risk.

At present interest rates on these production loans are very competitive. Although no collateral or security is offered interest rates on these loans made from Mafisa funds is even lower than those prevailing in commercial financial markets which is contrary to the normal “pricing according to risk” models. Existing farmers financed with IDC funds are priced at the prime interest rate if they have no carry-over debt. Pricing of production loans financed with IDC funds is more comparable with risk pricing models and hence interest rates charged are more comparable to rates prevailing in the commercial financial environment. Extended loans on outstanding balances are priced at higher interest rates.

Most farmers are located on communal land, so the size of their fields may vary. If they are on communal land, they need a letter from the tribal authority to certify that they are farmers and that they have permanent access to the land. Some farmers enter into rental agreements with households not using their allocated land and this happens at a rather low price. If the harvest fails there is a compensation system and the farmer is given additional time by MGK for loan repayment.

Farmers who are selected to participate in the programme are organised into study groups with each group appointing a leader and a secretary. The study groups hold regular meetings where issues related to farm and production planning, problem solving, communication with MGK and theoretical aspects of training are discussed.

The average yield for grain grown by the farmers in the programme is between 600 and 700 kg/ha. The price for grain paid to farmers is determined by the prevailing SAFEX price or, in the case of sorghum, by the price negotiated with sorghum buyers.

The major partners in the MGK programme include:

- MAFISA
- MGK Operating Company Pty (Ltd)
- Industrial Development Corporation of South Africa Ltd (IDC) (IDC also requires guarantee)
- Santam

As from the 2010 production season Mafisa provides the major share of the funds needed for the production finance. The MGK programme also benefits from sponsorship by the Oilseeds Trust; Maize Trust, Agriseta and MGK Operating Company Pty (Ltd). These entities act as sponsors of training and development of farmers and also sponsored certain running expenses. MGK was recently informed that in future only formal academic training courses will be sponsored as incentive schemes offered by government to businesses to get involved in development have changed. These incentives now aim at stimulating direct involvement rather than just offering finance to entities who are involved.

3. Responsibility and management of the programme.

Ben Visser is the person responsible for the day to day rollout with Reino van Schalkwyk as assistant manager. Barend Erasmus is the senior technical mentor and leads the team of mentors on agronomic matters. Barend has two deputy technical mentors Nico Prinsloo and Ockert Koorzen, while the team also includes a financial mentor, Chaela Bonakele, who's responsibility it is to assist with explaining statements and all other financial matters. From the Obaro division Patrick Sekwatlakwatla is the livestock mentor and the only black livestock carcass judge in South Africa.

4. SWOT analysis to enable unpacking of the micro level problems in each of the activities

The SWOT analysis is provided to unpack micro level problems related to the delivery of the support services by MGK/Temo. This is well presented in the Table below and highlights the major strength and weaknesses of the programme. It is worth highlighting that the fact that the programme is managed as a 'strategic business unit' helps to clearly understand the direct allocated costs and income of the programme. The direct engagement with farmers

through the mentorship process and the hands-on management of the production activities of the farmers in the programme has important cost implications that cannot be ignored. MGK hoped that this activity will after a few years break-even but that did not happen and is costing the company more than R3 million annually. The many partners in the programme as well as the element of public-private partnerships also provide important strengths of the programme. It is however a concern that the Department of Agriculture is not involved and does not channel CASP and other grants via the programme.

Table 3: SWOT Analysis of the MGK / Temo Agri services projects

<p style="text-align: center;"><u>Strengths</u></p> <p>Innovative approach More than one stakeholder Share risks BEE initiated Longer term view Mentorship program Public-Private partnership</p>	<p style="text-align: center;"><u>Weaknesses</u></p> <p>Exposure to agri- risks Land ownership Dependency on mentorships Building equity Price volatility Loan arrears</p>
<p style="text-align: center;"><u>Opportunities</u></p> <p>Expansion of program Government involvement Risk sharing programmes More black mentors – credibility Safety nets</p>	<p style="text-align: center;"><u>Threats</u></p> <p>Trust: buy-in Agri – risks Long term sustainability of program Potential of side-selling of commodities</p>

One of the weak points of the programme is its exposure to volatile prices. The current low maize prices are putting farm profits under pressure and could influence the trust relationships between farmers and the company. Already the company has to deal with loan arrears which are in itself a weakness of the programme. The question of loan arrears is specifically problematic since farmers could not offer land as collateral because they farm on communal land. This is a major problem for MGK and a potential weakness of the programme.

5. Statistical overview of the MGK/TEMO programme

Table 1 below illustrates the extent of the engagement by MGK in trying to mainstream black farmers through its mentoring and support services programme. In addition to these numbers MGK note that about 12 black farmers are part of the main stream since they are regular clients, purchase inputs and deliver grain and other commodities to the depots of MGK but make use of own financial resources or obtain it elsewhere.

Table 4: Production history and financial position of farmers supported by MGK/Temo

Year	# of farmers in project	Temporary jobs created	Commodity (ha)			Production capital employed	Source of finance	Loans not repaid	Government assistance	Profits paid to farmers
			Sunflower	Sorghum	Other					
2004	22	167	2500			412 580	MGK			414 587
2005	39	231	3927			2 569 000	MGK	280 000		468 520
2006	76	590	8820			5 420 000	MGK	573 000	2 800 000	1 970 164
2007	99	1018	16300			7 350 000	MGK	1 106 000	5 800 000	1 472 713
2008	175	1320	15000	709	1517	25 134 000	MGK	2 150 000	6 000 000	21 809 275
2009	165	1250	15100	477	1665	42 500 000	MGK/IDC	11 650 000		5 272 530
2010*	116	490	6591	969	240	38 100 000	MGK/Mafisa			
Total						121 485 580		15 759 000	14 600 000	31 407 789

Source: Temo database

* Budgeted figures

As with any other business which requires human expertise to be remunerated, operating costs is quite high. The difference is however that the income generating capacity of Temo is restricted to interest charges and fees allowed in terms of the National Credit Act. Interest charges makes out the major share of Temo's income. Temo however pays interest on the loan funds which it borrowed to lend out to farmers. The spread between the borrowing and lending interest rates varies around only 3%. The outstanding debt at the end of the harvesting season however varies anything between 10% and 20% of production capital advanced. It is important to note that this outstanding debt at the end of the production season is not backed by any form of tangible collateral or security. As a result of the low income generating capacity of the business and the high default net of security or collateral Temo is dependent on subsidies from other entities to cover its running expenses.

As a result of the geographical distribution of the areas that the mentors have to service they often have to cover in excess of 500km in one day just to reach all visiting points to farmers. A higher mentor to farmer ratio will improve the quality of mentorship offered.

6. Lessons to be learned for up-scaling of activities and for replication by other

It is important for other agribusiness firms to learn from the MGK/Temo experience in terms of: (1) trust (2) quality of products (3) consistency of delivery (4) repayment of loans (5) impact of training (6) transparency of transactions & risk management.

In relation to the trust relationship between participants and the company, the quality of products and the consistency of delivery the same principles that applies to the commercial business environment also applies here. Certain differences do however exists with normal commercial operations in terms of the repayment of loans and the impact of training.

The lack of knowledge, skills, experience and production equipment amongst farmers in the programme inevitably translates into higher default rates and hence higher outstanding debt levels relatively compared to commercial agriculture. The additional difference relates to the fact that these outstanding debts or defaulted loans cannot be reduced through foreclosing on assets held as security due to the complete absence of any form of tangible collateral or security.

A positive correlation seems to exist between performance measured in terms of yield and secondary and tertiary education where the secondary and tertiary education is specifically agriculture oriented. Further to this on the job training through experience bears a stronger relationship to performance than theoretical training.

The average age of the farmers in the project is around 54. Many people of this age were only exposed to primary education. As a direct result transparency of transactions and simplicity is very important to maintain the trust relationship. Any transaction and/or detailed technical aspect beyond easily comprehensible and simple practice require in-depth discussions and explanations which are often very time consuming. Cost scheduling of contract farming particularly complicates things as it entails costing calculations and negotiations per cultivation to be agreed upon which in turn yet again requires in depth explanation.

