

**Accelerating Sustainable, Efficient and Equitable Land Reform:  
Case Study of the Qedusizi/Besters Cluster Project**  
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**Abstract**

The study is a joint product of the Department of Land Affairs of South Africa and the World Bank. It analyzes an innovative land reform project in South Africa. The project was the result of collective negotiations between land owners and farm workers in the Besters district in Kwa-Zulu Natal. Its success in terms of area transferred, number of beneficiaries, the promising start of the various farm and agri-businesses initiated and the reduction of crime in the area inspired the government to adopt a more pro-active and area-based land reform model, as an addition to the existing demand-driven approach by self-selected beneficiaries. The study emanated from, and was financed by, the Bank's on-going Technical Assistance to the Ministry for Agriculture and Land Affairs. The study focuses in particular on the various options for farming enterprises and agri-businesses which could be pursued by the beneficiaries, applying theory and international experience of agricultural economics.

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# **Accelerating Sustainable Efficient and Equitable Land Reform:**

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The Qedusizi/Besters program required a huge leap of faith by all participants. They had no models to go by, and needed to invent a vision, a process, and all the associated implementation institutions and mechanisms. This would not have been possible without the presence of gifted and committed champions in each of the stakeholder groups (the Department of Land Affairs, the claimants and the Besters Farmers Association) who had the skills to develop a coherent vision, the ability to build consensus within their own stakeholder groups, and the trust they built up among each other was maintained through a difficult process.

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## LIST OF ACRONYMS

BFA	Besters Farmers' Association
CASP	Comprehensive Agricultural Support Grant
CCCCP	Collective, communal or cooperative farm production system
CPA	Communal property association
DA	Department of Agriculture
DED	Department of Economic Development
DLA	Department of Land Affairs
DH	Department of Housing
DTI	Department of Trade and Industry
HCRS	Household Contract Responsibility System (China)
JSC	Joint-stock cooperative
LRAD	Land redistribution for agricultural development
NGO	Non-governmental organization
PLRO	Provincial Land Reform Office
SIS	Settlement and implementation support
SLAG	Settlement and Land Acquisition Grant
SPV	Special Purpose Vehicle
TVE	Township Village Enterprise (China)

## EXECUTIVE SUMMARY

Successful land reform is essential for South Africa's harmonious development, to create employment in rural areas, increase productivity, and to redress the injustices of the past. The government recognizes that progress towards land reform has been inadequate both quantitatively and qualitatively, and is putting in place a number of new mechanisms to accelerate the pace of acquisition and redistribution of land and to ensure more successful and sustainable resettlement. One new strategy is an area-based approach to land reform and post-settlement support, in which the direct stakeholders (the potential beneficiaries and white farmers) as well as the indirect stakeholders (the Departments of Land Affairs and Agriculture, the Department of Housing, the Municipality, the private sector and civil society) participate in a land reform program. This approach, although area-based, is not a return to centralised planning, but is rather an opportunity to respond to individual stakeholder demands in a comprehensive and holistic manner. "Land reform is a government programme but it involves all society and government cannot achieve it successfully alone. Land reform can be used to build reconciliation and achieve real and sustainable development" (Glen Thomas, May 10, 2007). A new approach to land reform needs to engage strategic partners, to encourage initiatives from the ground-up, and to emphasise the importance of an integrated, coordinated, cross-sectoral "one-stop shop". While a number of such initiatives currently exist, in this paper we study one in particular: the Qedusizi/Besters land reform project in one farming district in KwaZulu Natal.

Many of the farms being resettled involve capital and management-intensive enterprises as well as high value commodities which are not considered suitable for resource-constrained smallholder farmers. Thus stakeholders have avoided subdivision and have transferred ownership and management functions to groups, usually in the form of Communal Property Associations (CPAs). While common property regimes have a long tradition in Africa, and usually provide a high level of ownership security, they rarely involve joint production as envisioned on the undivided farms transferred to CPAs in most land reform projects in South Africa. Collective, communal, or cooperative farm production systems (CCCP) involve very high transactions costs and the diseconomies associated with group production systems are usually substantial. CCCPs suffer from free-rider problems and therefore do not provide as much incentive for effort, investment, and creativity as do individually or family owned and managed farms. They have been abandoned by most countries in the world. It may be time for South Africa to consider other enterprise systems, such as the household responsibility system of China, or contract farming, and individual and family farming.

Economies of scale are limited for farming but they are much more significant in the provision of upstream and downstream services such as input supply, mechanisation, finance, technical services, product assembly, processing and marketing. Therefore cooperatives, or large private sector enterprises, are more relevant and more successful in the provision of these upstream and downstream services. They can be combined with small individual production farm systems to reduce the diseconomies of group production while achieving the economies of scale and management expertise associated with larger service organisations.

This paper uses an assessment of the Qedusizi/Besters land reform project in KwaZulu Natal to highlight these issues and the potential constraints to, and advantages of, different land reform approaches.

## THE QEDUSIZI/BESTERS INITIATIVE

The Qedusizi/Besters initiative has established a bottom-up area-based land reform and enterprise development program in an area primarily engaged in beef production. The key stakeholders, the Department of Land Affairs (DLA), the Besters Farmers Association (BFA), and their farm workers have collaborated in identifying land and people to be settled and working with them to negotiate both the purchase of the land and establishing and implementing the resettlement model. In response to a KwaZulu Natal Provincial Land Reform Office (PLRO) initiative to assess the extent of labour-tenant claims, the BFA approached DLA about undertaking the reform for the entire farming district in a way that would include all their farm workers, even those who had no claims.

199 *muzis* (extended family households)<sup>1</sup>, representing 993 adult beneficiaries, a population of roughly 2,500 people in total, have acquired ownership of 14 farms (14728 ha in total). Each farm consists of an average of 14 *muzis* which have been organized into Communal Property Associations (CPAs). Each CPA has established its own constitution and bylaws (the “house rules”), established a communally-owned commercial beef herd, allocated a specified number of individual *muzi* grazing rights<sup>2</sup> to its members, and allocated individual household (*muzi*) plots with full inheritable use rights.

At a meeting facilitated by KwaZulu Natal PLRO, the direct stakeholders with regard to the redistributed land established a Section 21 Company (Abrina 1518) that has successfully guided and administered the development, implementation, and continued administration of land reform projects. Abrina 1518 provides the communities with access to transport and is able to convene the stakeholders, facilitate communication, provide advice, coordinate services, and is in a good position to lobby for funds.

The LRAD grant for the project was R23.3 million (approximately US\$3 million) of which R13.8 million was used to purchase the farms, R1.25 million for project preparation and R8.15 million (US\$1.16m) was transferred in three tranches to Abrina 1518. Abrina 1518 has used the grant funds primarily to assist with the establishment of the CPA commercial herds and infrastructure and to provide institutional support.

From this evidence, it is clear that the Qedusizi/Besters project has been successful in transferring land. However, it remains less certain how the project will affect agricultural production in the long term. For example, it appears that most of the principal agricultural labourers have opted to continue with wage labour on neighbouring white farms rather than deciding to work on the new resettled farms. Although this increases the incomes of the resettled households, it also significantly limits the skilled labour available to farm the acquired land.

More importantly, there is also the question of overall income that has been generated. While it is still too early to confirm commercial and economic success of the program, there are noteworthy clues indicating a potentially large, positive impact on output and income.<sup>3</sup> All beneficiaries have in fact got some family members working their farms, together with CPA members hired to

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<sup>1</sup> A plot of land (*kraal*) including a number of separate but related extended family households common throughout Zulu settled land. The head of the *muzi* controls access to resources and manages social relations.

<sup>2</sup> for cows, goats, horses and sheep

<sup>3</sup> This is additional income to the local economy, since the white farmers still continue to produce at pre-settlement rates and wage income is still generated for the households to which is now added all the income generated on the resettled land.

establish and manage a commercial herd in each CPA. Furthermore, some CPAs have generated revenue by leasing out pasture and by planting maize or soybeans. Income has also begun to come in from livestock, albeit only after February 2007 when the first weaners were auctioned. Eight of the CPAs were able to generate over R1 million in income in the first year of operation alone. Some of the CPAs that were able to more quickly establish herds and productive use of their land earned significant revenue of up to R25000 per *muzi*.<sup>4</sup>

The income generated, however, has varied significantly, as half of the established CPAs failed to earn any income in the first year. Despite this disappointment, the success of the leading CPAs has nevertheless inspired the lagging CPAs. For instance, some of the CPAs are planning to send cattle to auction in mid 2007, after gaining confidence from seeing the returns generated by the lead CPAs. Some of the CPAs are also planning to reduce stocking in response to the drought, indicating a commitment to sustainable resource use. In light of these mixed results, however, the future success of this system of land redistribution will rest on fine-tuning of the existing institutional structures, making the cattle production profitable, developing other successful enterprises in particular for young adults and women, greater empowerment of the beneficiaries to take charge of their development and more broadly developing the service institutions and enterprises required to support small and medium farmers.

Despite the active energy of its champions and the general enthusiasm of all parties, the land reform process has still proved very time-consuming, as it took over two years to enable households to begin their farming enterprise on new, resettled land from the program's conception in September 2003 until the first LRAD grants were disbursed in January 2006. These delays have been mostly associated with the fragmented and dysfunctional grant structures for land reform and for post-settlement support.

In land reform, the choice of an appropriate enterprise form for the farms and each of the associated enterprises is critical for success. After reviewing international experience, the following guidelines were established for the development of prudent enterprise models:

1. **Subsidiarity:** Choose the smallest and simplest enterprise form that is capable to handle a specific farm production or service activity in a sustainable, competitive, and therefore profitable manner.
2. **Comparative advantage:** Choose an enterprise form that utilizes the skills, aptitudes and motivations of the members or owners in the management or supervision of the enterprise.
3. **Compatible incentives:** Ensure that members in a coop (or owners in a private company) and the enterprise managers have similar incentives to work hard, produce quality output, properly maintain machinery, livestock and soils, and to maximize and reinvest profits.
4. **No or few absentee owners:** Link ownership of enterprises to management (as in the family farm) or to utilization of services, inputs or outputs, and avoid structures in which large groups of owners are only connected to the enterprise via a small share of profits.

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<sup>4</sup> CPA#4 earned R319000, CPA#13 earned R265000; CPA#2 earned R133000 and CPA#10 earned R130000 see Annex 4.

These guidelines are now being applied to the various enterprise choices facing the Qedusizi/Besters community as they more fully develop the farms and the upstream and downstream activities. The original model proposed was that of a series of cooperatively owned enterprises, all of which would be affiliated with Abrina 1518, which would itself be transformed into a coop. *Analysis of the proposed enterprises revealed that such a cookie-cutter approach to enterprise model choice would not respect the above guidelines, was rarely consistent with community and individual preferences, and therefore would likely result in many failed collective enterprises.* Instead, for each enterprise or service, one or several separate enterprise models were proposed which are now being elaborated in a participatory process by the beneficiary communities, with assistance from their mentors and other experts.

For on-farm production, the favoured option would normally be individual household production. However, in the Qedusizi-Besters case it has included a combination of individual household production together with both individual livestock holdings and a communally-owned commercial herd with common pasture management in which there are economies of scale. This mixed model was also chosen because many of the beneficiaries wanted to continue working on the commercial farms and therefore delegate herd and pasture management to other members.

For capital and skills intensive production activities with significant economies of scale, such as the case with dairying, and for value added activities as well as upstream and downstream services, the enterprise model options are much more flexible. If any enterprise model leads to unsatisfactory results, it should be subject to rapid reassessment and modified by additional capacity development, fine-tuning of the rules, stronger incentives and penalties, or complete restructuring of the enterprises into a different form. In many cases this will involve the restructuring into smaller or individual enterprises, or enterprise models inspired by the Chinese responsibility contracts.

## **LESSONS LEARNED**

### *Development of Trust*

The main preconditions for establishing a successful bottom-up, area-based approach were: the development of trust between the main actors (beneficiaries, commercial farmers and DLA), the development of strongly motivated and capable leadership in all these three groups, and the participation of all stakeholders in the process. Limiting decision-making power to the direct stakeholders, rather than leaving it with supporting agencies, dramatically simplifies the internal decision-making processes, reducing transaction costs and time while improving the quality of oversight.

### *Benefits for all can be large*

The area-based approach that was employed, with willing and committed participants, realized several of the expected benefits of such an approach: more and better land acquired proactively; the use of the most appropriate land reform process, in this case LRAD rather than labour claims; the provision of upstream and downstream services; and the involvement of commercial farmers and businesses. Most white farmers have continued to farm, and the resettled land will provide additional output to the area and a prosperous resettlement project will maintain land values. Government agencies benefit because they are able to more easily fulfil their mandate at fair land prices. A crude indicator of the win-win benefits to the black stakeholders is that two and a half times as many beneficiaries participated, and they together acquired 2.6 times the amount of land

as had been claimed by the labour tenants. They also had assistance in gaining access to available grants and to local support and expertise.

### *Effective leadership and advocates*

The Qeduzi/Besters program required a huge leap of faith by all participants. They had no models to go by, and needed to invent a vision, a process, and all the associated implementation institutions and mechanisms. This would not have been possible without the presence of gifted and committed champions in each of the stakeholder groups (the DLA, the claimants and BFA) who had the skills to develop a coherent vision, the ability to build consensus within their own stakeholder groups, and the trust they built up among each other and maintained through a difficult process. It is not clear whether such gifted leadership can become available spontaneously in other settings to which the approach is applied, and it may therefore be necessary to assist in motivating and training leadership in other settings.

### *Sufficient land was made available*

Land for sale for the LRAD program was made available in sufficient quantity by the farmers within the Besters locality itself. Some of the land came from farmers that wanted to leave farming, while some came from the sub-division of farms of owners who believed that they had more than enough land for themselves. The land acquisition could therefore be executed speedily using the willing-buyer-willing-seller principle. Land continues to be made available both for the currently-planned expansion of CPAs that have inadequate land and for the additional beneficiaries. The land was acquired after negotiations based on the prices estimated by the government appointed valuers, with some adjustments based upon improvements.

### *Involving Beneficiaries*

Involving the beneficiaries in all processes of decision-making has been essential. An early insight was that the beneficiaries needed to be able to meet separately, without their mentors (other white farmers or government officials), in order to decide upon collective demands and to come up with proposals. Through this process, they were often able to come up with better solutions to difficult problems. In the future, beneficiary participation can be strengthened even further by delegating more decision-making powers to individual beneficiaries from the start. Through this empowerment, beneficiaries as well as commercial farmers are able to more quickly break out of disabling patterns of master-servant relationships.

### *Effective Capacity Development and the Key Role of Mentors*

Capacity development should involve a combination of mandatory training, specialized training and learning by doing. Capacity development is not only important for the direct stakeholders of the program but also for all indirect stakeholder involved in the reform, resettlement and enterprise development processes: government and local government, farmers associations and other agents. During interviews, all stakeholders expressed a very real need for access to international experience and all made a point of requesting advice and information. The mentors and other facilitators have an essential role in ensuring effective learning-by-doing. Guidelines to mentors should be drawn up in order to encourage them to function more as facilitators and helpers rather than as initiators and managers.

### *Unified and Functional Grant Structures*

The current structure of grants, which requires a separate application and management of each specific component of the land reform and farm development program, is highly dysfunctional from both the perspective of the communities involved as well as the perspective of the administrators of the grants. A unified grant for the entire land reform process that covers land acquisition, infrastructure and farm development, housing, start-up cost, and technical assistance would assist in both speeding up land reform and would contribute to more successful land reform projects in the long term. It is unlikely that area-based land reform as practiced in this case can be scaled up effectively without moving to such a unified grant.

### *Appropriate fiduciary requirements*

It is inappropriate to impose the fiduciary requirements for procurement and accounting of public sector institutions on communities and their coordinators as was done in the case of Abrina 1518. Ownership of the funds should pass from the government to the communities upon the disbursement of the money in tranches. This means that the government is no longer accountable for how the money is being used. Instead, the accountability is shifted to the leadership of the communities, who in turn are accountable to their members with effective oversight by government through ex-post control.

### *Institutional and Financial Arrangements*

Institutional and financial arrangements required for the planning, negotiation, and the subsequent management of the land reform and enterprise development programs need further fine-tuning. First, the Planning Grant for land reform needs to be made available much earlier in the process. Second, while the initial consultations for the initiation of an area based land reform program can be managed by a committee of stakeholders, the stakeholders themselves should be able to establish a not-for-profit, Section 21 company earlier in the process than occurred in Qedusizi/Besters. Third, beneficiary communities should be provided with technical assistance from an NGO or a consulting company for negotiations, their own planning, and for the implementation phase. The DLA will be able to fulfil its mandate by 2014 much more easily if it is able to employ agents to act on the communities' behalf rather than needing to fulfil that role itself. While this fine-tuning will assist greatly in future ventures, it is also clear that an adaptive management approach needs to be implemented so that institutional structures, bylaws, procedures, business models and business plans can be regularly reassessed. It is not possible to anticipate all the problems that may arise and there needs to be flexibility built into the projects.

### *Towards a One-Stop Shop for Land Reform and Enterprise Development*

The process of buying, transferring, and settling land, as well as the subsequent development of additional enterprises, is very complex and time-consuming. The process can be streamlined if all the agencies involved in a resettlement project function as a team. DLA and DA are working on a proposal for a one-stop shop for land reform and post-settlement support made up of both municipal and government agency representatives in an area. The team's performance would be judged according to the success of projects which are brought into existence, rather than solely on the hectares of land or the budget spent. Implementing the proposed one-stop shop, along with a unified grant, as well as more appropriate fiduciary, institutional, and financial arrangements will be critical for scaling up.

### *Enterprise Forms and Enterprise Development*

While land redistribution and farm and enterprise development can be analyzed sequentially, as we have done in this paper, in practice their planning and the development of the institutions for them are simultaneous processes that have to be managed by the same stakeholders and the institutions they set up. The case study amply demonstrates these points. Farm and Enterprise Development should broaden economic opportunities for all, especially for youth, young adults, and women. It will likely involve extension of economic opportunities for direct stakeholders from farm production to value added activities, marketing, input supply, and finance. The analysis of enterprise options requires an intensely participatory process in which the beneficiaries must take the lead with external inputs from consultants, mentors, managers, and other experts.

### *Monitoring and Evaluation*

There was no formal monitoring and evaluation system established in the Qedusizi/Besters case. In order to evaluate not only such processes, but also the evolution of the project as a whole and of individual enterprises, conflict and conflict resolution and impacts, there needs to be a baseline study carried out to better understand the black and white households and farms, the CPAs and their enterprises, and the new enterprises in the Qedusizi/Besters project.

### *Cost-effectiveness and Sustainability*

The government grant resources proposed (including the housing grants of over R30 million if approved) amount to R62.3 million, or approximately R60 000 (US\$8600) per adult beneficiary. Actual transfers up to December 2006 (land purchase, LRAD settlement grants and CASP funds dispersed) amounted to R24.34 million, or approximately R24000 (US\$3400) per adult beneficiary. This compares with US\$8,000 per beneficiary in Brazil, a middle income country with similar inequality problems as South Africa, and with US\$1200 in Malawi, one of the poorest countries in the World. The investment is worthwhile if it results in long-term viability of the resettled families and farms. The actual success and returns to the investment, however, can only be assessed in the future via rigorous impact evaluation.

No credit finance has yet been involved, and the beneficiaries have not provided any unpaid labour (although they did contribute some of their own capital in the form of cattle). Continuing to depend on grants not only would be fiscally unsustainable and prevent the scaling up of the approach, but would also foster a growing dependency syndrome among all the direct beneficiaries.

This project has been a success in not only acquiring and settling land in an integrated way that has enhanced economic and social stability in the area, but also by increasing the amount of land and number of people benefiting from land reform. The project has already succeeded in building up social capital and personal skills among the beneficiaries.<sup>5</sup> Its sustainable economic, environmental and social success can only be determined in due course when the systems are fully operational. A comprehensive impact evaluation of this project needs to be undertaken in five to ten years time to measure its effect. In order to achieve this future understanding, however, a baseline survey needs to be undertaken providing information for future comparison.

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<sup>5</sup> The women have formed a cooperative that won a R2 million fencing contract for Grinaker/LTA in mid 2007.

# INTRODUCTION

## SLOW PACE AND POOR RESULTS OF LAND REFORM

Land reform is essential in order to achieve equitable growth in South Africa where 80% of the land is still owned by white South Africans more than 10 years after the change of power. There are many factors that have contributed to the slow pace of land reform in the past, including both capacity and budget constraints. Undoubtedly the slow progress of land reform is also hampered by the centralized implementation mechanisms and the limited involvement of beneficiaries, civil society organizations, commercial farmers, or municipalities in planning, initiating, and managing the land reform process. The complexity of the restitution process and the settlement of labour claims, as well as the existence of multiple claims on the same land all serve to further complicate the process. The slow pace and limited success is also associated with the fragmentation of the grant system into separate grants for land, farm development, housing, other infrastructure, technical assistance, and start-up costs. Such a system is not only extremely challenging to administer for the government agencies involved, but also requires resettled farmers to have sophisticated knowledge and leverage in order to access the multiple sources of support. In addition, there has been a tendency to impose the fiduciary requirements for procurement, disbursement and accounting used by government on the beneficiary communities, rather than letting them use fiduciary rules more adapted to their settings and shifting from ex-ante control of expenditures to ex-post controls.

Not only has the pace of land redistribution been slow, but the economic success of beneficiaries on redistributed farms has also often been disappointing (LRAD review of 2004). Because many of the farms being resettled involve capital and management-intensive farm enterprises and high value commodities, stakeholders have avoided subdivision and have transferred ownership and management functions to groups (usually in the form of Communal Property Associations (CPA)).

