Vumelana
ADVISORY FUND

# Creating Community Private Partnerships

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| Report | Creating Community Private Partnerships |
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# Creating community private partnerships

## What is a community private partnership?

### Partnerships

A partnership is an arrangement in which two or more individuals or organisations agree to co-operate to advance their interests.

### The 3 R's

The 3 R's of the partnership building process are concerned with striking an appropriate balance in respect of the manner in which the partners share **Resources, Risks** and **Rewards.**

### CPPs

**Community private partnerships** (CPPs) are established between communities that acquire access to land under the land reform programme and private parties. Typically the communities bring their land and labour and the private partner brings capital and skills to the partnership.

- CPPs differ from management agreements in so far as the partners share the risks and the rewards. In management agreements the land owner typically caries all the risk and the private manager earns a fee whether or not the venture succeeds.
- They also differ from typical joint ventures that demand 50:50 shareholding and risk taking. CPPs are based on an assumption that the partners are unlikely to be equally capable of carrying risk and that the balance of risks, resources and rewards must be negotiated in the context of the particular circumstances of each case.

## How does the CPP model work?

### Contracts

CPP contracts are structured to ensure that the partners are able to meet their obligations and exercise their rights in a manner that supports the profitable operation of the business venture they enter into. Typically the structuring of these contracts requires the parties to answer the following questions:

**Term:** What is the duration of the contract?

**Rate:** How much rent does the business pay to the community? How much of the profit made by the business must be paid to the community?

**Shares:** Who owns the shares in the business? Does the community own shares from the outset or can it acquire shares in future?

**Investment:** How much money will be invested in the development, running and maintenance of the property? Who will provide that capital?

**Skills transfer:** What training programmes will the private investor provide for the community and for how long?

**Management:** Will the partnership provide opportunities for the community to get involved in the running of the business?

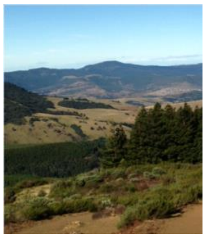
**Employment:** What will be the policy to ensure that members of the community have the opportunity to obtain jobs in the business and develop SMMEs?

**Transfer:** How will the business be transferred to the community when the contract ends?

# How do commercial partnerships work in practice?

## *Forestry development with a big impact*

### Background



Cata is a village 120km from East London. It takes its name 'add a little bit', from the many small river tributaries nearby. In the 1960s the residents were forced out of the area as part of the then government's 'betterment planning' scheme. The people involved lost their farms and were forced to live in demarcated residential zones. In 1998 a claim was made for the restitution of the land under the democratic government's land reform programme. A Settlement Agreement signed in October 2000 provided some R32 000 for each of the 364 beneficiary families and some R5m was placed in a development fund for the economic development of the wider Cata Community.

The Cata Communal Property Association (Cata CPA) was formed in 2004. It administers the development fund. The Border Rural Committee (BRC), a local NGO, helped the CPA to develop and implement a plan to improve infrastructure (community hall; school classrooms; library; roads), agriculture (irrigation scheme; gardens), forestry (wattle and pine; holding nursery) and tourism (museum; chalets) facilities.

### Vumelana support

The Cata CPA formed the Sithe Forestry Company (SFC) and in 2012 approached Vumelana for support to negotiate the raising of capital and securing of off-take agreements to extend the plantations it had under management by some 500 hectares. Vumelana agreed to fund the Border Rural Committee to help the Cata CPA to negotiate funding and off-take agreements.

