



# Linkages that yield a harvest

How can emerging farmers in land-reform projects be assisted to become sustainable in a competitive global market? A success story offers lessons for the design of future programmes.

by Rubín Japhta and Stef Coetzee

Since 1994, South Africa has seen many positive changes that have made a significant difference to the political, economic and social lives of people. Yet there are areas where expectations have not been met. In particular, the widespread rural poverty that still prevails comes

in for strong criticism. Land reform is at the centre of this debate, as government programmes in this regard have so far not produced the anticipated results.

The legislation, as well as the resources, government has put into place to facilitate land reform

has made little impact. Moreover, the sustainability prospects of many existing land-reform ventures seem to be poor. The lack of capacity on the part of government to support emerging farmers once they have been put in the position to farm has been blamed as a major shortcoming in the broader strategy.

However, below the surface of what seems a failure on macro level, there are important micro success stories. A study conducted at the University of Stellenbosch Business School (USB) explored a particular project as an example of what can be achieved with a carefully designed and well-managed initiative.

The USB research emphasises that greater private-sector involvement is vital for economically sustainable land reform. Consequently, private agribusinesses, which can link small farmers to established market systems, are needed in partnership with government. The highly competitive marketplace will continue to marginalise emerging farmers unless action is taken to improve their access to factors of production, technical assistance, and

## Small farmers in a global economy

### The dilemma of the small farmer

Markets, including agricultural markets, have become globally integrated. Even small farmers in developing countries are now linked to the consumers and large businesses of the developed nations.

The global emphasis, as well as food-safety issues and increasing consumer demands, has made farming more specialised and capital intensive, and, therefore, susceptible to vertical integration. For the independent small farmer it has become increasingly difficult to overcome the escalating entry barriers to the mainstream industry.

What is aggravating the situation is that economic reforms in many developing countries have resulted in cuts in government spending on agricultural support measures such as credit programmes, subsidies, and research and extension services.

### Linkages in agriculture

One way the sector has responded is to link small farmers with larger businesses in the agricultural value chain. **Contract farming** is a particular example that has become popular in Africa for assisting small farmers with regard to technology, markets and secured prices. The concept has become recognised as a mechanism for self-sustaining development and has received endorsement by the United Nations Food and Agricultural Organisation (FAO) for its successes in linking small farmers to technical and managerial skills.

The contract-farming concept is, however, prone to exploitation because of the inherent imbalance of power between the parties and the inequality embedded in many contracts.

Another linkage model is the **farmworker equity-share scheme (FWES)**, where a private company is formed, in which farmworkers own shares. The scheme allows workers rights to share in the profits and capital gains of the company and to vote for directors. A key advantage is that ownership of existing, viable farms is transferred, rather than farms being subdivided into smaller independent units which may revert to subsistence operations with reduced prospects of viability.

But the success of these schemes is also not guaranteed. Success usually depends on access to capital, the retention or recruitment of quality management, and the effective transfer of skills to workers.

skills development. The private sector has shown that it can make a major difference, but government needs to adopt a more vigorous role in strengthening the enabling environment.

Practical strategies have to come to the fore in the private as well as government sector to create

worker equity-share scheme (FWES) programme run by the fruit export company Capespan on a number of farms. This project offered insight into various support and institutional mechanisms that had been adopted to integrate emerging fruit farmers into the supply chain. Six of the Thandi Project farms

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the market forces that will accelerate land-reform projects as economically viable ventures.

### Case study: the Thandi Project

The research targeted the Thandi Project, a farm-

were chosen for the case study. The farms that were studied are all in the Western Cape, and are involved in the production of fruit and wine.

The investigation comprised site visits to farms, structured interviews, a scrutiny of internal studies,

analyses of company reports, and personal communication with stakeholders. Individual and group interview sessions were conducted.

### Factors that influence land-reform success

The USB study found that there are several themes and issues that appear to be common to the farms that participated in the research.

#### Transfer of knowledge

Many of the farmworkers acknowledged that they had to make a huge leap from a position of merely having a limited range of technical skills to the roles of managers and decision-makers. They made it clear that they need plenty of assistance, as they operate largely in isolation from the markets and have little understanding of the commercial dynamics under which their buyers function.

The investigation found that most of the new farmers still had poorly developed business skills. In addition, they lacked the confidence and assertiveness to develop constructive relationships with buyers.

Skills transfer was generally regarded as a necessity, and the assistance needed was seen as stretching beyond farming expertise to include also business and personal life skills.