While common property regimes have a long tradition in Africa, and usually provide a high level of ownership security, they have in the past rarely involved joint production as envisioned on the undivided farms transferred to CPAs. Collective, communal, or cooperative farm production systems (CCCP) involve very high transactions costs and the diseconomies associated with such farm enterprises can be substantial. CCCPs suffer from free-rider problems and therefore do not provide as much incentive for effort, investment, and creativity as do individually or family-owned and managed farms. Therefore CCCPs have failed in farm production all over the world, as well as in South Africa, and have been abandoned in virtually all countries that have undergone land reform. In South Africa these systems have often been implemented without a full understanding of, or support for, the complexity of the institutions required to make collective production systems viable. The lack of subdivision of the farms into smaller units to allow either small communities or individual farmers to farm on their own makes it very difficult for the resettled farms to be productive. In addition, post-settlement support has been limited. Even where financial support may have been available, technical support for developing institutional and productive systems has been inadequate. Clearly it is time for South Africa to consider other farm production models, such as the household responsibility system of China, the individual and family farming practiced in most of the world, as well as building a better post-settlement support system for them.

While economies of scale in farm production are usually insignificant beyond a minimum farm size, they are much more significant in the provision of upstream and downstream services such as input supply, finance, technical services, product assembly, processing and marketing. Therefore cooperative enterprises have been more successful in the provision of these upstream and downstream services than in farm production. These services can also be provided by profit making enterprises, as in the case of contract farming in sugar, tea, grapes, and other perishable farm products, or by either private, cooperative or parastatal agencies in the case of financial or technical services. Service delivery therefore presents a much wider array of efficient enterprise options than farm production itself.

Since efficiency and equity of the agricultural production system depend on efficiency and equity of both farm production and services, enterprise development for land reform involves the choice of enterprise models and their management at both the farm level as well as the service delivery enterprises.

The government has recognized that the current state of affairs is highly unsatisfactory both in terms of quantitative achievements, as well as the quality of the land reform. It has dramatically increased the pressure on the Departments of Agriculture and Land Affairs. These departments have responded by a sharper focus on implementation and have initiated a number of approaches and programs to improve the pace and quality of land reform. These include:

1. Making subdivision easier
2. Imposing a land tax through the municipality
3. Reviewing the willing-buyer-willing-seller approach to land reform and developing expropriation options
4. Developing other pro-active land acquisition options, including some that would involve developers
5. Delegating responsibilities for post-settlement support to specialized entities in the provinces, and possibly setting up one or several Special Purpose Vehicles (SPV) to manage land acquisition, allocation, housing, and post-settlement support
6. Unifying the separate grants for land, technical support, farm development and housing into a single grant, and combining it with loan applications in a “one-stop shop”
7. Developing options for area-based approaches to land reform centered in municipalities and connected to their development plans
8. Reviewing the current enterprise models and developing more options that would strengthen beneficiary involvement in management, supervision, and in the benefits of the enterprise.

#### **TOWARDS AREA-BASED LAND REFORM AND IMPROVED ENTERPRISE CHOICES**

Across South Africa, a number of area-based initiatives are currently under way that address issues number 7 and 8 above and involve both land reform and the subsequent enterprise development. The Department of Land Affairs therefore asked the World Bank to expand its technical assistance program to the land reform process to include area-based land reform and enterprise model choice.

We started the technical assistance by focusing on the Qedusizi/Besters land reform project, which is an integrated project addressing both the redistribution agenda and the enterprise development agenda for the entire Besters beef-producing area. It is a bottom up area-based approach that has included the active participation of the communities involved, the Besters Farmers Association, the Department of Land Affairs, the Department of Agriculture and the Municipality. More recently the Departments of Housing and of Economic Development have also become actively involved.

The Department of Land Affairs, a group of white farmers, the Besters Farmers Association, and their workers have collaborated in identifying land to be settled and individuals to be involved in the redistribution program, as well as working with these individuals to negotiate both the purchase of the land and establishing and implementing the resettlement model. The beneficiaries are mainly the labourers employed on farms in the Besters district, including but not exclusive to those with labour-tenant claims. There are also informal settlers in the area who have been included in the project.

199 *muzis* (extended family households)<sup>6</sup> representing 993 adult beneficiaries, a population of some 2,500 people in total, have acquired ownership of 14 farms (14728 ha in total). Each farm consists of an average of 14 *muzis* (range 3 –29 *muzis*) which have been formed into Communal Property Associations (CPAs). In 2006 government settlement support grants were used to establish a commercial herd owned communally in each CPA with community members employed as stockmen. Each CPA has established its own constitution and bylaws (the house rules) and they have all allocated a specified number of individual grazing rights (for cows, goats, horses and sheep) to their members in addition to establishing a communally-owned commercial beef herd. The direct stakeholders (the white farmers and the beneficiary communities) in the Qedusizi/Besters area established a Section 21 Company (Abrina 1518) that has successfully guided and administered the development, implementation and continued running of land reform projects. Management support is currently provided by two mentors. The Qedusizi/Besters project has the active involvement of champions from within the white farming community, the DLA, the DA and amongst the claimants. It has made an excellent start and has established a viable commercial herd in each CPA with the first sales in February, 2007.

### ***Objectives and Outline of the Study***

During this study, it has become clear that land reform and enterprise choice are intimately intertwined and have to be planned and implemented by the same stakeholders and organizations. They also have to be studied together to capture the interrelated complexities and the reinforcing insights from the solutions found to each of the separate issues. This report is based on the technical assistance provided to the Besters/Qedusizi stakeholders, and was prepared with their direct involvement and authorship.

Despite the fact that area-based land reform and enterprise development are closely intertwined, and that the technical assistance, analytical work and data gathering was carried out as a single process, the paper will be divided into two parts: Chapter 1 will deal with area-based land reform, while Chapter 2 will deal with enterprise model choice. Both Chapter 1 and Chapter 2 will contain an initial section to review South African experience (in the case of land reform) or international experience, (in the case of enterprise model choice), followed by the case study of

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<sup>6</sup> <sup>6</sup> A plot of land (*kraal*) including a number of separate but related extended family households common throughout Zulu settled land. The head of the *muzi* controls access to resources and manages social relations.

these issues from the Qedusizi/Besters example. Chapter 3 will bring the lessons from both these parts together again.

# CHAPTER 1: TOWARDS AREA-BASED LAND REFORM

## CURRENT SOUTH AFRICAN LOCAL IMPLEMENTATION PRACTICE

Until now, land reform, the Labour Tenant Act, and restitution have been managed at the local level by the DLA and the Restitution Commission in three separate ways:

1. Under the SLAG and LRAD systems of redistribution the initiative for acquiring farms was in the hands of the beneficiaries, with support from the DLA, and eventually from the Department of Agriculture.
2. The “labour tenant” act was administered based on complaints and claims made by current or former workers, using a judicial adjudication process involving the DLA as well as the courts.
3. Restitution was managed based on restitution claims that had to be lodged before December 1998 and that were then processed by the Restitution Commission. Successful restitution claims resulted in a judicial award, negotiation with the owner, sale to the government, and handover to the community.

### ***Financing for Land Acquisition and Farm Development***

Nine different main funding sources from five different government departments are involved in the financing of land reform. In addition, land reform beneficiaries can, and need, to source funding from other agricultural grant and credit programs. The nine primary sources of funding are listed below:

1. Compensation payments for restituted land from the Restitution Commission can only benefit current owners and successful restitution claimants.
2. Top-ups of up to 25 percent over the compensation amount from Restitution Commission can be used by the successful claimants to finance resettlement and farm development.
3. Compensation payment is also available through the DLA to commercial farmers for land allocated to successful claimants under the “labour tenant” act.
4. SLAG (Settlement and Land Acquisition Grant from the DLA) was the first grant system for agricultural land redistribution. All formerly disadvantaged people in South Africa were eligible to apply. The grant was set at R15,000 per applicant, and applicants were encouraged to group together to purchase property. This requires effective coordination, organizational skills, and good facilitation or the intervention of a developer. Today the program is thought to be particularly suitable for very poor people in need of rural or peri-urban housing who want to engage in small scale vegetable and animal production, ecotourism and other non-agricultural rural and peri-urban pursuits.
5. LRAD (Land Redistribution for Agricultural Development from DLA) is also open to all formerly disadvantaged groups. The programme is designed to enable formerly disadvantaged people to access land for small and medium scale commercial farming. The portion of the grant that is not used for land acquisition can be used by the

beneficiary to establish some of the necessary infrastructure and to provide some working capital. The base grant starts at R20,000 per person but can be higher if the beneficiary puts in own resources, e.g. a beneficiary who puts in R400,000 or more can obtain a maximum grant of R100,000. In order to access the grant, a fairly complex process is required which is not easily accessible to the poor, except where they are being supported by a facilitator or interested party. The LRAD program, rather than financing from the “labour tenant” act, was used in the Qedusizi/Besters project to finance the acquisition of farms for the resettlement of labour tenants. This opened up the opportunity to broaden the project to benefit all farm workers, not only the eligible labour tenants.

6. Planning Grants from the DLA: For both SLAG and LRAD, beneficiaries can access a planning grant, but this requires a separate application and disbursement process.
7. CASP (Comprehensive Agricultural Support Grant from Department of Agriculture) to help those who have been resettled, providing them with finance to sustain themselves to establish enterprises, and to access basic inputs and management expertise.
8. Housing Grants from department of housing (DH) These grants were initially conceived to be an alternative to the SLAG grants. Since the financing under LRAD grants and CASP grants cannot be used for housing, land reform beneficiaries increasingly look to the DH for housing grant, and the latter has started to adapt its programs to suit this purpose.
9. Enterprise Development Grants and Credits from the Department of Trade and Industry (DTI/DED). These are also open to the full spectrum of formerly disadvantaged groups and to Black Empowerment Enterprises.

The way in which individual grants are designed is also important, not just in South Africa. For example, problems occurred in the traditional Colombian land reform program, because INCORA, the land reform agency was primarily able to provide the individual land reform beneficiaries with land, but had few resources and support available to develop the land into productive farms. The requirement that the beneficiaries be allocated a full “modulo” of land (i.e. an area of land sufficient to generate a specific target income) contributed to this unfortunate outcome. The land reform agency INCORA was forced to spend most of its money on land acquisition, rather than on farm development and start-up costs.

### **DECENTRALIZED AND COORDINATED AREA-BASED LAND REFORM**

The expected benefits from area-based land reform are as follows:

1. Land reform and post-settlement support should become fully integrated into municipal or other area development plans, and coordinated at the local level.
2. An area-based approach would enable better coordination of the land acquisition and post settlement support from the municipality, the DLA, the Restitution Commission, the DA, DH, Development Banks, and the DTI, as well as from the private sector, NGOs, and commercial farmers. It would also facilitate compliance with the many complex environmental, settlement, and business regulations.
3. An area-based approach to the identification of land could make more and better located land available to the land reform process than leaving identification up to individual

- beneficiaries or groups. It would lend itself to proactive acquisition of suitable land either via the willing-buyer-willing-seller approach or where suitable land is not becoming available in the market, via expropriation.
4. The three processes of restitution, settlement of labour claims and land redistribution should be managed in a more integrated way within the context of a municipal development plan or at an even smaller level, magisterial district or farmers' association area. Such an approach could lead to realization of gains for all by providing opportunities for leaving existing enterprises in the hands of their original owners, while identifying new opportunities for the beneficiaries on un- or under-utilized land.
  5. An area-based approach would also facilitate the provision of upstream and downstream services to the new farmers, such as input supply, processing, output marketing, finance, and technical assistance. This could be done by better coordination of existing capacities to provide these services, or by the development of new enterprises to provide them. More attention could be given to the selection of the proper enterprise model for these upstream and downstream services.
  6. Not only formerly disadvantaged groups, but also commercial farmers and businessmen have a stake in a successful land reform, and many have become willing to assist in its implementation.

A number of area-based approaches are currently under way. A group of consultants financed by Canada is working on developing a Settlement and Implementation Support (SIS) Strategy that provides a vision, institutional framework, processes and rules for the implementation of sustainable area-based approaches. The main model which they are currently working on involves the setting up of publicly managed section 21 companies at the municipal level for area-based planning, coordination of settlement, and post settlement support. Such municipal companies in turn could be linked to a District branch of a Special Purpose Vehicle (SPV) for the implement of land reform that is proposed to be established by government. The SPV would manage and supervise the proactive acquisition of land, settlement, housing, and post-settlement support from the national, provincial level or district level.

### **BACKGROUND OF THE QEDUSIZI/BESTERS AREA**

The Besters farming area is dominated by cattle ranching and is located in Northern Natal with a small centre including a post office, police station, trading store and hall. It stretches from about 10km southwest of Ladysmith to the N3 (see Map 1<sup>7</sup>). Prior to reform it comprised some 55 large white-owned farms totalling 70,000 hectares. One farm had been bought by the Land Bank and was being farmed by the former labourers. South and east of Besters there are other large cattle farms. The north and west is predominantly densely populated land owned by either landowner syndicates or traditional authorities. The land under communal and landowner syndicate control serves primarily as a dormitory for Ladysmith, with household plots (*muzi*) and communal grazing dominating the landscape. There is some, but very little, maize and vegetable cropping, primarily for household consumption, with few households even fulfilling their own needs. The area is heavily degraded and anecdotal evidence suggests that most households survive on either wage labour commuting to Ladysmith, remittances from those employed further away or on social grants from government. There are a few trading stores but very little economic activity other than communally grazed cattle and goats.

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<sup>7</sup> Annex 7: Map of Besters Area

The Besters area receives an average 800 mm of rain per annum but it is unreliable with droughts common in January, reducing the pollination of maize. The soils are generally poor but some areas are suited to arable farming, with maize being the main crop. The countryside is dominated by acacia open woodland, making it suitable for both grazing and browsing animals. The large-scale white farmers are currently involved with ranching cattle and then pen-feeding them before sale. Some farmers produce most of their maize for supplementary cattle feed, others buy it in, and a few grow maize commercially. Some farmers also grow and sell soybeans. In addition, a few farmers operate intensive horticulture (e.g. roses in greenhouses, cabbages, etc) and intensive poultry operations. Most farms also have some sheep and vegetables grown for household use and supplementary cash income. Most of the farms allow their labourers to graze a limited number of cattle with the commercial herds (usually 5 head per employee, although this number does vary) and most of their labourers also keep goats.

After World War II, servicemen were granted land for farming in Besters on plots averaging 400 ha. Many of them failed and eventually sold their land. These were educated people but they were not trained farmers and often accepted farms because of a lack of alternative options, or because of a desire to own land, or also because of beliefs that anyone could farm. In the long run these failed farmers found that it was better to sell their land and realize earning opportunities elsewhere.

The neighbouring landowner-syndicates belong to Zulus who were apparently granted land by the Boers in return for support during their war against the English. There appear to have been restrictions on their ability to sell their land during the apartheid era. This reduced incentives to increase the capital value of the land and the highest return appears to have been from renting out their land to people needing to establish a *muzi* relatively close to employment opportunities. Anecdotal evidence indicates that even in the tribal areas, non-clansmen can get access to land to establish a *muzi*, provided they are prepared to pay for access. This densely populated area is evidence of the strong demand for household plots and access to grazing. The lack of squatter settlements in Ladysmith indicates the social role of these communities in absorbing people looking for work. The seriously eroded land and evidence of over-grazing are likely to be the consequence of insecure tenure and open access to the grazing areas, the ability of the powerful to individualise rents, and lack of cohesion in the ability to enforce sustainable use.

## **MOTIVATION AND FIRST STEPS**

This area-based approach to land redistribution was initiated after the KZN PLRO adopted the "Labour Tenant Strategy" in 2002. In 2001 they conducted a desk top review of land acquired for labour tenants from 1996 to 2001 and found only about 40,000 hectares had been acquired for approximately 3,000 beneficiaries. This was unacceptable and in order to develop a new approach, a survey was required to assess how many outstanding labour tenant claims there were in the area. This Lima survey prompted the white farmers in the Besters area to become more proactive. They were motivated by a range of factors including the recognition that land reform is inescapable and important for the future of South Africa. Early restitution and labour-tenant claims had been registered against their farms, but no consistent effort to implement land reform had been initiated and so they and the DLA decided to work together. White farmers considered that land prices would remain depressed while the land claims issue had not been resolved. There appeared to be a complex web of claims and counter-claims. The restitution claims did not appear valid and were unlikely to hold up in court but it was anticipated that there would be valid labour-tenant claims.

The farmers' were concerned that labour-tenant claims could lead to fragmentation of their land and to unsustainable farming and felt that they should try to initiate a more comprehensive plan that would address the broader situation and lead to strengthening rather than weakening the local economy. They had seen what happened in Zimbabwe where farmers had not been proactive in assisting government to resolve the unequal distribution of land. They had also seen the decline in productivity in South Africa after land reform, and wanted to initiate a programme that would ensure the continued viability of their area. They preferred to maintain access to their labour, but being situated near a "dormitory" community, they were not threatened by the possibility that, given the opportunity to farm for themselves, the beneficiaries would no longer offer their labour services to their former employers. In addition, they felt that perhaps all their workers should be included in the land reform program, not only those with a valid labour tenant claim. Finally they were motivated by the recognition that viable farms would make much better neighbours than poor and disorganised communities. They were prepared to monitor the situation and to work with the resettled farmers to establish commercial cattle herds and promote sustainable farming and increased livelihoods and work together to improve security and reduce stock theft.

The Qedusizi/Besters farmers and the DLA wanted to avoid land reform resulting in a deteriorating environment. Their objective was to engage in a process that would result in improving the economy of the area.

The initiative was first muted in 2002 and then triggered into action by Department of Land Affairs (DLA) in 2003 when they proposed a survey of those with labour-tenant claims and approached the farmers to cooperate with the survey. The white farmers, through the Besters Farmers Association (BFA), agreed that they needed to be proactive and to assist the DLA in the land reform process. They felt that it was important to achieve consensus among themselves and to establish their vision. In order to achieve this they would investigate options that would meet the aspirations of the claimants, the government agencies, and themselves. They agreed to act as a body and not to negotiate separately over land claims, and established a Land Affairs Committee in August 2003 to develop a vision (Box 1), an implementation strategy, and a plan to resolve and negotiate all issues. BFA decided that it would be in their own interest to make whole farms available for sale and resettlement, rather than to allocate portions of their farms to accommodate claims. They agreed that the way forward should be one of voluntary land redistribution and that it should include all the farm workers in Qedusizi/Besters, even those who had no claims over the land.

The main catalyst used to convince farmers of the need to stand together was the production of a detailed plan outlining the steps to be followed. Not all the white farmers were totally committed in the beginning due to the uncertainty of the process, but clear and frequent communication with the commercial farmers ensured that all were aware of the progress. The communication was conducted via regular community meetings, newsletters, and individual meetings with farmers who had misgivings. This ensured that all farmers were allowed the opportunity to contribute in a positive manner and detractors were not able to derail the process. This communication process also included the farmers' wives who were threatened by the possibility of their homes being lost through the process of land redistribution.

Subsequent to this agreement, the BFA developed their vision for the Besters and finalized it on August 25 2003. The BFA Land Affairs Committee was instrumental in drafting the Vision, which was then communicated to the other commercial farmers after it was adopted. The DLA staff was also included in the drafting of the Vision. The Vision was influenced by the Government White paper on Land Reform which became the primary source document for

developing the process to be followed. The intentions of the White Paper were found to be sound and based on solid economic principles. However, during interaction with farmers and DLA staff, the document appeared to be poorly understood.

**Box 1: Vision developed in 2003 by the BFA for the Besters Area**

***Besters Farmers Association wants to achieve meaningful, controlled & sustainable access to land without negatively impacting the economic viability of its members or the district.***

The Vision included the following **Principles and guidelines for Strategy**

1. We as farmers are **the principle stakeholders** in the process.
2. A **Cohesive plan** including all commercial farmers must be formulated.
3. Strong **leadership** must be exhibited by the committee.
4. **Clear objectives** must be included in the strategy :
  - a. Meaningful projects must be identified
  - b. Once the process is started it must be completed.
5. Negotiate in a spirit of **good faith and absolute honesty**.
6. Achieve a lasting and **economically viable** outcome.
7. Assist government in achieving **orderly land transfer** without jeopardising the agricultural potential of our area.
8. Attempt **to satisfy aspirations** of all stakeholders.
9. The principle of **willing buyer, willing seller** will dictate the process.
10. **Network** with neighbouring farmers, NGO's and any other parties to find common solutions.

The next major step was the farmers' agreement with the DLA to negotiate in a spirit of good faith and mutual trust, as well as their recognition that it would require goodwill on all parts to reach a mutual agreement. The fall-back position would be that of the Land Claims court where each individual case would be tested on its merits. This was unlikely to be in the interests of the claimants, the government, or the white farmers.

This basic agreement was reached with the Provincial Director of the DLA in September 2003,<sup>8</sup> in that the BFA would support the Lima Plan survey to update the database of labour-tenant claims. Government in turn agreed that it would establish all the necessary negotiation structures (e.g. farm and cluster committees) prior to the issue of Section 17 notices and that these would be issued during the negotiation process and in consultation with BFA. The deadline established was 31<sup>st</sup> December, 2003 for issue of the notices, but there were some delays and they were issued on 4<sup>th</sup> March, 2004. It was also agreed that any farmers not agreeing to work with DLA and the LIMA survey could be issued with individual notices immediately. The DLA officials involved in the negotiations were also not convinced that all farmers would cooperate and were potentially sceptical of the united front presented by the BFA. The option of issuing Section 17 Notices to resisting farmers therefore served the BFA Land Affairs Committee and the DLA objectives equally. This action, however, was not necessary as all the white farmers cooperated with the BFA until the land had been transferred.