The single most important challenge to overcome in the MGK/Temo programme is the establishment of a 'security and risk fund' to address the shortcoming of the absence of collateral or security. Emerging farmers on communal land lack access to financial resources. Commercial financial institutions refrain from lending out money to emerging farmers due to the high probability of default and the lack of security and/or collateral to cover the losses in case of default.

7. Failures VS Successes

The general perception of the programme was that it started with great spirits with good relationships and very positive results. It focused on the basics and the relatively low input costs experienced initially contributed to conditions beneficial for profits to be made. Input cost subsidies from the Department of Agriculture also significantly enhanced profitability. The input cost subsidy scheme worked on a sliding down scale basis of 40%, 30%, 20% and 10% of input costs in the last year. Unfortunately the agreement was terminated by government prematurely. MGK was positive that their engagement will bring farmers into the commercial mainstream and allow them to exit from this venture. Transfer of knowledge and skills through experience is however a lengthy process. The business cycle of grain production is also lengthy hence everything happens only once a year from which the farmer can learn by being exposed to practical experience.

It is therefore concluded that when measured in terms of self sustainability it is unfortunately so that the programme cannot be sustained independently since the costs exceeds the income. In terms of financial viability the project is therefore currently not self sustainable or at least not independent. One of the only reasons why MGK can sustain the project is because of the full spectrum of products and service offering which MGK can make available to participating farmers. The profits made in other divisions of MGK enable MGK to subsidise the operations of Temo to sustain the programme.

The MGK/Temo initiative should however not be evaluated purely on the basis of income and expenses related to the project. The reality is that it can be said that costs are basically incurred by Temo only (inputs 100% financed) while benefits or income is earned by the community (wages to temporary jobs and profits to farmers). It therefore bears characteristics much similar to public goods and hence the realistic expectation that society or government should contribute to the costs. Benefits to society should also not only be measured in terms of financial benefits. It is important to note that skills and knowledge transfer through practical experience is process of building human capital the benefits of which cannot be easily measured. As far as success is concerned the best way of evaluating the project will be to compare the results with other projects similar to the Temo Project and compare the benefits and/or financial successes achieved.

The possibility of making the project independent and self sustainable does however exist. The most important step in this direction will be the establishment of a 'security and risk fund' to address the lack of collateral in case of loan default.

NWK Case Study

1. Introduction and company overview

NWK Limited, originally known as Noordwes-Köoperasie one of the large cooperatives before it was transformed in a private company, is a leading provider of agricultural services and inputs, primarily in the North West Province. The annual turnover of NWK limited is R6.6 billion with after tax profit of R169 million in the 2008/09 financial year. The company generates its turnover from a wide spectrum of activities in the following fields:

- Grain Industry
- Agricultural Management Services
- Trade
- Financial Services
- Industries

In the grain industry NWK provides services related to storage and handling of grain as well as grain cleaning, bagging, drying, weighing and processing. The company operates 37 silos where producers of all sizes deliver grain. In addition it also provides marketing and price risk management services to producers, millers and other buyers of grain. The department responsible for agricultural management services renders agronomic, livestock- and agri-economic advisory services, as well as precision farming services. The aim of such decision-making information and farm management aids is to minimise farming risk and to ensure sustainability in agriculture. The focus is on the support of the individual, study groups, as well as on emerging farmers in the North West Province.

Through its network of 22 trade branches and depots and 3 specialist shops NWK offers its clients a range of high quality input and consumer goods at competitive prices. The company operates 6 centres where mechanisation services are provided. This involves the marketing and servicing of a range of agricultural gear such as tractors, harvesting equipment as well as a complete range of implements and haymaking equipment.

The financial services division of NWK provides access to credit and insurance to farmers. Custom designed financing solutions for farmers' production costs as well as finance for farm implements, vehicles, insurance and other requirements are provided by this division of NWK. NWK Insurance Brokers supply insurance products such as short term insurance, crop- and input insurance, and retirement planning.

NWK presents thus a comprehensive network of support services and systems to farmers in the North West Province which include a large part of agricultural regions of the former Bophuthatswana (roughly about 180 000 ha arable land) which was previously serviced by Agricor and Agri-Bank in the pre-1994 dispensation. Currently only 10 000 to 15 000 ha are cultivated in these areas governed under traditional tenure. An unknown number of farms in this region were transferred to black beneficiaries under the Land Reform scheme, while 104 962.36 hectares were handed to beneficiaries under the PLAS scheme. All the depots, silos, trade and mechanization branches are available to all farmers in the region and all these depots are within 20-30km or within 1hour from every farmer in the service area of NWK. NWK employs 24 staff in its agricultural management services division and they provide advice in terms of soil analyses, farm management and economic analyses, irrigation scheduling, fertilization and spraying programmes. These services are provided at a fee mainly to registered farmer members of the company, but any farmer can approach NWK for these services. The farmers in the developing farmer programme receive this support free of charge.

Given the extent of the agricultural support network available it is therefore expected that all farmers of all races and sizes are in a position to make use of these services. There is thus no specific need for NWK to develop dedicated support systems for black farmers in the mainstream of the agricultural economy, i.e. privately owning farmland and farming on relatively large scale. They are treated as any member and have access to all services mentioned above. Having said this it is rather disturbing that NWK are not able to effectively tell how many black farmers are making use of their services in the same way commercial white farmers are doing it. Their own estimates suggest that not more than 0.25 – 0.5% of total turnover are related to black farmers. The only dedicated programme for black farmers is the programme focused on those farmers farming in the former homeland areas where traditional tenure arrangements apply. The fact that these farmers will not be in a position to produce if access to credit is not provided, presents thus the need for a dedicated programme to support these farmers. The rest of the document therefore explains in detail the nature and extent of NWK's development and mentorship programme for these farmers and highlights the success and failures of the programme.

2. Overview of the NWK programmes to support black farmers in North West Province

The target for NWK's farmer development programme is the arable dryland areas of the Ditsobotla district of the North West Province. It is here that agricultural development programmes were initiated by the Department of Agriculture of the former Bophuthatswana and specifically by its parastatal Agricor. Agricor was established in 1978 with the specific purpose of developing large scale capital intensive projects in the dryland

farming regions of the former homeland. Through the provision of infrastructure, mechanization services, credit, fertilizer and modern seeds AGRICOR assisted farmers in these areas to produce crops such as maize and sunflower. One of the first projects was the Sheila-Mooifontein project which was later expanded to include more areas reaching eventually 2 500 farmers and 50 000 hectares in 1984. In 1981 Agribank was established and between 1981 and 1990 Agribank advanced R322 million to farmers (all through loans from the Development Bank of Southern Africa) and wrote off in excess of R96 million in bad debt by the time it was disbanded in the early 1990s.

With the new dispensation after 1994 a gap in agricultural support services for these farmers emerged. Attempts by the Land Bank and several commercial banks have provided temporary solutions but bad debt and a lack of a comprehensive support services resulted in continued failure and limited productive farming activity. It is only since 2005 that NWK stepped in to provide support services to these farmers. As is evident from the situation in the traditional tenure areas of the North West province it was necessary to provide farmers with finance, managerial skills, technical skills and knowledge. Finance seems to be the critical aspect since the efforts of commercial financiers and the Land Bank proved to be unsustainable due to the tenure situation as well as the volatility of climate and price risk. The provision of finance seems to be the most important element of the support framework that prevents full-on commercial farming activity. All farmers have access to inputs (through NWK depots and trading stores within easy range) and markets (silos and grain traders close by) but the lack of credit to finance farm inputs and mechanization services clearly prevents these farmers from engaging in crop production. NWK therefore introduced their first comprehensive support programme (finance, training, mentoring, input provision) in the 2005/06 crop year and a total of 10 farmers on 1 152 hectares benefited from this programme and credit to the value of R1 163 503 was provided to these 10 farmers. Monsanto, Omnia and Absa Bank also played a role in this programme initially.

