



Land Reform Policy Committee

Department of Land Affairs

Departement van Grondsake

Kgoro ya tsa Naga

UMnyango wezoMhlaba

PRIVATE SECTOR INITIATIVES IN LAND REFORM

(Submitted by the Directorate: Redistribution Policy and Systems)

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1. BACKGROUND

The government supports partnerships between beneficiaries and other parties as one of the strategies aimed at making the objectives of land reform realisable. Such initiatives have taken the form of voluntary partnership and other proposals where a farmer and farm workers agree on some form of joint ownership and utilisation of land as well as the division of proceeds arising therefrom. Indeed, project proposals of this nature are now a common experience within the DLA. A coherent DLA policy on how to go about harnessing and supporting such initiatives is, however, needed.

2. RECOMMENDATIONS

2.1 Definition of private sector initiatives

Private sector initiatives in land reform are partnerships/agreements between beneficiaries of land reform and the private sector which broaden the base of land ownership, offer security of tenure and raise applicants' income. Such partnerships may take different forms.

2.2 Why DLA supports private sector initiatives

The DLA shall pro-actively encourage and support private sector initiatives, in order to further the general objectives of land reform and as a means of

2.2.1 Widening the scope and efficiency of the land reform process.

2.2.2 Enhancing the transfer of knowledge, skills, and business acumen to beneficiaries as complementary factors of land reform.

2.2.3 Providing beneficiaries with access to the partner's business infrastructure, (such as established markets) often critical for productive use of redistributed land.

2.2.4 Mobilising the private sector, church as land owner, and the corporate sector that hold land, to seek partnership arrangements with beneficiaries of land reform.

2.2.5 Mobilising the corporate sector, financing institutions, and other agribusiness to provide requisite inputs (credit, inputs, skills, business infrastructure, follow up support etc) to the beneficiaries.

2.2.6 Strengthening and supporting corporate sector initiatives aimed at gainfully settling new farmers on land.

2.2.7 Creating tenure security.

2.2.8 Sharing costs and responsibilities for land reform

2.3 Types of private sector projects

Different types of private sector projects can be categorised as follows:

2.3.1 Downstream/upstream linkage models that involve beneficiaries engaging in downstream and upstream production relationships (e.g linkage with input suppliers and output marketing / processing chains respectively). Models of contract farming belong in this category.

2.3.2 On-farm partnerships relating to land use, ownership and production arrangements. Farm worker equity scheme, agrivillages, etc. belong in this category.

2.3.3 Supporting initiatives by other people and organisations such as the Church, investors (e.g New Farmers) etc where land transfer / and or development is involved.

2.3.4 Combination thereof.

2.3.5 The projects can be bankable (attracting or involving loan financing in addition to equity/land acquisition grant), or non-bankable (where no loan

finance is involved and thus dependent on owners' equity and land acquisition grant).

2.4 Private sector role players

DLA shall endeavour to pro-actively forge working relationships with the following role players as a necessary condition for harnessing private sector initiatives in land reform. Such institutions shall include, but not be restricted to:

2.4.1 Private sector financial institutions as sources of credit and other related services

2.4.2 Private commercial farming interests, land holders (private) and person(s) wishing to form joint ventures with land reform beneficiaries or in other ways supporting land reform.

2.4.3 Business concerns, such as input suppliers and downstream entities who are willing to enter into some working arrangements with beneficiary producers.

2.4.4 Other sources of development finance

2.5 Target group

The target group of the private sector initiatives are the same as for the land reform programme except that they include a partnership agreement or supportive arrangement with the private sector, church, etc. To date, projects have focused on farm workers who wish to enter into joint ventures with commercial farmers and other commercial entities such as banks. In bankable projects which involve loan financing the target group tends to be permanent farm workers, emergent farmers and existing small scale land holders and entrepreneurs.

2.6 DLA's role and institutional arrangements for delivery

2.6.1 The same DLA's grants and services available to the land reform programme are applicable. Furthermore, the recommendations of the Strauss Commission shall taken into account as it outlines anticipated changes in focus and mandate of various financial institutions that have a bearing to financing land reform. It should be emphasised that bankable projects require additional work. In assessing such projects, provincial offices may require the services of specialists with financial assessment skills to advise them on the feasibility of projects. DLA national will require support for brokerage of deals with the private sector. People with such skills should be available on the panel of specialists presently being established. To ensure the active participation of beneficiaries, facilitation support and training is critical.