This agreement set the stage for all that was to follow. It had taken no less than twenty five meetings of the white farmers themselves, the white farmers with their workers, and the local

<sup>8</sup> Copy of Shabani Agreement in Appendix One

stakeholders with the DLA as well as other government entities to reach this stage. It required serious commitment by the KZN PLRO and all the stakeholders. The next section discusses how the core concept was developed and the process by which it was implemented. Until the workers could finally take possession of their farms and initiate livestock production it would take another sixty meetings and negotiations. Clearly the complexity of the task and the novelty of the approach are partially responsible for the enormous effort that was required, but it is also clear that the bottom-up approach requires enormous commitment, initiative, and input from the key local stakeholders.

## **THE STAKEHOLDERS**

### ***The Beneficiaries***

The beneficiaries are primarily drawn from families' whose principal breadwinner is, or was in 2003, employed on one of the farms in the Besters area. Many of the families had lived in the area for a long time and some are third generation occupants, although some were more recent residents and did not have any labour-tenant claims on the land. There are also some 40 households who were for the most part former employees that had remained on abandoned farms and were engaged in subsistence farming. They were keen to become part of a cohesive programme and were included in the Qedusizi/Besters initiative. Some of them have shown strong initiative in both their farming operations and in providing leadership, with one serving as the current Chairman of the Abrina Section 21 Company. Approximately 60 households were resident in the Besters area but had not made application as labour tenants, despite the fact that they were included in the process of land redistribution. Some 140 *muzis* (about 400 hundred individuals) had or proposed to lodge tenant claims. This number included the 40 households on abandoned farms.

The Lima Plan Survey indicated that there were a total of 183 households eligible and interested in applying for land reform in the Besters area under LRAD with 5,546 hectares already applied for under labour tenant claims. As indicated above some of the applicants for LRAD grants held valid labour-tenant claims and others did not. Once negotiations had started with the government it was agreed that all the residents in the area would be included. As a result, the Lima survey included all adult members who would be eligible for LRAD grants, some 573. The survey indicated that the 183 households owned 1984 cattle, 133 horses, 768 goats and 75 sheep. The information collected included length of residence, current employment and salaries. Education and literacy information were only collected for heads of households, but these limited observations indicated that although the principal breadwinners do have very basic literacy skills in Zulu and some had significant other skills as well as literacy in two or three languages, education and literacy levels for most of the population were generally low. A few can understand English and some speak some Afrikaans but most only understand Zulu.

As part of the process discussed in the next section, meetings were held under the leadership of the DLA with as many community members as possible together with the BFA representative for the area. Key aspirations of community members that were elicited are shown in Box 2.

### **Box 2: Aspirations of the Beneficiary Communities**

In the consultations it was found that:

1. Most of the workers wanted to continue full-time employment on the farms, and all but those in Areas 1 and 2 had ambitions to produce maize commercially.
2. All wanted access to grazing and to subsistence maize production as well as access to basic services.
3. Most preferred not to have to move, but some expressed willingness to move if adequately compensated for the direct and opportunity costs of moving. No direct financial payments were to be made to communities who had to move, but an agreement was reached whereby communities would only have to move to their new farms once housing had been provided.
4. Other fears related to having to live closer to other *muzis*, security (both personal and for their livestock), transport to work and the possible lack of technical assistance both for the land reform process itself and in order to be able to farm profitably.
5. They also indicated that they wanted some assistance with representation (with relevant skills) in their negotiations with both white farmers and government.
6. In order to start to increase their cattle numbers prior to the move, the beneficiaries no longer wanted to reduce their cattle numbers in autumn to the number permitted to graze on the commercial farms. A moratorium on the reduction of cattle numbers was therefore agreed upon.

### **The White Farmers**

There are some 52 white farmers on the remaining 55,000 hectares in Besters, who still employ many of the beneficiaries of the land reform project. In addition, they draw about 10% of their permanent labour from neighbouring tribal areas and much of the casual labour during peak periods comes from outside the project area.

While some of the white farmers in the area are fourth and fifth generation descendants, others have bought their farms more recently. All those white farmers who joined the BFA/Qedusizi land reform initiative made a strong commitment during the reform process. The on-going commitment to mentoring and assisting with the programme is, however, primarily left to those most committed to reform. However, all the farmers are prepared to provide limited assistance in the interests of maintaining the economic value of the Besters area.

### **The Government Agencies**

The principal agency involved is the Department of Land Affairs at both District and Provincial Level. The other national government agencies directly involved are the Departments of Agriculture, Housing, Economic Development, Water and Environment. The Department of Welfare will be increasingly involved in servicing the communities as they develop.

At the local government level, the councillors and public servants within the Ladysmith/Emnambithi Municipality are directly involved. The Municipal departments of road, engineering, water, housing and local economic development all have a role to play in the land reform, and particularly in post-settlement support.

## THE CORE CONCEPT AND THE IMPLEMENTATION PROCESS

An important feature of the approach is the use of the LRAD component of the land reform program to finance the purchases of the farms and a portion of their development expenses. Instead of using financing available under the Labour Tenant Act, it was to be the LRAD grants that would be used. This meant that financing per beneficiary could be more generous than it would have been under the use of the Labour Tenant Act which would have financed only the acquisition of land rights. In addition it made all farm workers eligible beneficiaries, not just those with validated labour tenants' claims. As a consequence, the program would be able to accommodate more beneficiaries and acquire more land than the land potentially under claim under the Labour Tenant Act.

Figure 1 below provides an overview of the steps and processes used in the Qedusizi/Besters case, and will serve as a guide through the discussion that follows.

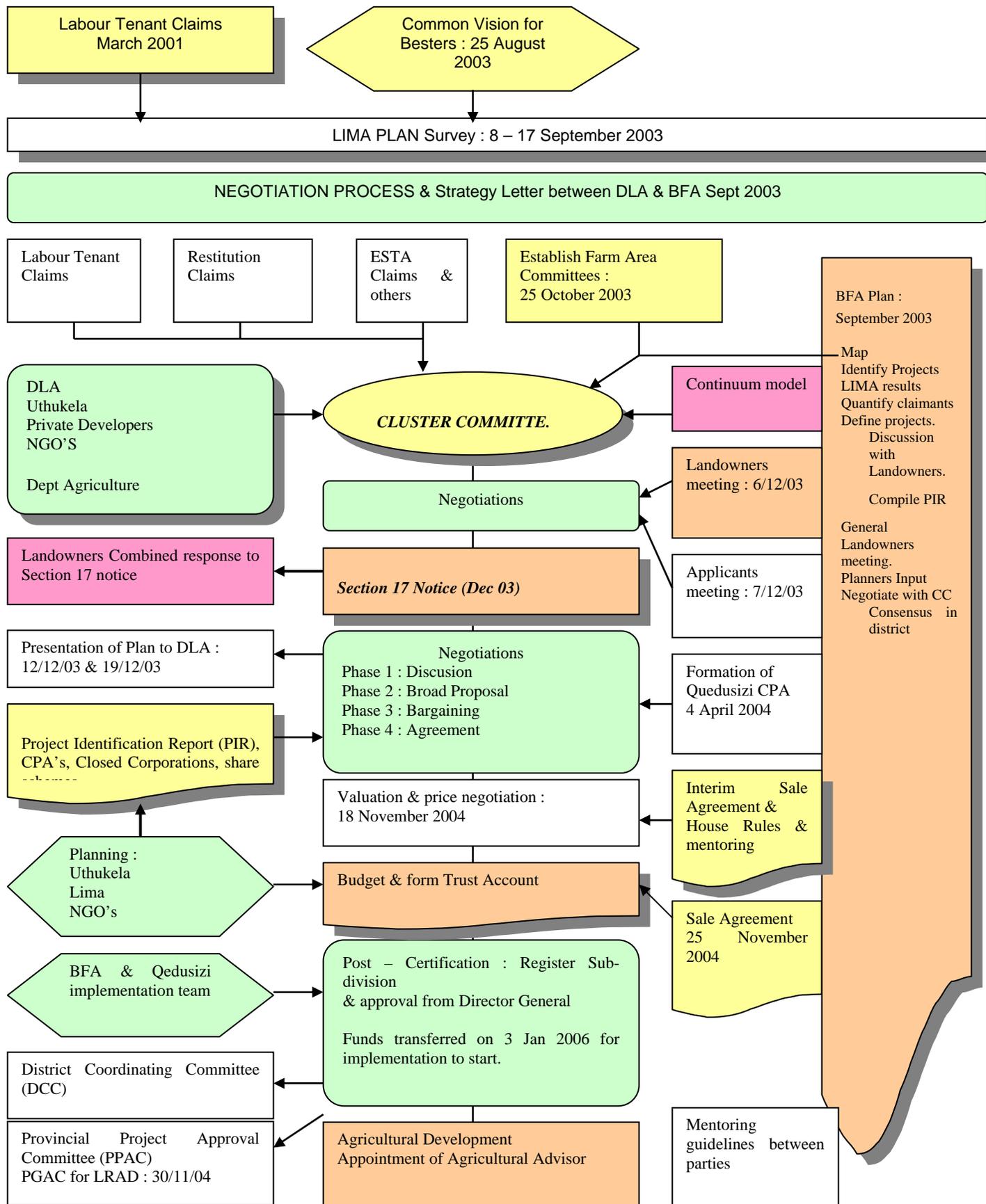
Five Farm Area Committees covering 51 farms were established in October 2003 to develop a proposal for land reform for each of the areas in Qedusizi/Besters with one representative each from the BFA and 5 representatives from the farm workers. The role of the farm area committees was to define the individual needs of each community and to communicate directly with every individual on the ground. These committees in turn were represented on the Cluster Committee by the Chairman of each area. The first task of the Cluster committee was to identify land available using one or more of the following criteria:

- land owned by financial institutions or absentee landlords and not being farmed,
- a good geographic spread through the district,
- good agricultural potential including arable land,
- good access,
- farms with schools, and
- farms where labourers were already reasonably well clustered.

It was agreed that farms already settled by labour tenants and farms that already had projects would be included in the Qedusizi/Besters area plan. The farm known as Rooykop which was already settled by tenants was to be included in the process. This farm was owned by the Land Bank but had not been transferred to the occupiers.

The Cluster Committee formed in 2003 surveyed the area and found that 9790 ha was already available and identified a further 15 farms that were suitable, totaling 16134 ha. This was then matched to demand and eventually some 14250 hectares was sold and this was subsequently increased to 14688 and eventually to 14728 ha.

**Figure 1: Project Concept Development and Negotiation Process Schematic**



While nominated representatives in the Cluster Committee did consult with their communities, through the area committees, no comprehensive approach to determining aspirations of the potential beneficiaries was carried out. The communication to the beneficiaries was supposed to occur via the Area Committees but this did not occur successfully due to a lack of capacity of the elected chairman particularly in meeting procedures, consultation, and leadership skills. A decision was therefore made to communicate directly with the communities in each of the five areas, from which emerged the aspirations of the community members discussed in Box 2 above. Meetings were then held under the leadership of the DLA with as many community members as possible together with the BFA representative for the respective areas. This direct method of communication accelerated the process and allowed for greater input from the communities. While it led to an increase in the number of meetings held, it also contributed significantly to ownership of the process by stakeholders.

A typology of nine different farm situations and development options was prepared and presented to the workers by both BFA and DLA working together. In the end, only three of the options were further pursued. 35 households opted for secure tenure on their existing homesteads, 141 opted for agri-villages where the farm is owned in common but they have secure family plots (*muzi*) and individual use rights to their homesteads with access to both grazing and arable land, and 57 opted to invest their own resources into establishing commercial farming operations.<sup>9</sup> Subsequently the beneficiaries agreed to pursue a common approach and agri-villages were set up in all the new farms, alongside a commercial herd owned by the CPA together with community and limited individual grazing rights. However, each CPA developed its own internal 'house' rules.

### **Price Negotiations**

Once the land had been identified and the plan for the area had been proposed in the Cluster Committee, the price negotiations for the land was carried out with DLA and with the claimants and others to be included in the reform project<sup>10</sup>. The claimants were not directly involved in the negotiations as recommended in the LRAD process, but they did have closer involvement than is common in most negotiations on land purchases. Valuation of the farms was carried out by a government-appointed valuer, and the BFA also appointed their own valuer. The valuation of the government valuer was used as the basis for negotiation and changes to valuation on improvements helped to resolve differences. During negotiations the government valuation for the land was accepted by BFA, with separate compensation for the buildings and infrastructure, which brought the overall valuation closer to those of the BFA evaluator. As an important added incentive, government agreed to speedy payment and implementation. This promise was kept and the farmers were paid within six weeks of the conclusion of the negotiations. Where sub-divisions were required, the payment process was delayed until after the sub-divisions were completed.

The prices for land varied according to area but in general the price of veld ranged from R650-R1,050 per ha and averaged R880 per ha. Arable cropping and arable pastures ranged from R2,000-R3,000 and averaged R2,522 per ha for 227 hectares. (Source: adapted from data in BFA Land Reform and Rural Development Framework Proposal December 2003, pg 31). The total price came to R13,750,000 for 14,250 ha from the farms identified by the Cluster Committee.

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<sup>9</sup> Annex 3 Land Reform projects proposed in Besters

<sup>10</sup> Negotiations were primarily between Mdu Shabani representing the DLA and the communities and Roland Henderson representing the farmers, however the communities and farmers were kept closely informed of the process

*The agreement was reached on 18 November 2004, 15 months after the initiation of the process on 25 August 2003 and with good faith on all sides.*

These negotiations cannot normally take place until a PIR has been drawn up and subdivision of farms from which portions of the land were being sold had been approved. In the case of Qedusizi/Besters, subdivision was necessary where farms were being split in order to be part of the land reform. In other cases whole farms had to be split to accommodate different CPAs and some of the land required amalgamation. Because of the large area involved and due to the coordinated approach used in the Qedusizi/Besters case, the negotiations were carried out at the same time as the subdivision process was moving forward, but the payment was not made until subdivision had been approved. The subdivision process took about 4 months to complete. The LRAD grants took about a year after submission of the application because it was necessary to have the Transfer agreement authorized by the Director General in Pretoria.

### ***Financing and allocation of land per beneficiary***

As discussed in detail below, each of the 183 primary LRAD applicants was to be granted a *muzi*, access to grazing land for individual cattle, a share in the commercial cattle herd to be purchased for the community, and access to the other communal resources on the farm. All the principal applicants and their associates, some 573 beneficiaries initially (subsequently 993), were to receive LRAD grants to assist in the purchase of the land and the establishment of the necessary infrastructure. These grantees included the wives, children over 18 and other close relatives of the principal applicant. All the LRAD grants were to be used together first to purchase all the land and then to establish the programme. The funds were allocated primarily on a principle of equity, according to need rather than in a direct relationship with the number of grantees or their own contribution.

#### ***Box 3: The major win-win benefit for the beneficiaries***

The 183 primary applicants and 390 associates (family members eligible for LRAD grants) formed 14 Communal Property Associations (CPAs) to take ownership of the area of 14,250 ha. Instead of benefiting 400 applicants for labour rights in 140 households, the process included in the end 993 adult beneficiaries in 199 households. And instead of 5,546 ha under labour tenant claims, 14,250 ha were initially transferred and in the end 14,728 ha, over 2.6 times the area under labour tenant claims was transferred.

The benefits therefore are the inclusion of almost two and a half times the number of individual beneficiaries, and an increase of the total land area transferred to them by a factor of 2.6. That means that the extra beneficiaries did not eat into the land claims of the labour tenants but were granted additional land. The land area per *muzi* was 74 ha, almost 15ha per adult beneficiary.

The actual allocation of land per household varies according to the farm on which they are settled. This differential allocation did not result from the different own contribution which would have entitled different beneficiaries to different LRAD grants. Instead, land was allocated equally within each farm resettled. The differential average land size per beneficiary across different farms resulted from the fact that settlement density differed across the farms. This came about because most families did not want to move too far from their current employment and it was not feasible to allocate families across the farms so that average land allocation per

beneficiary would be equalized. These very important land allocation decisions were made by the beneficiaries themselves, and they fully understood the departure this implied from the LRAD allocation rules as well as from strict equity. Much discussion was held with the communities on these issues and it was decided that this would be the most appropriate approach in order to ensure that maximum benefit could be obtained from the LRAD process for the entire community, the fewest number of households had to move, and to achieve the economic aspirations of the area.

The project was originally conceived in 2002 and the land redistribution negotiation process was effectively started in September 2003. Land was transferred during May 2005. The production project and initial resettlement was implemented in January 2006 after receipt of the first tranche of support for implementation from DLA. The project had very active champions but it still involved a high investment in skilled manpower from the DLA and other government agencies involved and on the part of the white farmers and the communities to achieve its objectives.

### **THE CORE FARMING MODEL**

The Qedusizi/Besters land reform project envisages a farming system that is primarily based on the commercial production of beef, with supplemental grazing of goats and sheep, and gradual development of the crop farming depending on the land quality found on each farm. The grazing land of the farms would not be subdivided among the households. Instead each of the 14 Communal Property Associations (CPA) that were formed after the land purchase would own a commercial herd which would be grazed on the entire pasture area, together with the individually owned cattle held by community members. Those grazing their privately-owned animals will be responsible for the direct costs incurred in any dipping, inoculations, feed supplementation etc.

Given what we have said in the introduction about CCCPs, this was not the only possible choice of farm production model, and not the one that traditional communities use for the management of their pastures and herds. Nevertheless, the following factors favor this enterprise model for livestock production:

- The labourers had worked for many years on cattle farms and were familiar with the management of a commercial herd into which their own livestock was incorporated for grazing purposes.
- The mentors, all commercial livestock farmers, were also most familiar and comfortable with this model of livestock production.
- Given their familiarity with this model, the workers would be able to make adequate profits from their commercial herd and from their own animals, and would also have strong incentives to maintain the productivity and sustainability of their assets.
- Since the majority of the CPA members wanted to continue to be employed on other farms, they could delegate herd and pasture management responsibility for communally-owned and individual cattle to a minority of paid members of the CPA.
- In order to achieve efficient and sustainable production systems, the BFA agreed to provide oversight and assistance and the Department of Agriculture agreed to pay for employed mentors to advise and train the CPAs in commercial livestock production.

- The allocation and use of other resources on the farm, including the arable areas, could be determined by the CPAs after settlement.

In the first two years of the project, two mentors, employed by Department of Agriculture have been tasked with supervising and mentoring the farming activities on the 14 CPAs. The commercial beef herds are looked after by stockmen employed by each CPA. These are usually one or more community members who are employed in accordance with government regulations. One member of the community is also designated to understudy the mentors and to take over the management of the cattle and farming activities once there is no outside manager or advisor.

Each household is also allocated grazing rights for goats and sheep but is individually responsible for their care. On some of the properties there is potential for both subsistence and commercial crops, for horticulture, and for the harvesting of thatching grass, mushrooms, honey, wood and other naturally occurring products. The use, management and distribution of these resources were not determined in the overall model but are to be individually decided by each CPA. The first year has concentrated on establishing the commercial beef herds and integrating them with the privately-owned cattle. Some of the farms have leased out surplus grazing land and so generated an income in the first year. Beef production requires a two-year cycle before it is able to provide income, although with the purchase of heifers in calf, the communities expect to begin to generate revenue in February 2007.

A different model is anticipated for the settlement of labour on the two dairy farms recently acquired proactively by DLA and currently leased to Zwelithle Dairy, a company jointly established with some members of BFA and Abrina 1518 on behalf of the Qedusizi/Besters labour tenant community. The model is still being established and includes a range of options from worker-owned and managed to a separation of the dairy company along with the labour-tenants and other farm workers being allocated *muzi* and grazing rights separately.

## THE INSTITUTIONAL STRUCTURES

### ***Households – Muzi***

Each *muzi* consists of a number of adult members who have contributed their LRAD grants to the process. The social norms of most of these households give the main decision-making to the head of household to whom all the assets and income belong.<sup>11</sup> In all cases there is a male head of household in residence. The intra-household distribution has not been assessed, although the informal focus-group discussions confirmed that both the women and youth who had contributed grants would like to see some projects for which they could be directly responsible and could receive some income. These wishes are in accordance with traditional practices of households all over Africa. Within the CPA the distribution of use rights and of communally generated income is allocated to each *muzi* and not to individual grantees. There is no special provision to protect the rights of women. The unusual step of allocating use rights to the *muzi* rather than to individual LRAD grantees was taken by the community who considered that in this way they would achieve more through cooperation than by working individually. It is unclear whether this distribution would be appropriate for other communities, or whether individual grantees realised what they were agreeing to, but the decisions were taken openly with the LRAD grantees in the communities and the DLA were closely involved in the decisions. The evolution of the impact of this allocation choice will be interesting.

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<sup>11</sup> This allocation of rights and the implied social inheritance rules are unlikely to be consistent with the proposed Communal Land Rights Act (CLARA).

## ***Communal Property Associations and the right of the member muzis - CPA.***<sup>12</sup>

The core structure of the Qedusizi/Besters model is a Communal Property Association (CPA) of all the farm workers settling on a specific farm that is the legal entity that holds the title to the land and registered to use the farm. Each CPA is governed by its Constitution that was drawn up with the help of the DLA. Each CPA in due course established its own bylaws or "house rules" to govern access to, investment in, and management of the farm resources as well as rules governing entry and exit, regulation and enforcement. This is an ongoing process with rules being established (or changed) as new challenges are faced.

