A Decade of Transformation Initiatives

Hortgro’s commitment towards sustainable development and transformation the last 10 years
Over the last 10 years, the Pome and Stone fruit industry has demonstrated its commitment towards sustainable development and transformation in various ways. Through statutory levies, the industry was able to create a platform that is used to gear substantial additional funding.

The principle of Public-Private-Partnerships has been confirmed through the implementation of various economic development initiatives.

The results and achievements to date would not have been possible without these partnerships including the commercial grower constituent.
Transformation initiatives were refocused from a training, worker welfare and skills development centered approach, with economic development initiatives and support programmes in excess of 90% of Industry.

Transformation funds being channeled to economic development. Transformation is, however a broader concept than only addressing the production profile of pome and stone fruit growers, and is therefore not just focused on primary production, but the entire value chain.
Therefore, not only is the industry committed at a primary production level but is also committed to ensuring transformation throughout the value chain including research capacity.

This portion is not part of the Industry transformation levy funding and augments the industry investment in capacity and expertise.
TOTAL NUMBER OF PROJECTS SUPPORTED
WESTERN CAPE, EASTERN CAPE, LIMPOPO & MPUMALANGA

- 2009: 23
- 2010: 23
- 2011: 19
- 2012: 21
- 2013: 2
- 2014: 2
- 2015: 24
- 2016: 24
- 2017: 22
- 2018: 21
- 2019: 22

NUMBER OF PROJECTS SUPPORTED WESTERN CAPE, EASTERN CAPE, LIMPOPO & MPUMALANGA
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Recently, as part of the Fruit Industry Value Chain Round Table Initiatives, a baseline of entities that will be supported, was developed.

In 2019, **102 businesses with black ownership in four major Provinces, was supported**. Participation is concentrated towards the Western Cape (Ceres, EGVV and the Langkloof) and the Eastern Cape (Langkloof) but **the industry has taken a conscious decision to grow it’s footprint in non-traditional areas**.

Therefore, this situation should change over time.
Of these entities, **37 are 100% black-owned and 65 entities have equity partners in varying percentages.**

On a primary level the BEE plantings of pome and stone fruit contributes 8% of the total area planted.

This too, will materially change as the assisted black growers develop further commercial status.
The participation and ownership of BEE entities in the value chain is reflected below:

- **Packhouses**: 5 Equity
- **Cold storage**: 1 Equity
- **Nursery**: 2 Equity
- **Marketing**: 3 Equity
To date **762 Hectares at a cost of R224, 2 million** have been established.

The **value of these new orchards** over its productive lifespan is in excess of **R7, 3 billion**.

The **success rate with these plantings** is **+90%** with **2,310 new jobs** that have been created.
With the latest initiative (Hortfin) a further 780 hectares with a value of over R7, 5 billion linked to 1,700 new jobs will be established.

CASP (Comprehensive Agricultural Support Programme) funds to the value of R168, 6 million has been disbursed in the Western Cape via the partnership with WCDOA.
In the last five years **R26, 5 million** has been spent on 138 under-graduate, 240 post-graduate and 20 doctoral students via the Hortgro bursary scheme. This scheme is linked to the industries research programme.

138 under-grad

240 post-grad

20 doctoral
Challenge: Small area under production by black growers, low production efficiencies, old orchards not producing optimally, cultivar mix on existing BEE units not evenly/optimally distributed, high entry barriers into the industry regarding large capital layout to expand and/or replace orchards.

Objectives: Increase the production footprint of BEE qualifying producers by 1,000 ha nationally with the support of Provincial Governments, Industry and other stakeholders in the supply chain. Each BEE farming unit qualified for 5 ha or 6,250 trees per unit. The financial contribution of these trees were carried by Industry and were linked to technical support and mentorship in order to fast track economic integration of black growers into the mainstream economy.
Achievements:

450 hectares were established nationally on 69 farming units: 367 ha established in the Western Cape; 71 ha established in the Eastern Cape; 7 ha established in Mpumalanga; 4 ha established in Limpopo.

In the Western Cape a Public-Private-Partnership was formed between the Industry and the Western Cape Department of Agriculture (WCDOA) where funding was geared for the Western Cape farming units for soil preparation and irrigation. Project management services were provided by Hortgro. Additional support in other provinces from Government and other role-players did not materialize.
39% of the total plantings (176 ha) were made on 100% black-owned entities and 61% of the total plantings (274 ha) were done on farms with black equity ownership.

The **total investment** made into this programme was **R90 million** funded through Industry (Hortgro), WCDOA and the respective farming entities to ensure effective and efficient implementation.

The **projected income** from these orchards is **R4.3 billion** over the lifespan of the orchards.
669 Jobs were created – due to the partnership in the Western Cape, this province was able to create five times more jobs than investing the money on their own.