The involvement of NWK was largely on a project basis and since 2005 the number of projects (and thus the number of farmers) expanded as is illustrated in Table 1 below. By 2008/09 NWK was involved in the following projects:

- Batswa ko Pele (maize and sunflower production by 23 farmers)
- Agri-start project (maize and sunflower production by 62 farmers)
- Brooksby project (community based mentorship project where individuals are identified and empowered to become independent farmers).

A total area of 15 000 ha was cultivated in the 2008/09 season by the farmers participating in these three projects. The statistics reflected in Table 1 below only refer to the first two projects – thus a total 9 451 hectares. The numbers reflected in the table below are

considered to represent the biggest share of really active black farmers in the Northwest Province.

Table 5: Statistical overview of NWK direct support to black farmers

Season	# of farmers supported with production finance	Hectares	NWK loan	Loan Arrears	Crop sales by farmers financed through NWK loan
2005/6	10	1 152	R1 163 503	0	?
2006/7	35	3 238	R6 741 631	0	?
2007/8	23	2 228	R6 181 595	R621 667	R5 559 927
2008/9	85	9 451	R32 345 258	R13 449 020	R16 876 459
2009/10	38	6 587	R14 066 065	n/a	

The grain delivered to NWK by the farmers in the programme showed a significant increase over years. In the 2006/7 marketing year a total of 5 112t of grain was delivered. In 2007/8 this increased to 20 397t, in 2008/9 to 32 465t and in 2009/10 it was 90 233t. The financial impact on the farmers and their families is of great value.

The services rendered by NWK Ltd to these farmers comprise the following:

- Support on all aspects of farm management
- Grain handling and marketing
- Financing of production inputs
- Input cost insurance
- Supply and procurement of production inputs
- Technology transfer and training

The aim is to provide the farmers with skills and financial resources in order to let them grow to commercial farmers in their own right. Technical assistance in terms of production practices is available to the farmer on the farm without cost. NWK finances these farmers for their production input needs and supply them with the requisites and services needed for optimal crop production and marketing of their products. Funding from other sources such as the Maize Trust, the Oilseeds Trust and Foskor is used to cover some of NWK's costs, but some of the funding made available could also be utilised to cover insurance premiums and liming costs to a limited extent. In the 2008/9 season a loan from the Northwest Provincial Government (DED) to NWK was also utilized to finance half of the input cost of the farmers in the programme. The loan was repaid by NWK but could not be renewed and funding for the current season was taken up through the normal channels. In all instances the farmers are provided with a production loan under the requirements of the Credit Act. Other sources of financing are also currently being investigated.

Despite NWK's commitment and provision of production finance to 85 farmers the 2008/09

season provided many challenges to NWK's programme and unfortunately many of the farmers were not in a position to repay their loans. The main reason for the shortfall was the high input cost and the low producer price during that season. However, some farmers delivered grain by using the membership numbers of other farmers resulting in NWK not being able to recover outstanding debt. By the end of the season a total of R13,5 million was in arrears. NWK was therefore not in a position to finance these farmers that were in arrears for the 2009/2010 season. The farmers' lack of collateral to secure loans and the implications of the Credit Act prevented NWK to extend any further production finance to these farmers. The biggest challenge thus relates to the provision of production finance to farmers on traditional land tenure arrangements in a sustainable fashion. Other problems related to aspects such as training, appointment of supporting personnel and visits to the farms are not insurmountable and are being addressed. The problems highlighted here resulted in NWK providing production finance and thus delivery of inputs, etc to only 38 farmers in the 2009/10 production season. The other 50 farmers are still receiving attention within the programme but obviously at a much lower intensity.

3. Responsibility and management of the programme

The program as described above is the direct responsibility of the Manager: Agricultural Management Services. This division employs a total of 24 staff providing various forms of support to all farmers in the NWK service area. A total of three staff members from this unit are dedicated to the programme on a full time basis and are directly responsible for the operational part of the three projects mentioned earlier. These staff members are all black graduates with one agriculturalist responsible for all activities of the unit taking care of the developing farmer portfolio. He is supported by two agriculturalists and one staff member from the Credit Department dealing with the production accounts, administrative and financial matters. In addition two full-time employees from Santam-Agri and Omnia are involved in NWK's project to assist with crop insurance and plant nutrition matters respectively. NWK has also formed strategic partnerships with companies like Monsanto, Pannar, Agricol, Acua, Novon and Technichem to support the project.

4. Cost of the farmer development activity

In order to provide the dedicated support outlined above to the farmers in the three 'projects' NWK had no choice but to create three additional positions within the Agricultural Management Services Department. NWK now employs three black agricultural experts, namely Phillip Duitwileng, Benedict Modise and Ronnie Tshabalala. These three people operate from a multi disciplinary team of agricultural experts and are deployed on a full time basis to assist black farmers in NWK's service area. In addition a fourth staff member

in the credit control department has been assigned full-time to deal with the accounts of the farmers in the three projects. Santam-Agri, Omnia, Pannar, Monsanto and Agricol have each also deployed a full time agriculturist for these projects.

NWK's engagement with these farmers implied additional infrastructure such as vehicles, computers, telephones and office space. The infrastructure regarding input supply and grain storage is sufficient and within range of all farmers concerned.

The provisional cost to NWK attributed to the project activity amounted to R378 213 for the 2009/10 financial year. The budget for the 2010/11 financial year amounts to R1 169 000 before the financial support provided by the Maize Trust, the Oilseeds Trust and Foskor are accounted for. The formal training is done by OTI-Focus and this is financed in part by Agriseta. A total of 50 farmers received NQF level 2 training in 2009 and another 20 are currently being trained.

5. SWOT analysis of the programme

The nature, extent and impact of the support programme to black farmers by NWK can be assessed by considering the strengths and weaknesses of the programme. By considering the opportunities and threats the sustainability and replicability of the programme can also be considered.

Strengths

NWK has a well-functioning network of service centres and is well positioned within the Northwest province to be of service to any farmer in the province. Most service centres and trade centres are within a short distance to most farming areas. With substantial expertise and a variety of services as well as dedicated staff available this programme is more than equipped to support the farmers of the Northwest province. The black farmers within the dedicated support programme have thus access to expertise and services that should enrich their farming enterprise substantially. The dedicated staff and the commitment by NWK to this endeavour has also resulted in other stakeholders and companies joining the effort through financial support, availing personnel or supporting the well-structured training programmes.

Weaknesses

A high frequency of engagement with farmers in the programme is necessary due to the low literacy and cognitive levels of the farmers involved in the programme. Repeat visits, individual attention and advice needs to be provided while the officials from the Department of Agriculture are not assisting and are nowhere to be found. Infrastructure for training programmes is rather insufficient for the expressed needs.

Opportunities

This small farmer development programme of NWK provides an useful opportunity for NWK to expand its client base especially given the reality of land reform and the large number of black farmers with access to land in areas with traditional tenure systems. There are large areas of cultivatable land that can be brought into production which should be valuable to NWK in increasing the business turnover and the volume of commodities that are handled.

Threats

The biggest threat to this programme is the financial sustainability of the programme following from the constrained financial viability of the farming enterprises of the farmers in the programme. The huge amount of loans in arrears will make it difficult for NWK to consider financing grain production in areas of traditional tenure in the future and with the current low grain prices and thus low margins farmers might want to find various ways of not delivering grain to NWK's depots. Side selling of grain is a major problem, as is the problem of grain theft (in the fields and during transport). The programme's success is further hampered by the inability of the Provincial Department of Agriculture to provide any form of support or to partner with NWK in the delivery of the programme or to share in the risk.

6. Lessons to be learned for up-scaling of activities and for replication by other

Problem with trust: Farmers do not automatically trust NWK (white owned agribusinesses). Margins on grain production are very small so there is the incentive to do side-selling. Farmers tend to default on repayments, causing a break in trust from the support side.

No problems regarding quality of products from these farmers are experienced. The quality is very similar to commercial farmers although their yields and volumes are lower than that of established commercial farmers.

Delivery on farmers' account does not always happen to avoid repayment of loan. Low profit margins and theft contributes to this.

Training has been of great value but the learning curve is quite steep. It is often found that farmers enquire about a problem again that they have been instructed about previously.

