



LAND TRANSFORMATION INITIATIVE

LAND REFORM AND RURAL DEVELOPMENT MODELS

ERMELO INVESTIGATIVE REPORT

**ERMELO
LAND REFORM AND RURAL DEVELOPMENT MODEL**

INTRODUCTION

1. The report is rooted in, and serves to augment and support, the on-going discussions and continuing work, between the ruling political party and selected large-scale commercial and emerging farmers to determine those policy principles that will provide policy congruence, synergy and stability in the agricultural sector.
2. This report has been commissioned as part of an effort to identify and develop a range of viable land reform models that can: contribute to South Africa's land reform imperative; improve general food security; and stimulate the economic development of rural communities.
3. Experience has proven that land in itself cannot generate wealth, alleviate poverty and bring about sustainable rural communities. This is rather achieved through the transformation of the new or emerging farmer activities to those of viable, sustainable commercial agri-business over time. Partnerships in this regard with existing large-scale commercial farmers are therefore key to the enablement of this process. Thus the transfer of land must be linked to the establishment of viable economic units or agri-businesses.
4. The transition of the new or emerging farmer entrants towards their participation in sustainable agri-businesses requires the formalisation of a tripartite relationship between Government, commercial agriculture and the new farmers, as well as measures to incentivise the transformation of the agricultural sector as a whole. This transition requires that the entire spectrum of civil-society, and not just existing commercial farmers, work together to address the issues of land reform and its associated challenges, to alleviate poverty in rural areas, to create decent jobs and enhance agricultural profitability through inclusive institutionalisation of partnering, mentoring, monitoring, measuring and assistance.
5. It is clear that the key to successful agricultural transformation lies in the establishment of vibrant and sustainable agri-businesses in which emerging farmers can thrive. To this end, the role that existing commercial farmers can play must not be under-estimated.
6. Furthermore, the agricultural sector as a whole needs to move from being viewed and managed as a social sector and be evolved into a fully-fledged economic sector within the broader South African economy. This imperative remains part of the national interest and fundamental to South Africa's future security.

7. To this end, a number of successful land reform and rural development projects have been identified for analysis and modelling, with a view to providing proposals in the interests of this transformation.
8. This report provides an analysis of two existing initiatives in the broader Ermelo (Mpumalanga) environment, namely that of the GIYA MLIMI commercial farming venture and the ENCIMANZI consultancy firm. This report thus serves to identify and define the critical components of the above two ventures and draw insights for future policy development in the agricultural sector. It further provides insights that may improve the viability and sustainability of similar projects, wherever they may be found.

**REGULATORY FRAMEWORK
LINKAGE TO GOVERNMENT PROGRAMMES**

CONSTITUTION OF THE REPUBLIC OF SOUTH AFRICA, 1996

9. Section 27(1) of the Constitution (1996) speaks to the fundamental rights of health care, food, water and social security. It *inter alia* pronounces that everyone has the right to have sufficient food and water, social security and appropriate social assistance. Section 27(2) requires the State to take reasonable legislative and other measures, within its available resources, to achieve the *progressive realisation* of each of these rights.

NATIONAL DEVELOPMENT PLAN

10. Chapter Six of the National Development Plan: Vision 2030 speaks to rural communities requiring greater social, economic and political opportunities to overcome poverty, thus requiring a land reform and job creation strategy that ensures that rural communities enjoy economic advancement and have jobs.
11. It views land reform as a strategic necessity to unlock the potential for a dynamic, growing and employment-creating agricultural sector. The key principles it puts forward are:
 - 11.1. Rapid transfer of agricultural land to black beneficiaries without distorting land markets or business confidence in the agri-business sector.
 - 11.2. Sustainable production on transferred land by making sure that human capabilities precede land transfer through incubators, learnerships, mentoring, apprenticeships and accelerated training in agricultural sciences.
 - 11.3. Monitoring institutions to protect land markets from opportunism, corruption and speculation.

11.4. Land-transfer targets in line with fiscal and economic realities to ensure that land is successfully transferred.

11.5. White commercial farmers and organised industry bodies significantly contributing to the success of Black farmers through mentorships, chain integration, preferential procurement and meaningful skills transfer.