*Constitution and "house rules"*: The CPA constitutions establish basic rights and responsibilities of the CPA members and define decision-making processes as well as entry and exit rules. An overriding principle is equal treatment of all members. All the CPAs restrict entry and require that anyone wanting to leave must sell their rights only to members of the community. The entry and exit rules are defined in the Constitution of each CPA (house rules<sup>13</sup>) that has been established to define rights and responsibilities of each *muzi* with respect to their common property. They were established by providing different options to members of a CPA and allowing them to discuss what the response should be. The rules relate to the allocation of resources, in particular the allocation of house plots, arable land and grazing rights, and the use of communal equipment. These rules also define the household responsibilities with respect to water, refuse, sanitation, etc. They additionally prescribe the activities that are unacceptable within a *muzi* (e.g. in some CPAs no pigs may be kept) and identify in which situations committees must be established to manage various farm and social activities or to levy fees for these functions. Specific rules for the allocation of other common resources (wood, thatching grass, arable land etc) have not yet been drawn up. In general, most use rights should be allocated in a way that will optimise efficiency and in ways that align with the customs and norms of the society. Currently, individual rights of LRAD grantees are subsumed to the household, and it is unclear what rights the women and youth hold regarding resources, particularly if they want to exit.

*Household plots*: One part of the land thus allocated is then divided into individual household plots (*muzi*) consisting of an average of 0.5 ha, which is individually controlled. Other land and resources are owned jointly with the management, where control and access are determined by each CPA. Single extended family groups (*muzis*) would have full use rights to the individual plots but would not receive individual title. Typically each *muzi* consists of a head of household, a male who was typically employed on one of the Besters farms, as well as a wife/wives and children (including adult children and in some cases their spouses). Some *muzis* also include parents, brothers, sisters or other relatives who form a close part of their household. Within each *muzi* married families would build their own homes. The plan envisaged that the household plots would be clustered to allow for efficient service delivery and minimize the necessary allocation of farm land to housing, roads etc.

*Grazing rights for individual muzi cattle and arable land*: Each household (*muzi*) is allocated a specified number of livestock unit grazing rights and certain rights to the arable land and to the other farm resources. These grazing rights are implicitly tradable, but only within each community and are restricted to community members. Rentals of grazing rights between members have already become acceptable.

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<sup>12</sup> Annex 4 has a table detailing the CPAs

<sup>13</sup> Annex 5 provides a generic example of the House rules

*Rights to income from undivided resources and the common herd:* The grazing land of the new farms would not be subdivided among the *muzis*. Instead, each CPA would own a commercial herd which would be grazed on the entire pasture area, together with the individually owned cattle held by community members.

*Need to move:* On some of the farms the existing labour would remain and take over the entire farm, and would therefore not need to move. On other farms they would be joined by households from neighboring farms. On still other farms, all the households on a given property would move to a new property. People were reluctant to move but most accepted it as necessary to achieve their objectives. Others refused to move. They either did not trust the system or felt that the acquisition of communal rights to land were not enough to outweigh the costs of moving. Some of the communities found it difficult to organize effectively, and about 12% of the labour decided not to join the project. Most have since applied to join, but it will take time to find the land and resources to accommodate them.

There are 14 CPAs in the Qedusizi/Besters land reform programme with more expected to join in 2007. This would expand the project, increasing both the area and the people involved. There will be approximately 25 new *muzis*. Three of the farms will be added to the existing CPAs that will now be acquiring extra land. Each CPA elects a committee to manage the affairs of their common property, and the Chairperson represents the CPA at the Qedusizi/Besters Project Executive Committee monthly meetings held under the auspices of Abrina 1518 Section 21 Company.

### ***Coordinating Body: Abrina 1518***<sup>14</sup>

Initially the development of the vision and the management of the process of land acquisition and settlement plans were handled by the “Cluster”, a committee of all the stakeholders. No fixed process or institution was imposed by the DLA officials for the planning, negotiations, implementation, or development of the farms. During the extensive consultations and negotiations for the land purchases it became clear that a more permanent institutional structure was needed in order to implement the program. All parties involved in the negotiation process understood that the implementation of the process would be the most challenging step, and would define the eventual success or failure of the project.

The communities and the BFA agreed upon the establishment of a non-profit Section 21 company in a meeting facilitated by the KZN PLRO in Pietermaritzburg. This would allow the communities and the farmers to implement the land redistribution process as opposed to the hiring of an external consultant to perform the work. Abrina 1518, was therefore formed during January 2005. In hindsight, no external consultant would have understood the complexities and intricacies of the process in order to allow for a successful implementation of the various projects. The goodwill that had been built up during the negotiation process made the negotiation partners the best implementing agents.

The voting directors of Abrina 1518 are the 14 Chairmen of the CPAs and 7 white farmers. The Company was established with the specific purpose of implementing the land reform project in Qedusizi/Besters and providing beneficiaries with an effective coordinating body and an institution through which to communicate with government and white farmers. This company was also formed to explore income-generating opportunities and to assist in the economic development of Qedusizi/Besters. The Company has provided the land reform project with a

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<sup>14</sup> Annex 6 – Organisational Chart with key role players

mechanism through which to coordinate the activities of the CPAs, to establish policy, to investigate new opportunities, and to channel and account for the funds invested by various government agencies in the reform and resettlement process.

The directors meet once each month to ensure that in the early stages of implementation everyone is kept closely in touch with what is happening. This involves a high cost in transport and time but is considered essential to the establishment of viable land use systems and to maintaining momentum in the project and developing social capital. Abrina director meetings are also involved in conflict resolution and, because of the frequency of the meetings, are in a position to anticipate and deflect some conflicts. The active participation of the non-voting directors from Land Affairs, Agriculture, and the Municipality has provided the project with the opportunity to coordinate their activities with those in the District and by keeping the government agencies closely informed it has built trust and better access to services. It provides the DLA with the ability to carry out their oversight role.

At all stages of the process, the DLA worked closely with BFA and provided support in working with communities and represented their interests.

### **THE SUPPORT APPROVED AND OBTAINED**

The Qedusizi/Besters project, through Abrina 1518, has been in a position to solicit for funds from a relatively wide range of sources. It was able to speed up the process of the transfer of funds relative to other land reform project by having an accountable organisation, monitored by the DLA with financial management structures and is to be audited by the Auditor General. It also has administrative, management and disbursement systems in place and the policy is set by the directors, the majority of whom are the CPA Chairpersons. There are a wide range of sources of funding to assist with land reform and resettlement. Some, like housing, although theoretically available to land reform beneficiaries, had not yet established mechanisms to operate in association with the LRAD process. Qedusizi/Besters project is a pilot case and is still awaiting funding. This and inter-agency complications have created long delays in obtaining approval and receiving the funds.

The LRAD grants have clearly established procedures in place and the funds were transferred with relatively few delays once approval had been granted and the land had been transferred (although there was a year delay awaiting approval). The Department of Agriculture support funds are partially centrally funded via the CASP program and partially from own resources of Kwa-Zulu Natal. Both are transferred to and managed by the Siyavuna fund of Kwa-Zulu Natal. Support funds were approved, but payments were delayed because of the diversion of the funds to other priorities by the Department and only the first tranche from the Siyavuna fund was paid. The balance owing is expected in the next financial year but the delays have slowed progress on farm development.

No funding has yet been obtained from private or international donors, but the potential exists to access wider funding, especially for capacity building once the agri-enterprises and other initiatives are established. There are plans to establish dairy, feedlots, poultry and vegetable projects. Also, the viability of a community bank or financial services cooperatives are being considered. An initial investigation into accessing Gijima funds (EU sponsored developmental funds being piloted in KZN) was made, but the transaction costs (red tape) involved in the process were too high and would probably require the services of professional funding solicitors.

### ***LRAD Planning Grant from DLA***

This grant of R 1.25 million played a key role in enabling the process to move forward. The grant was not received until after most of the planning for the land reform had been carried out and some of the funds were then used for planning for implementation. Those who incurred direct costs in planning prior to the LRAD grant being paid undertook this at risk and most of the time spent by those involved was never compensated. Effectively all of the planning grant had been spent by October 2006.

### ***LRAD Grants***

A total of R 21.95 million of LRAD grants were received, of which 13.8 million was used for land acquisition and R8.15 million for implementation of the project. This money is derived from the funds allocated per adult involved in the project. The total LRAD contribution therefore amounted to R 23.3 million or an average of R23,460 per beneficiary, R117,000 per *muzi*, or R1,580 per ha of land transferred. 62% of the funds were used for the purchase of the land and the balance for planning, facilitation and development.

Of the 8.15 million for project implementation an initial tranche of R2 million was paid into Abrina by DLA in January 2006 and was primarily used to purchase cattle and build a beef run to establish the commercial herds in each CPA. In addition funds were used to establish boreholes with some going to *eragrostis* and some to planting maize and soyabeans. The second tranche from March-June 2006 for R4 million and was primarily used for the purchase of cattle and the purchase of equipment including a tractor each for most of the CPAs. Other funds were invested in fencing, the installation of water pumps and veterinary supplies. The third and final tranche was transferred in June 2006 and is still being spent. These funds have been directed primarily at fencing, repairs and maintenance for water and farm equipment, veterinary supplies and for the purchase of water carts, specialised bulls and salaries to community members working on fencing and as stockmen. The balance unspent in October 2006 was R834,536.

### ***CASP and Siyavuna Funds from Department of Agriculture (national and provincial)***

A total of R 9 million was approved, of which R 6 million was allocated for the first year and R 3 million for the second year, amounting to an average of some R9,000 per adult beneficiary, or just over R600 per ha of land transferred.

R1.04 million was disbursed in February 2006 but the other funds allocated for the year had not been transferred by December 2006. The funds were used to complement the LRAD funds in the building of fences, drilling of boreholes, purchasing equipment, and expanding and maintaining the beef herd. Given the lack of any further disbursements, actual support so far has been R1,000 per beneficiary, or R70 per ha from Department of Agriculture CASP fund.

### ***Landcare Grant from DA***

R1 million was transferred in March 2006 to be used in reclaiming eroded lands, erosion prevention, and general conservation across all the farms involved in the land redistribution process.

### **Support to Mentors from DA**

The Department of Agriculture is supporting the funding of two mentors for two years. These funds are paid separately from the Siyavuna Funds directly to the mentors.

### **Housing Grants**

An innovative application by Qedusizi/Besters led to the adaptation of the People's Housing Process (PHP) in order to make it possible for resettled farmers to improve their housing. A grant request has been lodged and is awaiting approval at the Provincial level. The application is for 800 residential sites at a total cost of almost R30 million inclusive of a 15% variation allowance ((800 x (31929 + 4789.35 + 570)). Most of the beneficiaries who are required to move are waiting for houses before moving. Those who are particularly keen to start farming are in the process of moving and have established temporary shelter. The housing application covers the improvement of existing houses, new houses for those requiring resettlement, and houses for the expansion in the project and to accommodate those who will be requiring houses as they come of age.

### **Department of Economic Development (DED) (DTI Dept. of Trade and Industry)**

Funding for the development of viable agri-business enterprises and the establishment of a value chain in beef production has been proposed. This proposal would provide funding for the establishment of a feedlot in Qedusizi/Besters, provide for a joint venture with a private abattoir, meat-packaging and distribution company as well as provide additional funds to increase the cattle herd and promote better beef production in the CPAs. This proposal is in the process of gaining the necessary approvals and is likely to begin implementation in 2007. It has been suggested that it may be more appropriate for this project to be structured in a way that conforms more closely to the principles of subsidiarity and efficiency. The section below on enterprise development (pg 36) outlines an approach that would link the value chain through contracts with the process facilitated by a financial services institution or cooperative owned by the farmers.

### **Total Funding Approved and Its Allocation**

The total funding proposed (including housing grants awaiting approval) amounts to R 63.2 million, some R 60,000 per adult beneficiary or just over R4,000 per ha of land transferred. In percentage terms the money is allocated as follows:

<b>Purpose</b>	<b>Percent</b>
Housing, including for new household members	47.5 %
Farm and agricultural development	28.7 %
Land	21.8 %
Planning (not including mentoring)	2.0 %
Total	100.0 %

Clearly the highest cost of the program is going to be the housing component, followed by farm and agricultural development. Land acquisition costs are only a little more than one fifth of total program costs, probably because we are dealing with livestock farms.

## PROGRESS AFTER ONE YEAR

All the CPAs have elected committees and Chairpersons to manage the affairs of the CPAs and to represent them at the monthly meetings held by Abrina 1518. All the housing sites have been established and each CPA has determined its environmentally sustainable cattle carrying capacity. In addition, each CPA has established house rules that define limits on individual grazing rights and set targets for their commercial herds. They have also all begun to establish commercial beef herds with the members of the CPAs having used their LRAD grants to purchase cattle for the commercial herd or bulls to improve the herds. This includes farms onto which the people have not yet moved. Fences, dips and other infrastructure as appropriate has been built and boreholes with pumps have been established where families are already living and are in the process of being drilled on those farms where new houses need to be built. All the households are in the process of receiving improved access to good drinking water. Other farming equipment has also been purchased and at a meeting to discuss progress. Ms. Makhanya (DLA) congratulated the Committee and Abrina for having taken the programme so far and for having negotiated good prices "Promise thanked the committee for working very hard. She can notice that much has been done she even noticed that if people buys for themselves they always get great deals but if Land Affairs buys they are offered expensive deals because dealers take an advantage that they are Government department." (Abrina 1518 Committee Minutes March 2006)

It is too early to assess the financial returns, however, as the resettled farms have only been effectively functioning since the beginning of 2006 and the first sale of weaners will only be in about February 2007<sup>15</sup>. The revenues from the commercial cattle herds will be used by the CPAs to invest in production activities on the farm as well as providing community members with dividends. The commercial cattle herd can also be used as collateral for loans. There has been some subsistence production on those farms where people are already settled. Further investigations are needed to consider other use of grazing areas (outside of the cattle herd) effective use of the limited arable areas, and the establishment of agro-processing and marketing ventures. Some of the CPAs with good arable land did plant some maize and soybeans and those with surplus grazing have leased this out to neighbouring farmers and have generated revenues amounting to almost R3,000 per *muzi* on one particular farm. While these funds are currently invested in the bank, part of these revenues may be shared out in December.

Communications pose a problem and heavy reliance is currently placed on the mentors who are in almost daily contact with every CPA. All CPA Chairpersons have a cell phone but the signals are unreliable in the area. Good communication and regular attendance at meetings is essential to ensure the effective progress of the project acquiring reliable access to transport and telecommunications.

The two mentors hired to work with the 14 CPAs have been initially managing these properties, the infrastructure development, herd management, and assisting in some conflict resolution. Skills transfer is presently being conducted by courses and workshops for all the CPA's, but more effort by the mentors on skills transfer rather than management is required. They have also been working with the community-employed stockmen to train them to take over the management role in future. Some of the stockmen have shown real commitment and good training ability, but in many of the CPAs it may take longer to carry out the training. It may be necessary for some CPAs to appoint other persons to train for management. The fact that not all people are competent farmers ought to be acknowledged and addressed. It will be important for the CPAs

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<sup>15</sup> Income of just over R1 million was estimated to have been earned by 8 of the CPAs by April 2007 see Annex 4 for further details.

to employ members who have both the commitment to farming and the ability to manage. Clear evidence of the fact that not all people have an aptitude for commercial farming has been seen with the post-World War II settlers, most of whom failed despite their relatively high education.

In addition to production services and access to inputs through Abrina 1518, the Qedusizi/Besters project is also involved in providing some social services. They have provided basic medicine kits to all CPAs, and will look into training a member of each CPA in first aid. The mentors have also provided emergency transport where necessary. The project is in the process of building HIV/Aids awareness and strategies to ensure prevention, testing, and treatment of those infected.

Some CPAs are much more successful than others, and anecdotal evidence points to the strength of the leadership and the cohesion within the CPA as having a key role in that success. However, in even the most successful CPAs there have been some social conflicts,<sup>16</sup> and it has become apparent that an acceptable mechanism for conflict resolution is essential. It has been proposed that in addition to the house rules, standard sanctions be determined for breaches and a committee within each CPA be established to deal with infringements. It may be necessary for the central committee in Abrina 1518 to establish a conflict resolution mechanism to support the internal CPA committees.

Some training has been provided in financial record keeping in association with Standard Bank. In addition, the Department of Agriculture has been active in providing training in beef herd management and health, soil erosion, cropping practices, irrigation and financial management. Since most of the beneficiaries are still in paid employment, the length and timing of these courses makes it difficult for them all to attend. Project planning is still required to develop new ways to provide access to information more effectively and to build capacity. Abrina 1518, in association with farmers in the area, is also involved in employing a security company. It is worthy of note that stock theft incidence in the area has been significantly reduced.

#### **COMPLEXITY OF THE GRANT SYSTEMS, DISBURSEMENT PROCEDURES AND ACCOUNTING RULES**

The progress after one year is impressive, but it could have been much more if it had not been for the enormous complexity of the grant system, disbursement procedures, and accounting rules that governed the management of the funds. The overriding problem with the funding system is that it does not consider the establishment of new farming communities as a single project that includes land acquisition, housing, infrastructure, operating capital acquisition (machinery, herds and pasture development), and inputs for the startup of farming operations. Instead, each of these essential components of a new community are considered projects in their own right, financed by different ministries or directorates, and subject to separate eligibility criteria, application and approval processes, timetables and disbursement rules. In addition, each of these different grants is subject to government procurement and accounting rules.

All this is very different from the establishment process of a private farm, in which the financing comes from equity of the owner and bank loans. A corporate or private owner can produce a budget for the overall project including all the above-mentioned components and then, in association with one or several banks, develop a financing plan that is approved by the bank or banks at the same time, which then becomes ready for disbursement. Once disbursed, the

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<sup>16</sup> In one of the CPAs which has been most successful, the stockman sold access to thatching grass without consulting the committee and did not share the revenue generated. The situation is still in the process of being resolved. Clear rules on how access to communal resources is to be controlled need to be put in place.

ownership of the credit funds is transferred to the business owner, and is replaced by a repayment obligation rather than any direct control over the funds. The owner then can use his own procurement, accounting, and auditing system rather than those of the bank. Moreover, the money he or she is given is fungible, i.e. it can be used for any of the above mentioned purposes. Changes in plans and costs are easily accommodated by reallocating money among the different component of the project. The owner is responsible for financing any cost overruns.

This fragmentation of grant support into vertical silos linked to specific purposes as well as the treatment of grant funds as government resources subject to government procurement and accounting rules have severe consequences for the management of the project:

1. It imposes a complex and time consuming burden of multiple applications and approval processes on the beneficiaries and on the staff of supporting government agencies.
2. Different eligibility criteria for the different grants mean that some components cannot be accessed by some of the beneficiaries, unless the eligibility rules are ignored or changed, as in the case of the housing grants
3. It is very difficult for beneficiaries and government to ensure that funds for the different components of the project arrive on time for the specific need to which they have been earmarked.
4. It is impossible to reallocate money easily among essential project components when cost estimates were incorrect or project components had to be redesigned based on experience and unforeseen events.
5. It requires the beneficiary to learn the applicable government procurement and accounting rules which were originally designed for large government projects, not for the needs of individual farmers, communities or private enterprises. This imposes extra learning and work burdens not only on the beneficiaries, but also government staff who still are accountable for what happens to the funds. It also leads to mistakes, inordinate delays, and frustration for both the beneficiary and for government staff.

It will be hard to scale up the approach used by the Qedusizi/Besters communities if this fragmentation of funding is not quickly remedied.

**Box 4: *The obstacles created by the fragmentation of funding sources and excessively complex accounting requirement***

1. The time delay in obtaining the Director General's authority to transfer the funds directly to Abrina meant that an entire production season was lost. An increase in the national beef price over the same time meant much more costly acquisition of livestock. Greater powers were to be delegated to the KZN DLA officials, but at the time of writing no delegation authority exists to allow for further transfers directly to the communities in this or other projects. Considerable goodwill was lost, as complex delegation processes were not easily understood or accepted by the communities.
2. The funding received from Siyavuna does not allow for the purchase of cattle and payment of wages to stockmen. These cost centres were therefore funded by LRAD grants. This means that Siyavuna funding can only be used for the erection of fences and other development of the farms.
3. The transfer of these Siyavuna funds has been delayed resulting in 'gaps' in the development of the farms. In some farms cattle have been purchased using LRAD funds but no fences can be erected to contain these cattle.
4. Siyavuna funding can only be used to finance 30 percent of the purchase price of farm machinery. This meant that the remainder had to be sourced from LRAD funds. In the reporting of the purchase of tractors to the two departments it was decided to allocate specific tractors to each department based on the 30 / 70 split over the whole lot of tractors, thereby allowing for specific serial numbers to be allocated to each tranche from each department. This was disallowed as the exact split of 30 / 70 was not maintained, imposing an enormous additional accounting burden on Abrina.
5. The different eligibility criteria for the different sources of funding require the maintenance of multiple databases, each designed for the specific funder. This is especially true for the Housing Grant where the entire community will have to be surveyed again to allow access to the grant.
6. Where communities have accessed their grant and it has been expended, no mechanism exists to purchase additional land where this is needed to improve the viability of the initial purchase of land. Pro-active purchase of the land may be one possibility to allow communities to expand.
7. Adjustments in the budgets as presented to the PGAC are also frowned upon by government officials who are oblivious to the changes caused by fluctuations in market prices or those realized at auctions. The ability of an accounting package to allow for these changes is critical as these changes occur on a daily basis.
8. It proved exceptionally difficult to find an accounting package which allowed for reporting to multiple departments or sources of funding where each invoice resulting from a purchase could be allocated to the correct source of funding. The expenditure by each CPA must also be tracked, as each CPA has its own specific budget. Three independent accounting firms were involved in assisting in the set-up of the accounting processes which led to a delay of approximately five months before accurate reporting

## **FUTURE DEVELOPMENT 1: FINE-TUNING**

Future developments are divided into “fine-tuning” of existing institutions, and procedures, and the development of new enterprises. While the fine-tuning can be done within the existing institutional and enterprise framework, the development of new enterprises requires new institutional and enterprise forms as well as significant additional finance. This section deals with fine-tuning while the development of new enterprises is discussed in Chapter 2 on enterprise models.