Lessons – if farmers graduate to commercial farmers on a sustainable basis NWK will take on new farmers. The norm should be 20 farmers for every one agriculturalist. It often

happens that farmers receive CASP grants directly for inputs but then farmers default on NWK loan – a typical example of double dipping.

7. Concluding remarks

Agribusinesses such as NWK Ltd do have the agricultural expertise as well as the support network and infrastructure to support a large number of farmers. The ability to support farmers not farming on free hold land and in groups is compromised by the lack of collateral, default on loans, theft of grain, insufficient farming equipment and lastly the institutional problems related to groups of farmers. Over the last five years NWK has experienced most of these difficulties and challenges and could report large financial losses on their support programmes to black farmers. Unless government and the Land Bank join forces with NWK in terms of sharing the risk through some guarantee system and ensure that all CASP and other forms of grants are channelled through companies such as NWK it is unlikely that NWK will upscale their programme to support more farmers directly. The risk is just too big and the costs to the company will exceed the potential benefits.

KAAP AGRICULTURE Case Study

1. Development objectives and approach

Kaap Agriculture views their support to BEE in context of their business philosophy to contribute positively to the economic and social wellbeing of communities directly involved with Kaap Agriculture and also situated within their broader business environment. Particular focus areas for empowerment initiatives are where:

- Business opportunities can be developed through BEE directed initiatives;
- The Agriculture-BEE score as per the score card can be improved;
- The membership of the company can be expanded to include more “commercial main stream” black farmers; and where
- Human capacity and skills development in the Kaap Agriculture “environment”.

This orientation lead to a wide range of “Black Economic Empowerment” initiatives by Kaap Agriculture, managed at senior management level in the company. The core focus of Kaap Agriculture’s BEE strategy is on “business facilitation, mentoring & support” with linkages to social and human development support.

2. BEE initiatives and focus areas

Kaap Agriculture’s BEE initiatives primarily focus on support and facilitation to enable Black persons/ groups to gain access to commercial farming opportunities. This initiative focus on the following:

- Technical advice, mentoring and extension to farm level production;
- Technical training and skills development at the Kaap Agriculture Academy in Porterville;
- Structured linkages with service agencies, and support organizations;
- Access to appropriately structured finances and financial support services;
- The identification and securing of viable markets;
- Marketing support;
- Support with administration and “red tape” required to access government support (i.e. CASP);
- Compilation of farm business plans; and
- Access to cost-reduction packages for farming requisites and services;

In addition Kaap Agri support a number of related human capacity development programmes. These include:

- An internship / cadet programme focused on young professional development;
- Farm worker training; and
- Student/ youth empowerment programmes.

2.1 Support to new commercial farmers

This programme is directed by the following focus areas:

- (i) **Commercial farmer focus:** The identification and selection of new farmers are viewed as a first important step in the process. Business experience and managerial potential of a farmer candidate are most relevant criteria.
- (ii) **Farm business focus:** The size of the farm unit, and access to water and business potential of the farm unit are viewed as important criteria for identification and selection of interventions. Realistic/conservative farming business plans, with implementation consistently being monitored by competent mentors/ coaches are important; as well as progress reporting to and evaluation by an advisory team of agri - specialists, technical advisors, financial advisors, and marketing specialists.

Experience showed that this approach can successfully be applied to individual and small business orientated groupings – however large groups/communities are viewed as too complex to organize, guide, mentor and manage properly in context of a commercial farming focus.

- (iii) **Securing a market:** The securing of a viable market is an important element of the support programme i.e. to ensure an off-take. New/emerging farmers are regularly exposed to interaction with relevant role players in the agri- market environment to observe and understand the nature of agriculture markets. These include Capespan, Dole, Yara, Terason, Nitrophoska, Mayford, Hydrotech, Freshmark, Subtropico, and institutions such as the IDC and various financial institutions’
- (iv) **Skills development, training, mentoring:** (refer to section 2.2)
- (v) **Funding and financial support:** The Kaap Agri approach to provide a comprehensive farmer support system allow successful “candidate farmers” to qualify for funding and the opening of trade accounts with Kaap Agri (refer to section 2.3).

2.2 Farmer training and skills development

On 25 March 2009, the Kaap Agri Training Academy at Porterville was opened. Agri Seta contributed R342 000 to this initiative. The academy started with a development programme for “emerging commercial” farmers with 27 successful participants in 2009. A new group of 19 selected candidates will enroll in 2010 for training. The academy is registered with Agri-Seta as a “training-service provider”. This allows the claiming back of training levies.

2.3 Funding programme

Kaap Agri signed an agreement with the Department of Agriculture, Forestry and Water Affairs (DAFF) to administer the provision of MAFISA funds for agricultural endeavors in the Kaap Agri business environment. The funds are advanced under KALF (Kaap Agri Loan Fund) to support activities directed at commercially viable micro and medium agricultural enterprises (turn-over R1 million per annum). Funding is for production inputs, equipment, livestock, etc.

Kaap Agri is responsible for the selection, required credit control, administration and appropriate bookkeeping systems, risk management, and the adherence of all required legal requirements regarding funding and credit provision. To date Mafisa loans to the value of R3 million have been granted to eight successful candidates; R1.5 million, to benefit another 12 applicants is currently under consideration.

3 Impact of the support programme

More than 350 “new/emerging” commercial farmers are presently supported by the various Kaap Agri programmes. Particular successes are found in the support to new commercial wheat farmers in the Porterville area, and the Siyazama table grape project in De Doorns. The assurance of market take-off for farm produce is viewed as a cornerstone of Kaap Agri’s support to agricultural empowerment. Market access and sound technical and financial advice and training are therefore some of the major areas of intervention. More than 60 NQF trained mentors are currently employed to guide and coach emerging farmers.

Although the initiative is still in the “start- up” phase, the impact of the commercial farmer development programme is indicated by the scope of the Kaap Agri business with new commercial farmers, measured by recorded money-flows. This is shown in Table 1.

Table 6: The scope of Agri Kaap business with “emerging commercial farmers”: 2006-2009

<i>Item</i>	2006	2007	2008	2009
Value of cash business	R23 261	R299 738	R1 282 705	R1 725 47
# of participants	6	67	143	218
Average value per participant	R3 875	R4 474	R8 970	R7 915
Value of business on credit	R1 323 072	R2 640 713	R3 699 138	R3 898 075
# of participants	12	15	14	15
Average per participant	R110 256	R164 048	R264 224	R259 872
Total value of business	R1 346 333	R2 760 451	R4 981 843	R5 623 542
Total number of participants	18	82	157	233

4 Other empowerment support programmes

a) Agribusiness internship/ cadette development

Selected persons with management potential are placed in an internship programme with sections in the corporate structure of Kaap Agri. The aim of this cadet’s programme is to develop future black executives.

b) Farm worker training

The Academy at Porterville provides training to farm workers in aspects of: tractor maintenance (registered with Agri Seta); the handling of chemicals; pump operators; first aid; and worker supervision. Training satellites are in operation in Stellenbosch, Malmesbury, Worcester, Paarl, Vredendal and Upington.

c) Student/youth learnerships

- Bursaries made available to fund (9 currently) 17 Black students in agriculture at the Stellenbosch University;
- An annual ‘lente skool’, presented in collaboration with the Faculty of AgriSciences at Stellenbosch University, to orientate farm worker children in the Kaap Agri environment positive towards training and careers in agriculture; and
- Bursaries to support students to enroll in to the Boland Agriculture School.

d) Lessons: conditions for success

The Kaap Agri approach to empowerment consider locally visible successes to be important and enhancing as it sets a trend and vision of “it can be done”; failure on the other hand is considered to be constraining, setting a negative trend towards such endeavors. The motto therefore is to “**Strive for success**”.