DEPARTMENT OF RURAL DEVELOPMENT AND LAND REFORM

Land Reform Programme

12. The Department of Rural Development and Land Reform under its Programme 5 on Land Reform aims to initiate a sustainable land reform programme in South Africa, based on the following three strategic objectives:

12.1. Strategically located land acquired

12.2. Farm development support provided to smallholder farmers

12.3. Functional system and institutional arrangements

Recapitalisation and Development Programme

13. The Department of Rural Development and Land Reform's Recapitalization and Development Programme seeks to operationalise the policy on the same name published 23 July 2014. It focuses on human (capacity development), infra-structure development and operational inputs on properties in distress and newly acquired through the land reform redistribution, restitution and other programmes since 1994 as well as other agricultural properties in distress acquired without grant funding. The approach is to ensure that the enterprises are profitable and sustainable across the value chain in line with the Business Plan which stipulates comprehensive development requirements of targeted properties over 5 year recapitalization and development cycle.

Mpumalanga Provincial Shared Service Centre

14. A Provincial Shared Service Centre (PSSC) for Mpumalanga is established to coordinate land reform programmes. The Mpumalanga PSSC focusses on the following services:

14.1. Redistribution in terms of the Pro Active Land Acquisition Strategy (PLAS).

14.2. Tenure (ESTA, IPILRA).

14.3. Recapitalization.

14.4. State Land Administration.

DEPARTMENT OF AGRICULTURE, FORESTRY AND FISHERIES

Comprehensive Agriculture Support Programme (CASP)

15. To ensure the commercial viability of emerging farmers from a household food security level to a commercial level, a farmer-to-farmer mentorship policy has been developed. The department regards skills development as one of its critical focus areas and this obviously includes providing hands-on training to emergent farmers in various fields of farm management.
16. The Micro-agricultural Financial Institutions of South Africa (Mafisa) encourage partnerships between established agricultural enterprises and emerging farmers and entrepreneurs, by providing access to finance for farmers, especially beneficiaries of the land restitution, redistribution and land tenure reform programmes. The Land Bank administers the credit scheme on behalf of the department and provincial departments provide assistance to access the scheme. Four development finance institutions are currently participating in the disbursement of Mafisa funds in the provinces.

Agricultural Broad-Based Black Economic Empowerment (AgriBEE)

17. The AgriBEE Charter seeks to provide direction on the integration of emerging participants into mainstream agriculture by creating linkages, partnerships and networks for balanced, mutually benefiting results for all concerned. It specifically encourages partnerships between established agricultural enterprises and emerging farmers and entrepreneurs. It seeks to ensure enhanced competitiveness and sustainable development with improvement/expansion of the existing businesses, rehabilitation of ailing agricultural business concerns and expanded entry for new businesses in the sector.

GIYA MLIMI (PTY) LTD

ESTABLISHMENT

18. Giya Mlimi (Pty) Ltd is an existing commercial farming venture situated between Ermelo and Morgenzon in the Mpumalanga Province of South Africa. Giya Mlimi was created as part of a land reform initiative in which an existing viable and successful family based commercial farming venture was repositioned as a black economic empowerment venture that is supported by a strategic partner which brought funding and expertise in support of its operations.
19. The vision that led to the establishment of Giya Mlimi (Pty) Ltd is attributed to Jan Grey, the late John Mahlangu and Paul Grey. The Greys have consistently demonstrated their commitment to the beneficiation and empowerment of their long-time farm employees who had been at the mainstay of the successful farming enterprise 'Grey and Grey Landgoed'.
20. Nine farm employees, identified for their demonstrated aptitude, individual passion, drive, attitude, trust, goodwill and enthusiasm, were selected to be the shareholders and directors of Golden Ribbon (Pty) Ltd, a company created to be the vehicle for the empowerment initiative. The newly created Golden Ribbon (Pty) Ltd approached the Department of Rural Development and Land Reform with a business proposal to lease Grey and Grey Landgoed.
21. Consequently, and based on the soundness of the business proposal, Government (represented by the Department of Rural Development and Land Reform under its Programme 5 on Land Reform) purchased Grey and Grey Landgoed as a viable sustainable going concern.
22. The business model developed between Golden Ribbon (Pty) Ltd and Government was centred on the following key elements:
- 22.1. The fixed property, including the land, buildings and fixed improvements would remain in the ownership of the State but would be leased on a long-term (30 year) basis to Golden Ribbon (Pty) Ltd.
 - 22.2. The loose assets, including all the equipment and livestock were to be donated to as part of the recapitalisation program.
 - 22.3. The Grey family as shareholders in Verbiwiz (Pty) Ltd are the strategic partner and bring funding and expertise to the venture.