As we have seen, some of the CPAs have small farms and therefore less land per adult member than others. Adjustments are currently under way, via negotiations, for additional land purchases for the smaller CPAs. The land purchase process can also be used to accommodate the new applicants who want to join the program, and their LRAD grants can partly be used to finance the land purchases and further farm development.

While the CPAs and the project area as a whole could benefit from additional infrastructure investments, the major need is for capacity building among the beneficiaries. For the entire membership of the CPAs this involves capacity building in joint planning and decision-making within the CPAs, conflict resolution, and financial management. Financial management skills are essential for all members in order to ensure accountability of the CPA leadership to its members, and for members to engage in economic activities of their own. Capacity building in other areas such as herd and pasture management, veterinary skills, machinery repair, vegetable growing and other enterprises can be focused on specific members with aptitude and inclination in these areas.

All capacity building involves a combination of formal training and learning by doing, in which the mentors and other skilled members of the communities play a major role. Timely phase-out of the mentors will depend on the success of the overall capacity building program. The mentors themselves can play an important role in capacity building not only by teaching their skills, but by progressively transferring proposal development and decision-making to the CPAs, their sub-committees and their employees.

If capacity development is slower than expected, it may become necessary for the project to find a mechanism to raise funds to hire a manager or consulting firm for the medium term to provide an oversight, advisory and training role for the CPA commercial herds once the mentor programme is discontinued. Alternatively (or in addition) those CPAs that still require mentoring could employ the mentors each paying a proportion of a small monthly stipend and then paying the mentors a commission on net profits. Cooperative production systems are very complex to manage, requiring that the communities develop effective systems and acquire the necessary technical and social skills required to manage them.

The project will require transport capacity once the mentors are unavailable to bring CPA chairman to monthly meetings and to provide access to emergency transport. Some of the CPAs without access to arable land could sell their tractor and purchase a truck, which they could then use to generate revenue by providing transport services to CPA members and Abrina 1518.

A major avenue to economic success of the Qedusizi/Besters CPAs and individual households is the increase in their herd sizes to the carrying capacity of their farms. This will involve increases in both the sizes of common herds as well as of individual herds for those not yet able to take full advantage of their stocking rights. The slowest option to the increase in the herd sizes is via natural herd growth, where all heifers are retained rather than sold, and sales are restricted to male weaners. More rapid options include the leasing of heifers from a financing company (a practice

that was common for new white farmers), credit or grant finance for additional cattle, or a combination of the three.

In the meantime, informal leasing of stocking rights from one member of a CPA who has too few animals to effectively use them to others who have larger herds has already commenced. The CPAs may need to codify these leasing arrangements, spelling out the terms and the responsibilities of the lessor and the lessee.

A major threat to the sustainability as well as the economic and social success of the households and CPAs is HIV/AIDS. Not only does Kwa-Zulu Natal province have the highest prevalence rate in South Africa, the Ladysmith area has one of the highest prevalence rates in Kwa-Zulu Natal (personal communication with T. Oats). It makes no sense for the households and communities to resettle, acquire skills, and receive support from government agricultural and land reform resources if they are later subject to high mortality rates. On AIDS Day, December 1, 2006, the directors of Abrina 1518 held a first meeting in which they were provided with an overview of the HIV/AIDS virus and methods of prevention and treatment. The group, as a result, initiated a program of HIV/AIDS training for the members of the Qedusizi/Besters community. The program was facilitated by Jill Felce, the former chairperson of the Uthukela District HIV/AIDS Coordinating Agency, who will also assist in the development of the program. Fortunately the Ladysmith area has the needed facilities and capacities for training, voluntary counselling and testing, and treatment in order to accommodate the government's new HIV/AIDS strategy, which aims to achieve universal access to HIV/AIDS services. The objectives of Qedusizi/Besters HIV/AIDS program will be to ensure that stigma is reduced or eliminated, that no uninfected member of the community becomes infected, and that those who are already infected get proper monitoring and timely treatment in order to avoid progression to AIDS and death.

The CPAs need to adapt their house rules to respond to their experience in their first year of operation, specifically to establish more effective conflict resolution systems and to reassess their leadership. In some CPAs the committee system is operating effectively, but in others the communities still need to develop more effective governance and management systems. Greater attention must be given to gender and youth issues to ensure that women, youth, and other secondary beneficiaries are more fully included in economic and social projects, sharing the benefits and responsibilities. This development is particularly important for those women and young adults who have invested their LRAD grants into the reform process. Although they may currently benefit through the household, they also need access to income-generating opportunities and a chance to interact more directly with the project.

During the informal focus-group discussions, it was clear that some of the women and youth were very interested in establishing farming and agri-business ventures in which they could participate. There was a strong feeling that new investments should not be limited to cattle production, but that instead these investments should make it possible for people to establish their own small businesses on the resettled land. These would be micro-enterprises that would enable their owners to gain experience and would be either individual or in partnership with one or at most two other people within the CPA. There was an understandable reluctance for the projects to involve the entire community because of the problems associated with sharing production activities as well as the social and time costs involved in managing relationships with large groups.

Access to CPA land for these ventures would need to be carefully discussed. In some communities it was felt that any individual activities should be restricted to the area allocated to

each *muzi* and that any activities outside the household plots should be considered communal. In these instances it may be necessary to consider increasing the land allocated for individual use. While there may be economies of scale in some production enterprises (e.g. poultry production), the disincentives in cooperative production and the diseconomies associated with managing a common property in addition to the greater human capital needed for large production, means that small projects are likely to be more relevant to the current skill levels and be more productive. These small enterprises would have the advantage of providing the owners with exposure to running a commercial enterprise which they could scale up as they gain experience. Cooperative access to inputs and output markets could be established to take advantage of the economies of scale without the loss of production incentives.

In addition to these improvements, sustainable use systems for the various natural resources need to be established as well, including, for example, duck hunting, thatching grass, firewood, clay for bricks etc.

An important priority in the process of fine-tuning the house rules will be to review, discuss, and if necessary revise the entry and exit rules for into the CPAs. Questions include whether and to whom a member who would like to leave can sell his house, inheritable usufruct right over the house plot, share in the common herd and in the communal land, and any usufruct right over arable land he or she might acquire over time. Would these rights be sold as an undivided bundle of rights, or could they be sold individually? If no existing member of the CPA would want to buy these assets and rights, what type of outsiders could they be sold to, and what would be the rights of the CPA to vet and approve the new members? If both parents in a household die and leave only minor children, how would the rights of these minor children to the assets and rights be safeguarded? If adult relatives were to move in to take care of their children, what would be their rights and duties?

## CHAPTER 2: CHOICE OF ENTERPRISE MODELS

### RATIONALE

South African Land reform, unlike land reform in Brazil, Colombia or Taiwan, has normally attempted to maintain the enterprises on the farms transferred to beneficiaries rather than divide up the land. It has done so using CPAs, equity sharing schemes, and strategic partnerships. The LRAD review of 2005, numerous field visits to land reform and restitution projects, demonstrate that the success rate of CPAs, equity sharing schemes, and strategic partnerships has been low, and that the most successful projects have been those creating small farms.

Large and complex enterprise forms create the well-known incentives problems for effort and savings which are associated with collective farms or labour-managed farms (Binswanger, Deininger and Feder, 1995). The lack of direct involvement and direct access to outputs and profits of the farms also means that the beneficiaries rarely see a direct benefit from their land reform project. The benefits may be dissipated in the diseconomies associated with the incentives issues, or they could be captured by a small group of the beneficiaries, and/or the strategic partner. Where the disincentives to production outweigh the economies of scale, the solution used by other countries to solve this problem has been to give up most forms of collective management in direct farming activities, and replace them by a break-up of the farming operations into smaller family units. Upstream and downstream activities such as input supply, processing, marketing, finance and technical support are split from the direct farm production and provided by separate enterprises or services.

The preference for maintaining large scale operations rather than dividing them up into smaller farms has been a preference of politicians, technicians, and sometimes even beneficiaries. Such preferences partly reflect a deep-rooted attachment to large scale farming for historical or ideological issues, and partly a real dilemma for South Africa: Farms acquired for redistribution, and especially for restitutions often contain a complex enterprise such as a dairy, a winery, tea, tobacco, sugar or sophisticated vegetable, flower, or other capital-intensive production. There is a great fear that turning them over to the claimants as a subdivided enterprise would lead to a collapse of the enterprise and the associated employment opportunities. Hence the emphasis on Communal Property Associations (CPA) and the search for alternative management systems such as equity sharing schemes, strategic partnerships, or contract farming.

The normal land tenure system in restitution or land reform projects is a CPA that has many similar features to traditional communal land tenure systems. For instance, it provides an inheritable usufruct right to the beneficiary that is normally not tradable to outsiders of the CPA or community. Usufruct rights may be in the form of individual allocation of land, housing or arable land, in the form of a general right to use pastures, woodlands and other natural resources, or in a claim to the profits from common enterprises performed on the land. What differentiates most CPAs from traditional tenure systems is that the CPA is often charged with managing a production or service enterprise jointly, whereas in traditional tenure system virtually all production activities are carried out by individual households or household members. As we shall see in the section on enterprise models, communal production is rarely an appropriate enterprise model.

Reluctance to subdivide farms and the relatively small size of the SLAG and LRAD grants have resulted in people having to form CPAs to buy farms. Failure to subsequently subdivide, in addition to the difficulties associated with collective or cooperative forms of production, could be a key factor in the failure of some 71 schemes in South Africa's Limpopo province. To reduce valuable land lying idle due to complicated ownership squabbles, Limpopo province has established twenty deregistration stations to enable people to surrender or exchange their titles for other kinds of grants, such as low-cost housing. At least 70 people deregistered in Tzaneen on the first day of the campaign in March 2006 (Radebe, 2006).

The use of CPAs for managing production can also place a burden on the community in other ways. Many of the CCCP schemes have provided few benefits to those that have been resettled and have resulted in declining productivity. The common perception has been to blame this on lack of capacity of the resettled farmers. However, these organizational structures would have had difficulty succeeding even with highly skilled and well-integrated groups with good access to capital. For group farming to succeed, very carefully implemented and soundly supported institutions are required.

With the high pressure for settling the remaining land claims under restitution, and achieving the 30 percent goal of redistributing land to black farmers by 2014, it is urgent that a wider menu of choices be considered in the future, and that such choices are informed by best practices from both elsewhere in Africa and around the world. The proposed sector-work responds to this urgent need.

## **OVERVIEW OF INTERNATIONAL EXPERIENCE**

International experience points to the fact that most operations with economies of size in agricultural production arise in upstream and downstream services to farm production that can be outsourced to separate enterprises rather than integrated with farm production. In farm production itself, economies of scale are usually limited to the farm size that an individual family can manage, often with recourse to some seasonal and perhaps a few permanent workers. The diseconomies that arise either from managing and supervision of a hired labour force or from incentives problems in communal production usually outweigh any economies of scale that may exist (Deininger, Binswanger, Frisvold, etc). The smaller units are also able to make adaptations to differences in land quality on a smaller scale, are able to use more of the land, and have greater incentives both to achieve higher quality and to significantly reduce administrative costs. The main advantage of small-scale enterprises is that individual benefits and costs of production are more directly linked on individually owned and operated systems, and that family members have a greater incentive to save and reinvest profits into the farm.

As economies grow and absorb labour from agriculture, so returns to agricultural labour need to increase, capital available for production increases and farm size will then need to increase. However, even at very high levels of development, there are only a few farm commodities that benefit from significant economies of size. Even in the USA average farm size is only 200ha, in Germany it is 30ha and in Italy 6ha. In South Africa agricultural success was very closely associated with large farms but, as in other countries with successful large farm sectors, they benefited from many distortions in their favour, including a long stream of government support and subsidies. As a consequence, white commercial farmers were able to acquire the necessary farming and business experience and had excellent access to education, information, capital, infrastructure, and social services. Despite policies geared to support large-scale farms, empirical

analysis in South Africa actually suggest an inverse relation between farm size and efficiency within the white farm sector (van Zyl, 1996) further supporting the case for smaller enterprises.

Communal production systems are difficult to sustain even with highly educated and motivated participants who have access to farming skills, education, and capital. There are some Israeli kibbutzim that have maintained a system that operates "from each according to his ability to each according to his need" but most have taken steps to link incentives to output. One of the factors in the failure of agriculture in Eastern Europe and the former Soviet Union during the communist era was the communal production system and the lack of flexibility. Findings throughout Latin America have shown higher returns from individual plots than from collective farming. Common property regimes in Africa have allocated inheritable use rights to individual families or clans, who in turn have combined production on common fields with allocation of individual plots of arable land to individual family members. Where population density is rising and/or market access has been improving, more and more of the arable land, and sometimes pasture and woodlands as well, is allocated to individual households. As inheritable usufruct rights become tradable within communities and eventually outside, the common property regime has become a regime of private property. As land resources become scarce they need to be more intensively and sustainably used and farmers with more secure tenure make higher "sweat-equity" investments that improve and conserve land than those with insecure tenure. Common property resources do however provide a social safety net for people where there are no state support systems.

The Mexican Land Reform started at the end of the Mexican revolution in 1920 and over the proceeding 70 years has transferred some 60% of the cropping land and 70% of the forests to 3.5 million beneficiary farmers. While the majority of people were organized into common property associations, the *ejidos*, some were organized into collective farms, and a small proportion returned to indigenous communities. Collective farming mostly failed and after 1980 most collectives were transformed into *ejidos*. The *ejidos* themselves allocated house plots and the arable land to individual peasant households in inheritable usufruct, and kept grazing land and forestry areas under communal ownership. Although the *ejido* legislation prohibited the sale of land even within the community, illegal sales became increasingly common over time. In the subsequent constitutional and legislative reforms, these restrictions were lifted, arable land became fully tradable, house plots were transferred from usufruct to individual ownership, and *ejidos* were given broad powers to rent out pastures, woodlands and other natural resources, as well as the capability to engage in joint ventures with private or cooperative enterprises in order to better utilize them. Finally, they were given the right to privatize all of their landholdings to their individual members, provided that a qualified majority of members decided to do so in a voting process supervised by the ministry of agrarian reform. In essence, *ejidos* now have full freedom to structure their social, economic, and enterprise systems using the widest variety of enterprise forms.

Just as in Mexico, collective agriculture has been a feature of many land reforms in the 20<sup>th</sup> century, and in most socialist countries it became the only enterprise form in agriculture, the Communes. Communes or collectives manage all land, capital and labour resources collectively. They incorporate a variety of upstream and downstream services such as input supply, processing, marketing, and are responsible for rural infrastructure, primary education, health services, and other social services. They compensate their members using a combination of base entitlement, work points, and profit shares. Incentives for quantity and quality of work tend to be minimal, as do incentives for entrepreneurial activity, proper maintenance of the capital stock, entrepreneurial innovation, savings and investment. In socialist countries, communes were

collectively required to produce specified quotas which were rigidly enforced, but there was very little incentive for them to produce the additional output beyond their own requirements.

The failure of collective agriculture and the communes has led to the progressive abandonment of these systems all across the world. The greater the scope of activity of the communes, the more difficult it has proved to break them up while still attempting to salvage existing production capacities and capital stocks, and to maintain equity in the allocation of the assets. This problem is similar to the problem of breaking up large commercial farms into smaller units within the context of South Africa land reform. We therefore briefly review the most successful case, the Chinese set of rural reforms, which were initiated in 1978 with the Household Contract Responsibility System (HCRS).

#### **Box 5: The Household Responsibility System in China**

Between 1950 and 1980 agricultural land was collectivised in China, and output was not growing effectively. In order to create better incentives, the HCR System was introduced, the agricultural marketing system was reformed, and producer prices were raised significantly. The household responsibility system was not imposed from above but evolved from pilot schemes. The communal land was subdivided, and households were given leases that gave full and inalienable use rights to the land for 15 years. Most animals were also allocated to individual households. Machines, larger livestock enterprises, other natural resources, and non-farm enterprises were contracted out to individual households or groups of households in return for rental payments and service requirements to the townships and the farming community. Individual farmers/households were each required to provide a quota of their farm output to the local government as a form of rental for the land and livestock they obtained, and were allowed to independently market and keep the proceeds of any additional output. The average farm size varies between provinces, but can be as small as 0.2 ha. More recently the use rights have been extended to 30 years, and a rental market for the land is allowed. This has freed people to search for job opportunities in cities while retaining a family home. These changes have encouraged those with a farming vocation to scale-up. The key to the success of the household responsibility system was the creation of strong incentives to work, produce quality output, save and invest. In some areas the local government still plays an important role in accessing inputs and the densely populated countryside makes marketing output easier than it would be for smallholders in most parts of South Africa.

In addition to the reforms of the enterprise models, the marketing system and the prices, China also allowed villages and towns to develop or transform existing enterprises into Township Village Enterprises (TVEs) in order to increase rural employment, incomes, and investment in rural areas. TVEs have taken over many of the upstream and downstream services to the farm producers and other organizational tasks undertaken by the local government. Since 1992 they have been restructuring, with most converting to joint-stock cooperatives (JSCs). TVEs have been remarkably successful, especially in the eastern and coastal areas where they have participated in the industrial boom that is ongoing in China. The precise enterprise models and contractual relationship with local government of these enterprises varies, but most have an innovative ownership and profit-sharing structure which allows flexibility and includes local government. Initially some of the TVEs ownership and/or management boards directly included local government officials or institutions, especially where dispute-settling institutions are still evolving and where there are few well-functioning market intermediaries, but in the longer term this has led to concerns of rent-seeking and a lack of flexibility. It is clear that adaptability is the key to success, and that no form or enterprise can be fixed in size or structure and remain competitive.

The HCRS resulted in a dramatic increase in output as the new system spread throughout China. The complete package of radical reforms in the rural economy resulted in a record surge in agricultural output and productivity that has lasted for over 25 years, made China free of famine,

and largely self sufficient in food production. It has also been responsible for the largest decline in poverty the world has ever experienced in such a short time (Chen and Ravallion). The gains from these reforms have slowed and China is now concentrating on developing higher value agricultural production and improved skills to maintain a growth momentum in agriculture.

Clearly, small farm sizes have not been a constraint to this enormous success of global significance.

In South Africa there are often no obvious ways to break larger farm enterprises up into individual farms without losing common processing, marketing, technical and financial services. And if the farm operation can be broken up, as in the case of contract farming for sugar or tea, there is still the question of the enterprise structure of the processing enterprise that is also involved in the marketing of the output and the supply of inputs and finance. Questions arise as to whether it should be sold as a private enterprise, rented to a strategic partner, turned into a cooperative, have the management contracted out, hire a consultancy to advise the CPA on management, be managed by the CPA as a whole, or set up as an enterprise rented by, or belonging to a sub-set of beneficiaries. The same question applies to the provision of other upstream or downstream services to the individual farm households that were either not necessary on the undivided farm or were provided as part of the commercial farm enterprise itself. Each of the different enterprise forms imply different relationships between the individual family farms responsible for the agricultural production and the service or processing enterprise that will have an impact on the eventual success of the land reform project as a whole. The appropriate choice of enterprise model depends on the product to be produced (field crops, tree crops, flowers, intensive or extensive livestock, timber or other natural resource products), the skills and capital required for its production, the economic and social setting, and the skills of the resettled farmers.

Contract farming is an important option where processing is closely linked to harvesting or where the marketing of highly perishable fruits, vegetables, or flowers are involved that have to adhere to strict quality and phytosanitary control standards. Contract farming refers to smallholders signing contracts with corporations, a cooperative, or large commercial farms to provide specified quantity and quality produce in return for an assured market, technical assistance and in some cases finance and access to inputs. More recently it has led to increased linkages between African, Asian and Latin American smallholders, as well as between consumers and corporations in industrialized countries. Contract farming provides the impetus for private sector initiatives as government support to agriculture declines. These contract farming systems have the potential for providing the means of integrating smallholders into new markets with new technology or exploiting them and creating increased economic and social differentiation within their households and their communities. The success of contract farming is related to many factors including the crop, the political and economic environment, the level of complexity of the contract, technology, and the relations between the 'actors'. Research on smallholder oil palm contract farmers in Ghana and the Philippines found that contract farming positively affected incomes and improved skills and control over farming operations. Newly recruited contract farmers or those lacking experience positively benefited from the decision-making support, market opportunities, and technology transferred to them under contract (Huddleston).

#### **GUIDELINES FOR THE CHOICE OF ENTERPRISE MODELS**

The review of the international experience suggests that choosing appropriate enterprises for splitting up large integrated commercial farm enterprises, and/or the provision of services to small

and medium farmers is a complex and dynamic process that requires participation, flexibility and adaptability to be built into processes and enterprises.

#### **Box 6: Guidelines for enterprise model choice for land reform**

**Subsidiarity:** Choose the smallest and simplest enterprise form that is capable to handle a specific farm production or service activity in a sustainable, competitive, and therefore profitable manner.

**Comparative advantage:** Choose an enterprise form that utilizes the skills, aptitudes and motivations of the members or owners in the management or supervision of the enterprise.

**Compatible incentives:** Ensure that members in a coop (or owners in a private company) and the enterprise managers have similar incentives to maximize and reinvest profits, and that all workers have strong incentives to work hard, produce high quality output, maintain machinery other capital items, and keep livestock, fruit trees and forests in good health.