The following ‘lessons’ are cited:

- **Avoid opportunistic efforts:** Projects must be planned and managed to provide long term sustainability and should avoid short term opportunistic actions;
- **Create concrete outcomes and create a sense of belonging:** Significant outcomes must be forthcoming to incentivise and motivate participants and beneficiaries. These would include financial reward, dignity, skills development, participation in planning and decision-making, and general involvement in the matters of Kaap Agri i.e. a strong sense of belonging is to be strived for;
- **Provision of an integrated support service:** Well considered business plans, regular monitoring and evaluation, technical support, continuous training and skills development, team building coaching and mentorships a real important; these needs to be provided and managed in a coordinated and integrated manner;
- **One farm-one farmer models:** Individual farmer support actions or mobilizing smaller focused interest groups are more receptive and viable as “development- units” than large community groupings, as this model creates complexities and the extended scope for “political interferences”. Where such groups are involved clear rights and responsibilities regimes and exit arrangements are required;
- **Allowing failing and phasing-out:** Support programmes must be designed to allow for failing and recovery as a “learning-by-doing” process. The gradual withdrawal of organized coaching and mentoring support and clear phasing-out processes are also crucial to such a development process. Clear exit arrangements from equity share schemes, trusts/coops/companies are important;
- **Structured market access:** The provision of assured market access creates stability and a strong incentive to new commercial farmers to produce according to specifications and requirements.

e) General comments and observations

- **Transformation is driven by the Agri-Bee Score Card:** The Kaap Agri empowerment programme is largely driven by the (a) attractiveness to measure progress with BEE transformation through the Agri-Bee score card; and by (b) the “broad based” scope to BEE provided by the score card to include a range of initiatives related to enterprise development and corporate social responsibility that can readily be integrated in to the vision, mission and business model of Kaap Agri;
- **Individualistic farmer development models:** The relative absence of ‘agricultural based land restitution’ cases in the business environment of Kaap Agri and also the few LRAD projects, allow Kaap Agri to focus their Bee initiatives on individualistic farmer development models. The aim is to move towards the early main streaming of business opportunities with such emerging commercial farmers;

- **Public-private partnerships:** The business focus of Kaap Agri is being extended by linking into viable government/ private partnerships, such as the Mafisa Loan Scheme. This experience provide a sound bases to position as a “strategic partner” with in the PLAS programme to support land reform while sustaining the production capacity on land transferred under the land reform programme; and
- **Mainstreaming transformation:** Currently the Bee programme is located in the “Communications” section of the corporative structure of Kaap Agri. The success and scope of the programme may justify the repositioning of this strategic initiative to occupy a mainstream position in the structure with an executive mandate and responsibilities.

OVK Case Study

The OVK commercialization programme for developing farmers: 2007 – 2010

1. Project description

The purpose of this project is the commercialisation (“mainstreaming”) of eight (initially six) selected developing farmers in the OVK business region of the Free State through a comprehensive three year development support program. Project activities focus on management, mentorship, skills transfer and financial support. The aim is to fully integrate these farmers as OVK members. The project started in 2007 and is now in its final year.

The project is implemented via a strategic partnership between OVK, GrainSA and the Free State Department of Agriculture, Forestry and Fisheries. Each partner agreed to be responsible for certain items as listed below.

Department of Agriculture: The DOA will be responsible for 50% in the first year of the cost for the following items:

- Seed
- Fertilizer
- Weed Control
- Pest/Disease control

The grant from the Dep. of Agriculture will be reduced to 30% in the second year and 15% in the third year. Monsanto supplied seed, Omnia and Opticrop provided fertilizer and Protecta and Wenkem chemicals at discounted prices to participants. These firms also supported skills transfer and training. The Maize Trust supported the project with a grant of R78 000 and the Free State Department of Agriculture contributed R134 417.

OVK covers the balance of the input cost, on a loan agreement with reduced interest, from the participants. OVK and GrainSA will be responsible for the following services:

a) Train and mentor/coach the identified farmers to:

- prepare soil, plant, maintain and harvest grain planted for this project;
- practise sound farm management and administration;
- apply sound financial control and bookkeeping practises.

- b) Coordinate working relationships with stakeholders and specialist that can assist with this initiative.
- c) Assist farmers with the administration and strict requirements for input financing and insurance.

2. Project design principles

The OVK project was design to give effect to the following principles and criteria:

- a) The yield target for a commercial farmer to be set at 250 tonnes per season.
- b) The selected farmers to conform to predetermined requirements as set out below:
 - Selected farmer must take ownership and be part of the total activities provided through the project
 - All farm requisite purchases to be discussed with GrainSA and OVK according to the agreed upon recommendations
 - Accept input cost insurance
- c) The budget for this project to be managed by OVK
- d) All farm requisite purchases to be done after approval by nominated officials of GSA and or OVK;
- e) The project expenditure to be monitored and reported on a weekly basis by an appointed project team with representatives from all strategic partners.

3. Results and outcomes

3.1 Performance:

2007/08:

A total of 246 ha of maize and 91.2 ha of sunflower (337.2 ha) were planted in 2007 in Ficksburg, Hobhouse, Marseilles, Fouriesburg en Paul Roux. Harvesting was done in May/June 2008 for sunflower (91.2ha) and July/August 2008 for maize (246ha). The total harvested in the 2007/08 season consisted of 934 tonnes of Maize and 114.6 tonnes of

Sunflower. The project was successfully completed within the approved budget. Performance per participating farmers is shown below:

Table 7: Performance of participant farmers in 2007/08

Farmer	Area of Sunflower	Actual Yield
S NYAMBOSE	80 ha	1.3 t/ha (105 t)
H.A JACOBS	11.2 ha	0.86 t/ ha (9.6 t)
S.M. MOLOI	103 ha	5.2 t/ha (536 t)
P.I. KHUTO	64 ha	3.1 t/h (198 t)
S. NYAMBOSE / MOTSIMA	51ha	2.1 t/h (107t)
M. MATSHABE	14 ha	3.4 t/h (51t)
Sr. P. KATASE	14 ha	3.0 t/h (42t)

2008/9:

The six farmers planted a total of 337.2 ha in 2007/8 and OVK added two more farmers in 2008/9 – Mrs. Josial Silendo and John Madona - to the development program. This increased the total hectares planted during 2008/9 to 520 ha. The additional farmers and extra hectares planted were funded by OVK and the Maize Trust. The Free State Department of Agriculture only supported the initial six.

2009/10:

A total of 261.2 hectares of wheat were planted in Marseilles, Clocolan, Marquard, Ficksburg and Fouriesburg. Performance by participating farmers is shown below:

Table 8: Performance of farmers in 2009/2010

Farmer Name	Hectares Planted	Wheat Harvested	Actual Yield
K.J Madona	13.8	33.6 t	2.4 t/ha
P. Hlaphu	53.6	101t	1.8 t/ha
M.D Selepe	37	51.8 t	1.4 t/ha
Tigedi & Mothoko	17.6	32 t	1.8 t/ha
M.J Moleme	64	125 t	1.95 t/ha
V.M Ramohapi	31	22	0.7 t/ha
B.J Sethojana	26	66.7 t	2.6 t/ha
K.J Mbuli	18.2	20.5 t	1.1 t/ha

An interesting note: V.M Ramohapi did not make use of the OVK credit facility but opted to use her own money. She also decided not to use the project support regarding mentorship and contractors.

3.2 Mentorships

The mentorship strategy, led by OVK, was guided by GrainSA and mentors were identified to train and advise the farmers on planting practices and equipment use. The mentors appointed to the individual farmers proved to be a “winning combination”, skills transfer was excellent and support with critical equipment was crucial. The relationships between the developing farmers and commercial farmers who act as mentors may last many years beyond this project.

4. Analysis

The OVK model focuses on the “mainstreaming” of commercial farmers to inter alia provide a basis to expand their black membership base on a sustainable basis i.e. to integrate viable commercial farmers in to their business model. Eight farmers were selected for the project. The project is managed at the OVK executive level. All eight farmers are in operation and crops are currently sold via the OVK marketing system- this provides for an assured market outlet. All participating farmers are making profits. The working relationship between farmers, mentors, OVK, GSA and the Department of Agriculture was excellent. The following constraints are experienced:

- The available planting areas for the progressive farmers are too small to reach the target set of 250 tonnes grain per production season and to ensure an economic prospects from farming; it will be difficult to increase production in the future on the same size farm land.
- Growing input cost and low profit margins is a big concern- economics of scale is required i.e. increased production units.
- Some of the planting equipment is depleted; participating farmers struggle with harvesting equipment. (Opportunity for black contractors).
- Most of the farms have medium to low potential soil.
- Timing in financial support: Government has to make grant money available timeously- before planting - in order to reduce the interest cost to farmers.