The success rate of the plantings to date is at 90%. This created a platform to increase production, access to newer varieties and changing production and cultivar distribution, expand and/or replace orchards at a faster rate.

Establishment of a model to effectively and efficiently implement Public-Private Partnerships.
Key learnings:

**Industry led solutions based on a needs analysis** with the support of role-players, such as Government, provides a stable basis for development and future growth. This creates a shared risk and benefit principle for all role-players involved that ultimately contributes to successful implementation.
Greater collaboration between all stakeholders in the value chain (including Government Departments in other provinces excluding the Western Cape Department of Agriculture) did not materialize as anticipated – the assumption that these entities would partner and/or contribute a portion of enterprise development finance towards the support of this programme was problematic and required more consultation to ensure buy-in. The other issue with the involvement of supply chain role-players was that they wanted the growers to make use of their products irrespective of whether it was the right thing to do. This made partnering with specific value chain players difficult as the basis of participation is not the same.
Application and approval processes should have included an economic analysis and a more holistic approach on the impact of the expansion and/or replacement on the current financial position of the business and the ability to support the new plantings from a financial and resource perspective. The application process was more geared towards resource suitability. Non-baring orchards vs bearing orchards is another consideration as well as the rate of establishing a new orchard.
Fruit kind and/or cultivar selection – although the decision of a particular fruit kind and variety is commercial in nature, more information regarding existing and newer varieties could have been shared to ensure a better long-term decision in terms of fruit kind and cultivar. A better understanding of management capabilities and competencies should form part of the consideration.
Technical support and capacity building are a critical element to success. The impact of orchard planning, development and maintenance on the success of orchard should not be underestimated. **Good agriculture practice should be the norm and there should be no short cuts.** Participation in study groups and attendance of field days and symposiums, should be mandatory for beneficiaries of such programmes to ensure that the necessary skills are transferred. This will ensure long-term viability and sustainability of the orchard as well as develop new commercial growers.
Financial support – a more comprehensive financial support mechanism is required for development initiatives especially to assist with non-bearing orchards and to lessen the financial strain on the business. This will ensure that new plantings are maintained and trained properly. The goal is to achieve a greater chance of success and achievement of optimal production norms and quality standards.
**Challenge:** Small area under production by 100% black owned entities, lack of market access, quality of produce and export capacity, production and market infrastructure not optimal to support required growth strategy, limited access to finance and financial resources to become commercial.

**Objective:** R120 million project funded through the Jobs Fund (R60 million); The Western Cape Department of Agriculture (R40 million) and Hortgro (R20 million) to be invested into 100% black owned entities in order to commercialize these entities in the Western and Eastern Cape.
Objective: 21 black-owned entities were selected based on the criteria used (100% black ownership, existing pome and stone fruit producer, the ability to be commercialized, the ability to expand and create new jobs). The project objectives were to expand and/or replace 306 ha and the creation of 505 new jobs of which 350 would be permanent and 150 seasonal.
Objective: Commercialization will be achieved through the fast-tracking of expansion and upgrading of primary production capacity, replacing obsolete cultivars, increasing the area under production, assistance with production inputs of newly established plantings, increased mechanization and supporting infrastructure including the upgrading of packhouses, increased marketability of produce through better cultivars and quality standards, compliance with market requirements to be able to supply any market of choice (Global GAP and SIZA compliant), integration into the value chain, and the creation of sustainable employment.
Achievements:

The DFDC Commercialization programme was an extension of the “boompie project” with the focus for this particular programme to commercialize only on 100% black owned entities. The achievements were therefore made on the foundation laid by the “boompie project”.

Gearing of additional funds through obtaining a VAT exemption from SARS unlocked an additional R12.2 million from VAT claims and interest. Additional funding was allocated to the various beneficiaries of the programme to address shortfalls.
Despite the many challenges relating to the availability of rootstocks, drought, capacity to implement on beneficiary level, cash flow constraints at beneficiary level the programme managed to plant **312 new hectares** of which 42% were new plantings and 58% of the new plantings were replacements.

The **projected income** from these orchards is **R3 billion** over the lifespan of the orchards.

The **total number of jobs** created was **1641** – 184 new permanent jobs; 812 permanent seasonal jobs and 645 short-term jobs were created.
The development of a monitoring and evaluation web-based platform to track development going forward that can be used for the whole industry and not just for this particular programme. The framework developed provides an integrated tool to assess production and financial performance. This also provides a tool to measure the greater impact of the project.

Extension of the Public-Private-Partnership with Government to include the Jobs Fund and the Eastern Cape Department of Agrarian Reform (to a lesser degree) has once again proven to be very successful.
The total number of people trained were 477 of which 96 received accredited training and 381 non-accredited training.