22.4. An operating company, Giya Mlimi (Pty) Ltd, would be formed to manage the operations on a day-to-day basis by bringing together Golden Ribbon (Pty) Ltd and Verbiwiz (Pty) Ltd.

BENEFICIATION

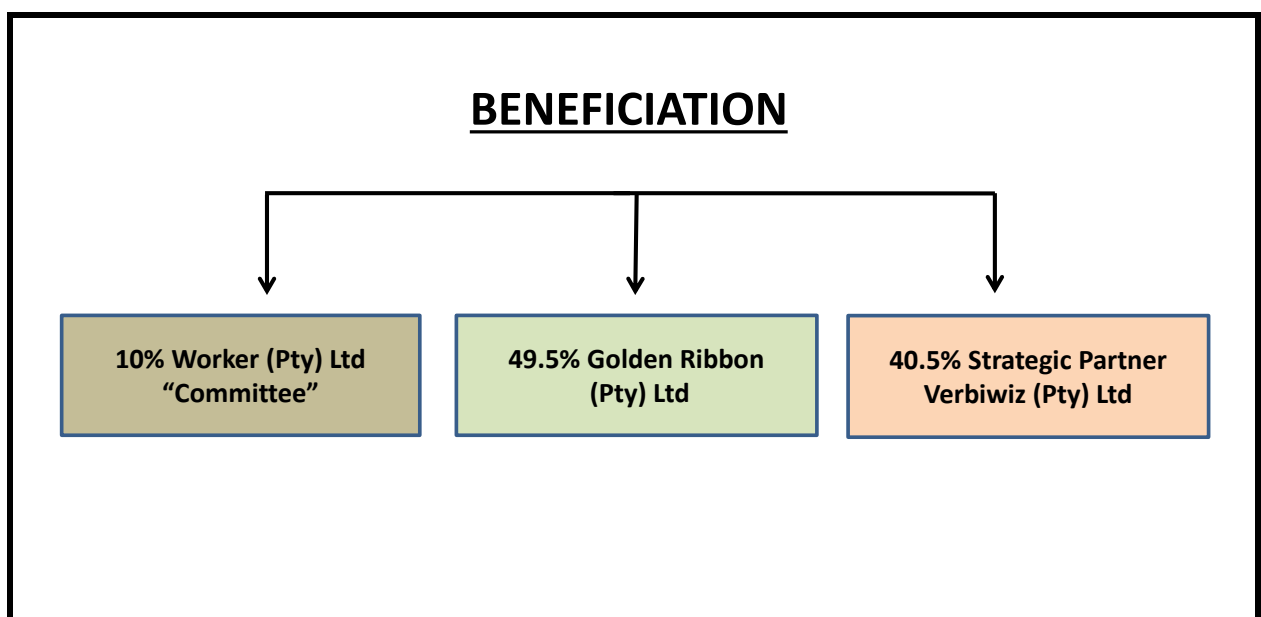
23. Giya Mlimi (Pty) Ltd was thus formed as the operating company comprising Golden Ribbon (Pty) Ltd with a 55 % shareholding and Verbiwiz (Pty) Ltd as the Strategic Partner with a 45 % shareholding.

24. Transfer of the title deeds to the State took place on the 1st April 2013 and with it a seamless hand over of the farming operation from Grey and Grey Landgoed to the capable management of Giya Mlimi (Pty) Ltd. The loose assets and livestock were transferred to Giya Mlimi (Pty) Ltd on the 1st October 2013 under the recapitalisation program.