### Project partners

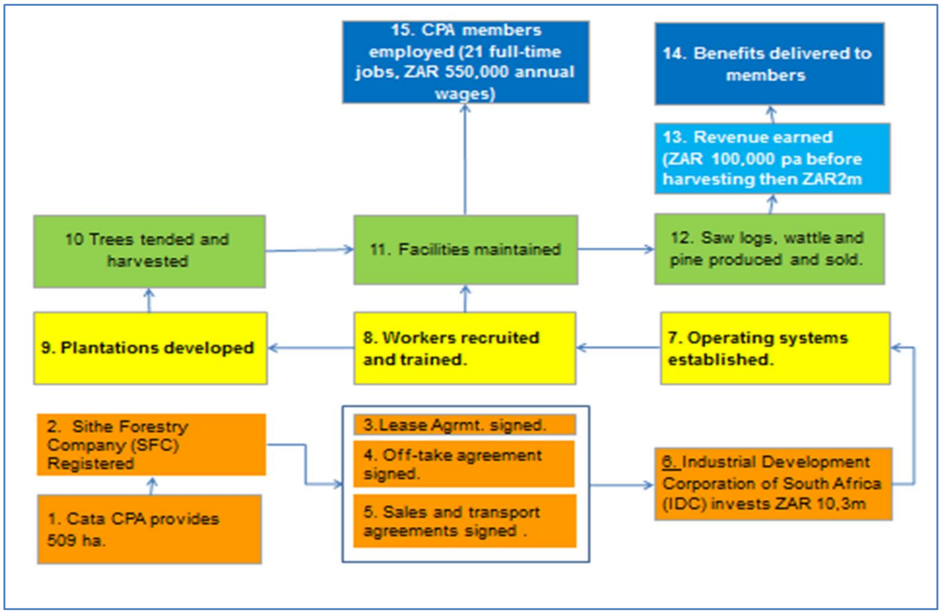
The Industrial Development Corporation (IDC) was approached for R10.3 million to finance the expanded forestry operation through the issue of preference shares by the Sithe Forestry Company (SFC). BRC agreed to provide financial, business, and administrative support to the company and Fractal Forestry (a community forestry support company) agreed to provide technical assistance and managerial support.

| Project Partners | Contribution |
|---|---|
| **CCPA** | 509ha (CCPA may in future invest further from its own resources into SFC) |
| **BRC** | Approximately R50 000 for services in 2012, but BRC has been involved in the affairs of Cata village since before the Restitution Settlement Agreement – BRC assisted in lodging the land claim, and currently manage various projects on behalf of CCPA |
| **Fractal Forestry** | R150 000 for the development of sales agreements; however FF came to Cata to provide technical assistance for an existing plantation, and has been providing on-going support since then |
| **VAF** | R150 000 for the conclusion of outstanding agreements with the IDC and potential off-take partners |
| **IDC** | R10.3million capital loan |

All of the agreements required for the development have been concluded. The IDC is expected to take up the preference shares as soon as they have completed the necessary administrative work.

## Results chain

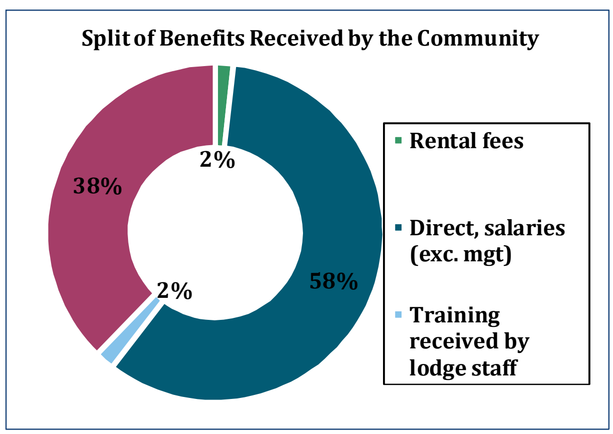
A draft results chain for the Cata forestry project is shown below




## Impact

The preliminary cost benefit analysis estimates the net present value[1] of the project – to the Cata community over the next 20 years – to be approximately R5.9 million. The benefits of the project to the community are primarily through direct salaries (excluding management salaries) and the value of the standing trees. The community will also receive annual rental fees and training.

The value of the plantations is expected to increase from R1.9 million presently to R15million in 2031. Over 20 years, the project will also create 21 permanent jobs of which 20 are expected to be local. Based on a minimum wage, approximately R500 000 will be paid in wages each year.




The analysis does not include benefits from dividends as this information was not available at the time the independent assessors conducted the assessment.

[1] The difference between the present value of cash inflows and the present value of cash outflows over an agreed period. In the projects described here typically 20 years at a discount rate of 10% and tax rate of 28%

## *An agriculture based community private partnership*

### Background

The Moletele Community of 1 615 families has claims on some 70 000 Hectares in the Hoedspruit area of Limpopo. The claims were gazetted in 2004. The first farms were acquired in 2007 and the Moletele Communal Property Association (MCPA) was registered.

Initially supported by the Business Trust, the CPA has entered into a number of commercial partnerships to manage and operate the farms on its land which like much of the Hoedspruit area benefits from good soil, water and climatic conditions for mango and citrus production.

