Moletele Farms South East Cluster

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.

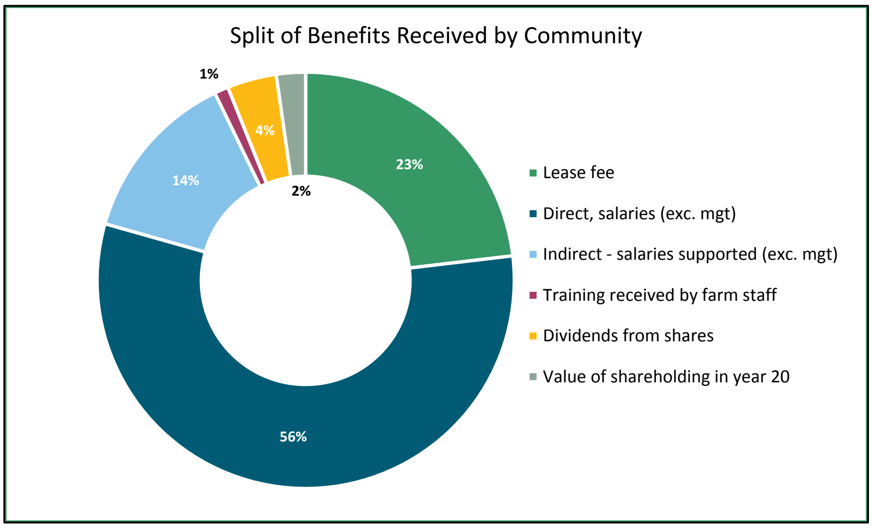
An initial attempt to set up a joint venture with an investor failed when the government grant earmarked to finance the community equity participation did not materialize. A subsequent attempt to create a strategic partnership with a manager to run the farms was also unsuccessful because the operator 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.