**No or few absentee owners:** Link ownership of enterprises to management (as in the family farm) or to utilization of services, inputs or outputs, and avoid structures in which large groups of owners are only connected to the enterprise via a small share of profits.

The first three of these principles derive from efficiency considerations. The fourth, on the other hand, is included because it provides incentives and information to the owners/members to take an active interest in the enterprise, and therefore reflects the idea of economic empowerment of land reform beneficiaries. It would not be appropriate for widely held publicly traded companies, where many small shareholders simply try to maximize their financial gains without any interest in either the product produced or the management of the company.

#### **FUTURE DEVELOPMENT 2: NEW ENTERPRISES AND THEIR FORMS**

In addition to tackling the fine-tuning issues discussed at the end of Chapter 1, the members of the Qedusizi/Besters project have many ideas for expanding economic opportunities in the area and for themselves. The women and the youth are particularly keen that some of the farm resources are invested in projects they can manage. All the CPAs also have shares in a dairy farm being leased from DLA by Abrina 1518, the Section 21 Company that was established to manage the finances for the reform project. There are also plans to establish a joint venture feedlot with farmers in the area and to participate in a joint venture abattoir and meat packaging plant. There is a great need for skills development and confidence building to ensure that the communities are not overwhelmed by their more experienced partners. A few of the members of the community have been actively participating, especially the Chairperson of Abrina 1518 but more leaders are essential, especially to include women and youth leaders.

Some of the initiatives under consideration or already in the process of implementation:

1. A tractor and machine hire station.
2. The management of the construction of all of the houses
3. Vegetable production and marketing.
4. Two dairy farms that were proactively acquired by the DLA and that are leased to Abrina 1518. These farms currently are managed jointly by Commercial Farmers and a Community Committee, but operate with only 80 milking cows, far below their economic capacity of around 400 dairy cows.

5. A feedlot and feed mill to fatten the weaners produced by the CPAs and the white farmers, and to purchase and process all the feed needed by the feedlot and surrounding farmers. It would be established on the land of the dairy farm.
6. Participation in a joint venture abattoir and meat packaging plant, perhaps to be expanded into a joint venture to manage the entire value chain from beef from the farm to the kitchen.
7. Systematic marketing of goats.
8. Commercial maize and soybean cropping.
9. Poultry, pig and vegetable enterprises.
10. Honey, firewood, thatching grass, duck hunting, tourism ventures and other uses of the natural resources on the farms
11. Pasture leasing and the leasing of unused infrastructure (manager houses etc)
12. Sewing, brick-making and other potential non-farm projects.
13. Inyamazana Consulting, a private company that includes leaders, mentors, and the Chairman of Abrina 1518 as partners and that is already providing assistance to other areas who would like to apply a similar area-based approach to land reform
14. A financing arm for all these ventures vested in the structure of a Financial Services Cooperative.

The initial enterprise model for these ventures was the following:

The Section 21 Company, Abrina 1518 would provide the umbrella enterprise charged with the development of and support to all of these ventures. Each individual venture would be a cooperative. The larger ventures will include all the CPAs and many of the white farmers as members. Even the conversion of Abrina 1518 from a section 21 company to a cooperative was under consideration. The reason for the choice of the cooperative form for all of these ventures was that South Africa has a policy of promoting cooperatives as part of its black empowerment and economic development strategies. Given the poor record CCCPs in general, and of cooperatives in particular, in the area of farm-level production reviewed in the introduction this cookie cutter approach to enterprise form, irrespective of their function and involvement of individual members in these sectors, seems inappropriate. While service cooperatives have done better than production cooperatives, there are business forms other than cooperatives that should be considered. A review of the international experience has led to consideration of a far broader range of enterprise models. A brief synopsis of this review is therefore given here.

### ***Developing the Enterprise Models for the new Ventures in the Qedusizi/Besters Project***

For all the recently initiated, planned, or dreamed-of new ventures, enterprise models will have to be adopted that have the greatest chance of success. The review of the international experience suggests that this is a complex and dynamic process that requires participation, flexibility and adaptability to be built into processes and enterprises. When the enterprise and ownership structure of the machinery stock, the dairy farm, and the feedlot were compared to the international experience and the guidelines in Box 6, it became clear that the proposed enterprise structures needed to be adjusted.

In the case of the **tractor and machinery service pool**, the principles of comparative advantage and of no-absentee owners would have been satisfied, as many black and white farmers are thoroughly familiar with machinery operation and often also repair, and as all CPAs and their members need machinery services. On the other hand, the principles of subsidiarity and compatible incentives were violated, since rather than group ownership, individual tractors could easily be managed by the individual CPA or even by an individual member household of the CPA under the HCRS. Under the latter system the owner would be the CPA, and it would lease out the tractor to an individual household with a member with the aptitude, motivation, and mechanical skills in return for a specific number of service hours to the CPA. The tractor operator would be free to rent it out beyond these specified hours and could be given an option to acquire the tractor after a certain number of years, either for free or for a small price. The CPAs quickly decided to manage and own the tractors. When asked how they would replace a tractor or pay for repairs, they answered that they would sell cattle from the common herd to do so. Clearly in this case the enterprise model for the livestock facilitated the enterprise model for the tractor in the hands of the CPA.

The proposal of **managing the construction of housing** by the members of the Qedusizi/Besters community arises from a conviction that this would result in cheaper and better housing than the employment of outside contractors. The comparative advantage principle would be satisfied because many of the commercial farmers have experience with the management of construction activities, and the purchase of construction materials, and a number of the former workers have building skills such as carpentry, masonry, or roofing. The principle of no-absentee owners is satisfied because all settlers will benefit. This means that the precise enterprise and management arrangements for the large scale construction job can be decided based on the subsidiarity principle and incentives compatibility.

The Department of Housing (DOH) requires that a competent firm act as contractor for the housing program. An initial proposal was to have the purchasing, construction management and construction activities all provided for by Abrina 1518, which means that Abrina 1518 has to demonstrate that it can fulfil the requirements of the DOH. Major economies of scale in the housing program are likely to arise in the purchasing of construction materials, the management of the money, and the quality control function through Abrina 1518. On the other hand, construction of the individual houses provides no or few economies of scale, and whatever economies of scale there are, for example in contracting skilled craftsmen, or pouring foundations are exhausted at the level of each CPA. The subsidiarity principle therefore would suggest to further decentralize the actual construction management to the individual CPAs. Such decentralization would also improve incentives to supervise construction by the members in order to ensure the highest quality. Incentives issues also arise in the management of the construction materials. Clearly, purchase and storage should be handled by Abrina 1518. Once materials are transferred to the CPAs, they are subject to a high risk of pilferage. As long as they belong to Abrina, the CPAs and their members have little incentive to protect the materials from theft and other abuses. Therefore ownership of the materials should be transferred to the CPAs upon delivery to their farm, and the CPAs should be responsible for replacing any stolen or misused materials.

The CPA itself is an appropriate legal entity to manage the construction activities. It can set up a construction and contracting sub-committee that hires members and other skilled workers onto a construction team or contracts out specific construction tasks it cannot handle itself. Abrina 1518 could assist the individual CPAs with contracting out the pouring of concrete, plumbing and electric wiring if the CPAs cannot find these skills themselves. It could also review and approve

contracts going beyond a certain value, or provide no objection, and handle the disbursement for such contracts.

**Vegetable and/or chicken and small stock production and marketing** is of great interest to many women. An internationally successful model involves vegetable or chicken production by individual households or women with individual production and group marketing. This would be on individually allocated/sub-divided areas to each entrepreneur with good access to water. All the above principles are satisfied by the model. There are major economies in the provision of inputs, technical advice, assembly, cold storage, packaging, and marketing of the output. Contract farming with a private entrepreneur, or with a cooperative have both been internationally successful. Contract farming with a private firm sets up a conflict over prices for inputs and outputs and quality standards that are difficult to manage, and may result in low prices for the vegetables if there are few firms competing for contract farmers. One way to overcome this problem is to make the private company into a joint venture between the vegetable producers and a strategic partner, but the international and South African record for such joint ventures is not encouraging. Therefore a cooperative model is often chosen, despite the fact that the individual households or women have no comparative advantage in the areas of activity of the coop. This lack of skills can be solved by hiring a professional manager or marketing services.

In the **dairy farm** the land is still owned by the DLA and leased to Abrina 1518, but the intention is for the dairy enterprise to eventually acquire the land it currently leases. The current ownership structure involves all CPAs and therefore their members. The current option violates all four principles. It involves many more owners than needed to develop an enterprise. Few of the members of the CPAs and few white farmers have dairy skills. The members of the CPAs have little incentives for reinvestment of any profits into the dairy business. And they are unlikely to consume any of the products produced by the dairy farm or be involved in their management. In the coming year there will therefore be some changes in the enterprise structure of the dairy farm.

There are a number of options as to the way forward. A first question is how to involve the workers in the enterprise: Whatever the enterprise form, workers could be given an interest in the dairy by providing them with access to specified grazing rights and access to some arable land. In the case of a private for-profit company they could also become shareholders, along with others, and if a cooperative was chosen, they could become voting members, and at least some of the members would have comparative advantage. The second question is how wide the ownership or membership in a cooperative should be spread. Making all CPAs and several white farmers members, would violate the principles of subsidiarity, comparative advantage, and of no-absentee owners. In addition it would create incentives problems in terms of reinvestment of profits, as small remote owners would want to maximize distribution of profits rather than reinvest them. Clearly the enterprise should involve fewer members or owners. The third question is whether to form a for-profit company or a cooperative. Since most of the milk or milk products will be sold in the market rather than to potential members, a cooperative would find it hard to distribute its profits via rebates or price reductions, and this model is therefore not appropriate. In addition, it would create more incentives problems than a private for-profit firm.

A worker-managed dairy would solve the subsidiarity and comparative advantage problems and would not involve absentee owners. On the other hand it would face the classic incentives issues associated with CCCP, to which worker-managed firms belong. The option was considered but rejected at this stage, not only because of the incentives issues, but also because at this time there is not sufficient management capacity among the workers. A mentor has been put in place to try and develop this capacity and it may be a more viable option in the future, except for the difficulties associated with cooperative production.

An option that would satisfy all four principles would be to create a private for-profit company which would issue shares to a small group of CPA members with interest in dairying who would be willing to sell some of their own cattle and invest the proceeds in the dairy farm. If such an approach would have an insufficient number of subscribers to assemble the necessary capital, some commercial farmers could also subscribe. There are several ways to solve the problem of insufficient management skills among the CPA members: The first would be a hired manager, but hired managers never have as good incentives to maximize profits as owners. A second option would be to invite one of the commercial farmers to become a strategic partner and significant shareholder. A strategic partner could either be a long term solution, or could be a temporary solution under which a plan is made for the black investors to eventually buy out the strategic partner.

Discussions with the current and former dairy workers revealed some interest in a worker managed dairy although their principal interest was in obtaining secure rights to their homesteads and grazing for their cattle. Since they have not yet benefited from LRAD grants, they could use their grants to become owners or members in the dairy enterprise. However, some of the dairy workers would prefer becoming beef farmers in one of the existing CPAs. And the future dairy enterprise should also be able to choose its own workers, rather than being forced to take all that are currently present. An option to accommodate the wishes of the workers and to allow for the selection of the most appropriate workers, would be to set up a selection process open to all in which all those with aptitude and motivation for dairy could apply. If there are too many applicants, selection could be based on a point system that would reward prior dairy experience (i.e. comparative advantage), and other positive personal characteristics. The dairy workers wanting or having to become CPA members would use their LRAD grants to buy the interest of the current CPA members who were selected as dairy workers, and the latter would reinvest the proceeds into the dairy.

The **feedlot and feed mill** represent completely different options from the dairy farm, because virtually all members of the Qedusizi/Besters community would want to rely on the services of the enterprise by providing weaners to the feedlot, by purchasing feed from the feed mill, and possibly by producing inputs for the mill. In addition, they all have beef production skills. There are two enterprise forms that could be appropriate for the feedlot/feed mill: A privately owned for-profit company or a service cooperative. The privately owned company would be open to subscriptions from the CPAs, individual members and white farmers. A cooperative could have the same groups as members. The privately owned company would reinvest and distribute profits to its shareholders, while the cooperative would reinvest and distribute profits via rebates or price reductions for feed and price increases for the weaners or finished cattle. The members would benefit in proportion to the services they use. Therefore the three principles of comparative advantage, incentives compatibility, and no-absentee owners would be satisfied. The principle of subsidiarity, however, would be better satisfied by a privately owned feedlot and feed mill with fewer owners.

Incentives and involvement in the feedlot could further be improved by allowing owners or members to place their weaners onto the feedlot using a share feeding contract, in which the proceeds from the finished beef cattle would be shared between the feedlot enterprise and the individual farmer according to a formula. Such a contract could be offered along with the option for outright sale of the weaner to the feedlot.

In the meantime, Abrina 1518 has been approached by PBS Meats for its interest in a joint venture **feedlot, abattoir and packing house** that would involve the entire value chain, from the

hoof to the kitchen, so to speak. PBS Meats owns and operates an abattoir and packing house in Ladysmith and are also involved in the marketing of high quality beef to butchers and de-boning plants in Gauteng. Initial discussions with the Department of Trade and Industry (DTI) suggested their willingness to provide capital for the development of such a joint venture of the order of thirty six million Rand. DTI suggested that the joint venture should be set up to satisfy the needs for fattening, slaughtering, packaging and marketing of beef for the entire Uthukela District Municipality, and that the value chain should be organized in the form of cooperative enterprises for each of the stages of the value chain, the feedlot and feed mill, the abattoir and packing house, and the distribution and marketing of the output. In addition, there would be an overall management enterprise to which the individual enterprises would be affiliated and that would coordinate the entire value chain and secure financing.

While the development of an integrated value chain for high quality beef is of significant interest to all members of the Qedusizi/Besters community, there are many problems with this proposal which uses a cookie-cutter approach to the selection of enterprises. First of all, none of the members of the Qedusizi/Besters community have comparative advantage in running an abattoir and packing house, or a marketing and distribution company. Only those who fatten weaners and sell finished beef themselves would be users of the services of these enterprises. The remaining CPA members and white farmers, however, would not use these downstream services. Therefore there would be many absentee owners. These absentee owners would also have little interest in the reinvestment of profits into these enterprises. Finally the subsidiarity principle is violated because much simpler enterprise forms could be used.

An alternative would be to link the different enterprises in the value chain via a system of contracts. The feedlot would be a cooperative involving the members of the Qedusizi/Besters community. The abattoir and packing house and the marketing and distribution company could be one of two private firms held by PBS Meats and possibly some new shareholders which could include Abrina 1518 and white farmers prepared to invest capital. A financial service cooperative could be set up with individual black and white farmers, CPAs, and enterprises as members to assist all of those involved with the financing of their investments and operations. The financial services cooperative could also facilitate coordination along the value chain, or a separate management company could be set up with similar broad membership to ensure coordination among the enterprises and enforce contracts, but that would not be involved in the management of the individual companies.

We have already discussed the enterprise options for the feedlot/feed mill above. A privately held abattoir, packing house, marketing and distribution company(ies) would satisfy all principles. A financial service cooperative is a classic way to finance agricultural and agri-business operations with many successful examples including those in France and Holland. Since all members would be using its services, it has no-absentee owners. Profits can be distributed based on use of financial services. The principle of comparative advantage can be fulfilled by coopting a strategic partner with micro-finance and banking skills into the coop such as one of the commercial banks or a development bank. Different enterprise models for the management company would have to be compared using the four principles to select the most appropriate option. Tasking Abrina 1518 with this coordination function would be one possibility, although some of the stakeholders proposed for the joint venture are not all represented in Abrina 1518.

**Inyamazana Consulting** is a private for-profit company that involves some of the directors and mentors of Abrina 1518, and currently includes the Chairman and Vice-chairman of Abrina 1518. It provides consulting services to other farm areas in Kwa-Zulu Natal to capitalize on the experience of the Qedusizi/Besters area. Setting it up as a private partnership or company of

people with the aptitude for consulting is one enterprise form that has proven to be widely successful. All four principles are satisfied. However, it is important to concede that conflict of interest and incentives issues may arise to the extent that members of Inyamazana may also have paid or unpaid jobs in Abrina 1518, in the CPAs, or in the new ventures. Guidelines will have to be developed to manage any potential problems.

### ***Towards A Participatory Process For Enterprise Development***

During the field work for this case study it became apparent that enterprise development was a process largely driven by the managers of Abrina 1518 and the mentors, with little consultation or participation of the black farmers. Of course they would be consulted once options and proposals had been worked out, but this limited consultation has been insufficient. Weaknesses arising from this inadequacy included a rushed decision to establish a dairy farm before either the enterprise form or the beneficiaries of the enterprise had been defined, and even before the beneficiaries had been consulted about their specific interest in participating in the dairy enterprise. Running a single tractor and machinery service was one idea developed by the white leadership who were used to running fleets of machines rather than decentralizing them, and who were only subject to thorough consultation as a consequence of the fieldwork. The discussions about the joint venture for the value chain of beef did not involve consultation with the beneficiaries until after discussions with the DTI/DED had resulted in a specific proposal for the enterprise models to be used in the value chain.

This approach has the shortcomings that it puts all the work on a small and already overworked set of Abrina 1518 managers and mentors. Furthermore, it does not provide the beneficiaries with an early option to discuss their interests in new ventures. Nor does it utilize skills that could be present among the beneficiaries, or further develop capacities among them via a learning-by-doing process. And finally it does not allow them an opportunity to participate in the development of enterprise options.

An alternative approach would be to form a beneficiary sub-committee to investigate and develop all new venture options, involving the mentors, managers of Abrina 1518, or outside experts supporting them with analytical work such as the costing and profitability calculations of alternative options and the mapping of these options that could then be debated among the beneficiaries. Once a decision is made to seriously pursue one of these options, the same committee could be used to develop the implementation arrangements and supervise implementation, of course always with the help of Abrina 1518 staff, the mentors, or outside experts. In order to broaden the participation in decision-making beyond the directors of Abrina 1518, these committees should not consist primarily of the Chairpersons of the CPAs, but should involve members with a direct interest in the proposed ventures, such as youth, young adults, and women.

## **CHAPTER 3: LESSONS LEARNED**

### **DEVELOPMENT OF TRUST**

The main preconditions for establishing a successful bottom-up area-based approach were: well-developed trust between the main actors (beneficiaries, commercial farmers and DLA), strongly motivated and capable leadership in all these three groups, and participation of all stakeholders in the process. Limiting decision-making power to the direct stakeholders, rather than leaving it with supporting agencies, dramatically simplifies the internal decision-making processes, reducing transaction costs and time while improving the quality for oversight.

### **BENEFITS FOR ALL CAN BE LARGE**

In the case study we have shown that the expected benefits 3 to 6 of an area-based approach were indeed realized in the Qedusizi/Besters land reform project (more and better land acquired proactively, use of the most appropriate land reform process, in this case LRAD rather than labour claims, provision of upstream and downstream services, and involvement of commercial farmers and business people). It demonstrates that the farm labour and communities can benefit when white farmers are committed to land reform and are closely involved in the process. In addition to providing organisational, convening and technical skills, they can help to speed up the process and facilitate community access to land and to all the grant funds available. Government agencies, especially DLA and the municipality, benefit because they are able to more easily fulfil their mandate of transferring land and developing economically viable projects. The white farmers benefit because they are able to meet land claims and still maintain their own viability, stabilise land values, enhance the economic potential, and bring about more stable social harmony in the area. Local politicians benefit from the improved welfare of their constituents and the nation benefits because greater equity is achieved while at the same time increasing growth.

A crude indicator of the win-win benefits to the black stakeholders was discussed earlier in box 3: Two and a half times as many beneficiaries participated, and they together acquired 2.6 times the amount of land as had been claimed by the labour tenants. This was possible because all the stakeholders, including the white farmers, agreed early on that the program should benefit all the workers and their adult family members rather than only those who were eligible for a labour tenant claim. Those eligible for labour tenant claims gave them up and instead opted for LRAD grants, to which all adults were entitled. They benefited significantly from more effective access to grant funds and in the availability of skills in the purchase of higher quality cattle and inputs at lower prices.

Another indicator of the win-win benefits is that, one year after implementation, social relations between the CPAs, the white farmers, mentors, and government agencies involved in implementation are good. This is despite the need to balance conflicting demands and frustrations with delays, and the management overload coming from the complex grant structures and fiduciary requirements. Another benefit to all is also the reduced incidence of stock-theft and the sharing of the costs of protection. A private security company is providing services to all the CPAs and most of the white farmers in the area.

The main preconditions for establishing a successful bottom up area-based approach were the development of trust between the main actors (beneficiaries, commercial farmers and DLA), strongly motivated and capable leadership in all these three groups, and participation of all

stakeholders in the process. Limiting decision-making power to the direct stakeholders (rather than to directors from supporting agencies as proposed in the current version of the SIS strategy) dramatically simplified the internal decision-making processes and made it independent of bureaucratic interference.

However, the expected benefits 1 (integration of land reform into municipal plans) and 2 (coordination of different agencies at municipal level) did not materialize. The participation of the municipality in the process was minimal, it provided no finance, and the integration of the resettlement program into the municipal development plan neither occurred nor was necessary for its implementation. While the participation of the main agencies as non-voting members of Abrina 1518 helped, the burden of coordinating the inputs from the agencies was carried largely by Abrina 1518 itself. Coordination remained poor because of the extreme fragmentation of grant structures which was at the root of virtually all implementation difficulties encountered related to the extreme fragmentation of the funding. The difficulties were aggravated by the imposition of inappropriate public sector fiduciary rules on Abrina 1518 for the implementation of the grants.

