

'Between the Woods and the Water'

The Policy and Legislative
Environment for
Outgrowing at the
Regional Level:
KwaZulu–Natal

Jeff Zingel



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Outgrowing at the Regional Level: KwaZulu-Natal***

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2000

**A report prepared as part of the South Africa Country Study
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Contacts for the lead author: Jeffrey Zingel, Independent Development Trust, PO Box 73000, Lynwood Ridge 0040, Tel: +27 12 845 2105, Mobile” +27 82 901 2501, E-mail: jeffreyz@idt.org.za

About this report: This report is one of a series prepared as part of a collaborative research project on instruments for sustainable private sector forestry in South Africa. The reports in this series are listed below.

Instruments for sustainable private sector forestry, South Africa – report series

Overview and synthesis

- Mayers, J., Evans, J. and Foy, T. 2001. *Raising the stakes: impacts of privatisation, certification and partnerships in South African forestry*. This report draws on all the studies below and widespread consultation in South Africa. It analyses the impacts to date of privatisation, certification, outgrower schemes and company-community partnerships and presents conclusions and a set of options and next steps for all the main stakeholder groups.

Redistribution of opportunities and assets in forestry

- Khosa, M. 2000. *Forestry contracting in South Africa*. This study of trends in outsourcing and contracting in the South African forest industry seeks to deepen understanding of the national context within which contracting is an increasing practice, and examines possible options for outsourcing.
- Heyl, L., von Maltitz, G., Evans, J. and Segoale, R. 2000. *Issues and opportunities for small-scale sawmilling in South Africa: an Eastern Cape case study*. This report describes the scale, structure and market niche of the small sawmilling subsector, with a focus on the Eastern Cape Province.
- Horn, J. 2000. *The role of small-scale sawmilling in household and community livelihoods: case studies in the Eastern Cape*. This study focuses on the livelihoods of small-scale sawmillers in the Eastern Cape, using a case study approach.
- Bethlehem, L. 2001. *Bringing democracy to the forests: developments in South Africa’s forestry policy and legislation*. This paper describes the policy and legislative changes in the forest sector, and sets recent initiatives in the context of a drive towards sustainable and equitable forest management.

Forest certification in South Africa

- Frost, B., Mayers, J. and Roberts, S. 2002. *Growing credibility: impact of certification on forests and people in South Africa*. This is an overview of all the certification studies with additional supply chain analysis.
- Scott, D. 2000. *Environmental aspects of the forest management certification process*. This report by a member of FSC certification audit teams examines the audit inspection instrument and provides commentary on how it is used.
- Clarke, J. 2000. *Social and environmental aspects of the forest management certification process: a discussion of social assessment components in South Africa*. This report, drawing on audit experience, tackles the ability of FSC certification and the certification process to improve the wellbeing of workers and communities dependent on plantations.
- Hamman, J. 2000. *Forestry certification: social aspects*. Also by a member of FSC inspection teams, this report analyses the composition and focus of the audit teams and highlights issues which can compromise the positive impact of certification.
- Dunne, N 2000. *The Impact of Environmental Certification on the South African Forest Products Supply Chain*. This study traces the route of FSC certified timber from mill to market, seeking to understand the impact of certification on traders and retailers in South Africa and the UK.
- von Maltitz, G. 2000. *The impacts of the ISO 14000 management system on sustainable forest management in South Africa*. This is a study focussing on one company’s decision to adopt ISO accreditation, comparing the impacts of the ISO system with those of FSC certification.

- Crawford Cousins, C. 2000. *The impacts of stakeholder consultation in the FSC certification process on sustainable forest management in South Africa*. Focussing on the Stakeholder consultation process within FSC certification, this report highlights key assumptions about the efficacy of consultation.

Outgrower schemes and community-company partnerships

- Zingel, J. 2000. *Between the woods and the water: tree outgrower schemes in KwaZulu-Natal - the policy and legislative environment for outgrowing at the regional level*. This report discusses the environment surrounding trends in outgrower development, both past and future.
- Cairns, R. 2000. *Outgrower timber schemes in KwaZulu-Natal: do they build sustainable rural livelihoods and what interventions should be made?* Focussing on case studies of outgrower households, this examines the role played by schemes in rural livelihoods.
- Ojwang, A. 2000. *Community-company Partnerships in forestry in South Africa: an examination of trends*. This is a broad overview of types of partnerships in Southern Africa, with comparisons between forestry and other sectors.
- Andrew, M., Fabricius, C. and Timmermans, H. 2000. *An overview of private sector community partnerships in forestry and other natural resources in Eastern Cape*. Focussing at a provincial level, this report captures partnership trends in the Eastern Cape, drawing on five case studies.
- Sisitka, L. 2000. *Private sector community forestry partnerships in the Eastern Cape: the Lambazi case study*. This case study examines the relationships between stakeholders and actors in a corporate-initiated scheme
- Cocks, M., Matsiliza, B. and Fabricius, C. 2000. *Private sector community forestry partnerships in the Eastern Cape: the Longweni woodlot case study*. This report examines community preferences and options for the use of a woodlot in the context of opportunities provided in the forest restructuring process.
- Sisitka, L. 2000. *Private sector community forestry partnerships in the Eastern Cape: the Umzimkulu case study*. This is a study of a corporate-community joint venture project in a part of the province that has good afforestation potential.
- Cocks, M., Matsiliza, B. and Fabricius, C. 2000. *Private sector community forestry partnerships in the Eastern Cape: the Manubi woodlot case study*. This study examines issues around partnerships and joint forest management around a state-conserved indigenous forest
- Ham, C. 2000. *The importance of woodlots to local communities, small scale entrepreneurs and indigenous forest conservation*. Comparing issues and opportunities arising around two woodlots, this study highlights the relative importance of government-planted woodlots to different community interest groups.

Copies of the CD containing the above reports can be obtained from:

Forestry and Land Use Programme, International Institute for Environment and Development,
3 Endsleigh Street, London, WC1H 0DD, UK.

Tel: +44 207 388 2117 Fax: +44 207 388 2826 e-mail: forestry@iied.org

<http://www.iied.org>

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Tel +27 12 841 3640 Fax: +27 12 841 2689

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“We face enormous challenges in addressing the distortions of the past. It is inconceivable that the challenges can be successfully addressed by any single or select group of individuals or organisations. We need partnerships. Partnerships will provide the multipliers that are so urgently needed. If we develop partnerships we should structure them properly. We must not lose sight of two imperatives. Firstly that farmers are the starting and finishing point. Secondly, we must draw on the strengths of partnerships rather than to develop these in competition. What we have to do is develop niches within organisations and form relationships so that we can develop together.”

In address by Patrick Sokhela: Chief Executive Officer of the Institute for Natural Resources, University of Natal, Pietermaritzburg, to 62nd Annual Congress of South African Wattle Growers Union (SAWGU), November 1998.

Executive summary

This report investigates the extent and nature of private sector led tree outgrowing schemes in KwaZulu-Natal. The aims are to understand the workings and the effects of the arrangements between companies and rural households in the constitution of company–community partnerships, and to assess the potential and applicability of the instruments adopted to provide for a more sustainable private sector led forestry sector.