2.6.2 The private sector initiatives shall complement and work within existing

land reform delivery mechanisms. It is not a separate land reform programme. Project approval and implementation shall be in the hands of the provincial offices within their allocated budget.

2.6.3 The institutional framework for private sector land reform initiatives shall be guided by the current DLA move towards *decentralisation*; be *flexible* and *adaptive* to changing circumstances; geared to offering policy and implementation *capacity support* to DLA Provincial offices while taking cognisance of the existence of differences between provinces with respect to opportunities and constraints relevant to such initiatives.

2.6.4 The DLA shall provide a dedicated Help Desk at national and provincial level to provide information on private sector initiatives, arrange for information sharing as well as brokerage with private sector interest groups. The DLA will need to:

- a) Create a capacity at national level to develop the enabling framework and policy environment and fulfill a brokerage role with the private sector.
- b) Create a capacity which can fulfil a brokerage function, provide project appraisal/advisory service to DLA staff responsible for implementation of projects which involve the private sector where the financial/commercial viability is central. Such a service is probably also required where parastatal/state loans are involved.
- c) Review progress of projects which involve major private sector involvement on a quarterly basis in order to learn lessons for implementation and policy.

These functions may require that expertise be sourced from outside the DLA and financed from the professional and special services budget.

2.7 Criteria for assessing project viability in projects involving loan financing

The determination of project viability goes beyond assessing financial profitability. Different sets of criteria shall be applied depending on the private sector initiatives model under consideration. Private sector projects should be able to access DLA Grants if;

2.7.1 the project involves development of land resource

2.7.2 it passes financial and economic viability assessment;

2.7.3 it passes an environmental viability assessment;

2.7.4 it improves the tenure security of the beneficiary and is not tied to conditions of employment;

2.7.5 the financial status of the proposed partners/enterprise is assessed sufficiently healthy as not to present undue risk to the proposed partnership;
and

2.7.6 is built into the business plan.

2.7.7 the project broadens the ownership base of land in the country

2.8 Mechanisms to protect beneficiaries

DLA is keen to minimise the possibility of beneficiaries losing their once in a lifetime subsidy while in pursuit of partnerships. As such, partnerships involving beneficiaries and their private sector partners should, as far as practicable, ensure that:

2.8.1 Commercial Bank / third party involvement in project funding and / or ownership is secured, especially for bankable projects, both as a demonstration of the projects viability and as a means of inviting and locking in entrepreneurial capability.

2.8.2 Proper planning and facilitation process (e.g valuation of business worth) is stringently adhered to.

2.8.3 Beneficiaries are sufficiently empowered to participate fully in the process.

2.8.4 Development support is addressed in the business plan. This is more so where DLA's clientele are expected to assume full ownership of the venture in the short to medium term.

2.8.5 Sufficient attention is given to monitoring and evaluation of the process and resultant projects.

2.9 Concessionary advances in special cases

The DLA shall not provide concessionary financial advances (bridging finance) to projects except where:

2.9.1 there is an absolute urgency and time constraint which makes it impossible to arrange private sector loan funding within the available time.

2.9.2 it is sufficiently demonstrated that it specifically increases the DLA clientele's stake in the business;

2.9.3 it is sufficiently demonstrated that Commercial Bank finances can not be accessed for reasons not including bank's concern on the viability of the proposal;

2.9.4 it is demonstrated that not offering such an advance would threaten the tenure security and livelihood of the beneficiaries;

In cases where such concessionary advances are merited, compliance with the following is a requirement;

2.9.5 such funds are repayable within six month or such time frame consistent with Treasury regulations;

2.9.6 a binding Guarantee shall be given by the relevant party/parties that the funds so advanced shall be reimbursed within the agreed time;

2.9.7 compliance with any such conditions as the Department might consider necessary from time to time and depending on the nature of the case;

2.9.8 the DG approves of the advance in line with Act 126 regulations.

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