### **EFFECTIVE LEADERSHIP AND ADVOCATES**

The Qeduzi/Besters program required a huge leap of faith by all participants. After all, they had no models to go by, and needed to invent a vision, a process, and all the associated implementation institutions and mechanisms. This would not have been possible without the presence of gifted and committed champions in each of the stakeholder groups (the DLA, claimants and white farmers<sup>17</sup>). The skills of these champions included the development of a coherent vision, the ability to build consensus within their own stakeholder groups, and the trust they built up among each other and maintained through an excruciatingly difficult process and in the face of many administrative barriers. The tenacity of the champions is reflected in the continuing vibrancy of the project and its proposed expansion in terms of land, people, and enterprises. It is not clear whether such gifted leadership can become available spontaneously in other settings to which the approach is applied, and it may be necessary to assist in motivating and training leadership in other settings.

### **SUFFICIENT LAND BECAME AVAILABLE**

Land for sale for the LRAD program was made available in sufficient quantity by the farmers within the Besters locality itself. Some of the land came from farmers that wanted to leave farming, but most came from the sub-division of farms of owners who were prepared to release un- or under-utilized land. The land acquisition could therefore be executed speedily using the willing-buyer-willing-seller principle. And land continues to be made available for the currently planned expansion of the CPAs that have inadequate land and for the additional beneficiaries. In the context of the negotiations, farmers were much more willing to accept the government's assessment of the value of the land because government provided them with a commitment to reduce payment delays and provide specific payment dates. The fact that land improvements were separately valued and paid for also helped.

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<sup>17</sup> Zweli Mbhele and James Luthule community members, Donovan Smythe and Roland Henderson white farmers in the Besters area and Promise Makhanya and Mdu Shabane DLA Officials, were the key champions throughout the process although many others were involved.

## **INVOLVING BENEFICIARIES**

Involving the beneficiaries in all processes of decision-making is essential. An early insight was that the beneficiaries needed to be able to meet separately, without their mentors and other white farmers, to determine what they really wanted and to come up with proposals. An initial request of the beneficiaries to meet separately was first interpreted as a lack of trust by the white farmers. But they soon learned that the beneficiaries were able to come up with better solutions to difficult problems if they could work on them independently after having been fully informed on the issues and main options.

Beneficiary initiative and participation in decision-making was not as good as it could have been. There was no thorough assessment of the needs and aspirations of the beneficiaries at the start of the program, and in particular the needs and aspirations of women and youth are only now coming to the fore. The white farmers and mentors usually took it upon themselves to come up with important proposals, such as in the development of the farming and enterprise models, the management system for farm machinery, the acquisition of the dairy farm, or the vision and initial negotiations for the development of additional enterprises. In many cases it would be more appropriate to form subcommittees of the beneficiaries and involve them much more in the actual elaboration of initial options and proposals, rather than present them with the already worked out proposals. And the mentors may still play too large a role in the management of the farms of the CPAs. Delegating more responsibility to subcommittees and to the CPAs themselves would also reduce the enormous work load of the management staff of Abrina as well as the mentors.

The design of the initial survey by LIMA Plan also could have been used to significantly improve beneficiary participation. In addition to information on households, it should have included information on the needs, aspirations, and capabilities of the beneficiaries. How this could have improved the design of the program is illustrated by the following example, in discussions with beneficiaries it became clear that, for many of them, their primary goal is to obtain a secure household plot, to retain employment opportunities, and to become involved in various agro-enterprises. Others were keen to be involved in farming and some are already negotiating to lease grazing rights and exploring options to access more arable land. Alternative forms of settlement that would meet the aspirations of these different beneficiary interests could have been less land intensive and allow those with the interest and ability to become farmers, access to individual small and medium farms. The others could be provided with other opportunities in agro enterprises. A continuum of farm sizes could have been established with small, medium and larger farms. However such an approach would have involved addressing equity issues. Additional research on how to reconcile these conflicting visions is therefore required.

It is clear that in future area-based land reform projects beneficiary participation can be strengthened further by delegating more decision-making powers to them from the start. In this process beneficiaries, as well as commercial farmers, can outgrow master-servant relationships.

## **EFFECTIVE CAPACITY DEVELOPMENT AND THE KEY ROLE OF MENTORS**

Capacity development should involve a combination of mandatory training, specialized training, and learning by doing. Capacity development is not only important for the direct stakeholders of the program, but also is critical for all indirect stakeholders involved in the reform, resettlement, and enterprise development processes, including government and local government, farmers associations, and other agents. During interviews, all stakeholders expressed a very real need for

access to international experience and all made a point of requesting advice and information. The specific recommendations for capacity development are as follows:

- Mandatory training for all direct stakeholders should include team building, meeting and negotiation skills, conflict resolution, record-keeping, and financial management skills. All these are essential for the overall program development as well as for the planning, management and accountability functions in each individual CPA. Complementary adult literacy programmes are very important for most members as well.
- Specialized training would be needs-based and would be associated with specific functions or enterprises in which individuals or groups of individuals are involved. Examples already executed include training in sowing skills for the cultivation of maize, irrigation scheduling and livestock practices for beef cattle. With the development of a broader set of enterprises, the specific training needs will increase further. Mechanisms need to be developed to select the trainees using a combination of self-selection processes based on interest as well as evaluations of objective criteria of aptitude. But apart from these technical skills, broader skills in enterprise management and leadership skills also need to be developed.
- Learning-by-doing is part of the entire process. It can be enhanced by broadening the groups of people that actively participate in the development of options and plans via the formation of sub-committees for dairy development, vegetable production, feedlots, machinery services, etc. These committees would then also be involved in the supervision of the respective activities.
- The mentors and other facilitators who are able to nurture the project and assist the CPAs to evolve into effective social and farm-business management units have an especially large role in ensuring effective learning-by-doing. The Qedusizi/Besters experience needs to be made more widely available and guidelines to mentors could be drawn up that would assist other areas involved with land reform projects. These guidelines need to include both what the mentors should be doing as well as offering some advice on how to avoid pitfalls and reduce tensions, which have arisen periodically. An important principle of these guidelines would be that capacity development is best served if mentors function more as facilitators and helpers rather than as initiators and managers. Such an approach also reduces the potential for conflict. While the role of mentors as initiators and managers is likely to be needed at the beginning of the process, the shift to facilitators and decision helpers should occur as early as possible. The guidelines would complement technical manuals which could assist in the formation of CPAs, house rules, different farm production systems and manuals on relevant infrastructure development.
- Training and learning-by-doing should be made an explicit component of an overall land reform program and for each of its sub-projects, with monitored milestones to be achieved. This means that the resources for training, facilitation, and mentoring must be made part of the budget for the overall process and for individual activities, that financing should be flexible to adapt to changing circumstances and needs. Some of the training funds should be centrally managed, in particular for mandatory training and the employment of mentors and facilitators, and other funds should be managed by the CPAs themselves in order for them to purchase specialized training, to pay mentors and facilitators, and to have greater overall control over meeting their needs.

- Broader dissemination of information on land reform experience locally and internationally, workshops and seminars for training and team-building for the indirect stakeholders is important to allow for cross fertilisation of ideas both to speed up land reform and make it more successful.

### **DYSFUNCTIONAL GRANT STRUCTURES**

The current structure of grants that requires separate application and management of each specific component of the land reform and farm development program is highly dysfunctional, both from the perspective of the communities involved as well as from the perspective of the administrators of the grants. The effort involved in dealing with so many separate grants is immense for both parties, and there is no way that the components can be coordinated for a smooth and rapid implementation of the program, leading to large economic losses associated with forgone opportunities and waste, and endless frustrations on the part of all stakeholders. It is time for the government to develop a unified grant for the entire land reform process that covers land acquisition, infrastructure and farm development, housing, start-up cost and technical assistance. Such programs are operational in Brazil, Malawi and other countries, and resettlement under these programs tend to be implemented much more speedily and with greater economic impact than resettlement programs in South Africa. It is unlikely that land reform can effectively be scaled up in South Africa without moving to a unified grant structure.

More recent experience with CASP funding has highlighted the importance of government departments being guided by the principles of subsidiarity, comparative advantage and compatible incentives. Some R2 million was awarded by government to a private contractor to provide ploughing services for planting maize in all the CPAs in Qedusizi-Besters for the 2006/07 season. The ploughing, however, was too late and there were problems with the contractor. These two complications combined with the drought to result in very poor returns from the maize planted. The value of maize produced is estimated to be less than 10% of the sum invested by government. If these funds had been given directly to Abrina, the community could have used their own tractors, bought seeds, planted them, and still had funds available to invest in the management of the crop and other communal enterprises. The planting would not have been as delayed and, despite the drought, yields would have been much higher, as can be seen with the maize planted by households for home consumption. In order to ensure efficiency, responsibility for the funds should be passed from government to the Section 21 Company that in turn would be accountable for the expenditure directly to their members and to government through the office of the Auditor General.

### **INAPPROPRIATE FIDUCIARY REQUIREMENTS**

It is highly inappropriate, despite what was done in this case, to impose the fiduciary requirements for procurement and accounting of public sector institutions on communities and their coordinators such as Abrina 1518<sup>18</sup>. This approach used to be common among grants to communities all over the world, and has increasingly been replaced by alternative arrangements initially developed for community-driven development programs of the World Bank. Under these rules, ownership of the funds passes from government to the communities upon disbursement of the money, which is usually carried out via tranches. This means that accounting

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<sup>18</sup> This creates uncertainty and risk for all "we have been told that the Auditor General will come to see our books but no procedure had been established. We run a real risk of being tripped up by some archane policy issue after the event unless we know the procedures in advance".

officers of the government are no longer accountable for how the money is being used, but that accountability is instead shifted to the leadership of the communities, who in turn are accountable to their members. Simple but effective procurement, disbursement and accounting rules have been developed to which the communities must adhere, with differential requirements for petty cash, small and medium expenses, and large contracts. Communities are subject to ex-post control for the adherence to these rules, except perhaps for large contracts or expenditures that are not subject to objection by either the government or a fiduciary entity that is appointed by the government. In such large scale programs, auditing of communities is carried out via a random sample of the communities. However, the size of the sample in these cases are important, as the smaller the proportion of the communities sampled, the smaller the grant size that is disbursed to them. Heavy penalties are imposed if the rules are not followed, with the extreme case involving denial of further tranches of disbursement and ineligibility for additional grants.

The Public Finance Management Act and the Municipal Finance Act of South Africa already allows for such procedures, but they are rarely utilized. While systematic application of this approach to fiduciary issues requires a significant up-front investment in government capacity, the savings associated with the procedures in the long run are significant, and implementation progress of such programs is much faster than under the South African land reform in general, or the Qedusizi/Besters case in particular.

#### **FINE-TUNE INSTITUTIONAL AND FINANCIAL ARRANGEMENTS**

Institutional and financial arrangements required for the planning, negotiation, and the subsequent management of the land reform and enterprise development programs need further fine-tuning, including the following measures:

1. The Planning Grant for land reform needs to be made available much earlier in the process.
2. While the initial consultations for the initiation of an area-based land reform program can be managed by a committee of stakeholders, the stakeholders should be able to establish a not-for-profit, Section 21 company earlier in the process than in the case of Qedusizi/Besters. Such a legal entity is required for the management of any government grants, including the planning grant. Early establishment would provide the opportunity for the company (and thus the direct stakeholders) to have direct control over funds allocated, would provide government with a body responsible for the disbursement of the funds, and would provide a mechanism for employing process managers, mentors and technical assistance.
3. Abrina 1518 ensures adequate representation of the stakeholders. The organization draws its voting directors exclusively from the direct stakeholders, the claimants (in the majority), and the white farmers. The DLA, the Municipality, the DA, and other relevant government agencies are non-voting directors.
4. The Qedusizi/Besters' experience shows that a Section 21 company can provide a transparent mechanism for financial management, reducing the involvement of DLA in direct purchases for communities while allowing them oversight through their attendance of the monthly Section 21 meetings and financial control through company auditors and the office of the Auditor General.

5. Beneficiary communities should be provided with technical assistance from an NGO or a consulting company for the negotiations, their own planning, and for the implementation phase. Although the DLA is often used to represent the interests of the claimants in the land reform process, if they are to achieve their mandate of redistributing 30% of the land by 2010, it would be better if they could reduce their need for intensive involvement, play an oversight role instead, and employ agents to act on their behalf.
6. Communities should be able to choose their own agents (possibly from a list of agents accredited by the DLA) and the community should be responsible for the continued employment of the agent, dependent upon satisfactory completion of established milestones. While this was originally official policy it was never implemented and now some DLA agents claim that the policy is discarded and indicate that the DLA will continue to represent the claimants' or community interests. This is an issue that needs to be urgently clarified as it undermines the ability of DLA to fulfil its mandate by 2014. It places additional burdens on their staff and it can also, in some instances, increase tension and delay the process where farmers, labour-tenants, and restitution claimants could often resolve the issues themselves if encouraged to do so.

While this fine-tuning will assist greatly in future ventures it is also clear that an adaptive management approach needs to be implemented so that institutional structures, procedures, business models and business plans can be regularly reassessed. The section on fine-tuning deals extensively with these issues. It is not possible to anticipate all the problems that may arise, and therefore there needs to be flexibility built into the projects. The business plans and the house rules need to be regularly reassessed to see that they are promoting growth, reducing conflicts, and meeting the needs of the people in the communities. It may in fact be prudent, and even necessary, to designate specific meetings for reassessment throughout the year. In addition, the business or farm plan needs to be able to adapt to reflect fluctuations in demand, weather, and the capacity of the CPAs or settlers to implement the plan.

### **TOWARDS A ONE-STOP SHOP FOR LAND REFORM AND ENTERPRISE DEVELOPMENT**

The process of buying, transferring, and settling land, as well as the subsequent development of additional enterprises, is very complex and time-consuming. The process, however, can be streamlined if all the agencies involved in a resettlement project function as a team. For this to happen, the level of the district municipality is the natural locus for such coordination, as most technical and financing agencies are represented at that level. However, in the Qedusizi/Besters case, both the district municipality, Uthukela, and the local municipality, Emnambithi /Ladysmith, in which Besters is located had too little involvement and made no contribution to the financing of the program, not even in the area of basic infrastructure. The Besters area was a relatively small and homogenous area, and few problems emerged because of the absence of a deeper involvement of the municipality. If the program had involved a larger area and more diverse farming systems, a more proactive role of the municipality in the process would have been essential for the development of an overall area framework that would be incorporated into the Municipal Development Plans and municipal budgets.

The departments of agriculture and land have recognized the need for a far more coordinated approach not only among themselves, but also with other agencies. They are working on a proposal for a one-stop shop for land reform and post-settlement support. The situation in Besters suggests that the best approach calls for the following elements:

1. All government departments involved in land reform should be located in one Area Land Reform office in Ladysmith serving the Uthukela District Municipality. The area land reform office would include representatives from the municipality and the following national departments:

Department of Land Affairs  
Restitution Commission  
Department of Agriculture  
Department of Economic Development/Trade and Industry  
Department of Housing

2. These departments would have staff working under the authority of their respective central office, but with delegated powers including the ability to spend pre-defined budget allocations per project.
3. The team would operate as a project management team under the leadership of a professional project manager, possibly contracted from the Private Sector.
4. All staff would be located in a common building allowing for easy access to all departments. At present, the DA and Restitution Commission officials responsible for the Besters project are located near Pietermaritzburg ,making coordination difficult.
5. The team's performance would be judged according to the success of projects which are brought into existence and not only on the hectares of land or the budget spent, as is presently the case.
6. Decision-making set at a maximum budget level would be possible without the necessity of entering the lengthy LRAD and Restitution processes which are presently in existence. These processes currently take at least 10 months to complete.

Implementing the proposed one-stop shop, along with a unified grant, more appropriate fiduciary, and institutional and financial arrangements will be critical in order to scale up the current programs.

### **ENTERPRISE FORMS AND ENTERPRISE DEVELOPMENT**

While land redistribution and farm and enterprise development can be analyzed sequentially, as we have done in this paper, in practice planning and development of the enterprise institutions are simultaneous processes that have to be managed by stakeholders. The trust and skills necessary for effective negotiations about land are the same as those needed for negotiations about farm and enterprise development. The case study considered in this paper clearly demonstrates these points.

Of course, it has long been recognized that the allocation of land is only the first step in land reform, and that the subsequent farm and enterprise development is equally important. The administrative structures, the fragmented grants, and the established institutions need to support the simultaneous processes that are involved in land reform. Only the reforms discussed under the heading of a one-stop shop can reform these dysfunctional arrangements.

Farm and Enterprise Development should broaden economic opportunities for all, especially for youth, young adults, and women. It will likely involve extension of economic opportunities for

direct stakeholders from farm production to value-added activities, marketing, input supply, and finance.

The choice of appropriate enterprise forms for the farms and each of the associated enterprises is critical for their success. With respect to farm production, the favoured option will usually be individual household production. This may include the incorporation of common enterprises as well, such as the commercial herd and common pasture management in which there are economies of scale.

For capital and skills-intensive production activities with significant economies of scale, such as dairying, and for value-added activities and upstream and downstream services, the enterprise model options are much more flexible. *A cookie-cutter approach to enterprise model choice, such as cooperatives or strategic partnerships cannot account for the many factors that should influence the choice of enterprise models.* Based on international experience, we have derived four principles to assist in the analysis of these choices: subsidiarity, comparative advantage, incentives compatibility, and no-absentee owners/members. We have applied these principles to seven enterprise model choices that have already been confronted by the Qedusizi/Besters stakeholders. We found that widely different enterprise forms and/or contractual options are likely to be appropriate for each of these production or service activities. The analysis of these options requires an intensely participatory process in which those most interested in the respective activities are deeply involved. The analysis also requires external inputs from mentors, managers, or other experts. However, it is important that these actors function as facilitators of the process, and not as the drivers or decision-makers.

If any enterprise model leads to unsatisfactory results, it should be subject to immediate and frequent reassessment and, where necessary, additional capacity development, fine-tuning of the rules, incentives, and penalties, or restructuring of the enterprises into a different form can be considered. In many cases this may involve restructuring larger enterprises into smaller or individually-run operations, or even into household responsibility contracts.

## **MONITORING AND EVALUATION**

In the Qedusizi/Besters case there was no formal monitoring and evaluation system. In order to evaluate the effectiveness of reform processes, the evolution of the project as a whole, the success of individual enterprises, and the capabilities of conflict resolution mechanisms, there needs to be a baseline study carried out of all the farms and households, the CPAs and their enterprises, and new enterprises in the Qedusizi/Besters project. Only through an encompassing current evaluation can progress be effectively monitored and the evolution of the project analysed. Follow-up surveys and case studies will be required to see what effect the evolution of new institutions has had for both existing and new enterprises and on sustainable development and resettlement.

## **COST-EFFECTIVENESS AND SUSTAINABILITY**

To date, the proposed government grant resources (including the housing grants of over R30 million if approved) amount to R62.3 million or approximately R60,000 (US\$8,600) per adult beneficiary. Actual transfers up to December 2006 (land purchase, LRAD settlement grants, and CASP funds dispersed) amounted to R24.34 million or approximately R24,000 (US\$3,400) per adult beneficiary. This compares with US\$8,000 per beneficiary in Brazil, a middle-income

country with similar inequality problems as South Africa, and US\$1,200 in Malawi, one of the poorest countries in the World.

Additional grant financing could be forthcoming from DTI for the development of the beef value chain. As of yet, no credit finance has been involved and the beneficiaries have not provided any unpaid labour (although they did contribute some of their own capital in the form of cattle). The sale of the first communally produced weaners, which generated noticeable income in some of the CPAs, has allowed several CPAs to develop mechanisms designed to replace government grants for self-financing of variable costs (particularly workers' wages) and investment costs.

The better-organized CPAs, which were able to invest early in a communal cattle herd and in other enterprises including maize and soyabean production, made gross profits in the first year of operation amounting to between R250 and R25,000 per *muži* (Inkuthu CPA), with returns as high as nearly R5,000 per adult in the Inyakayka CPA. A total of R1,008,000<sup>19</sup> has been earned by the shared enterprises on eight of the 14 CPAs. These positive results have generated confidence and some of the other CPAs will be selling cattle in June. The drought is also stimulating some CPAs (including some that have already sold weaners) to consider selling some of their herd in order to reduce degradation of the range. Those CPAs that have not yet established a viable communal herd will probably have to wait until February 2008 before they are in a suitable position to generate revenue from weaner sales. A number of CPAs are leasing out grazing and initiating other communal enterprises. This communal revenue generation is important, as it is required to pay the workers' wages and variable costs that are no longer being met by government grants. In addition there are a number of individual and small group market-oriented projects beginning to materialize (vegetables, chickens, sewing, building etc), which will in the future form a significant role in the generation of livelihoods and contribution to the local GDP. For instance, most households grow crops of vegetables and keep small livestock for home consumption. *Anecdotal* information indicates that this contributes significantly to self-sufficiency although there is no statistical record of these activities. Of particular interest, however, is the formation of Phaphamani Womens Cooperative, to provide labour in the area and the coop has recently won a contract for over R2 million from a large construction company (Grinaker/LTA) to provide fencing on their subcontract to Eskom.

As to be expected, those CPAs that started off with more individuals owning cattle appear to have been more successful in producing income in the first year of operation. This is probably also influenced by a number of other factors including the input from the former farm owners, some of whom are closely involved with their resettled workers. An assessment of the factors leading to early success, as well as the sustainability of this success, will be extremely useful to track over time.