25. Giya Mlimi (Pty) Ltd has been operating as a successful commercial farming venture since the date of transfer and has remained focussed on its strategic objectives.

26. The remainder of the employees who were not selected as the shareholders of Golden Ribbon (Pty) Ltd are none the less employed by Giya Mlimi (Pty) Ltd and participate in a share of 10% of the operating profits through an Article 21 workers company. This apportionment is maintained in a special account which is dedicated to improving the quality of education, living conditions, housing, health and social development matters within the employee community.

27. The beneficiation model is depicted in the diagram below.



STRATEGIC OBJECTIVES

28. The shareholders have set and maintain the following two-fold strategic objectives for Giya Mlimi (Pty) Ltd:

28.1. The primary objective has always been to ensure and grow a viable farming operation, the success of which would be used to the benefit of all who owned and worked in it.

28.2. The secondary objective is to position the farm and its successful operation as an 'excellence model' to assist the greater rural development agenda in the Mpumalanga Province.

29. The shareholders and directors alike have remained steadfast and committed to these strategic objectives, allowing Giya Mlimi (Pty) Ltd to become the 'Farm of Excellence' that can be used to the benefit of:

29.1. Empowering the farmers of Mpumalanga in particular, and South Africa in general by providing practical skills and management training

29.2. Providing opportunities for the youth to participate in agriculture.

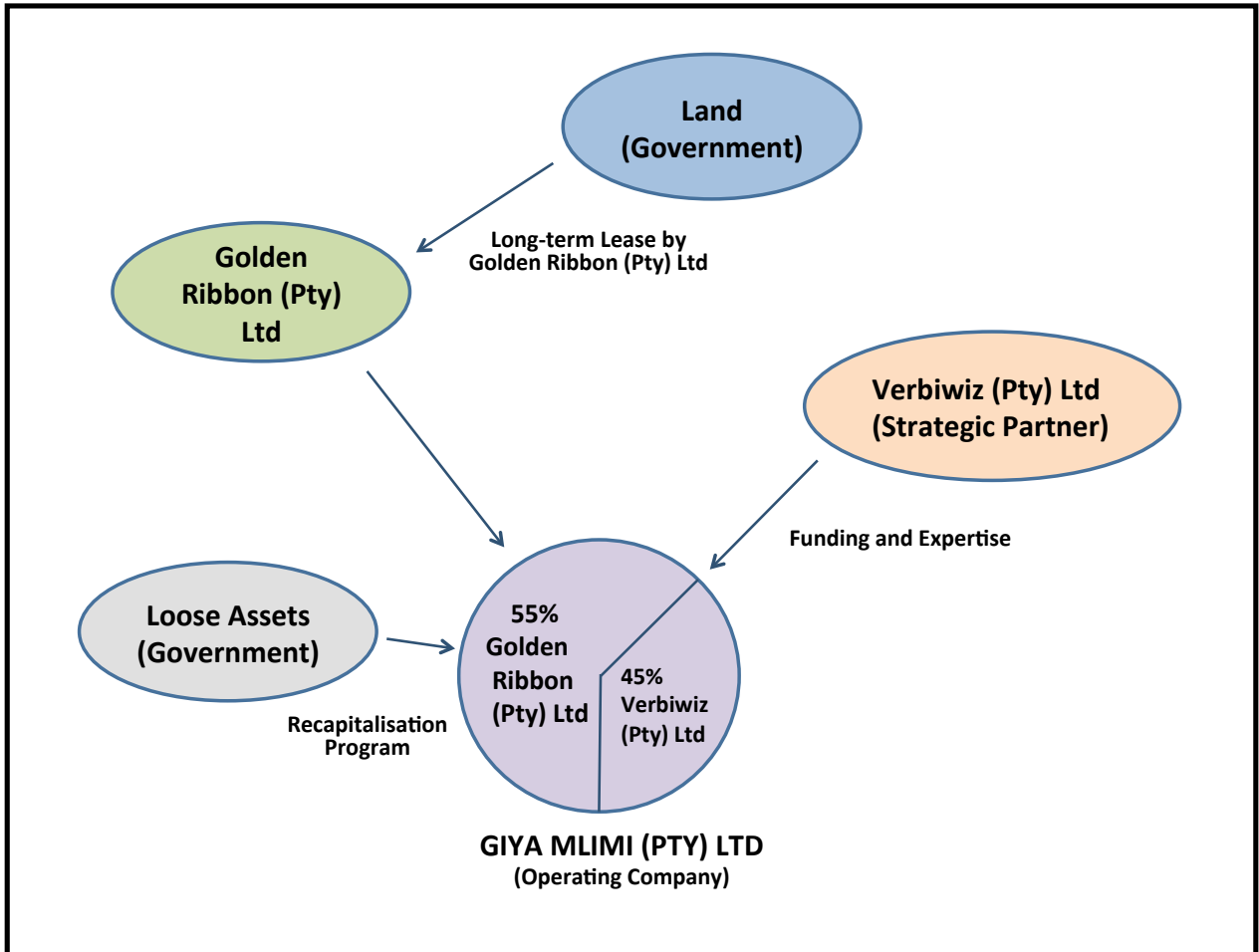
29.3. Providing a demonstrator platform for skills development, including the practical experience of students who are studying agriculture.