The report begins with a brief history of the arrangements supporting the introduction of tree growing in colonial Natal and Zululand. These were marked by contradictory policies and practice, aimed alternatively at promoting and restricting local production for markets, and reflected the nature of the racial ordering of South Africa at that time. Many Africans were able to subvert the limits to state policy and by the 1950s, were producing considerable tonnages of wattle and wattle bark as well as eucalypt. During the 1960s the emergence of private sector milling capacity across the province assisted many with markets, and the patterns in this early adoption of tree growing suggest that it was often a strategy to gain security in land tenure, and to avoid forced removals and company attempts to gain access to African lands.

Formal company–community partnerships only emerged in the early 1980s, and were a planned response to the sustainable possibilities inherent in the earlier initiatives of the state, African growers and companies. Their growth coincided with a period of weak state support for smallholder agriculture. This was at a time in South Africa’s transition to democracy when the future role of the private sector in wider regional and rural development was contentious. It was also a period of strong economic incentives and policies for the support and expansion of processing in the industry as a whole.

Large scale land purchases by corporate forestry interests attempted to secure sufficient throughput to allow price and volume independence from the private white growers. But a measure of insecurity in supplies prompted the expansion of the partnerships into the tribal wards, and included both the African independent growers and new growers. These discrete outgrowing operations were established as planned components of vertically integrated and wholly owned processing companies and marked by the absence of any state support and by private sources of finance.

During the early phases in the introduction of the instruments in partnerships, a large degree of conflict and uncertainty prevailed. Changes in the structure of opportunities and new relations driven by commercial considerations in poor rural communities imply changes in relations of status, power and position, as well as in tenure security. Early adoption of outgrowing by households was simply a measure to gain security in land which usufruct rights in tree planting – as in other forms of land use allowed in the province. Companies tended to drive the introduction of operations in outgrowing strongly, and much dissatisfaction, misunderstanding and suspicion arose, resulting in some large scale conflicts.

Over time people began to see the comparative economic and financial rewards against subsistence cropping and sugar cane cultivation. This shift away from principles of a local management of the commons towards one of open resource access to all occurred, allowing for a wider acceptance and endorsement of tree planting. The benefits of company provided finance, essential infrastructure and secure markets in weakly developed rural regions were also major driving factors in the rapidly increasing rates of adoption and of output during the 1990s.

The contribution of outgrowing to regional output is now more than significant. The nature of the responses above, and the profit margins – with outgrowing contributing up to 5% of total industry throughput – are such that the companies are having to manage a service and to carefully integrate operations with the industrial estates, as well as to upgrade local efforts via an improved structure of extension and contracting support, and to introduce measures for certification of the product.

Impacts and effects of outgrower tree farming on households are economically and developmentally important, realising an average R8,912 per ha per cropping cycle of 6 years, or R1485 per annum, well beyond averages in small scale sugar production, and without the price or tariff protection that sugar enjoys. Some astute growers adopting best practice realise up to R16,000 per hectare. The contribution to rural livelihoods is significant -at between 12-45% of households' total incomes garnered within diverse and multi-faceted strategies in rural and urban settings, while the operation of the four essential downstream tasks in outgrowing – weeding and pruning, harvesting, field to zone /depot and long hauls to the mills – provide temporary and permanent opportunities which reach the very marginal and more vulnerable households. The returns to the company investment are also significant, comparing favourably with company estate plantations, and recovered within very short strategic financial horizons.

The partnerships support company interests in accessing the opportunities in the privatisation of state forestry assets, but the process is unlikely to lead to a deeper empowerment and redistribution towards local outgrower and contractor interests, since the criteria allow for city based interests to access the associated equity, which is expensive and beyond the reach of local interests. Significant further gains in relation to empowerment can be made by the institutional incorporation of the hardwood outgrowers in representative industry structures, with successful examples existing in the wattle and marketing co-ops in the province, as well as in the adjacent sugar industry. Equity gains to outgrowers in downstream processing, where the greater proportion of value is added, should be a key aspect in establishing these new relations.

Sustainability and progression in outgrowing is clearly predicated on the applicability, and the ability to implement, policy and planning in the post 1994 South Africa. It is also predicated on estimates of the vulnerability of forestry to external shocks and

commodity price movements concomitant with general trends in globalisation, and the nature of any associated corporate restructuring.

While national forestry policy has a stronger emphasis on a wide support framework for community forestry, policy for small scale producers is cautious and qualified. Public sector concerns about grower options in markets, prices, land use and the nature of corporate 'use' of the partnerships are however covered in the report in detail, and avenues for the progression and consolidation of outgrowing, within considerations of these policy concerns, are highlighted.

Major avenues for innovative new arrangements exist within the framework of land reform policy in the province, where agribusiness can play an important role in providing markets, knowledge and support. Other possibilities have been identified in the potential propensity of the corporates to divest from the large scale ownership of estates (as has occurred in the sugar industry and aimed at reducing gearing and commitments in land); where existing outgrowing interests such as the stronger growers, sharecroppers and contractors can be accommodated in development companies driven by specialist managers, and which do not devolve ownership to non-rural African owners based in the cities. Further options still exist in the context of local government led strategies for an inclusive local economic development, concomitant with new provincial planning for a more integrative land use across historically and racially determined urban-rural divides. Considerable precedent exists in urban development planning and policy for such developmental investment.

Following a summary analysis of the impacts of the instruments in the partnerships, the report moves to an assessment of the strengths and weaknesses, opportunities and threats (Swot), to a sustainable private sector outgrower forestry, and ends with a consideration of best bet options, principles and arenas for the way forward.

All are conditional on an interpretation of the needs and demand, for an expansion of outgrowing, (where the effects of new mechanisms for the management of stream flow reduction in relevant catchments is a major potential constraint), and on the ability of a multiplicity of institutions and actors to arrange appropriate investment in complimentary manner. The possibilities may be enhanced by the establishment of a specialist unit in the province, endorsed by the national department, which gives effect to the requirements of assembling disparate institutions and interests with possible responsibilities in the consolidation of the sector, within an endorsed national and provincial framework.

1 Introduction

KwaZulu-Natal has a large and segmented forestry sector which provides a major contribution to the national forestry product. It is also the province with the most significant history and investment by the private sector in small scale outgrower partnership programmes in both the timber and sugar industries. Since company–community partnerships are an increasing phenomenon and forestry policy option worldwide (see Mayers 1999; Mayers and Bass, 1999; Ahmed and Mahmood, 1998; Watson et al 1998), these programmes have been in place for a sufficient period to provide an arena for understanding and assessing the instruments and outcomes in the arrangements between companies, communities and households.

1.1. Aims of the study

This report is thus about company–community partnerships in outgrower forestry. It aims to provide an understanding of key issues in the evolution of the forestry outgrower schemes and in community-based plantation projects, and of their operation and contribution to local development and to empowerment and redistribution in the province. What works, in these partnerships and how and why as well as the extent of their contribution to economic, social and environmental goals are the major concerns. Their potential as models for socially and environmentally sustainable private sector forestry can make an important contribution to policy development in the sector.

