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SURPLUS PEOPLE PROJECT

Joint ventures

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South Africa's land reform programme is based on the state providing grants to landless people who negotiate with white landowners to purchase land. The high price of land, among other factors, has led to the emergence of joint ventures. In these ventures, black people who have land rights or who are land reform beneficiaries engage in joint agricultural or other land-related production with white commercial farmers, corporations or sectors of government. Are these schemes the answer to the difficulties of entry into agriculture faced by land reform beneficiaries? Do they really contribute to agrarian reform, transforming the countryside in South Africa, or are they mechanisms through which commercial farmers and others are able to reduce their risk and in which poor people are exploited in new and different ways?

Approaches to joint ventures

Government plays an important role in the development of joint ventures by enabling previously disadvantaged and poor people to obtain access to land-based resources. This happens primarily through the Department of Land Affairs (DLA) but other departments, such as the Department of Water Affairs and Forestry, and spheres of government such as municipalities, also provide opportunities and encourage these ventures.

Initially, DLA asserted that where private sector partnerships spread the impact of land reform, government would support them. The White Paper on South African Land Policy stresses that that '(e)nhanced security of tenure is the principal criterion' in such joint ventures (DLA 1997:46). In more recent policy there has been a shift of emphasis. Now tenure security is not a *requirement* of the scheme. In an internal memo on equity schemes, DLA says that:

> *an* ***attempt should be made to improve the security of tenure*** *of land reform beneficiaries on the farms. Increased tenure security provides a tangible output for land reform beneficiaries participating in the scheme even before other financial benefits are realised.* (DLA 2002:20, emphasis added).

Government is, however, a limited player in joint ventures in South Africa. Various corporate and commercial actors have direct interests in developing joint ventures with previously disadvantaged people. These interests include rationalising their operations, improving the marketing profile of the company, accessing capital for expansion of production and corporate social responsibility. In reality, the 'private sector' is the initiator and driver of most joint ventures (including those funded by government) and therefore the ventures need to be approached with much circumspection.

Types of joint ventures

There are five types of joint ventures

- contract or out-grower farming
- share equity schemes
- municipality schemes
- sharecropping or share-produce arrangements
- company-supported schemes.

Contract or out-grower farming

Contract farming is an agreement between small-scale farmers and processing or marketing firms, in which farmers agree to supply an agreed quantity of goods of a specified quality. In return, the farmers are paid for the produce, but also receive support such as credit, training and extension services as well as assistance with machinery and other production resources.

In South Africa, contract farming has been most common in the former bantustan areas. To expand land under production, processors and marketers have persuaded people who have access to land held under communal tenure to use it for contract farming. This has enabled women to gain access to livelihoods in these areas, even though access is through a male family member. The most common crops grown through these arrangements have been sugar, timber and cotton.

In freehold areas, companies are reducing their involvement in certain phases of the production process, selling the assets to new small-scale farmers who are able to access government grants or credit, and contracting these phases out, often to previous employees. This is common in the farming of poultry, *buchu* (a herb), chicory and paprika.

These schemes do not give secure and independent access to land and capital – access is only granted for the production of a specified product, and the land may not be put to other uses. Contracting out is also a cost saving for the firms – they do not have to address labour issues, and the exploitation that may happen (often of family labour) is of no concern of theirs. But the schemes can provide small-scale farmers with improved livelihood opportunities. Acknowledging that farmers entering such schemes often have little bargaining power, it is important to seek ways to bolster this and increase opportunities for contract production.

Share equity schemes

Share equity schemes in agriculture are arrangements in which farm workers or small-scale farmers buy shares in a commercial farm, or an agricultural processing company.

The farm workers or small-scale farmers buy equity in these farms or companies with subsidies from government, or through access to credit as a result of a long-term relationship with the company or farm.

Equity schemes are most common in high value export sectors because they provide access to very cheap capital for commercial farmers who need to recapitalise in order to adapt to the unregulated global commodity market. Share equity schemes also enable land reform beneficiaries to overcome the barriers of entry into these enterprises that are capital-, technology-, expertise- and labour-intensive. Between 1994 and 2002, there were approximately 50 equity schemes established with the use of DLA grants, of which 20 were in the Western Cape.

Share equity schemes have the potential to provide participants with a steady income through dividend payouts, and an asset that can grow over time. However, they are very risky ventures, often dependent on single crops and vulnerable to changes in export markets. They are mostly initiated and determined by the commercial farmers involved and farm worker participants are in some cases not very clear on what their involvement is or what alternative projects they could choose. Finally, the schemes often do not give shareholders independent rights to land or secure tenure to their houses. Instead, participation is dependent on continued employment. The question which arises is whether they can therefore really be considered to be land reform projects.

Municipal schemes

Section 152c of the Constitution prescribes that local governments must promote social and economic development. Municipal commonage is land that is legally designated for the use of the local population and is most often used for agricultural purposes. Commonage land is mostly found in the Northern, Western and Eastern Cape and in the Free State.

The DLA has a programme that enables municipalities to obtain additional commonage land for use by previously disadvantaged people (see Anderson & Pienaar 2003; 2004). In most cases, municipalities have supplied land for use by the local community through a leasing procedure.