The CPA had tried for some time to develop a cluster of fruit farms covering 151 hectares. Only 63 hectares were under cultivation, despite the availability of full irrigation rights. The orchards were ageing and there was a sub-optimal mix of cultivars and poor economies of scale. Management costs were high and commercial viability uncertain.

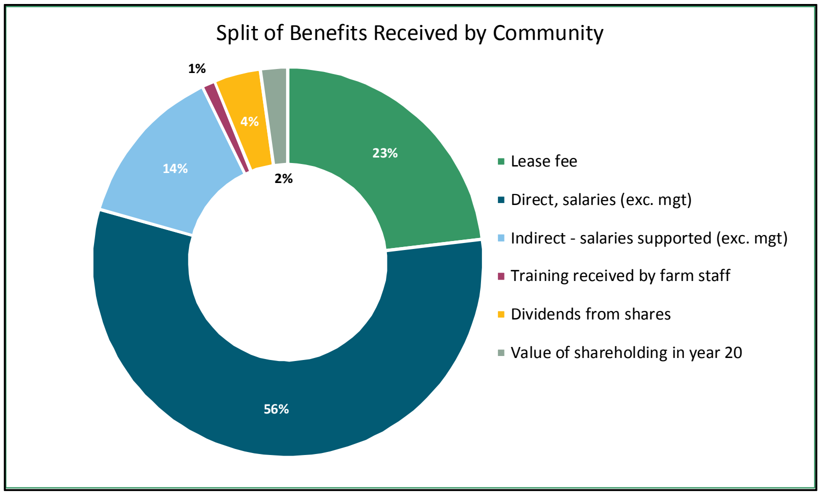
An initial attempt to set up a joint venture with an investor failed when the government grant earmarked to finance the community equity participation did not materialize. A subsequent attempt to create a strategic partnership with a manager to run the farms was also unsuccessful because the operator was unable to raise the capital needed for investment. The farms faced an uncertain future. The jobs of the 44 people employed on the farm were under threat.

### Vumelana support

In 2012 the CPA asked Vumelana for support to find an investor to develop the farms. An advisory team was appointed. Four potential investment partners were identified who were already active in fruit farming and keen to expand their operations.

After running a competitive bidding process which set out the desired benefits for the Association, including rental payments, equity sharing options and employment and wages, a Build-Operate-Transfer (BOT) agreement was entered into between the CPA and a private farming company. This was based on planting 115 hectares of new orchards, repairs to the bulk water supply, the replacement of irrigation infrastructure, fixed investment of just over R10m and annual operating costs of R7m per annum.

## Potential impact




An early stage cost benefit analysis was undertaken to quantify the most significant socio-economic benefits arising from the project and to set a comparative baseline for impact tracking over time. It shows a net present value (NPV) of the project to the community over the next 20 years of approximately R19m. The most significant benefit is expected to be in the form of employment (wages estimated to be worth R10.7m in net present value terms over 20 years). The project will secure the existing jobs on the farm and generate additional employment as more land is brought under cultivation. Lease fees to the Association are expected to amount to around R4.4m in NPV terms, and include a guaranteed minimum lease fee.

| **Community** | **NPV** |
|---|---|
| Lease fee | 4 404 735 |
| Direct, salaries (exc. mgt) | 10 720 063 |
| Indirect - salaries supported (exc. mgt) | 2 560 913 |
| Training received by farm staff | 206 751 |
| Dividends from shares | 728 689 |
| Value of shareholding in year 20 | 431 152 |
| Share purchase | -790 232 |
| **Total** | **19 052 303** |
| | |
| **Investor** | **NPV** |
| Investment | -10 075 837 |
| Dividends from shares | 27 868 355 |
| Salaries (mgt only) | 2 303 260 |
| Time spent setting up agreement, year | -30 743 |
| **Total** | **20 065 034** |
| | |
| **Government** | **NPV** |
| Taxes paid by farm | 10 969 892 |
| **Total** | **10 969 892** |

Initial modelling suggests similar benefits for the community and the investor. (For every R1 000 of benefit received by the community the investor will receive R1 100). The project will also generate significant tax revenues for the Government.

## *A tourism development with the potential to transform a poor community*

## Background

Mkhambathi Nature Reserve is situated on the coast of north-eastern Pondoland, in the Eastern Cape. It lies between Port Edward and Port St Johns. The Reserve which covers an area of 7 720 hectares is part of the Pondoland Centre of Endemism, one of 235 "environmental hotspot" sites identified world-wide as being critically important for global biodiversity.