The report is the first of two related investigations which cover the third theme in the CSIR-IIED South African Country Study, a part of the 'Instruments for Sustainable Private Sector Forestry Project'.

In South Africa a range of company–community relationships have emerged through a variety of historical arrangements, instruments and agencies. The most advanced and enduring cases are those in KwaZulu-Natal, in agreements between the two major industrial grower-cum-processor forestry companies and individual small scale outgrowers. Other partnerships are with private producer associations and marketing co-ops. Taken together, the partnerships represent a diverse and dynamic outgrower *milieu* located within a complex, transforming regional economic environment and provincial forestry sector.

This diversity provides a broad landscape within which to assess the substance and impacts of four particular components of company–community relationships. These are:

“The forces for and against partnerships-assessing company and community motivations for participating in tree growing within the context of a formalised partnership or agreement;

How partnerships work- understanding how projects and schemes were initiated and how they have progressed, including the nature of agreements and contracts, the expression of rights, obligations and liabilities, and whether these are workable.

The impacts of partnerships – assessing the positive and negative social and economic impact of projects and schemes, both on participant households and also on a wider scale (a community as a whole and beyond), in order to understand the degree to which partnerships are able to contribute to the sustainability of private sector forestry, and *Assessing the lessons from other sectors – sugar cane and*

wattle outgrowers, and equity sharing arrangements in agriculture.” (CSIR/IIED/ODI, 1999)

This focus on partnerships in South African outgrowing can be distinguished from other international experience by two predominant factors.

- The first is the race based characteristics of outgrowers. All are African, and the majority have entered into partnerships with predominantly ‘white’ companies, unions and co-operatives from a base in marginalised residential locations in the *bantustans*. These were created within the framework of *apartheid* policies, are marked by small landholdings, poor infrastructure and tribal systems of land tenure without a formal market in land. These conditions continue to define the nature of the partnerships.
- The second factor is the impact of the country’s political independence and transformation and the current transitional nature of the economy. The forestry sector lies squarely within this transition. The influence of changes in wider political, economic and institutional environments on the outgrower sector strongly inform regional and local partnership arrangements and issues.

The report thus considers the following more ‘macro-scale’ contexts and trends;

- Those historical, macro-economic and market trends and any associated political imperatives,
- The influence of national forest policy – any changing policies to encourage private sector involvement in sustainable forest management and their variable capacity to implement policy and play active roles,
- Relatedly, the opportunities for outgrowing provided by privatisation and forest restructuring, and the transfer to communities of state category B and C forests,
- Corporate forestry responses – and any re positioning to maintain or access markets,
- The influence of legislation on land and labour,
- An assessment of whether outgrowing affects the overall scope and distribution of benefits from the forest industry/sector, and to what extent does it contribute to empowerment and redistribution.

Additional key issues and trends considered at the regional and local scale include;

- An exploration of the economic opportunities available and the power relations between the various stakeholders,
- The experiences and perspectives of key actors, including forest agencies, critical NGOs, private farmers’ and their representative organisations, contractors, non contracted growers, non growers and local government,
- The nature of plantation forestry and trends within it, and how this affects corporate approaches to ownership of land, control of labour and the maintenance or expansion of outgrowing,
- The impact of private sector forestry in terms of the overall costs and benefits to the companies concerned and the way in which these schemes affect company practice in areas and on issues beyond the bounds of the schemes themselves,
- Private sector forestry initiatives towards the reduction of risk and hassle factors in plantation and outgrower forestry and
- The positive and negative environmental impacts of outgrowing.

Taken together then, specific partnership concerns, informed by key issues and trends at macro, regional and local scales are the concerns of this first report. It draws on and elaborates the findings of the second, associated report (*Cairns, 2000*) in a collaborative manner.

The opening section begins with a brief history of vacillating colonial policies for the support of African tree production. It provides a concise contemporary profile on the extent of land, agriculture and forestry relations in the provincial economy, which is contrasted against the present extent of African production and rural livelihoods. Against this background, the aggregate contribution of outgrower and small-scale production in sugar cane and in forestry is established, and briefly contrasted with other public investment in forms of support for smallholder production.

The next section introduces the four major agencies which interact in outgrowing, and provides some structural dimensions underpinning their contribution to the development of the 'sub-sector'. It covers the initiation, some instruments, and the forms and extent of the uptake in the major partnerships. Household, community and company responses to their introduction are then summarised, covering an early period, and the more recent period of some significant consolidation and diversification.

From this base in present practice the contemporary policy environment, including national forestry policy, land and tenure reform and the privatisation 'environments' impacting on the sector are covered, with the impacts of recent legislation on water use assessed. Recent provincial level planning and rural development policy is established, and the import of recent investment in Spatial Development Initiatives covered. Within the current frameworks of conditions in the outgrowing, responses of the industrial and private grower sector are assessed, and some implications for outgrowing are contextualised.

In the fourth section, the foregoing provides the basis for an essential comparison between the nature and extent of small scale sugar cane production and timber production, since the two crops are used by the majority of small scale producers in the province. A brief history, the industry support structure, and frameworks of institutional and financial support are contrasted, since there appears to be a basis for the development of sound policy for timber outgrowing.

The fifth section provides summary analysis addressing the four key partnership issues listed in the introduction and covers the respective costs and benefits between the private sector and outgrowers, highlighting key areas for any sustainable private sector led forestry/outgrowing. A brief assessment of environmental costs and benefits in outgrowing is made and it draws heavily on the results emerging from the second component report.

Two concluding sections draw together the threads from the preceding material in identifying the factors which will most affect the extent and type of future development in forestry outgrowing. Best practice principles and instruments are distilled, and recommendations made for promoting the sector, to be used in furthering policy development and in consultations with the respective key stakeholders.

2. KwaZulu–Natal's forest and social landscape

2.1 Geo-physical environment

The province is on the eastern seaboard of the country bordering Mpumalanga province, Swaziland and Mozambique in the north and north east, the Eastern Cape and Lesotho in the south and south west, and a small boundary of the Free State province in the West.

The substantial rise in elevation within 200kms between the coastline and the Drakensberg mountains has provided for a complex and spectacular physiographic environment of 7 major land type categories. A heterogeneous climate's interaction with the wide variety of constituent rock types has resulted in 19 soil types, of which 60% are of moderate potential and occur along the coastal regions. Wattle based outgrowing takes place largely in the upland regions and the hardwood, eucalypt partnerships occur in the low lying and coastal regions. Rainfall distribution is highest in the Drakensberg regions, and in the eastern Zululand region of the province around Richards Bay. Generally seasonal, 70% is summer rainfall over October to March along the coast and in the interior regions, 80% is summer rainfall.

2.1.1 Some history

The initial instruments determining the nature of African responses to the possibilities of growing trees for markets were embodied in varying contradictory policies in the colonial and early apartheid state. Early programmes set aside woodlots, special plantations and selected forests to defer indigenous pressures on the natural forest resource, and over the 1900-1930s shifted towards encouraging local planting, essentially for the promotion of own consumption, conservation and erosion control.