There are a number of examples, however, where the municipality has taken on a more active role for reasons of politics and/or development. Some municipalities have facilitated access to markets for farmers; others have provided grants and access to credit, training and mentoring.

These schemes provide a secure environment within which the farmers can develop and gain capital and expertise. However, in a complex dynamic, the intense involvement of the municipality can result in a paternalistic undermining of farmers. Maintaining a balance of providing opportunities while allowing farmers to develop themselves is difficult, but important in these schemes.

Sharecropping or share-produce arrangements

Sharecropping or share-produce arrangements have been a common form of joint ventures in South Africa. These are agreements in which 'instead of paying a predetermined amount of rent, the tenant agrees to give the landlord a share of the output' (Canjels 1998:109).

Sharecropping agreements have generally been between a more powerful landowner and a less powerful occupier or tenant. In South Africa, this was a mechanism that black people used to retain some hold on the land and engage successfully in commercial agriculture during apartheid.

In post-apartheid South Africa, however, sharecropper arrangements have been redeveloped where the balance of power between the two partners is not as unequal. One example is where workers on a grape farm agreed to work the land of a neighbouring farmer in exchange for half the crop, which they then bottled under their own wine label (Hamman 1998).

Another example is where a Tsitsikamma community entered into an arrangement with a white farmer who owned their land after they were dispossessed in the 1970s. After they successfully claimed their land back through the restitution programme, the two parties established a joint venture. Each party receives 50% of the profit from the venture – the community contributes the land (and has accessed a grant for capital equipment), and the white farmer contributes the cows, the machinery and the management expertise.

In cases such as this, share-produce arrangements can be more favourable forms of joint venture as the farm workers or small-scale farmers enter the arrangement with a scarce resource around which they can bargain. In each case, however, the advantage for the group is dependent on its ability to negotiate.

Company-supported schemes

Company-supported schemes are established as part of the social responsibility programmes of companies and mainly serve as a marketing tool, showcasing the concerned company. As such, the purpose is not to make direct profit for the company.

Depending on the capacity of the company, benevolent partnerships provide access to land, assist small-scale farmers to access production resources and infrastructure, and facilitate access to markets. The small-scale farmers often have previous and/or ongoing employment relationships with the company. These schemes can provide land-based livelihood opportunities but involve complex relationships which can become paternalistic because it is really only because of the 'benevolence' of the company that they exist at all.

Importance of joint ventures

DLA does not have comprehensive data on joint venture projects. Furthermore, many of the projects do not involve the state and no consolidated figures on these private schemes are available for all sectors. In certain parts of the country, however, joint ventures are common projects within the state's programme – for example, 18% of the land reform projects approved in the Western Cape between 1994 and 2002 were share equity schemes. So while they are an important type of land reform project, it is unclear how significant joint ventures are in the country's agricultural sector as a whole.

Access to land

The most secure joint venture arrangement is where the *access to land* is completely separate from the business venture. Where black communities have a resource that commercial farmers or corporations need – such as land – the power of black people in the arrangement increases. Given this, where DLA grants are involved, *the key result must be independent access to land.*

Most joint ventures provide access to land but the ability to make decisions about the use of the land is severely constrained. This limits the livelihood opportunities of participants. Providing a spread of tenure arrangements (access to individual portions existing alongside company portions) is important to overcome these constraints and should be designed into the venture from the outset.

Not all joint ventures provide access to land. The most notable of these are share equity schmes in which the shares acquired in the enterprise have to be sold upon leaving. These schemes are therefore not land reform projects, as they will not provide independent access to land. But they are likely to provide a return on investment. In this case, the Department of Trade and Industry or the relevant department of agriculture (rather than DLA) should provide such subsidies because their expertise is better suited to assess proposals and monitor performance.

Access to livelihood resources

There have been severe cutbacks in state agricultural support since the adoption of the Growth, Employment and Redistribution (Gear) strategy. Small-scale farmers cannot therefore rely on the state for support to *access capital and other livelihood resources*. Joint ventures with commercial farmers are one of the ways in which poor people can overcome these constraints. Ensuring that such ventures do this and provide good returns is therefore very important. This can be achieved through:

- ensuring good analysis of business plans
- factoring in all contributions that black people make to the venture, not just the direct land reform grant (black people may have preferential access to water licences, cheap additional credit, or grants from other donors)
- ensuring involvement in the processing components (such as the milling components of sugar production) as these are frequently more profitable than primary production
- diversifying production on the farms to reduce risks such as when the market of the main product fails.

The lack of business expertise amongst many poorer participants has meant that the commercial partners often take decisions alone. DLA does not have the capacity to monitor these once the grant has been allocated. It is recommended that in each project an independent party be appointed, sponsored by the state, whose task it is to look after the interests of the small-scale farmers/ farm workers. This person would be required to ensure that correct business decisions are made and that the participants understand these decisions.

Capacity building

Building the management and business capacity of people is often included as a key objective of joint ventures. Due to insufficient time, resources and coherent planning, however, little is achieved in many projects and expectations are often not met.