#### Farming expertise

Given the inadequate skills of workers, the retention of expertise proved to be important in the process of transferring ownership. On most of the farms, the original farmer was still a shareholder and able to continue providing management and mentoring to the new shareholders. Alternatively, people with experience in the management of empowerment entities were appointed. These arrangements seemed successful; the one farm on which neither the ex-farmer nor a suitably experienced manager was in charge faced near bankruptcy.

#### Control and decision-making

It was found that, while ownership had been diversified, control remained mostly in the hands of specialised managers with their superior knowledge.

While a scrutiny of results showed that this arrangement benefited shareholder returns, the situation had its disadvantages. The lack of control felt by workers was found to limit their economic development and to hold back improvement in labour efficiencies. The inability of workers, as shareholders, to effectively monitor the performance of manage-



ment made them feel vulnerable to opportunism and this fuelled some distrust, especially against a historic background of racial prejudice.

One particular farm had advanced to a point where the workers were given the opportunity to appoint their own full-time farm manager – a person with suitable experience and qualifications. As a result, the workers felt more independent of the original farmer, and more in control. The study found a greater sense of enthusiasm among the worker shareholders on the farm in question.

### Patience

It appears from the investigation that patience is an important factor in the achievement of sustainability. Besides the fact that it takes time to transfer the right mix of knowledge and to get the worker shareholders effectively to assume more control, it was also found that the two farms with the longest project history were the ones that reported a significant increase in revenue as a result of the FWES. Schemes such as these are not necessarily a shortcut to empowerment.

### Project management

A well-managed process appeared to be essential, and the Thandi Project management team was recognised as playing a critical role in this regard. The team maintained a balance between the need for tight management control and the rights of the worker shareholders to have access to, and to be able to interpret, financial information. Throughout the project, the team facilitated the delivery of relevant training programmes to the farmworkers.

### The lead firm

Agribusinesses have to compete in quality-conscious, highly competitive global markets. To succeed in this, they must be able to secure the right products. The study found that Capespan, as the

lead firm in this case, achieved certain advantages through the linkages project which made economic sense for them. They claimed that it gave them a more reliable source of supplies and a better measure of control over quality than if they had to spot-purchase from farmers.

To become involved in linkages, however, does not make lead firms immune from criticism. A number of situations proved to cause farmer dissatisfaction. Late payments, mid-season changes in pricing, perceptions of discriminatory buying practices, inefficient extension services, and poor agronomic advice usually lead to dissent. If such situations are not addressed, they can cause hostility towards lead firms and may result in farmers withdrawing from projects.

### Farm selection

The USB study found that a well-designed farm-selection process was adopted to maximise the success of linkages projects under the Thandi banner. Business principles played a vital role.

- Farmers who wanted to participate in the project had to submit a proposal that spelled out the ownership and management plans, the placement of farmworkers in key positions, and a skills development programme that would build the capacity of the worker-shareholder group.

## The linkages model, as applied in the Thandi Project, represents one answer to the quest for successful land reform

- The underlying business had to be financially viable and the price paid for the business by its new owners had to be commensurate with projected returns.
- Worker participation right from the beginning and worker ownership of at least 25% was a requirement for eligibility.
- The original farm owner had to stay involved to play a mentorship role in identifying and grooming worker-shareholder talent. In this way, management succession and worker empowerment could be ensured.

### Government support

The study found that the emerging farmers' experience of the officials of the Department of Land Affairs was mixed. While farmers on some farms

were grateful to the government for donating forestry land to the community, most farmers in the Thandi Project reported little capacity-building support from government structures.

This was confirmed by discussions with other industry observers. Their most general complaint was that the Provincial Department of Agriculture lacks the manpower to provide the necessary after-care for land-reform projects. Government bodies should have the capacity to be comprehensively involved, especially in terms of information, training, innovation, and the initiation of more linkages projects with other agribusinesses. At present they are under-resourced and private-sector agribusinesses (like Capespan) rather employ their own extension staff.

The research found this to be a serious shortcoming for future projects, as it may not be viable for agribusinesses to provide all the support in the long term.

### Fruitful lessons from the Thandi Project

This case study shows that emerging farmers in land-reform projects can operate successfully and be sustainable. This can only happen more generally, however, if the many lessons that have been learnt from such groundbreaking projects are incorporated

in the design of future land-reform programmes. Sometimes the removal of relatively simple impediments can allow emerging farmers to participate more successfully in competitive market processes.

The linkages model, as applied in the Thandi Project, represents one answer to the quest for successful land reform, and provides lessons that should certainly be taken further by building on the experience of the early pioneer cases.