Throughout the province, government was critically important in facilitating the development of the tree growing sector as a whole. It financed research, facilitated the introduction of alien tree species, took on softwood production, and promoted the emergence of saw milling and private timber production in the white areas. Such state directed development meant that forestry policies were closely related to policies for segregation and later apartheid, and therefore reflected and helped to perpetuate the racial inequalities of the South African social order. Policies to do with land allocation, land tenure, discriminatory labour practices and administrative arrangements,¹ and fears of direct competition with white producers, all played a part. In the economically depressed years of the 1920s and 1930s, the state initiated forestry schemes which deployed poor whites as a source of labour, with no such schemes for poverty-stricken black communities.

Evidence suggests that by the mid 1930s, some commercial returns off about 6000 ha were realised from the early tree growing programmes in the 'native reserves', but that the prospect of an emerging peasantry hastened the introduction of restrictive practices aimed at limiting this potential. Official thinking in the then Dept. of Native Affairs took the view that the reserves should provide for larger, centrally situated commercial plantations and service emerging saw milling and mining timber markets. Africans were to be relegated to wage labour roles, to producing trees for their own consumption, with some seed material provided by the government. The overall result was the failure of a successful stratum of African tree growers to emerge.

Despite these restrictions, many growers began to gain a purchase on the limits in state practice, and from the benefits arising from new mills and tanning extract plants being established across the province. By 1960, some 9000 ha planted to wattle was being formally marketed via quota, and the new pulp mills in Zululand reported receiving fairly significant tonnages of eucalypt. Much of the latter planting comprised

¹ The full implications of land policies on the reserves and tribal wards are covered in Annex 1

local strategies aimed at avoiding forced removals off the land, and early, unstructured private forestry sector attempts to secure traditional African land holdings to timber production (see also *Cairns 2000*).

2.1.2. Contemporary contributions of agriculture and forestry

Agriculture's contribution by value to provincial GDP was estimated in 1996 to comprise R2,2 bill (in 1990 it was R1.8 billion), and follows a declining manufacturing sector (R11 billion), an expanding commercial sector (R6 billion) and increasing services (R6 billion), transport (R4 billion) and finance (R3,9 billion) sectors. Field crops account for 45% of production by value and the balance is in animal products, principally cattle, pigs and poultry (45%) with horticulture's contribution ten percent.

The provincial forestry sector's contribution at this 1996 period was about R487 million, some 43% of the value of national forestry output. Its contribution to employment increased to 42,990 people in 1999, of which 25,490 are in 'direct' employment and the balance in outsourced, contracted operations. Commensurate with these increases a large scale planting of land to timber plantations occurred over a period of rapid land purchases to support new investments in processing. While nationally the period 1980 to 1992 saw a total 262, 928 ha planted up, in Kwazulu-Natal the extent of lands to the hardwood species increased from 161,082 to 243, 792 ha, and to the softwoods from 142,132 to 205,671 ha. By 1992 total lands to timber in KwaZulu-Natal comprised 525,463 ha in extent, increasing to 577,788 ha in 1999. Presently the industrial grower-cum-processors control some 310,000 ha, and the private growers own about 210,000 ha, with the balance, which includes the former South African Forestry Corporation (Safcol) and departmental plantations presently being privatised, in public hands.

The determining feature underpinning aggregate patterns in agricultural and forestry use of land is the legacy of the apartheid polity on racial land delineation. Forestry's uptake in a total 9,148,000 ha, is contrasted to other agricultural lands, to nature conservation and to grazing in the table below, where for convenience lands in the former Kwazulu areas are described as 'developing areas' in contrast to the highly developed 'commercial' areas.

Table. 2.1 Provincial land use patterns

Sector	Total area (ha)	Pot. Farm land (ha)	Graz-ing	Nature Conserv.	Forestry	Other Agricult.
Comm-ercial	5,540,700	4,093,442	28%	28%	14%	30%
Develop-ing	3,607,400	3,089,912	75%	5%	2%	20%
KZN	9,148,100	7,183,364	50%	18%	6%	20%

Public forms of ownership of land is extensive, totalling almost 5 million hectare or about 55% of all the province. The Ingonyama Trust, a legal vehicle for the maintenance of the tribal lands in the modern polity, holds 3,425,974 ha, and the provincial Department of Agriculture 260,000 ha. (both traditional KwaZulu lands and Trust lands) while the Dept. of Environmental Affairs held some 757, 282 ha and the Department of Water Affairs about 359,710 ha in 1996.

2.1.3 Some population and employment dynamics²

Available 1995 estimates were of 9.8 million people in 1,6 million households (with about 60% under 16 years old) and increasing at about 2-3% with predictions of a 2010 population of 12.9 million. Fifty percent are considered functionally urbanised. Aids projections temper these forecasts, with HIV prevalence likely to peak at 29% or 1,115,466 people in 2006, while this year about 40,082 people have already died from the pandemic. Deaths are predicted to rise by some 710,000 and to reach an annual peak of 107,102 by the year 2010, and then to decline.

Total *informal* employment in the province, including subsistence agriculture, was estimated in 1995 to account for 1.5 million 'jobs', with people engaged in about 350,000 non-farm micro-enterprises, and about 300,000 small scale and subsistence farm enterprises. A pervading feature of this social landscape is the extent of poverty, with between 44% and 65% of all households, depending on size, living below standard poverty datum levels.

Within these conditions, the major structural dimension impacting on land use and production is the multi-faceted nature of household survival strategies in both rural and urban settings. Individuals and households diversify income sources as a key strategy in influencing the well being of households. Monthly and weekly migration, and daily long distance commuting across the patchwork like quilt of former Kwazulu and Natal lands enable rural households to access a wide range of formal and informal employment opportunities, as well as urban markets and goods.

2.1.4 African production and land use- small scale sugar cane and tree growing

It has been estimated that about 700,000 African households use land for some form of cultivation. Together, commercial and 'emerging' smallholder producers number about 75,000 of which the majority engage firstly in small scale sugar production and much of the balance in outgrower and small scale forestry. Subsistence cultivators number around 233,000 and households with garden plots about 555,300. Farmworkers with families number 30,800. Small scale sugar cane production makes the predominant contribution to rural production and incomes, with small scale forestry and outgrower forestry the second largest contributor and increasing. The overall estimate for 2000 suggests 16,174 growers produce 582,244 tons of timber off approximately 31,615 hectares.