5. The way ahead

From the operational experience over the past three years the following lessons were learned:

1. Business model:

It is important to continue with the current business model to establish and support emerging commercial farmers in the OVK business environment. It is however important to increase production to ensure sustained commercialization and to allow continuous improvement. More sustainable financial support must also be established i.e. to move away from ad hoc and sporadic support and grants;

2. Access to land:

For the farmers to have sustainable growth in their farming businesses it is necessary that high potential land suitable for cash crops be made available to them. This can be done via the government land transfer program in consultation with agri-businesses;

3. Farm sizes:

Up-scaling of farm sizes is now important to enable participants to be fully integrated in to the mainstream business of OVK. Current units are too small to enable sustainable farming prospects.

AFGRI Case Study (Daybreak Farms)

1. Introduction and company overview

AFGRI is South Africa's leading agricultural services provider, whose services and products are focused on primary agricultural producers, agri-processors and consumers of agricultural and related products, both locally and internationally. The company operates a number of divisions and subsidiaries which in a variety of ways provide a comprehensive support infrastructure to all farmers in its service areas. Through its retail network AFGRI provides quality products and services to all farmers. The producer service division provides farmers with all the primary inputs and advisory services necessary for successful farming. The logistics division is responsible for storage and product handling and at the same time deal with physical trade in agricultural commodities. AFGRI Foods plays a vital role in converting raw grain, together with other key elements of protein and energy into balanced feed for the livestock and dairy industries. At Daybreak Farms feed production is integrated with poultry production and an operation producing frozen whole and IQF portions from its own day old chicks. In this case study we will specifically focus on the black farmers that are linked to Daybreak Farms through a contract growing operation.

Daybreak Farms was acquired by AFGRI in 2006 as part of AFGRI Products' strategy to become a fully integrated broiler operation. Daybreak Farms is situated in Sundra near the Gauteng market and produces day old chicks through its subsidiary Midway Chix, a broiler breeder operation, situated near Bela-Bela (Warmbaths) and Mokopane (Potgietersrus) in the Limpopo province. Broilers are grown on own farms and by contract growers in the Delmas area on specially formulated high performance diets from AFGRI Animal Feeds. Daybreak Farms focuses on supplying the independent wholesale and retail markets with frozen chickens under the "Superior" brand. As the company expands in the future the target market will be widened to include food services. The company currently processes 650 000 broilers per week and employs over 870 people.

Before turning to the details of the Daybreak contract growers it is important to note that the network of support infrastructure provided by AFGRI has important benefits to all farmers and certainly is a valuable asset to new entrants into agriculture. Most agribusinesses such as AFGRI tend to be reluctant to provide production finance to farmers with insecure property rights. It is however interesting to note that AFGRI provides production finance to 299 black farmers (15% of the total of 1 964 farmers with production credit facilities at AFGRI. There are also an additional 4 385 farmers with monthly or storage accounts with AFGRI). Of these loans to black farmers 243 were individuals while 56 loans were provided to groups of farmers. Most of the farmers mentioned here are grain farmers

primarily on communal land with most located in the Mpumalanga and Eastern Free State regions. AFGRI has also started to provide advisory services to these farmers on a pilot basis.

2. Overview of the programme

The programme operated by Daybreak link black farmers to the mainstream agricultural economy through the contract production of broilers. Three black entrepreneurs who bought individual broiler farms (and also invested capital to upgrade the houses) are contracted to grow broilers for Daybreak Farms. They are the only black growers amongst the 11 contracted producers producing broilers on contract in addition to the core farm activity of the company. About one year ago Daybreak also got involved in a restitution project which is also now contracted on the same basis than the other 10 contract growers.

The outgrower model of broiler production works relative well given that control measures are easy implemented and no side selling is possible given the large number of birds involve linked to a secure and guaranteed market plus the relative short cycle of production.

Daybreak provides a variety of services to all contract growers (as part of the contract). These services are the following:

- Birds are caught by dedicated catching teams and transported to the abattoir
- Litter from previous cycle is removed
- Houses are cleaned, washed, disinfected and prepared for the new birds
- Day-old chicks are supplied from Midway Chix and placed in the broiler houses by a dedicated Chick Placement Team
- Disease and hygiene control are done regularly
- Inputs are provided in terms of the upgrading of equipment
- Key indicators such as health of the birds, growth rate and feed conversion rates are effectively controlled and monitored
- Technical advice and support are given by Production Managers employed by Daybreak farms

The contract grower gets paid the net amount after all the costs related to these services are deducted. Despite this the cash paid to these farmers is quite substantial. The strict control and the effective services provided by Daybreak Farms imply that all growers engaged here are per definition in the mainstream. It should be said however that in some of the 4 cases of back farmers who recently entered the business more time is involved (from Daybreak's management side) in mentoring and supporting key decisions. This is usually a function of the skill and expertise of the managers on these farms.

3. Responsibility and management of the programme.

All the farming operations of Daybreak Farms, inclusive of all the contract growers, are managed by the Farms Director of Daybreak, Mr Jannie Maritz. He oversees the delivery of feed, birds, biosecurity aspects and ensures that relevant inputs are provided regarding equipment, housing temperature, etc. Strict monitoring of key aspects in the production process is absolutely critical and has therefore to involve regular visits. This applies to all contracted growers and Daybreak's own farming operations and black growers are not treated differently although the visits might be more regular and longer.

4. Statistical overview of the Daybreak Farms project

The three farmers and the restitution project which all form part of the mentorship activity of Daybreak Farms jointly deliver almost 15% of the total volumes of birds delivered to Daybreak. When one only considers contract growers these four farms are responsible for 25% of all volumes delivered by contract growers. Two farmers joined the Daybreak out grower programme in 2008 and another one as well as the restitution case joined in 2009. The size of these enterprises is as follows.

- Farm 1 (2008): one site of 8 houses: 28 000 birds/house
- Farm 2 (2008): two sites of 8 houses each: 191 000 birds per site
- Farm 3 (2009): one site of 3 houses with 40 000 birds/house

As indicated earlier Daybreak Farms deliver a standard 'suite' of services (monitoring, cleaning of houses, health and nutrition advice) to all its contract growers. In addition to these services, feed and day old chicks and veterinary medicines are provided to the growers on credit. Thus production finance is per definition included in the contractual arrangement and gets deducted from the total revenue earned by grower at the end of every cycle – basically after every 49 days. The farmers relevant to this case study are not treated differently but they do receive more regular visits and Daybreak implements a much stronger supervision programme than in the case of the other contract growers. Two additional staff members were appointed to facilitate these more intensive engagements costing the company an additional R55 000 per month. Through this programme it was possible for these farmers to achieve similar performance indicators – such as bird mortality rates – than the other farmers in the out grower programme.

The programme did not generate a need for infrastructure upgrading or expansion and the existing overheads are able to handle the service and product delivery of these four farms that entered the contract growing programme. It is however so that Daybreak has invested

capital in the operation and the processing plant and is therefore locked into the business suggesting that they need the birds produced by these farms to ensure enough throughput.

5. Lessons to be learned for up-scaling of activities and for replication by other

The Daybreak programme again confirms the argument that the nature and characteristics of the agricultural commodity has a major impact on the success of any programme trying to support new entrants into agriculture. In this case study the commodity is broilers that can only be sold once it is processed and frozen. As a result both the company (the processing plant) and the outgrowers are locked into some interlocked contract because they depend on one another. The company needs the throughput and the growers need the company to provide access to the major market.