29.4. Enhancing the practical skills and capabilities of the extension officials who work for the Mpumalanga Department of Agriculture.

30. The specific focus on the above secondary objective is to enable the facilitation of the skills development requirements of the farming community in general and an immediate specific focus on incubating those skills urgently needed by the beneficiaries of other land reform projects in Mpumalanga.

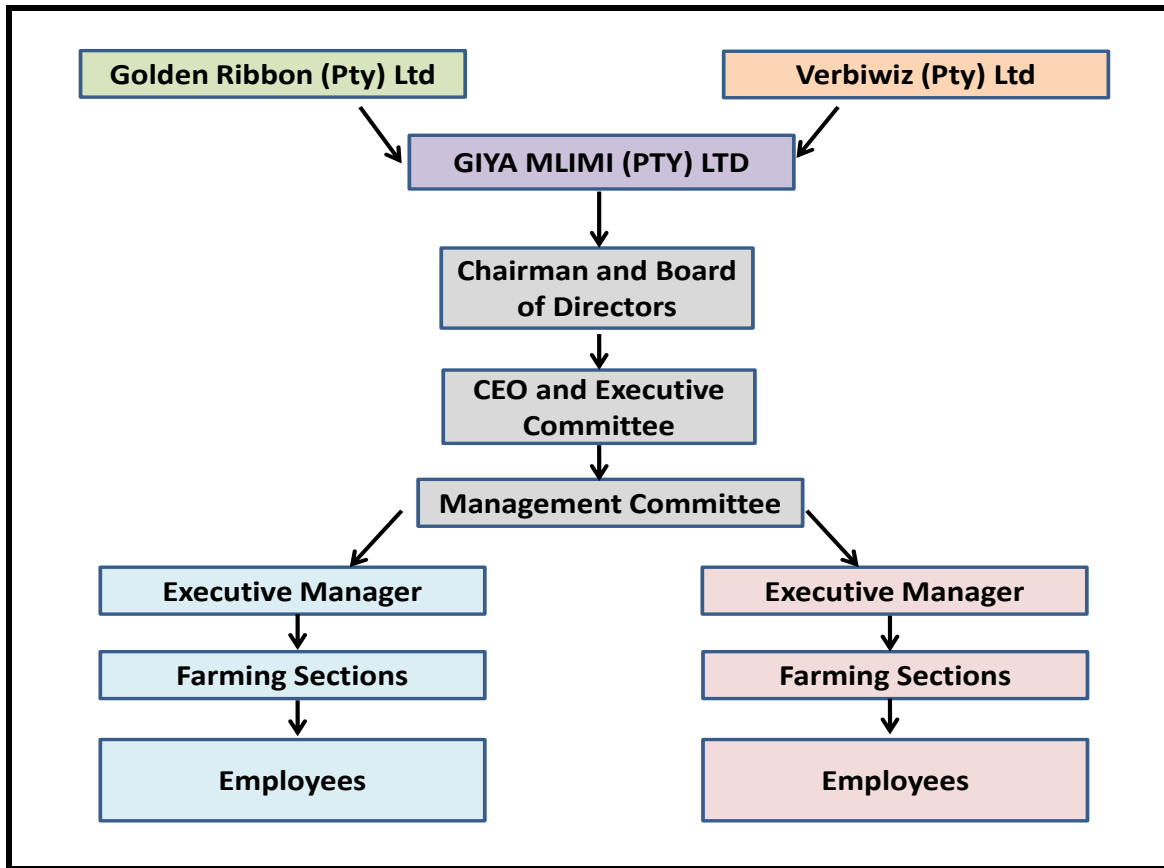
OPERATING MODEL

31. The broad operating model is depicted below.



MANAGEMENT MODEL

32. The management model is depicted in the diagram below.



PRODUCTION CONCEPT

33. The farming operation conducted by Giya Mlimi (Pty) Ltd is based largely on livestock in the form of a sheep farming enterprise and a cattle farming enterprise utilising natural veld, 110 ha eragrostis, 500 ha smuts finger pasture, 400 ha of kikuyu, 900 ha of sericea lespedeza pasture and 108 ha irrigated mixed pastures for high quality fodder production. In addition, there is a crop farming enterprise consisting of two components namely maize production and soybean production. The size and shape of these enterprises are as follows:

- 33.1. Maize production on 600 ha.
- 33.2. Soybean production on 600 ha.
- 33.3. Sheep production using 5500 breeding ewes with a wool and fat lamb offset through a feedlot that finishes off the lambs for dedicated and established markets.

33.4. Cattle production using 1350 breeding cows within which there is a 250 cow Boran and a 250 cow Gelbvieh stud operation as well as a commercial beef operation.

FUTURE PLANNING

34. In the long-term, Giya Mlimi (Pty) Ltd will focus on a rebalancing of enterprises by increasing its livestock production capacity and concomitantly reducing its crop production over time. Experience backed by scientific trials indicate that, in this farming area, livestock farming is subject to reduced performance risks compared to crop farming and if carefully managed, more profitable.