Table 2.2. Small scale producers: sugar cane and timber

Kwazulu-Natal small scale and outgrower production	Producers	Area hectares	Total Production	Proportional industry contribution
Small scale sugar outgrowing	55,000	73,000	4 million tons	13% /production 23% / land use
Small scale timber Outgrowing	15,547	31,615	582,244 tons	2-5% /production 4% /land use

Sources: SACGA. Timber industry officials.2000

Other public investment in the small scale agriculture sector

² Main sources for this sub-section are from p. 13

Apart from the investment by the sugar and timber companies in outgrowing, little developmental investment in smallholder agriculture has been sustained. The main supporter has been the para-statal KwaZulu Finance Corporation (KFC), which directed state subsidised resources into a range of local production and contracting enterprises via a Farmer Support Programme driven out of South Africa's Development Bank between 1986 and 1992. With an emphasis on the supply of credit for the procurement of inputs, moveable assets and fixed improvements; and the supply of inputs to contractors; promoting the supply of services for land preparation and for planting. Initial expectations were to support 1727 seasonal clients and 30 contractors annually, reaching a total of 10,000 'farmers'. Total investment 1990 was over R15 million, and total losses incurred were R8.5 million. Overall evaluations found the impact of the FSP was poor, with only 10% of households surveyed in the respective areas of operation making use of the KFC loans, which contributed less than 1% of farm input costs.(Vaughan, A. 1996; May. J. 1996; DBSA,1998, 2000; DWAf,1998; Poyry, J. 1999; Economic Research Unit, 2000.).

2.2. Institutions and actors in outgrower forestry

Four major groupings of interests influence the form of investment in the outgrowing enterprise in the province. Access to land in the former tribal areas has always been a prized and contested arena for agricultural, recreational and conservation interests in South Africa. While moderated in the past by policies for apartheid, post 1994 policies have allowed for a variety of avenues for investment by these interests. This unfolding of a historically retarded 'development process' thus inherently encompasses strongly competitive priorities and principles, and the progress in outgrowing is the outcome of complicated, often informal 'dialogues' between multiple interests, which sometimes results in less transparency and clarity than the sector warrants.

2.2.1. Private-sector interests

Sappi Forests Ltd., and Mondi Forests Ltd., the major industrial forestry grower- cum-processor interests in the country, have played the leading role in nurturing outgrower production. Their respective partnership programmes, *Project Grow* and *Khulanathi*, are 'integrated extension and supply programmes,' whereby the milling company finances growers, provides extension and management support and contractually secures the timber as a planned component of throughput into wholly owned processing plants, and as discrete components of vertically integrated operations. Institutional development and the incorporation of outgrower membership into the industrial interests is weak. The model conforms to classic definitions in the outgrower literature (See Glover, 1994, in Baumann, .1998).

In an expansion of this overall 'model', Sappi Ltd have also engaged a section 21 'not for profit' rural development foundation, Lima, which acts as agent in the southern coastal regions of the province.³

The South African Wattle Growers Union (SAWGU), a union of independent farmers, co-operative companies and wattle bark extract production interests have built a framework of support for outgrowing marked by financing, extension and the promotion of, sometimes, wholly owned markets in wattle bark extract factories. The

³ Section 21 Companies are 'not for profit' organisations promoting cultural, social or group interests and are allowed tax breaks. No profits may be distributed among members, with income used to promote articles and objectives only.

wattle plant allows for the achievement of reasonable returns in local (indigenous) markets, from marketing bark for tanning extract to local timber and the industrial pulpwood markets. Wattle outgrowing is marked by a significantly different level of institutional development and integration, clearly linked to the independent nature of the producer interests in Sawgu.

The third private actor in outgrowing, the NCT Co-operative Ltd (NCT) also represents independent producer interests in wattle, eucalypt and pine production. There are overlaps with Sawgu, given a mandate to market wattle logs from Sawgu's members. The overall function is a marketing one for private members, with a predominant focus (by volumes handled), on hardwood log and chip exports, on securing sales to the industrial forestry processors, and thirdly in a wide range of discrete national markets. NCT support for small scale timber producers has been built on earlier marketing relationships undertaken informally over the apartheid era and presently concentrates on supporting the establishment and integration of different forms of independent producers, associations, and contractors, with the overall objectives of securing their hardwood production in support of the above market quotas. The form outgrower representation takes differs significantly from that within the grower-processors and within SAWGU.

2.2.1.1 Forestry sector development and some market relations in the province.

This investment in outgrowing began over a period of economic optimism and of rapid growth in the timber industry as a whole, when national policies aiming to offset international and local disadvantages in the progress of the sector provided an impetus to the aforementioned new afforestation (section 2.1), and to an extensive related investments in pulp, paper and board processing plants. Pulpwood production doubled between 1980 and 1992 to some 7,000,000 tons, increasing at an annual rate of 6,6 percent (*FOA cited in Celliers 1994, p4*), (see section 2.1.3.) A stated objective in the planting programme was to secure 65% of throughput for downstream processing, a ratio which enables the industrial growers to secure a strong measure of independence from external suppliers, predominantly the independent private growers now largely consolidated into the NCT (*Saville, 1994; p10; Cellier, 1994 p13*).

The unprecedented scale and pace of the land purchase programmes was highly contentious and contested. Various parties emphasised the 'artificially' high land prices offered, the impact of sales of farmland originally to cane on sugar production, and the related viability of the province's sugar milling industry. The relative capital intensity in the industry, and the labour displacing element in forestry, (which was held at the time to employ one permanent worker for 7-10ha, against the sugar industry norm of 1 worker per ha.), were criticised strongly in terms of its effects on employment and on intra rural and urban migration. Other criticisms centred around the implications of the programme on water availability and its use associated with the effects of stream flow reduction, and the threats to fauna and flora and those general conditions promoting bio-diversity (see section 4).

Throughout the period of this consolidation in provincial forestry, changing patterns of demand, supply and market growth occurring between the private producers and the processing interests provided for significant movement in outgrowing.

- In competing for supplies and price advantages, the major private interests used their own resources with minimal public support and independently developed the earlier local African timber production initiatives into their own operations,

providing the structured finance previously unavailable in rural areas, and guaranteed, enforceable markets.

- In combination, the companies and co-operatives created a diverse set of available markets for outgrower producers throughout the province and internationally. These markets are distinguished by the relative transport distances to mills, depots or to rail sidings, the available frameworks of producer and contractor support and most significantly, by a 20% price differential offered by the NCT. Market options available to outgrowers have thus expanded, within the context of the segmented development of the industry,
- Thirdly, the forms of institutional organisation available for outgrowers have expanded from a generally weak set of potentially disempowering relationships in the early hardwood partnerships, into a wider framework of institutional and economic possibilities.

2.2.2. The State

Over the period 1972 to 1994 the former Kwa-Zulu Dept. of Agriculture and Forestry had added deeper dimensions to an already distorted dualistic structure in the agricultural economy, (*Carnegie et al, 1994*) describe the agricultural departments of the bantustan era as 'weak, centralised, supply driven support systems'. Despite the fairly widespread Farmer Support Programme, a consequence was that the uptake of any opportunities for smallholders was very limited, (*Vaughan, 1996, p109*) summarises the smallholder problems of the period thus;

"The notion that a competitive smallholding agriculture has been difficult, if not impossible to generate and support in the past is not contentious. Contradictory apartheid policies which effectively suppressed black agricultural production, but which sporadically attempted to foster black smallholders within the narrow confines of the bantustans, made failure almost inevitable".

The Kwa-Zulu department simply continued to provide wattle and eucalypt seedlings to independent growers, and then latterly adopted a wider regulatory role, negotiating approvals on behalf of the private sector for access to the tribally administered lands. It also approved private sector access to the existing timber stands historically developed by local growers (*Kewley, pers comm, 1999, Celliers, 1994 p30*). However, no coherent policies for forestry outgrowing were developed over the period. In contrast to the levels of public investment in the small scale sugar sector little, if any planning and provision for a supporting physical infrastructure for small-scale forestry was provided.