The majority of the entities (17) are Global GAP compliant; 16 are SIZA accredited.

10 of the 21 entities are commercialized; 6 of the remaining 11 entities still require some assistance to be commercialized and the remaining 5 would require substantial support to be commercialized.
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Extension of the Public-Private-Partnership with Government to include the Jobs Fund and the Eastern Cape Department of Agrarian reform (to a lesser degree) has once again proven to be very successful.
Key learnings:

Strategic partnerships are not only key between Industry and Government, but also on an individual entity basis as well. Especially where both parties have skin in the game and financially contribute towards achieving the required result. The strategic partner can stabilize the financial position of the farm and share in the risks, provide access to systems, structures, networks and infrastructure to support the development and growth of the business.
During the establishment of long-term crops, sufficient provision needs to be made for maintenance costs, especially if the business does not have a supplementary income and/or other enterprises. In hind-sight, the production inputs allocated to newly established orchards should not have been reallocated.
Business Management competencies and capabilities remains one of the critical elements towards commercialization and requires more focus. Record keeping and the ability to report in a timely manner.
Ownership and taking charge of their own future from the beneficiaries with regards to their businesses and business decisions.

Care should be taken not to create a dependency on grants which is not a sustainable funding model and does not yield the long term sustainable results.
Job creation on long-term crops (especially permanent employment) takes longer than anticipated and the real impact is only realized 8 to 12 months after the establishment and/or replacement of orchards.
Cash flow management of the programme should take into consideration that payments from all participating entities may happen later than anticipated and sufficient provision must be made for this. Provision should also be made for additional costs not originally part of the process, for instance, the development of the business plan, the implementation plan and sourcing the required capacity and infrastructure should be included in the budget from onset.
The budget for a multi-year programme should include a contingency fee to ensure that cost escalation due to annual inflation are provided for.
The institutional arrangements around the management of the programme should not be underestimated – steering committee at a strategic level to ensure that the programme remains on track and approve deviations also given the context of multiple players; the operational committee to assist the project manager with the required support to roll-out an extensive programme. These committees should be as small as possible to ensure that timeous decisions are made and that the required action is taken.
Communication between all role players – producers, Industry, Government in terms of what is expected, what has been achieved and developmental gaps. Communication of what works and what does not work is just as important, as well as the documentation thereof.
Technical support is critical to ensure effective and efficient implementation and to provide guidance and support during the implementation phase to ensure the required results. This also helps to establish a pro-active approach instead of being reactive.
Regular monitoring and evaluation including continuous data collection and analysis at the various levels from farm level and at a project level is critical to determine the impact of the support programme.

Flexibility in the implementation plan to adapt to changing conditions is paramount within the context of the project objectives and scope.
The contracting of beneficiaries has also proven to be a critical element to success as it provides a mechanism to ensure cooperation and participation.
The funding of the DFDC commercialisation programme were prioritised according to achieving the outcomes of the support provided with a big emphasis on new job creation and the production capacity. Therefore, not all items required were prioritized. The assumption was made due to the fact that these funds were invested in the form of grants and increasing the balance sheet of these entities would help businesses obtain commercial finance. However, this was not proven to be true for all the entities, only the entities that are privately owned or where a title deed from Government was obtained. With the PLAS (Pro-Active Land Acquisition Strategy Farms) or the State-owned farms, this is not the case and these entities are not receiving the benefit from these investments.
Challenge: Lack of meaningful participation of previously excluded groupings in the fruit value chain partly due to the lack of access to finance for the “missing middle” that is creating barriers to economic growth, job creation and greater inclusivity.

Objective: The creation of a ring-fenced debt facility to the value of R600 million to implement a different and comprehensive financing and support system that would result in economic growth, sustainable development and job creation. The target beneficiaries of this programme is applicants with a higher risk profile due to a lack of a track record and/or limited or no security, however with the ability to repay.
Objective: Grant funding is not enough to fund the required level of interventions to support agricultural development and transformation and grants is not a sustainable funding mechanism over the long-term. A new comprehensive and sustainable development finance instrument is required to enable the anticipated growth and transformation that is required in various policy documents. The Hortfin fund was created based on the experiences with the DFDC Commercialization Programme to address the gap in finance identified and the positive results achieved with a range of interventions where the involvement in the business from the onset has proven very successful.
Objective: The debt finance will be made available at very competitive rates provided for the risk category. Interest rates will vary from Prime -2% to Prime +1%. Repayment will be matched to cash flow and the ability to service debt. The focus therefore is not only on finance but creation of a sustainable business and the financing thereof.
**Objective:** This programme is focused on majority black-owned businesses (51% black ownership and more) with the ability to expand and create additional jobs in the fruit value chain. The objective is to utilize 60% of the funds on primary level (780 Ha) and 40% in the value chain with 1,700 new jobs linked to these projects.
**Objective:** This project is multi-stakeholder project that includes pome and stone fruit, table grapes and wine grapes. Furthermore, the purpose of this project is to attract additional funding to grow this fund and focus on black ownership of less than 51% that is meaningful and impactful. This programme will be implemented over a 3-year period, with a repayment period of 15 years.
Achievements:

- The funding institutional structures have been operationalized with a multi-stakeholder board that gives effect to the financing decision.
- Industry funding resources of R100 million (interest free) have been secured through obtaining a loan from a commercial bank.
- All legal agreements between the various parties have been signed with reference to the Land Bank providing R300 million at a rate of Prime-2% and the Jobs Fund that provides a grant to the value of R200 million.
The application and approval process has been established.

There is a sufficient pipeline of applications received to date (application top R1.2 Bn)

All financial contributing partners have made the funding available to date.
The total funding disbursed to date (December 2019) is R26 million – the first 2 pilot projects have been approved and are being financed in order to create a workflow for the other applications to follow.

Hortfin has established its operational capacity, systems and structures to be able to effectively deal with the applications.
Key learnings:

1. Independent chair not linked to any of the participating industries is key to remain impartial and objective.

2. Too many stakeholders complicate the management of such a programme as the requirements for each entity is different and this has a direct impact on decision making and roll-out.

3. Need to work with partners with the same objectives that understand the urgency of decision making and project implementation.
Not complicate the institutional structures – tend to over complicate things.

Land Bank was not the ideal partner and the Industry should have considered other institutions as a partner, including but not limited to a partner.

Need to include capacity with banking and deal making/structuring as part of the operational team.
Can only consider green fields; new ventures and/or expansion of existing businesses as the job creation numbers will not be satisfied otherwise.

Balance between capital and job creation need to be managed to achieve the required result.
A formalized Public-Private-Partnership with the Western Cape Department of Agriculture for Farmer Support and Development. The WCDOA and Industry has shared transformational objectives such as: increased participation of black people in the economy; increased black ownership throughout the value chain; increased job creation & addressing unemployment issues; reduction of poverty; economic growth; and long-term sustainability.
This partnership between the Industry and the WCDOA started in 2009 since the inception of the “boompie projek” that paved the way for greater collaboration. **Through this partnership the Industry and the WCDOA can build on each other’s strengths in order to be more successful with the funding and implementation of government support programmes.** This enables the WCDOA and Industry to leverage expertise and funding from one another. Subsequently DFPT/Hortgro has been gazetted as an implementing agency for the WCDOA.
To date, funding in the order of R168.6 million has been disbursed through the collaboration with the “boompie projek”, DFDC Commercialisation Programme and CASP (Comprehensive Agricultural Support Programme) beneficiaries.

60% of these funds were spent on 100% black-owned entities and 40% on shared equity. Additional funding is also geared through this approach from the commercial partners that matched Government funding.

The Industry provides project management, financial support, regular reporting, technical expertise and assistance and mentorship at its own expense.
• Business Development support – Business Plans, Feasibility, Profitability, etc. (100% & Partnerships; New entrants). This is addressed either by contracted capacity and/or internal capacity (only dedicated to economic development programmes)

• Technical assistance & mentorship

• Market Access/Readiness – SCLP Programme

• Market & Trade exposure (overseas study tours)
• Monitoring & Evaluation

• Project Implementation (CASP; DFDC Commercialisation)

• Capacity building – Symposiums, workshops, Field days, Study Groups)

• Policy related inputs

• Accessing of additional funding
The focus of the bursary programme is based on scarce and critical skills and linked to research projects to address Industry needs. Bursaries are provided at under-graduate and post-graduate level. Over the last 5 years, a total of 138 under-graduate students were supported through the Industry Transformation funding. In addition, 240 post-graduates and 20 doctorates were supported. The total funding invested over the last 5 years were in excess of R21 million. The profile of post-graduates and doctorate students have changed dramatically. During 2018, almost half of the students funded were black.
The purpose of the Fruit Workers Development Trust is to **address the social conditions of agri-workers on pome and stone fruit farms**. These employees are faced with challenges relating to alcohol and drug abuse and domestic violence and a range of other social issues.
The Fruit Workers Development Trust has assisted permanent farm workers with life skills training to improve worker welfare. In addition to this, permanent workers registered also receives a financial dividend from the funding that is invested on their behalf.

The total dividends paid to 1,500 workers over the last 5 years is R4.9 million.
Hortgro is committed to invest and provide industry expertise for years to come