BUSINESS RISKS

35. Strategically, Giya Mlimi (Pty) Ltd faces significant risks which may impact on its future viability, all of which lie outside of its direct control.

Security of Tenure

36. Grey and Grey Landgoed was sold to the State as a going-concern on the understanding that the State would conclude a long-lease agreement with Golden Ribbon (Pty) Ltd. Transfer of the title deeds to the State took place on the 1st October 2013. To date, the only formal document remains the Deed of Sale.

37. The Department of Rural Development, on behalf of the State, has to-date failed to enter into a long-term lease agreement with Golden Ribbon with the consequent uncertainty on Giya Mlimi's long-term security.

38. This untenable situation exposes the business to both the vagaries and whims of individual government officials and to any subsequent policy changes.

Funding/Cash Flow/Future Capitalisation

39. Consequently, Giya Mlimi is restricted in its ability to raise capital due to the above-mentioned lack of security of tenure. Thus, funding cash flow requirements and the funding of future growth are hampered and the business is fully and unreasonably reliant on the strategic partner for its current account and its future capitalisation.

40. The business is however in the very fortunate position in that its strategic partner has had the depth to be able to manage this matter although long term growth will have to be funded from cash flow and therefore be far slower than optimum. In other land reform project instances the strategic partner might not be in the position to provide the required level of funding and thus the projects would in all probability fail.