Contemporary state policies and investment has concentrated on promoting a wide definition of 'community forestry', with a neglect of independent smallholder timber production for markets. The potential extent of the privatisation programme of state timber assets in the former bantustans presently provides a limited framework for an expansion of interests within outgrowing partnerships, as do the recently revised programmes for land reform (covered in 2.4.3 and 2.4.4).

At the provincial level, policy and planning affecting private sector led outgrowing and agribusiness in general, continues to come to terms with a period of rationalisation of the two colossal apartheid bureaucracies of the 'white' Natal provincial administration and the Kwa-Zulu bantustan. New planning has been developed through a Growth and Development Strategy, and refined through a range of instruments and acts which have changed the spatial basis for rural, urban and district level planning, thus

finally integrating formerly separately driven planning for the quilt of 'black' and 'white' administered areas. In so doing last remnants of apartheid planning in the province have been eliminated. These major instruments are complimented by nationally driven but locally administered Spatial Development Initiatives (SDI's) and their import for outgrowing is covered in section 2.5.5.

2.2.3. Community and household interests

The third and major constituency is the broad community of African producer interests comprising individual households or groups of households in the tribally administered wards. This outgrower community can be stratified along the following lines;

- those independents who historically came to grow trees before the introduction of the predominant partnership programmes, and independents who have more recently adopted small scale timber production on their own,
- those who have joined the partnerships and currently manage a growing asset, presently responding positively to the realisation of the potential in the returns on coppicing, and
- those highly marginalised and vulnerable households with very limited access to sufficient land for tree growing (in parts due to the concentration of existing land holdings to outgrowing).

The following table sets out the present extent of their engagement with the private sector timber interests in the province.

Table 2.3. Participation in the partnerships

Partnership	Khulanathi (Mondi Forests Ltd.)	Project Grow (Sappi Forests Ltd.)	Lima Rural Development Foundation (Sappi Ltd)	NCT Co-operative	South African Wattle growers (SAWGU)	Areas planted (ha)	Tonnage produced 1999
Members	2 854					5 904	33 112
		3 134				9 031	39 120
			4 000			2 996	17 000
Co-operatives and special members/ Contractors				105		384	36 200
NCT General class members				600		1 800	27 000
NCT independents				700		2 100	Of 36 200 Above
					3000	3 600	24 000
Independents	1 200					3 600	49 632
			80			800	1 000

Totals	4054	3134	4080	1405	3000	29,415	193,794
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Sources: Various company officials. 2000.

The trend is one of increasing engagement and output, with their contribution comprising about 3% of total product to the industrial grower cum processors, expected to rise to about 5% in the next few years. Output is rising rapidly following the early phases of investment in the partnerships, and as the coppice crop bears fruit, while the new planting of fields in the registered partnerships has slowed due to the stricter regulatory regime around water use.

Despite the independent nature of the outgrowing enterprise, their participation in the partnerships has been mediated by varying levels of sanction and support from the state, and their respective tribal authorities. These relations are complex, with engagement often mediated by an interplay of political forces operating between local structures of the Inkhata Freedom Party (IFP), the African National Congress (ANC), United Democratic Front (UDF), the United Democratic Party (UDM) and local civic or development forums.

2.2.4. Conservationists and Environmentalists

Non governmental organisations (NGOs) in the fields of the environment, including the Endangered Wildlife Trust (EWT), the Zululand Environmental Alliance (ZEAL) and Timberwatch, have begun to take a critical interest in the progress of the partnerships. The KwaZulu-Natal Nature Conservation Services and a general community of interests in bio-diversity have also become involved. Participation is via planning for eco-tourism in the Spatial Development Initiatives, on strategic forums established by the environmental divisions of the forestry companies, or through representation on sub-committees interacting in stream flow reduction forums. Trade unions have also taken an interest and groups such as the Association for Rural Advancement (AFRA), active in land reform, have also participated. The 'lobby' is wide and vibrant, and are generally extending their concerns with the impacts of industrial forestry into a concern for the nature of 'development' in the previously marginalised but sometimes resource rich former bantustan areas.

2.3. Developments and responses in the partnerships

It was only in 1982 that a number of organisations collaborated in the beginnings of *planned approaches* to the promotion of African small scale timber production for formal commercial markets.

2.3.1. Khulanathi

The first initiative was driven by the university based but privately funded Institute for Natural Resources (INR). Adopting a catalyst role, an integrated rural development framework was introduced in the Biyela area with the dual aims of watershed/ land rehabilitation and local production for the market, and as a prompt for moving away from predominantly subsistence production practices (Celliers, G. 1994). The approach was considered to be a vehicle for private sector forestry involvement in rural development, and the Natal Tanning Extract Co., (later absorbed into Mondi Forests Ltd.) provided initial finance and technical advice. Six ha of demonstration plots were planted in communal areas under the overall auspices of the Tribal Authority, as a way of introducing the principles and concepts in the project.

The initial investment provoked scepticism in the community, probably due to perceptions that ownership and control of the lots were distant, in the hands of a

large private company whose motives were suspected, or in the control of the tribal authority, and thus beyond the reach of ordinary people. In attempting to address these concerns, the INR began the promotion of local grower committees over time, as a precursor to establishing plantations on household allotments. By 1987 the original Biyela scheme was extended by some 130 ha, and went beyond the original large block plantings to include individual households who held traditional tenure rights in tribal land. With this project as precedent, Mondi involvement was consolidated internally into the separate '*Khulanathi*' (Grow With Us) outgrower operation.

Its design and expansion was directly linked to the need to obtain more land for timber production, in support of a planned second pulp line at their Richards Bay mill (Celliers, G. 1994, p 3; pers comm, Kewley, 1999), and occurred over the period of the rapid land purchases for plantations, when uncertainties existed regarding the extent of supplies from the private white growers and of further land availability for industrial forestry production.

An indirect dimension to the start up of the partnership was possibly political. The period was one of rampant political uncertainties in South Africa, with the future predominance of the two major KwaZulu parties (the IFP and the ANC) extremely sensitive and highly contested. Private sector companies were also being tested regarding their contributions to the challenge of formulating development and transformation strategies for the transition period ahead. The investment in outgrowing might thus be viewed as a contribution to 'development' and regional politics. The 'strategy' could have contributed to the formation of local political alliances with a potential for 'payback' in the post apartheid future. (See Cairns, R. 2000 for an expanded interpretation of the associated economic advantages)

Whichever aspect prevailed at the time, the predominant criteria in establishing outgrowing for *Khulanathi* was an internal company objective, with decisions made to develop the operation firmly along commercial lines. Following the negotiation of contracts, (covered in detail in Cairns, R., 2000), *Khulanathi* began to aggressively establish extension operations in 9 selected locations, some of which had a history of tree growing and existing stands to timber, and based on criteria of suitable soil types, accessibility and relatively economic transport distances in the coastal lowlands of northern KwaZulu-Natal.