The investment in providing grants for resettlement is worthwhile if it results in the long term viability of the resettled families and farms. The actual success and returns to the investment can only be assessed in the future via rigorous impact evaluation. It is clear, however, that continuation of complete dependence on grants not only would be fiscally unsustainable and would prevent the scaling-up of the approach, but would also increasingly foster a dependency syndrome in all the direct beneficiaries. As part of the consolidation of the financing mechanisms of for land reform, the DLA and DA, together with organizations such as Inyamazana and existing rural lenders, need to consider the incorporation of credit components into the financing plan of new settlements, the fostering of own contributions in the form of labour, local materials

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<sup>19</sup> See Annex 4 – where a postscript column has been added showing the income earned by the CPAs in the first year of operation.

and other capital, and the development of mechanisms and rules that would lead to sustainable self financing of operating and reinvestment costs.

Some social services are provided to labourers by white farmers, and in urban areas people are close to municipal services. In rural areas, the distances involved make it important for communities to have access to basic medicines and transport in case of emergencies. The CPAs will need to undertake some of these responsibilities and see that there is reasonable provision made for access to education, health, water, sanitation, and waste management. The project design has ensured that children would be able to access existing schools and has also begun work on water provision services, and will establish better sanitation when the housing projects are implemented. The CPAs also need to become actively involved in capacity-building and lobbying Abrina 1518 to make provision for training. They need to encourage individual economic activity within the CPA as well as supporting their communal enterprises. They need to recognise the importance of the increased wealth of their members to the sustainability of their CPA.

This project has been a success in acquiring and settling land in an integrated way that has enhanced both economic and social stability in the area by increasing the amount of land and number of people benefiting from land reform. It has also been successful in beginning to empower beneficiaries, building both social capital and personal skills. Its sustainable economic and social success can only be determined in due course when the systems are fully operational. A review of this project needs to be undertaken in five to ten years time to measure its impact. In order to achieve this impact evaluation, however, a baseline survey needs to be undertaken now providing information for future comparison.

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**Annex 1: Agreement between BFA and DLA on the way forward.**

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3371

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036 6354054  
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2 September 2003

Provincial Director  
Dept of Land Affairs  
Private Bag X9000  
PIETERMARITZBURG  
3200

**ATT : MDU SHABANI & Colin Pillay**  
**FAX : (033) 394 9727**  
**TEL : (033) 355 4300**

**UTHUKELA DISTRICT – STRATEGY FOR LABOUR TENANT CLAIMS**

We confirm the following arrangement made over the last few weeks between Mr Roland Henderson and Mr Colin Pilyay :

1. All landowners were requested by the Dept of Land Affairs to permit LIMA representatives to visit their land in order to conduct interviews with persons living on their land who had made “labour tenant” claims as well as to conduct interviews with the “heads of household” of those households on their land where a “labour tenant” claim had not been made.
2. The information collected by the LIMA representatives would be submitted to the so called “cluster” committees which would “negotiate” the settlement of the claims to the satisfaction of both landowners and “labour tenant” claimants.
3. We are keen to ensure that the resolution of land claims proceeds as swiftly and as amicably as possible, however we believe that there should be a commitment from you and your department to ensure that the concerns and needs of the landowners are not overridden in the process. Hence we believe that the following proposal should find acceptance with you.
4. If you wish for landowners to participate in the LIMA information gathering as well as your departments proposed negotiation processes, you will need to commit your department to establishing all the proposed negotiation structures, such as “farm” and “cluster” committees before any section 17 notices are issued to landowners. We furthermore propose that negotiations start and that Section 17

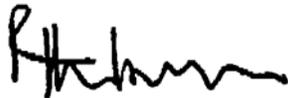
notices are issued with the full agreement of the landowners and in a spirit of good faith during the negotiation process. In order to meet your Ministers directive, these structures will have to be established and negotiations start well before the 31<sup>st</sup> of December 2003, otherwise the issuing of the section 17 notices will not be completed by the 31<sup>st</sup> of December 2003.

5. Where landowners did not agree that LIMA should have access to their land such landowners would be issued with notices in terms of section 17 of the "Land Reform (Labour Tenants)" Act number 3 of 1996 during the period from the 1<sup>st</sup> of September 2003 to the 31<sup>st</sup> of December 2003.

Please could you confirm in writing by return of fax that you accept the above as being an accurate record of our agreement reached with you by Mr Roland Henderson. Once this confirmation has been received we will confirm the arrangement with our members.

We take this opportunity to confirm both your and the Restitution Commissioners commitment to resolve all claims received for land whether they be "labour tenant", "Restitution" or "occupier" simultaneously and speedily.

Yours faithfully



Roland Henderson  
Chairman Besters Farmers Association

Mdu Shabani

Colin Pillay

## **Annex 2: Land Identified for Purchase**

The following farms were identified that satisfied the criteria

<b>Farm name</b>	<b>Owner</b>	<b>Area (1-5)</b>	<b>Area (ha)</b>	<b>Detail</b>
Maitland & others	G. Smythe	3	2238	Excellent farm, grazing, arable, access
Nooitgedacht	F de Jaager	5	1169	Excellent farm, grazing, arable
Rooykop	F de Jaager	5	277	Excellent farm, grazing, arable
Rooykop	Absa	5	2200	Present Project
Zaaifontein B	Bouwes	5	500	Partially occupied by LT
Wintershoek	Pieterse	5	1800	Excellent farm, grazing, arable
Skurwepoort	C.Campher	2	500	Not confirmed
Trekboer	Teevie	4	600	Not confirmed
Union	C.Campher	2	500	Grazing, good access
Maritzdrift	R. Sharrat	4	2000	Partially occupied by LT.
Kleinfontein	A. Green	1	50	Part of commercial farm
Zandspruit	E. Oates	2	150	Complete sale to DLA.
Helmsley	C. Mostert	2	50	Workers clustered
Walkershoek	I. Kirkness	1	2100	Excellent grazing & access.
Zaaifontein	HW Wessels	5	2000	Excellent farm, grazing, arable Partially settled by LT.

### **Summary of Available Land in Besters Farmers Association Area**

<b>Type of Land</b>	<b>Area</b>	<b>Notes</b>
Presently partially occupied	3500	This represents the settled area & remainder of farm can be used to form Agri-village or sold to commercial farmers.
Commercial	5590	Land available on willing-buyer willing-seller basis.
Commercial & clustered	700	Presently commercially farmed.

### **Annex 3:      *Resettlement Projects Proposed in Besters***

It was originally proposed that different resettlement projects be implemented on the various farms. In the end, however, the same project approach, as described in the main body of the text was employed. It is an adaptation of Projects 3, 4, 5 and includes some leasing out of resources not currently being used by the CPA.

#### **Project type 1:**

The projects where farmers have already clustered their labourers in a suitable area and attempted to move the process on but have not been successful.

#### **Project type 2 :**

Farms that are presently partially occupied by labour tenants and commercial farming has ceased and the owner is absent.

#### **Project type 3 :**

Farms where labourers are clustered in a suitable area and all parties are willing to move the process forward.

#### **Project type 4 :**

Communities who are prepared to develop an agri-village, a company (or Closed Corporation) or some form of legal communal association (CPA)

#### **Project type 5 :**

Communities or individuals who are able and willing to become small-scale commercial farmers.

#### **Project type 6:**

Communities who are not prepared to enter into any changes and seek only security of tenure.

#### **Project type 7 :**

Lease and buy scheme: farmer leases land and possibly equipment to the workers at market rents with the option to purchase at the end of the lease.

#### **Project type 8 :**

Develop and transfer scheme: landowner develops the land with a view to subdivision for smallholders.

#### **Project type 9 :**

Share-milk scheme : a phased process in which the worker initially rents a herd, later owns the herd or part of the herd thereby enabling him to later purchase land.

**Annex 4: CPAs in the Qedusizi/Besters Land Reform project**

CPA Name	Farm Name	Farm Size ha	No of Muzis	No of Adult	Cattle	No People with cattle	Postscript Income Year 1
Mphuzanyoni	Walkershoek	2034	22	92	139	14	
Sozosozwe	Union	218	13	98	249	11	R40000
Inyakanyka	Beaulieu	2224	16	65	184	14	R319000
Inkuthu	Trekboer	431					R45000
Kayishazwa			3	33	273	13	
Skurwepoort	Kroomelboog	477	7	71	43	3	R38000
Shayamoya	Wintershoek	1819	14	50	167	11	
Asibemunye	Zaifontein	394	26	79	118	15	
Masakhane	Rooykop/Wonderhoek	2142	19	66	511	9	R130000
Bambanani	Kruisfontein	575	7	33	214	6	R8000
Zimpofu	Nooitgedacht	604	3	33	145	3	
Ingula	Maritzmouth	1872					R265000
Kayishazwa			26	112	475	8	
Zizimele	Remington	606	14	89	231	30	
Masibumbane	Hemsley	120	9	36	332	2	
Phimzile	Sukkelfontein	1142	17	112	131	9	
	Lisbon	52	3	24	22	1	
<b>Total:</b>		<b>14728.31</b>	<b>199</b>	<b>993</b>	<b>3234</b>	<b>149</b>	

**Annex 5: House Rules**  
(Generic – each CPA devised variations and has its own House Rules)

**Institutional**

**a) Sub-Committees**

- i) There will be five sub-committees which will support the CPA, namely:
  - o Fencing
  - o Water
  - o Poultry
  - o Agriculture
  - o Security

**b) Additional Members**

- i) No additional members will be allowed to participate in the project.
- ii) No people who previously worked on the farm will be allowed to move back to the farm. They have to apply for their own land.
- iii) No person in distress will be allowed to stay temporarily on the farm.
- iv) Parents of the beneficiaries may come and stay on the farm, but must stay on the plot of the beneficiary.
- v) Cattle of parents will be allowed should the family have capacity in terms of their grazing rights.
- vi) No cattle or any livestock of a non-member will be allowed on the farm.
- vii) When male members turn 18 they will receive their own plots.
- viii) Female members will not have the right to move to an own stand. When they get married they will join their husbands.

**c) Visitors**

Visitors need to be introduced to the community. Visitors will not be allowed to bring their cattle etc.

**d) Resolving Problems**

Problems should be addressed by sub committees first. In cases where the sub- committee fails to resolve a problem, it should be referred to the CPA Committee.

**Financial**

- i) All members should contribute to the operational and maintenance fund. In the case of non-payment by a community member the CPA will call the member and discuss ways to facilitate the problem.
- ii) Levies will be collected at a community meeting as decided at the previous meeting.
- iii) A CPA member will be responsible to manage the collection of money.
- iv) CPA Committee members will not be paid for their services rendered.
- v) The CPA Committee and community will decide how to apply the funds.
- vi) The money will be kept in a post office account.
- vii) Three members have to sign to withdraw any funds.

**Settlement**

**Land Use**

The following uses are permissible on a residential stand:

- ❖ Residential unit;
  - ❖ Kraaling of cattle;
  - ❖ Chicken house;
  - ❖ Vegetable garden;
  - ❖ Toilet;
  - ❖ Wood storage;
  - ❖ Refuse hole; and
  - ❖ Dogs.
- No pigs will be allowed.

### ***Change of Use***

In case a member wants to operate a business from his/her home, he / she should get permission from the CPA committee.

### ***Allowance of Stands***

The CPA committee is responsible for the allocation of new residential stands.

New stands will only be allocated to children of beneficiaries who want to live on their own. No outsiders will be allowed.

### ***Control of Residential Plots***

- i) Residential plots do not have to be fenced.
- ii) Residential plots do not need to be fenced.
- iii) Beneficiaries may keep dogs. The owner of a dog is responsible for damages caused by dog.
- iv) Stray dogs must be chased away from homes. In cases where a neighbour's dog is a nuisance, the matter must first be discussed individually and if there is no change in the situation it should be taken to the CPA Committee.

### ***Agriculture***

#### ***Stray Cattle***

Neighbours will be informed (Trustees) and a penalty charged.

#### ***Management of Farm Equipment***

- i) The Committee Chairperson and one member will be responsible for the tractor and other equipment.
- ii) Equipment may only be used to the benefit of the CPA members. No outsider of family may use the equipment.
- iii) When beneficiaries need the use of the equipment, they should put a request to the CPA committee.
- iv) The tractor may only be used for the following:
  - ❖ Planting;
  - ❖ Cartage of wood;
  - ❖ Cartage of clay / building material; and
  - ❖ Repair of roads and dam.

- v) The CPA Committee is responsible for the filling of diesel. The tractor will be used equally.
  - vi) Two drivers will be appointed. No other person may drive the tractor.
  - vii) The driver is responsible for the maintenance of the tractor.
  - viii) The drivers will not be reimbursed.
- c) *Maintenance of Fences***
- i) Fences will be inspected by CPA Committee on weekends.
  - ii) People who inspect fences will not be reimbursed.
- d) *Stock Control***
- i) Each beneficiary has the right to keep an equal number of heads of cattle.
  - ii) The camp system agreed upon should be adhered to by all members.
  - iii) If a member does not adhere to the system, they will be called in by the CPA.
  - iv) All cattle should be included in the camp system.
  - v) Cattle will be kraaled at home during the night.
- e) *Cattle Dip***
- i) The dip will only be used to the benefit of the beneficiaries. No cattle from outside the farm will be allowed to be dipped.
  - ii) The CPA committee is responsible to manage the dip in terms of buying dip material and the safe storage thereof.
  - iii) The dip and cattle handling facility should be inspected and repaired after each dipping.
- f) *Fire Breaks***
- i) All members should participate at no fee in the making of firebreaks.
  - ii) Firebreaks will be burnt in June and maintained on a monthly base.
  - iii) The person / household who starts a run away fire, will be responsible for the damage caused. Legal action will be taken should a fire spread from a neighbours farm.

## **Infrastructure**

### ***Sanitation***

- i) Each household is responsible for the maintenance of its toilets.

### ***Refuse***

- i) Each household will dig a refuse pit on its site as determined by CPA.
- ii) The CPA committee will inspect the pits twice a month.
- iii) Households should burn refuse regularly and see that no papers etc. are lying around.
- iv) Refuse shall be covered on a monthly base.
- v) All refuse pits need to be fenced in.

### ***Cemetery***

- i) Community members will be buried on the individual lots.
- ii) Graves need to be marked properly.
- iii) People from outside the farm may not be buried on the farm.

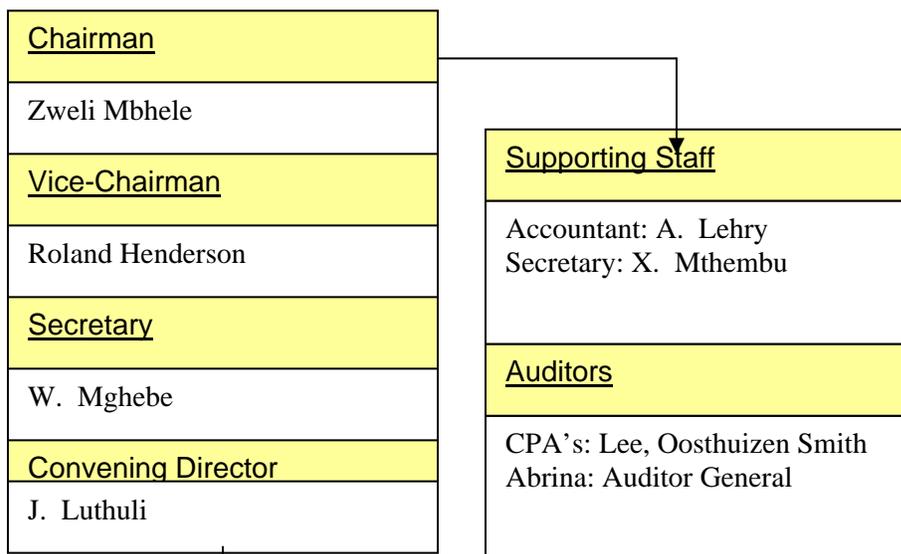
### ***Maintenance***

- i) All members should contribute to the maintenance of the infrastructure.
- ii) The CPA committee is responsible for the maintenance of the road.
- iii) Minor repairs to the road will be made by the committee. In the case of major repairs, all members should help.
- iv) Members will not be paid for maintenance tasks.
- v) In case the water supply is out of order, it should be repaired by the committee.
- vi) Water supply is for the use of the members of the CPA committee. No water will be provided to neighbouring communities.
- vii) The walls of dams will be inspected after rain for leaks, overflows and water levels.

### ***Asset Management***

No assets will be shared with outsiders.

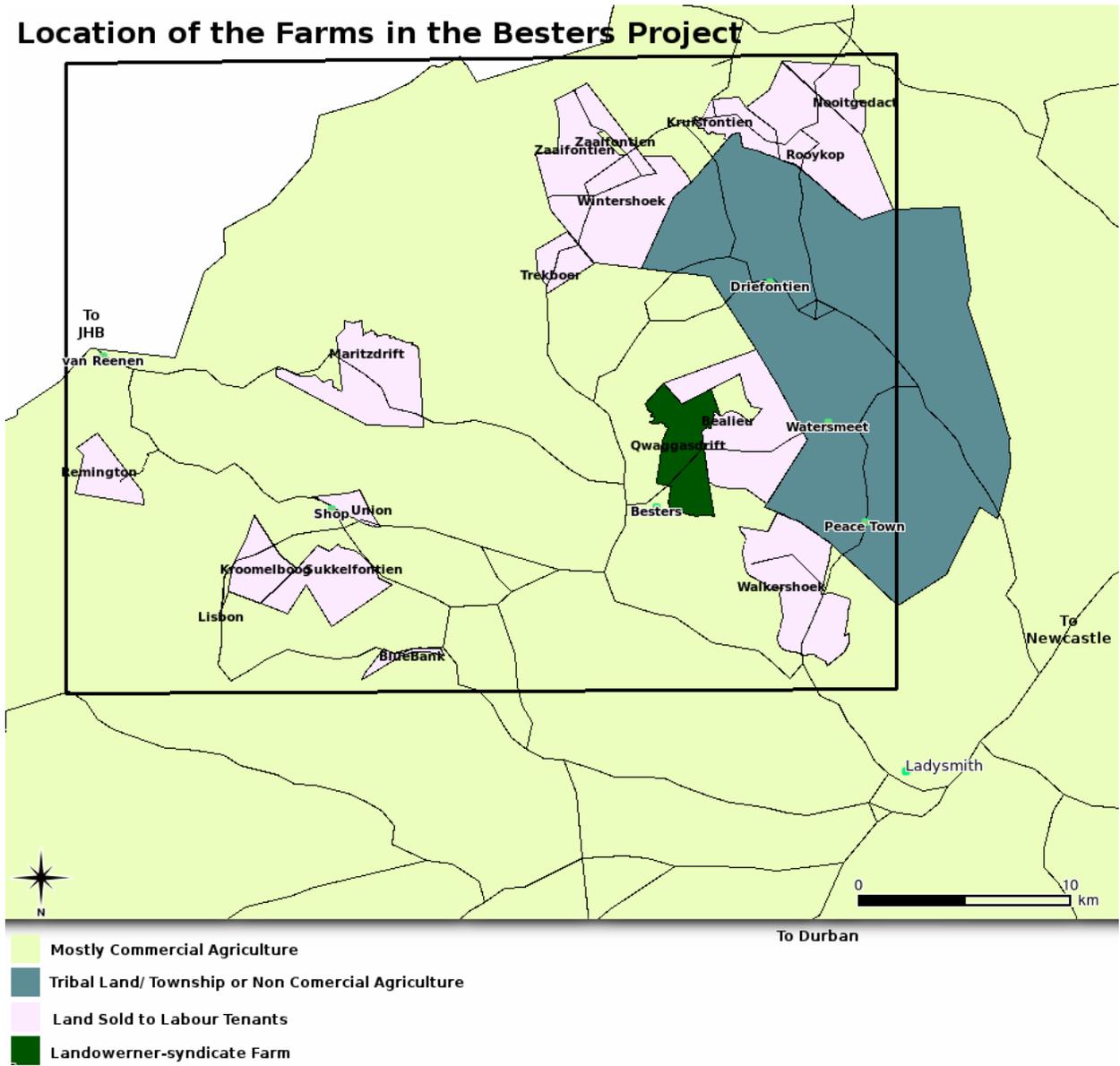
**Annex 6: ABRINA 1518 Section 21 Company**



CPA Name		Farm Name	Chairman & Director
Mphuzanyoni		Walkershoek	July Patrick Hlatshwayo
Sizisizwe		Union	Mbongiseni Michael Mazibuko
Inyakanyaka Yomshini		Beaulieu	Bonginkosi Wilson Khumalo
Inkuthu Kayishazwa		Trekboer	Johannes Mphikeleli Hlongwane
Skurwerport		Kroomelboog	Sibusiso Abednigo Mazibuko
Shayamoya		Wintershoek	Vusumuzi Robert Magubane
Asibemunye		Zaaifontein	Zithulele Hadebe
Masakhane		Rooykop / Wonderhoek	Richard Mazweli Mbhele
Bambanani		Kruisfontein	Bonginkosi Eric Mazibuko
Zimpofu		Nooitgedatch	Bongani Enock Shabalala
Ingula Kayishazwa		Martizmouth	Jabulani Simon Makhubo
Zizimele		Remington	James Sipiwe Luthuli
Masibumbane		Hemsley	Zwelakhe Alpheus Nyathi
Phumzile		Sukkelfontein	Thuthuka Jerome Linda
<b>Besters Farmers Association</b>			<b>Director</b>
			Roland Henderson
			Tom Kirkness
			Donovan Smythe
			Lester Millar
			Cornel Campher
			Phlippie de Jager
<b>Non Executive Directors</b>			<b>Director</b>
Department of Land Affairs			Anwhar Madhanpall
Department of Agriculture			Justice Mchunu
Emnambithi / Ladysmith Municipality			Temba Qwaba

**Annex 7: Map of the Qedusizi/Besters Land Reform Project Area**

**Location of the Farms in the Besters Project**



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