Doing Business with Government

41. The current land reform model adopted by Government places Government firmly inside the of commercial agriculture and its required management. This in itself comes with the responsibility to be responsive to commercial project requirements in terms of: decision-making; funding; infrastructure development; skills development and last but not policy support and complementary agricultural interventions.
42. The retention of land ownership by Government effectively removes the ability to leverage the land as a means of funding and capitalising sustainable agri-business that must emerge from the land reform programme. Consequently the viability and sustainability of this model is extremely precarious.
43. The Giya Mlimi experience has clearly shown that doing business with Government is very difficult. In general, the experience has shown that the machinery of Government is not very adept at responding to the day-to-day operational requirements of land reform communities, and in general these communities have a fractured and disjointed experience in dealing with Government. The factors listed below are indicative thereof:
- 43.1. A heavy burden of bureaucracy.
 - 43.2. Slow and unclear decision-making processes.
 - 43.3. Frustrating turn-around time on key interventions.
 - 43.4. No single point of entry, and having to deal with a multiplicity of government departments.
 - 43.5. Policy incongruence and boundary management between departments dealing with the agricultural sector as a whole.
 - 43.6. In some instances, the competence of some appointed officials assigned to these programmes, and in other instances, the absence of commitment to and ownership of the necessary outcomes by officials.
44. Hereunder is discussed the Encimanzi (Pty) Ltd consultancy firm, with a number of complementary objectives focussed on improving the sustainability of land reform projects, is potentially a viable example of a 'special purpose vehicle' that can bridge the divide between the necessary bureaucracy of Government and the land reform communities.

ENCIMANZI (PTY) LTD CONSULTANCY

BUSINESS ORIENTATION

45. Encimanzi (Pty) Ltd is a service delivery organisation in the agricultural business sector. It is driven by the belief that the beneficiaries of transferred land can make their land productive. It therefore positions itself as a consulting, mentoring and strategic partner that empowers:

- 45.1. Rural communities who are beneficiaries of the Land Reform Programme by creating a sustainable and vibrant environment for economic growth and development.
- 45.2. Emerging farmers who lease state land to exploit the economic environment and to restore their dignity.
- 45.3. Facilitates access to markets by emerging farmers.
- 45.4. Facilitates the establishment of commodity based cooperatives.

46. Encimanzi (Pty) Ltd is particularly focussed on:

- 46.1. The development of rural communities, and in particular addressing unemployment in rural communities.
- 46.2. Facilitating the establishment of agri-villages for housing and social needs.
- 46.3. Food security, in particular the productive use of agricultural land lying fallow.
- 46.4. Imparting entrepreneurial skills to enable farmers to participate in the wider economic business spectrum.

47. Encimanzi (Pty) Ltd's approach is to:

- 47.1. Revitalize unproductive land through clustering in geographic areas and establishing co-operatives, which are setup as the vehicles for standardising the produce, increasing bargaining power, providing access to markets and enhancing participation in the value-added chain.
- 47.2. Work closely with beneficiaries of land reform projects, providing coaching and mentoring, so as to increase individual levels of competence and resilience and the ability to manage sustainable agri-businesses.

47.3. Strengthening and enhancing relationships with farmer organisations such as AFASA , NERPO etc

48. Encimanzi (Pty) Ltd is a Level 3 B-BBEE rated company.

SERVICES PROVIDED

49. The services of Encimanzi (Pty) Ltd range from the conduct of initial due diligence on-site, through to hands-on operational implementation. These include the oversight of agricultural project plans through the provision of stringent control systems and consequent management of desired operational outcomes.

50. The primary expertise base of Encimanzi (Pty) Ltd lies in consulting and mentoring in the agricultural sector, with emphasis on the following:

50.1. Facilitation of strategic planning sessions and the development of business models.

50.2. Coordination and management of farm production systems.

50.3. Implementation of effective administration and control systems.

50.4. Imparting, through mentorship and training, operational skills for a wide variety of agricultural enterprises and production systems.

51. As a 'special purpose vehicle', a particularly significant thrust of their operation is to:

51.1. Facilitate an academic selection process of prospective beneficiaries/farmers.

51.2. Facilitate the identification of commercial farmers able and willing to partner with emerging farmers and to ensure that the relationship between the two remains mutually beneficial.

51.3. Facilitate the transaction between Government and the beneficiaries so as to achieve a smooth transition between previous farm owners and the beneficiary group.