Original planting targets were ambitious, aimed at planting some 15,000 ha within 10 years (Celliers, 1994-p4). Only 5,904 ha has been established by 2000, with constituent grower members delivering 33,112 tons to mill gate in 1999. *Khulanathi* also provides a channel to mill gate for the independent growers, whose proportional contribution in outgrowing over 1999 was a significant 49,362 tons. Present planning and capacity within the partnership is for the development of an additional 800 ha. per year.

2.3.2. Project Grow

Sappi Forests Ltd. began promoting forms of social forestry in the Mandini area around their mill in the 1950s – by providing free seedlings to employees as encouragement to plant windbreaks around homesteads and as shelter for livestock in the adjacent tribal areas. By 1968 the mill was receiving fairly considerable tonnages. Essentially welfarist and informed by environmental concerns at the time, sustainability in the processing potential of this timber source was recognised by both company and community in 1983, and the initiative was formalised into the Project

Grow partnership. Start up financial support was provided by funding from the Gencor Development Fund, located in a major mining house.

This partnership has been driven in terms of a 'social responsibility investment', and also marked by the absence of any public or commercial banking sources of finance to growers. In contrast to the business foundations in *Khulanathi*, the approach has been more *laissez faire*, promoted by word of mouth, and encouraged by the provision of free seedlings and interest free loans (see *Cairns, R. 2000*). Over the period of its operation the constituent outgrowers have delivered 139,000 tons, with the organisation anticipating 83,000 tons during 2000. The programme currently has capacity to develop 1,300 ha per year and their ultimate planning horizon anticipates an average annual total harvest of 100,000 tons.

In 1983 Sappi Ltd. engaged the Lima Rural Development Foundation following their purchase of the Saiccor mill at Umkomaas in the southern coastal regions. Initially uncertain of the demand from local people, Lima were appointed on a time based contract for the first three years. Early doubts proved unfounded, with 861 ha planted over the period, and the contract thus changed and incentivised along a commission basis for areas planted and areas serviced (as well as on tonnage harvested since 1997). By 2000, about 4000 growers had entered the programme, a total 3000 ha. planted, and timber payments of R2,3 mill generated. The agreement is similar to Project Grow in Zululand, with farmers contractually obliged to sell to a Sappi mill (or one nominated by the company) at ruling mill delivered prices at the time of harvesting.

Over the period of the partnerships' development, both companies have made significant time based investments in promoting and supporting growers associations, planting and weeding associations, and contractors - at each of the annual maintenance, short haul (field to depot/weigh-bridge) and the long haul aspects of the essential operations in outgrower tree farming. They have also invested in weigh-bridges, and subsidised some growers' transport costs in the far northern reaches of the province. Lima for example, have supported the development of some 25 farmers' associations in fifty tribal wards and in certain areas growers have set up '*ilima*', (working groups of neighbours). Financial support for 15 constituent small contractors, and for a more appropriate technology of bow saws and hatchets to 30 'micro-level' contracting teams is provided within this framework. Another 12 long haul contractors support the programme, all of whom are from 'previously disadvantaged' communities.

Such investment has contributed to a more effective securing of an improved outgrower product, and at the same time promoted downstream enterprise and institutional development at the lowest levels of the operation of the partnerships. Many of the independent grower community are presently attempting to join the partnerships, principally due to;

- secure the clonal eucalypt varieties supplied from *Khulanathi* which are more suitable and lucrative than the old stock acquired elsewhere,
- gain access to the frameworks of contractor support developed through the companies, and
- the need to gain a more formal access to the company regulated and managed system of timber allocations into the mill gate.

2.3.4. Phezkhomkhomo: Wattle outgrowers

In 1992 local African wattle output was increasing and Sawgu, in recognising the sustainability potential, expanded on earlier exploratory extension work by undertaking the first complete ortho-photo survey of all individual wattle holdings. The exercise established patterns of ownership, area, age and silvicultural status with the record showing some 1,964 growers producing 3,595 ton of bark and 18,000 ton of timber annually across seven different districts.

Following approaches from a group of small growers in 1993 for financial assistance, decisions were taken in the industry to initiate a woodlot planting assistance scheme via initial seed capital of R500,000 provided by the Wattle Bark Industry (WBI). The scheme was subsequently named *Phezukhomkhono* by the growers themselves. (The Zulu name of the 'Piet my Vrou' shrike, whose birdcall is translated as 'wake up and get busy'). The design of the scheme was negotiated with existing grower committees (see Cairns, R. 2000). Bark has to be delivered to Sawgu member extract companies, while the timber may be sold on the open market which comprises indigenous sub-markets, formal local markets for poles and the industrial pulpwood markets via the NCT.

The same year saw the institutional incorporation of these growers within the discrete wattle industry structure. In the generally conservative climate pervading at the time, the Sawgu constitution was deracialised to accommodate a class of registered, financed small growers, defined as those not farming more than 10ha, and not necessarily delivering on an annual sustainable basis. While delivering less than 5% of the total sustainable harvest, 15% of seats on the General Committee (the controlling body of the union) have been allocated, based on the inherent potential for expansion in wattle outgrowing. In a major advancement, membership has been recently extended into shareholding rights in two of the wattle bark extract co-operative companies constituent with Sawgu.

Outgrowers' reactions have matched the positive industry response. With training provided by Sawgu, they have recently re-organised themselves into 18 representative grower committees at ward level, each with its own constitution, and created a supra-committee which handles and distributes all outgrower matters. Annual sales of timber to local formal timber markets and to the pulpwood markets comprises 13,000 tons (half of the small grower harvested total), approximately two percent of the annual sustainable harvest in the industry. Industry payments for both the bark and timber are approximately R4,5 million annually, with a total history of about R60 million in payments. Serious concerns presently exist in Sawgu regarding ongoing sustainability of outgrower operations due to restrictions placed on new plantings through the operations of new water regulations.

2.3.5. The NCT

Growing from a base in ad hoc and inconsistent marketing relationships for wattle growers over the apartheid era, the recurring theme over this period was that small grower needs were not effectively prioritised into NCT's sustainable harvest planning, with severe losses incurred in timber quality after debarking, and thus much financial distress (*Institute of Natural Resources, Draft Certification Study, 2000*). A new framework of support provides a better organised access to a major infrastructure of depots and sidings located throughout the province, and aims to effectively manage the allocations of the diverse contributions of African small growers in a revised organisational structure.

Since 1994 small scale growers have been constitutionally empowered to join a deracialised structure of membership and representation (covered in *Cairns, R.*

2000), and new producer associations, local co-ops and contractor associations are expanding from the base in wattle log producers to incorporate the marketing needs of eucalypt growers. A strong measure in the latter expansion is determined by the 20% price differential it is able to offer members and new entrants. This partnership differs in a structural sense, since the support is for the incorporation of independent African production into a wide range of markets, and not for the establishment of discrete outgrower extension and supply operations linked to processing.