### Land-reform strategy

The first important point that emanated from the USB study is the need for a broader land-reform strategy that embraces a partnership approach between the agribusiness sector, government, farmers, and other key stakeholders. Such a strategy has to incorporate

the entrepreneurial insight of the private sector to succeed in a normal market economy, but it also needs to address a broader supportive environment to encourage and sustain the process. The latter aspect places the spotlight on the role of government and other supporting agents.

**2 Government support**

Government support is currently inadequate. Still, without the financial support of government very few of these equity schemes would have materialised. The enabling environment established by government – which offers grant funding to emerging farmers and which encourages empowerment in the agricultural sector – was critical in the formation of the Thandi Project. It shows that much more can be achieved with a stronger effort on the part of government.

Primarily, government should incentivise the private sector to take the lead because a private-sector vision is required to ensure the sustainability of ventures. But if the process is left solely to the private sector, normal market forces can cause selectivity in the choice of projects to support. Government should therefore play a role to ensure a broad-based approach and to restrict opportunism.

Government must also become more involved in capacity-building to complement private initiatives, for example, by setting up capacity-building programmes at agricultural institutes (such as Elsenburg) and universities to train support service providers.

**3 Private-sector initiative**

Strong involvement by the private agribusiness industry is essential. Much of the success of the Thandi Project can be attributed to the support provided by the lead firm. The advantages inherent in a linkage arrangement driven by a lead firm include: an easier entry point for emerging farmers; guaranteed markets; access to the technical expertise in the lead firm; and logistical support.

It is important that existing lead firms, such as Capespan with the Thandi Project, be encouraged to become involved in the replication of success models. Moreover, they should be encouraged to establish learning systems that can transfer linkage strategies to other agribusiness firms. In this regard, relevant government bodies and development agencies should play a leading role.

**4 Skills transfer and capacity-building**

Skills transfer is an imperative of linkages projects. Because of the initial knowledge disproportions, the powers of control will remain with the original farmer or whoever is in control at the start. For this reason it is important to design and maintain an effective process of training for the worker shareholders. Caution must be exercised not to rush through training programmes and let workers take control prematurely, when they are still out of their depth. The process should be credible, and should ideally be facilitated with the help of honest, independent development agents or brokers.

The study found that a wide range of skills are required, including the technical skills related to the particular product value chain, knowledge of general business principles, financial skills, and marketing skills.

**5 Empowerment**

Practitioners need to ensure that mechanisms are in place to advance genuine empowerment. The system should assist workers to progress to roles in which they can assume more control and exercise their rights, and receive the economic benefits to which they are entitled. At the same time, care should be taken to manage empowerment effectively; the pace of empowerment should match the rate of skills absorption.

Empowerment should also entail broader capacity-building strategies by government. Such initiatives should cover adult-education programmes for the farmworker communities as well as provision of access to other social services, healthcare and housing, all of which would contribute to the overall capacity of farming communities to become economically self-sustaining.

**6 Size of shareholding**

Empowerment can be constrained where workers own a relatively small share of the enterprise and thus lack the power to effect changes in the boardroom. Government should only support those schemes where workers and empowerment partners own a minimum of 26% of the shares. This at least allows them to have voting rights according to company law.

**7 Institutional arrangements**

All the farms examined in the case study are set up as private companies with benefits and voting rights proportional to shareholding, and with shares fully transferable. The sound institutional environment created by the project (see box below) was considered to be a strongly positive factor.

**The Thandi institutional arrangements**

- Externally audited financial statements
- Disclosure and circulation of financial statements
- Proper notice and conduct of meetings
- Disclosure and circulation of minutes
- Sound voting and election procedures
- Personal liability of negligent directors
- Penalties for bad management

**8 Wider support network**

To create a wider support network for emerging farmers, the capacity of consultants and trade associations must be strengthened to offer linkage support services in the agricultural field. They should be available as linkage champions that can assist empowered farms in a variety of developmental activities, such as finding buyers, hosting buyer visits, organising trade shows, preparing and mentoring farms for trade-show participation, and organising groups to market products jointly.

Also, when it is not feasible for small farmers to work with large lead firms, they can turn to these smaller intermediaries for assistance, who can to an extent substitute what lead firms could offer them.

Successful, sustainable land-reform strategies are vital if South Africa is to solve some of its most pressing economic and social problems. Much can be learnt from the Thandi Project's application of the concept of agricultural linkages to stimulate fresh thinking about solutions to the land-reform challenge. ■



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**Write to us :** In order to accelerate poverty eradication, suggest innovative ideas on how the private sector can link fledgling rural businesses to mainstream markets?  
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