51.4. Provide oversight and project management expertise on behalf of all parties to the agreement.

51.5. Conduct training to emerging farmers and learnerships with AgriSETA funding.

STRATEGIC PARTNERSHIPS

52. Encimanzi (Pty) Ltd is accredited as strategic partner and mentor to both the Department of Rural Development and Land Reform and the Department of Agriculture. To this end:

52.1. Under the land Reform Programme, it has been awarded around seven strategic partnership contracts with the focussed on assisting land reform beneficiaries.

52.2. It has been accredited by DRDLR as a professional expert development service provider to assist Rural Enterprise and Industrial Development (REID) with the delivery of the following projects:

52.2.1. Social organisation.

52.2.2. Rural enterprise development.

52.3. As an example of collaboration with DRDLR: REID and the small holder farmers of Nkomazi: Mpumalanga, 1 034 ha of cotton was planted end of 2014. This project is earmarked to provide a cotton gin for the 724 potential farmers and 11 000 ha of land available. Encimanzi (Pty) Ltd is the driving force on the project.

53. Encimanzi (Pty) Ltd also serves as a transaction advisor for the Vumelana Advisory Fund, which was established as a non-profit company to pre-finance the acquisition of skills required on behalf of the community by supporting the development of commercially viable partnerships between investors and local land owners.

BUSINESS RISKS

54. Although Encimanzi (Pty) Ltd is set up as a 'special purpose vehicle' and is a strategic partner with Government to deliver services which Government itself is unable to do, its principal risks are:

54.1. Government meeting its contractual obligations (including funding) as contained in the strategic partnership agreements, especially the timing thereof.

54.2. Government paying for the services rendered.

CRITICAL OBSERVATIONS AND CONSIDERATIONS

55. **State Land.** On transfer of the property, the title deed passes to the State. The beneficiaries do not, at any point, have the privilege of owning the land. At all times the transferred property remains State Land.
56. **Security of Tenure.** Linked to the above, the beneficiaries experience extreme insecurity as there is no security of tenure. The absence of a concomitant long-term land lease agreement (20 to 30 years) (and other legal instruments) means that the beneficiaries have no means against which to generate operating capital.
57. **Selection of Beneficiaries.** Based on the principle that not all those who live in rural areas make good farmers, the identification and selection of beneficiaries through a rigorous and academically defensible process results in the identification of those emerging farmers who have a passion for farming and who have a 100% commitment to the success of the operation.
58. **Long-Term Orientation.** All land reform projects must have clear operational objectives and must be setup and structured as long-term endeavours, with the tripartite support of government, the emerging farmer and a strategic partner. As both land owner and as a developmental instrument, government remains a *de facto* long-term partner.
59. **Strategic Partner.** A strategic partnership, bringing expertise, mentorship and capital to the operation, assists and enhances long-term sustainability.
60. **Three Tiers of Government.** Support from all tiers of government is necessary, ranging from the national to the provincial to the local level. Of particular importance in the matter of policy congruence.
61. **Special Purpose Vehicle.** Government appears to be policy strong and implementation weak. The establishment of a 'special purpose vehicle' remains key to the facilitation and integration of government support. Delivered under a strategic partnership agreement, this arrangement must be in place for at least five years and be renewable if necessary.
62. **Government Funding.** As land owner, government must understand and embrace the centrality of its long-term role in supporting land reform projects.
- 62.1. Vagaries and insecurity in the flow of government funding has bedevilled and, in some cases, destroyed what were in fact viable operations.

- 62.2. Incongruent and inconsistent provision of line-item funds results in the subsequent collapse of these farming operations.
- 62.3. The lack of a specific and tailored funding program within the Land and Agricultural Bank of South Africa further inhibits the constructive role that government should be playing in support of successful land reform projects.
- 62.4. Participating government departments must ensure that comprehensive and integrated planning takes place for all rural development and land reform programmes in accordance with the prescribed government planning cycle.
63. **Mentorship Standards.** It is clear that the quality of mentorship is variable at best and this function needs to be supervised and standardised to ensure the best possible outcomes. This may be achieved through service level agreements between government and senior mentors at district level who can provide oversight on mentorship programs.
64. **Sustainability.** All land reform projects must be based on sound business principles that embed best practise and are focussed on the long-term contribution towards sustainable agriculture, food security and rural development.

ENDS