Given this relationship there is a need to mutual understanding and trust. This has been achieved through the last few years and through continuous training programmes and strict control measures good quality and safe product was secured. It again illustrates the importance of control and good management in agricultural enterprises. All farmers achieved good performance indicators in each cycle and no side selling was picked-up since the number of birds delivered for slaughtering match the statistics on day-old chicks delivered accounting for mortality numbers. The advantage of this specific commodity is that it has a short cycle and any problem can be picked up in-time and rectified. The current arrangement also shields the growers from volatility in market prices. The growers agree with Daybreak on a price for live broilers once a year and the company therefore has to deal with the risk of variation in the market price of frozen chicken. This is a very beneficial arrangement for the growers suggesting that most of the risks – mortality, health, product quality as well as price risk are absorbed by Daybreak. With finance being provided for running costs there is limited risk that such arrangements could fail.

The Sundays River Citrus Company Case Study

1. Background

The citrus industry in South Africa is largely export focused, and although South Africa is only the 10th largest producer of citrus products, it is the country with the most exports. In 2007, the industry exported close to 100 million 15kg cartons, resulting in foreign earnings of approximately R5 billion. It is estimated that less than 5% of total production is from black farms.

The Sundays River Valley (SRV) is situated north-west from Port Elizabeth, and is part of the Orange-Fish irrigation scheme. The SRV has approximately 300 farmers, which owns approximately 12 000 – 13 000 ha of land. There are approximately 200 citrus farmers, with approximately 8 000 – 9 000 ha currently planted with citrus. In 2007, the SRV exported approximately 15 million 15kg cartons – this represents about 15% of the total South African citrus industry – and earned approximately R800 million in foreign exchange. Approximately 5% of total production is from black owned farms. The SRCC is situated in the SRV.

2. Profile of the SRCC

SRCC Group is the largest secondary agricultural business active within the citrus industry in South Africa. It had its roots as an agricultural cooperative, and has been in existence since 1924. SRCC started off as a packaging cooperative, through which members jointly packed and exported their fruit. Today SRCC is active in the full supply chain, from growing citrus, right through to exporting the fruit. Although SRCC converted to a company structure in 2000, it is still fully owned by growers, with the ultimate aim of maximizing grower wealth. This is probably the most important difference between SRCC and any of its competitors, as it does not have a profit-maximizing objective, but rather aims to maximize on farm profits for its members, i.e. the growers.

SRCC sources, packs and exports between 8 million and 9 million cartons of citrus fruit annually. This is approximately 10% of the total citrus crop in South Africa, and 60% of the citrus crop in the SRV. SRCC is therefore a major player, both nationally and within the Eastern Cape. Annual company turnover exceeds R200 million, and cash turnover exceeds R500 million. Total replacement value of assets is in the order of R400 million.

As SRCC is grower owned (106 farmers), and would prefer to remain a grower owned organization, it cannot sell or issue 30% of its shares to a black (investment) company who is not a grower member. In order to achieve a Level 4 BEE status, SRCC had to oversee the

establishment of successful black farms that can take up shareholding in SRCC. Four years ago, when SRCC embarked on its BEE project, this was recognized, and at that stage there were very few black farms within the SRV, resulting in SRCC adopting a strategy, with its main focus on land reform. The establishment of successful black farmers, who can take up shareholding in SRCC, will result in SRCC becoming a company that has transformed shareholding. SRCC, unlike most other companies active in this arena, does not have a profit motive with land reform, but rather an alignment with Government requirements, i.e. successful sustainable land reform. Currently 13% of our production is produced by Black producers, and this equates to the export of around one million cartons

The SRCC shareholders consist of producers, which also own pack rights, which give them access to SRCC's services and assets. Black shareholding amounts to 6.25% and Luthando farm 3%.

The operations of SRCC are executed in the three fully owned subsidiaries. SRCC also has an investment in APL Cartons (Pty) Ltd, the third largest corrugating manufacturer in South Africa. As carton production make up a substantial part of the supply chain, SRCC vertically integrated backwards, by buying a 20% share in this company. This also ensures that cartons are sourced at the most competitive price in the industry.

3. Roles and core functions of SRCC

SRCC offers services, and is active throughout the entire citrus supply chain. As citrus is primarily an export product, this supply chain is longer than for most agricultural products. The following diagram contains a summary of the citrus supply chain, and indicates where SRCC fulfills functions. The commercial function of negotiating volumes and price with international buyers are not shown, as it encompasses the full supply chain.

Roles and functions being fulfilled by SRCC are as follow:

Sourcing of inputs and purchasing of implements:

Main inputs for citrus are fertilizer, pest control chemicals, and diesel and general supplies. SRCC operates a trading division, where inputs are procured and stocked for use by the growers. Annual turnover of this division is R150 million. As a result of the large consolidated base of procurement, prices to growers are the best in the country. Growers also have access to a financing facility, where fertilizer and pest control chemicals can be financed for up to 14 months. SRCC has also started a compost manufacturing plant, which makes it possible to be less dependent on fertilizer.

Citrus farming and technical support:

Although SRCC does not own any citrus farms, it is active in the functional area of farming and farm management. As part of its existing BEE project, SRCC is currently directly responsible for farming 500 ha of citrus under the PLAS scheme. SRCC also has the largest group of technical advisers in South Africa, all AVCASA accredited, which assist SRCC's grower base with day-to-day decisions on optimising and improving production on the farms.

Fruit packing:

This is SRCC's longest running service, and is backed up by its extensive capital investment in packing plant and equipment. SRCC has three pack houses with nine packing lines installed. It makes it by far the most efficient packer of fruit, as it can pack many different varieties and specifications at the same time.

Fruit marketing and supply chain management:

SRCC also established its own marketing and supply chain management capability. This entails management of service providers in the supply chain, from the pack house right through to the retailer. It includes transporters, cold stores, shipping companies, etc. As part of this SRCC also negotiates market access into the best markets, as well pricing of fruit, and even fully owns an exporting entity which focuses on direct export of fruit to the UK and Far East market segments. It is envisaged that this function will grow in future, and that more than 50% of SRCC's crop will be handled in this way.

4. Black Economic Empowerment

4.1 The empowerment model:

Historically, commercial farmers accumulated assets, such as those embodied in the SRCC, as part of their productive process; and also benefited from the collective use of these assets as well as collective buying and selling practices in order to create skill advantages and cost reduction practices.

This collective buying and use of assets is not unique to South Africa and owing to overproduction and reducing profit margins, there is a worldwide trend towards such "new generation" co-operative models linking primary to secondary agriculture with producer members supplying primary product to the processing infrastructure, of which they are the collective owners.

By definition, the SRCC is a nonprofit model, the benefit of ownership being transferred to the owners (growers) by way of reduced costs and hence improved returns to the membership/ shareholder (the production unit). SRCC does not pay a dividend, but rather ensures that the benefits of ownership return to the primary producer (the risk taker) in the form of improved cash flow returns on fruit packed and marketed through the SRCC structure.

As a result of this model, it is however problematic to have a direct/outside BEE investment into SRCC which is independent of the ownership of production units/farms. SRCC's BEE plan recognizes this structure, therefore resulting in an empowerment model where BEE shareholding is accomplished at primary agricultural level, i.e. fruit production. This will result in direct shared ownership of SRCC and its value adding structures, resulting in access by BEE participants, as owners to a viable business model, spanning the full value chain from primary producer to the consumer.

The Sundays River Farming Trust (SRFT):

Within this business model, SRCC embarked on an extensive BEE initiative three years ago. From the start, the initiative was established as broad-based and all inclusive and in essence constitutes a partnership between SRCC, Government and all relevant stakeholders. Stakeholders were invited to a stakeholder meeting on 7 July 2005, where a steering committee for the project was chosen. Representatives included the following:

- MEC of Agriculture Mr. Gugile Nkwinti
- MP Mr. John Gomomo
- HOD of Agriculture Adv Amon Nyondo
- Managing Director of SRCC: Mr. Johan Stumpf
- SRCC Commercial Farmers
- Representatives from SRCC pack house workers
- Representatives from SRCC Producers' farm workers
- Representatives from Broad Community
- Dept of Land Affairs (now Department of Rural Development and Land Reform)
- Dept of Agriculture
- Local Government

The steering committee is responsible for the initiative as a whole, and includes representatives from all of the above. It acts as a governance entity, and all decisions have to be passed through the steering committee.