In 1922 people were moved out of the area and a leper colony and hospital was established on 18,000 hectares of rolling coastal grassland. When leprosy was cured, the facility became a TB hospital. Then in 1977 a third of the 18 000 hectares was proclaimed as a provincial Nature Reserve.


The Mkhambathi communities comprise some 40 000 people in seven villages in the vicinity of the Mkhambathi Nature Reserve. Three hundred and twenty six households launched a land claim over part of the Nature Reserve in 1994 under the auspices of 7 Communal Property Associations.

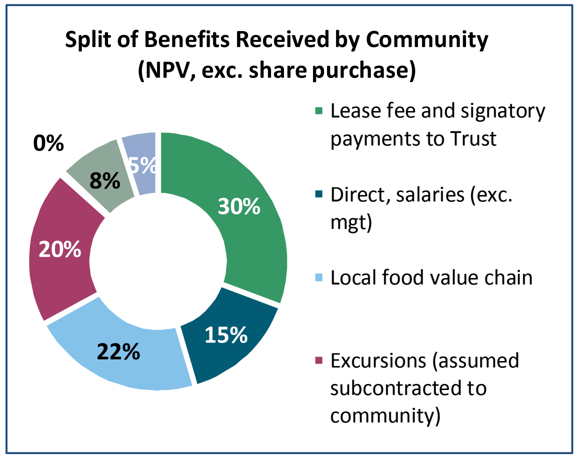
Their land was settled in October 2004 and the seven CPAs were constituted into the Mkhambathi Land Trust (MLT). The land settlement was on condition that the communities would maintain the Mkhambathi Nature Reserve as a conservation area and enter into a co-management arrangement with the Eastern Cape Parks and Tourism Agency (ECPTA) for the management of the Reserve. Today the Mkhambati Land Trust owns 18 000 hectares in the Reserve as well as land adjacent to the Reserve.

## Vumelana support

Early in 2012, Vumelana appointed a team to facilitate an agreement between a tourism development company, the Mkhambati Land Trust and the ECPTA to develop properties in the northern part of the Reserve. The agreement provides that the developer will lease a portion of the Reserve, fence it and develop 110 beds at two beach locations at a cost of not less than R65m. Lease agreements for the development of the facilities have been concluded and an environmental impact assessment is under way.

## Potential impact

The Trust and the ECPTA will receive R150 000 pa base rental (increasing annually) plus 9% of turnover. This will be split 66.6% MLT and 33.3% ECPTA. The distribution of benefits to the broader Mkhambati community will be the responsibility of the Trust. In addition to the income from rent and turnover approximately 70 jobs will be created (40 through direct employment at the lodge, and the rest generated indirectly. There are also significant SME opportunities as a result of the project including crafts, additional accommodation, tourist activities (horse riding, guided tours, etc.) and the provision of supplies to the lodges (fresh vegetables, laundry services etc.). Further public benefits might include improved roads and facilities, and the general crowding in of investment into the area.




| Community | NPV |
|---|---|
| Lease fee and signatory payments to Trust | 12 783 684 |
| Direct, salaries (exc. mgt) | 6 184 347 |
| Local food value chain | 9 039 795 |
| Excursions (assumed subcontracted to community) | 8 186 900 |
| Training received by lodge staff | 164 961 |
| Dividends from shares | 3 364 820 |
| Value of shareholding in year 20 | 2 067 230 |
| Share purchase | -4 149 562 |
| **Total** | **41 791 736** |

| Investor | NPV |
|---|---|
| Investment | -62 620 172 |
| Dividends from shares | 70 421 814 |
| Salaries (mgt only) | 5 099 557 |
| Time spent setting up agreement, year zero (see Table ! | -27 227 |
| **Total** | **12 873 972** |

| Government | NPV |
|---|---|
| Taxes paid | 27 996 705 |
| **Total** | **27 996 705** |

| ECPTA | NPV |
|---|---|
| Lease fee and signatory payments | 6 391 900 |
| **Total** | **6 391 900** |

The cost-benefit analysis shows potential benefits for the community are derived predominantly from lease fees and salaries. In addition the community will benefit from training, food supply and income earned from guiding and excursions.

A range of additional benefits would be available to the community through the demand created for other services (not included in the initial cot benefit analysis) such as cattle breeding, vegetables, transport and security.

The establishment of ancillary businesses would require additional discretionary funding which the investor is trying to secure.