In smaller schemes it is unrealistic to expect the commercial partner to devote sufficient resources to providing extension services. Other mechanisms are therefore necessary:

- DLA should reintroduce a technical training fund to support capacity building in agrarian reform.
- The extension services of provincial departments of agriculture should offer marketing, management and business skills as well as agricultural extension, and should also support partners in joint ventures.
- Independent parties with ongoing mentoring roles should be implemented as proposed above.
- Formal study is crucial. Goverment should intervene to encourage institutions to develop specific courses for those in joint ventures, and provide support to enter these and existing courses.

Building the capacity of small-scale partners involved in joint ventures is key in the long-term and an integrated response from government and other actors is required. If this does not take place, the empowerment of people through these ventures will remain limited and the dependence on white farmers who have the expertise will continue.

Immediate benefits

Receiving *immediate benefits* from joint ventures is dependent on the nature of the specific product and the nature of the agreement. One of the objectives of joint ventures, especially where state funds are involved, should be to ensure that there are immediate improvements in people's livelihood options. Actual changes are necessary in the form of cash income or access to other benefits such as land for housing or other production purposes, or in terms of capacity development.

The lack of immediate benefits reduces committment to the enterprise and, in schemes with long lead times, there is often dissatisfaction. In those situations where the nature of the crop requires a long-term investment of time, additional benefits are needed if participants are to enjoy improved livelihoods and maintain their commitment to the enterprise or project. Where the returns are more immediate, such as with sugar and chicken farming, these returns themselves could provide the incentive to remain committed to the venture.

In the case of government grants, a criterion should be imposed that business plans must make provision for immediate benefits to beneficiaries.

Recommendations

Most share equity partners, small-scale farmers and other participants in joint ventures are unorganised. *Organisation* is therefore needed to bolster their participation in joint ventures. This will enable sharing and improve the ability to strategise; enhance their bargaining power in negotiations; and bolster their lobbying power at a government and corporate level. Mechanisms to strengthen the organisations should be found. Government has two roles:

- it can demand evidence of organisation amongst the group.
- it can make funds available to support the organisation of farm workers or small-scale farmers.

DLA's approach to land reform has been demand-led. This has resulted in commercial farmers generally being able to determine the types of projects which receive DLA support because they have been the main drivers of joint ventures. DLA funds have therefore often not been put into the best ventures from a financial and an empowerment point of view. A shift to a *supply-led approach* is needed, proactively designing schemes with safeguards and components that strengthen the hands of farm workers or small-scale farmers.

Those who benefit from joint ventures are usually men, since women generally do not have direct access to land, or are often not permanent employees on farms. Nevertheless, women have found ways to access shares in share equity schemes, or independent land rights in contract farming in communal areas. Assessing the impact of their participation and the benefits they obtain, however, is not straightforward. The ventures may provide an improvement on previous circumstances, but it may very well be that the woman has entered into another, different kind of exploitative relationship. It is important for facilitators, and particularly those appointed by DLA, to be aware of women's interests, and to seek ways in which to meet these interests through joint ventures.

Finally, where corporations have ongoing vested interests in the success of the ventures, constant monitoring take place. By contrast, little monitoring takes place in joint ventures which are funded only by DLA. It should be assumed that government will always have limited resources, and so monitoring needs to be addressed within the project itself and independent of the state. Commentators have proposed that a third party investor should be encouraged. However, state resources are being put into joint ventures and the progress should therefore be monitored.

Mechanisms to clarify which aspects are most important in the project would assist in targeting monitoring and making the most economic use of the limited resources.

Conclusion

Because government has not prioritised land and agrarian reform, it has not dedicated many resources to this end. Joint ventures mobilise private sector resources to support land reform initiatives and are seen to help poor people overcome the many barriers of entry into commercial agriculture. At the same time, commercial farmers and corporations are faced with changing circumstances: they have to recapitalise to enter global markets; they have to show their transformation commitments when marketing their goods; and they are concerned with demonstrating their commitment to transformation. Commercial farmers and corporations use joint ventures to address these changed circumstances.

Joint ventures may address these various needs but should be treated with caution. White commercial farmers and corporations usually initiate and design joint ventures, and their interests usually dominate. Similarly, where local governments are involved, the political interests of the councillors may dominate in the projects.

Joint ventures provide land reform beneficiaries with opportunities to obtain access to land, capital and expertise. But joint ventures are generally unequal arrangements, and the dominant partners will seek to ensure that their interests are promoted. It is important for farm workers, small-scale farmers and their facilitators to understand this and to seek ways to increase their resources (including land) and benefits from the scheme.

Where the government, and DLA in particular, is involved, however, a more proactive role is required to ensure that the interests of the previously disadvantaged dominate. This means initiating more projects, being more prescriptive about the requirements for a project to receive government support, and monitoring the development of projects once funds have been allocated. If this does not take place, state funds for land reform will end up bolstering current landowners in agriculture and poor men and women will once again have lost out.

For more information on this topic, see the full PLAAS project report (Mayson 2003)

Endnote

[1] Surplus People Project, Cape Town

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SPP supports marginalised rural communities in their struggles for the transfer of power, land and natural resources in South Africa.

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