The steering committee initially met once a month, but now meets bi-monthly. It also appointed two sub-committees, one responsible for business planning of land reform and BEE, and the other responsible for training and development linked to land reform and BEE.

The project has as its ultimate aim to transfer at least 30% of SRCC's supply hectares into black ownership. It furthermore has as a main goal that this should result in viable and long-term commercially sustainable black farming operations. A needs analysis directed the operational development of the empowerment model (refer to Annexure1). Four types of land acquisitions have been perused:

- *Type 1:* PLAS acquisition for individual beneficiaries
- *Type 2:* Creating shareholding / position for already established emerging farmers
- *Type 3:* SRCC pack house workers acquisition through LRAD (unitised scheme)
- *Type 4:* SRCC commercial farmers workers acquisition through LRAD (unitised scheme)

The PLAS land acquisition project: the Sundays River Farming Trust (SRFT)

The aim of this project is to identify and develop a group of commercial black farmers that can operate as "main stream" shareholders/members of the SRCC. Four citrus farms (Willowtree, Glengrove, Eendracht, Siyatamba) were bought by DLA through PLAS. These farms are delivering approximately 6% (450 000 cartons) of SRCC's supply, and have a turnover potential of R12 – R15 million, with profits of R2 million plus.

The SRFT was created to rent the land from DLA. SRFT currently own almost 6% of SRCC's shares. SRCC, in conjunction with DLA and DOA, are responsible for the following:

1. *Financial contributions:*

DLA - R26 million to purchase farms; SRCC - R500 000 legal & consulting fees and working capital of R4 million; DAFF - awaiting CASP funding.

2. *Land identification and valuation:*

SRCC's valuation approach ensures that only farms that have long-term sustainable earnings potential will qualify for acquisition.

3. *Planning and acquisition of land:*

SRCC is responsible for all negotiations with the three sellers, and offers were not necessarily made based on the valuator's value, but rather on the economic value as determined through the detail business plans done by SRCC.

4. *Identification of beneficiaries:*

The existing permanent farm workers were identified as beneficiaries, but the trust deed makes provision for additional beneficiaries, as the ultimate aim is to settle commercial black farmers on the land. This will be in joint ownership with the workers. At present, processes are in place to identify possible candidates for being these beneficiaries.

Existing farm workers get preference in this process, but it could include other candidates. These processes have been developed with the assistance of the Department of Labour, and include various tests to determine which of the workers have the ability to take responsibility as initially the farm manager, but in the end, owner (s) of the farm.

5. Support services:

- Training and development of workers as well as potential farm manager and owners.
- SRCC currently takes responsibility for farm management, and is responsible for all operations, administration and reporting.
- Although these farms are in a cash positive situation, and at present do not require any financing, SRCC has provided working capital up to R5 million. Working capital to these farms is provided at a discount of one percentage point compared to other SRCC commercial farmers.
- SRCC provides technical support to the farm business operations.
- Legal agreements.
- SRCC provide export support to ensure reliability in supply and quality and the necessary accreditations (GlobalGAP, BRC, Nature's Choice, Fair Trade, etc.)

6. Exit arrangements:

All agreements have been drawn up to facilitate the long-term sustainable transfer of properties to the beneficiaries, once the following criteria have been met:

- The identified beneficiaries have acquired the skills to be fully fledged commercial farmers.
- The farms have sufficient working capital to ensure continued operations.
- The farms have sufficient reserves to ensure that after a buyout from the DLA, it will have a healthy balance sheet, i.e. debt to equity ratio of less than 20%.

A schematic representation of the structure of the trust is given in Annexure 2.

4.2 Other initiatives:

Luthando Farm Pty (Ltd):

The beneficiaries of the Luthando farm received access to the farm in 2003 through the LRAD (Land Redistribution for Agricultural Development) programme. The beneficiaries gained ownership of 75% of Luthando through a Workers Trust. The remaining 25% was retained by the previous owner of Luthando. In 2008, SRCC bought the 25% shares in Luthando, and concluded a management agreement for a period of 5 years and plan to exit in 2013. The goal of the project is for the beneficiaries to attain 100% ownership.

SRCC is involved in the day-to-day management of Luthando, the provision of technical and specialized farming services, and the training and mentorship of the beneficiaries and assistant farm managers. The goal is not just limited to farm ownership, but also to ensure that the beneficiaries are trained and skilled to take over the farm management.

Mbuyiselo FarmingTrust:

This project constitutes a broad based trust ownership structure, with a commercial farmer owning 25% of shares. SRCC is managing the project with an exit arrangement for 2011

Wagenaar & Hobbs Farm:

This is a commercial venture and SRCC are farming on behalves of the owners. This provide access to SRCC membership/shareholding

Other:

SRCC is currently assisting Mr Bhiza Finnis, on his farm Eendrag, with day-to-day management, picking, pruning, fertilization and pest and disease control.

SRCC Foundation:

SRCC is in the process of establishing a SRCC foundation to assist with training, skills development and social upliftment of black farmers and their families.

4.3 Functions and services rendered by SRCC:

In addition to the general services rendered by SRCC to its shareholders, described in section 3, the following support the BEE initiative:

- Identification and selection of beneficiaries;
- Land identification, planning and acquisition, and development;
- Financial support and bridging financing;
- Technical and management support services; and
- Mentorship, coaching and training

5. Challenges

The following challenges are relevant for the further development and roll-out of this initiative:

- To manage the “trusts structures” to ensure that the funding of farm development and reinvestment is fairly balanced with the immediate financial gains expectations of members i.e. farm investment vs. cash dividend payments – a different governance and management structure/model (than a trust structure) may be required, to ensure a commercial farm business directed system;
- To securing adequate production funding from DAFF/ Landbank to improve farm productivity;
- To acquire additional farming properties to further extend the project;
- To direct government policy and support to extend the PLAS Scheme and support “joint ownership” ventures in farming; and
- To implement appropriate coaching/mentorships to assist with the capacity development of beneficiaries;

6. Annexure: Needs analysis

Although citrus farming is highly sophisticated and technical, there is no reason for the industry not being able to contribute towards achieving the 30% land reform target as stated by Government policy. Should the right farm properties be targeted, (i.e. properties already in full production, with further opportunity for expansion and development, relative limited additional financial support will be required, as sufficient cash is already generated. Post settlement support will thus be mostly focused on development of black farmers and some infrastructure development as well as the development of successful farm business models.

The needs to be addressed by the strategic partner in such developments are summarized in Table 1. The table indicates importance, and the main barriers in achieving solutions with regard to this specific need.

Table 9: Needs analysis SRCC empowerment initiative

CRITERIA	GUIDELINES AND CRITERIA APPLICATION	WEIGHT/100
Ability and capability	<ul style="list-style-type: none"> • Project team to be utilised in the execution of the project. Company infrastructure / resources. 	12
Beneficiary support	<ul style="list-style-type: none"> • Value added services to land reform beneficiaries and • DRDLR staff 	9
Experience, knowledge & area of expertise	<ul style="list-style-type: none"> • Proven experience in a given selected professional service in line with scope of services <ul style="list-style-type: none"> – Experience in land reform program, and implementation – Ability to transfer skills to beneficiaries and work with project officers – Understanding of government policy prescripts – Level of involvement with specific commodity/ crops / livestock. – Provision and/or facilitation of market access • Registration with professional bodies 	17
Methodology	<ul style="list-style-type: none"> • Broad proposed methodologies in line with the following Commodity support model <ul style="list-style-type: none"> – Financial support services – General Land Reform Support – Co-operate model 	24
Project and programme management	<ul style="list-style-type: none"> • Project management in line with the Government Financial Management Prescripts 	10
Shareholdings	<ul style="list-style-type: none"> • Composition of the shareholdings teams in terms of black economic empowerment, historically disadvantaged individual and Reconstruction development goals <ul style="list-style-type: none"> – No franchise – Women – Disability • Reconstruction development Program • Promotion of emerging companies 	5
Total points on functionality		77/100