Table 2.4 Characteristics of the partnerships

	Key Stages in the Growth of Partnerships	Aims in Articles of Establishment	Company and Outgrower Obligations	Outgrower Markets	Institutional Development and Structure
Khulanathi (Mondi Ltd)	<p>1983: Prototype with university institutes and early private sector support: Promotes land management and shifts away from subsistence.</p> <p>Originally on common lands. 1987: shifts to individual tribal land allotments.</p> <p>In 1987 consolidated into discrete extension and supply operation, incorporating new growers and early independent African producers.</p>	<p>To secure increased throughput in context of supply insecurity/competition and potential land shortages in expanding pulp markets.</p> <p>Some risk distribution, regional and political investment in neglected rural constituencies.</p>	<p>Company provision of credit, secure markets and prices, with some infrastructure, technology transfer and extension.</p> <p>Outgrowers provide tribal land holdings and guaranteed crop/product.</p> <p>Contractually obligated to sell to company mills, not enforced, especially in over supply situations</p>	<p>Outgrowers secure guaranteed access to local and international pulpwood (milling) markets.</p> <p>Companies aim to protect outgrowers from market fluctuations/ Commodity cycles</p>	<p>No outgrower representation in forest company structures, or in processing.</p> <p>Good informal downstream development of grower and contractor associations.</p> <p>No state support for institutional development.</p>
Project Grow (Sappi Ltd)	<p>1968:Welfarist company support for conservation /erosion control planting. Volumes appear sustainable in 1980s. Contracts drawn up in partnership mode and promoted by word of mouth.1987. Development agency engaged.</p>	<p>Shifted from welfarist to social responsibility in- vestment, then to common interest programme in context of increasing demand and expanding pulp markets.</p>	<p>Similar to that above, with the exception of interest free credit</p> <p>Growers obliged to sell to Sappi mills</p>	<p>Similar</p>	<p>Similar.</p>
SAWGU	<p>1970s/1980s: Support early production initiatives of African independents with welfarist extension advice, then see sustainability potential.</p> <p>1992: Assess extent of output in detail. 1993: Growers ask for finance: then consolidate institutional incorporation and ownership in processing.</p>	<p>Shifted from support for local production and processing needs into planned component of throughput and of industry representation structure.</p> <p>Some political investment in integration.</p>	<p>Company provide credit, extension and guaranteed markets for both bark and poles .</p> <p>Growers are only obligated to sell wattle bark.</p>	<p>Open market options in local indigenous markets, and in local, export and in process timber markets</p>	<p>Significant institutional incorporation into deracialised structure of private producers, with weighted 15% of 'vote' with 5% of membership. Shareholding ownership in processing.</p>

NCT	<p>Weak marketing support in 1970s and 1980s as part of mandate to Sawgu wattle producers.</p> <p>Expands rapidly in 1990s due to both local demands for provincial wide company infrastructure and as wider markets are secured nationally and internationally.</p> <p>1999: Incorporates eucalypt producers</p>	<p>Shifts from ad hoc support of individuals via Sawgu to planned component of meeting targeted throughput in local , national timber and processing markets, and export markets.</p> <p>High level institutional incorporation only linked to African private sector interest /contribution.</p>	<p>Company provide infrastructure, some credit, and better price/ market options linked to position in segmented industry structure.</p> <p>Nobinding contracts. Support linked to individual initiative/output. Membership and shareholding linked to production.</p>	<p>Wide market options in wattle and eucalypt.</p> <p>Local pole, pulp processing, Mining timber Markets and wattle chip export markets. Price options negotiated by NCT.</p>	<p>Strong instituional incorporation based on capacity to supply regularly. Three categories of membership based on land holdings, deliveries and contractor roles. Equity via ordinary and special holding and based on production achieved.</p>
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2.4. Trends in the company and community response

The partnerships have generated a significantly wide and varied response. This section expands these reactions, which are placed in the context of an early period between 1987-1997 characterised by uncertainties and ambiguities inherent in new commercially driven developments in the tribal wards, and a second period until the present which is marked by increasing output, diversification and consolidation.

2.4.1 The early period: 1987-1997

'Time is growing ---when will our suffering bear fruit?'

Ben Okri: Nigerian novelist. 1999.

The introduction of commercial relations of production and exchange in areas of traditionally determined social and economic relationships, and of tribal authority and public control, is invariably marked by tensions. Many rural communities feel a shared and routinised poverty and when new forms of access to new resources are introduced, long held rights and obligations become unclear. The potential rewards, respective responsibilities and their implications for domestic and gender determined certainties become confusing. New avenues are made available for different community and household interests to accumulate resources and assets, which are often seen as being achieved at the expense of others.

Idealised traditional criteria determining status, power and respect are upset when commercially driven labour relations involved in local production needs cut across established roles between people. Such roles were characterised by ritualised expressions of neighbourliness and an idealised sense of community co-operation. Frequently, in climates of stress associated with these changes, external agencies become the target for diffuse but directed anger from interest groups in the community, as they gather together to find an external 'cause' for the range of associated dissatisfactions generated within neighbourhoods. Time can heal these new divisions however, as people become to understand, develop and benefit from changes, and in the process revise and reorient relationships towards broader and more commercial goals and new institutional relationships.

Local definitions of natural resources also change in response to new understandings about new economic possibilities and needs.

'The outgrower partnerships, along with the development of small scale sugar growing, have been prime instruments conditioning these changes, and none of the investments have escaped these trends'.

At Ezikhaweni and Ngoye, areas close to towns where much commuting occurs, the *Khulanathi* scheme was introduced during periods of political conflict. Local participants' investment was thus initially limited, and land preparation and maintenance tasks poorly done. This was explained locally by time constraints due to households' work responsibilities despite delays incurred in establishing growers committees due to the unrest. The scheme was supported enthusiastically and by 1993 some 276 'growers' had planted 274 hectare. The uptake was promoted by company support for committees, access to the available finance, the incentives to utilise available land holdings and the potential to diversify and expand avenues for additional cash income.

At Sokhulu, which had been locally afforested for many years due to perceptions that land would be appropriated by timber companies, *Khulanathi* established a local weigh bridge to drive a more effective and efficient extension and extraction regime. This proved successful in enticing existing timber owners, and as early as 1992 some 60,000 tons had been purchased at a total payout then valued at R4.5 million (ibid:p32). By 1993, 98 new woodlots on 214 ha had been established. Thus the improved infrastructure, the finance, and the means to realise returns on, and improve existing stands, were reasons for joining or using the scheme.

In Nkandla, different approaches resulted in less positive responses than those described above. Perhaps in keeping with the political foundations to some outgrower beginnings, a large block of 155 ha was planted for the local chief, followed by other relatively large stands between 10 and 20 ha in extent. Important issues which reduced the viability and local utility of these stands were related to ownership and responsibility. Since large plantations require strong management and organisation, the absence of an allocation of specific responsibility (either to the company, chief or to some form of community contribution arrangement) in the design of the investment, contributed to its overall demise (*Celliers, G. 1994, p28-34; Cairns, R. 1993.,1995. p2000*).

Mbonambi had been afforested on an independent basis for over thirty years as a locally developed strategy to avoid threats of forced removals to the community. Neighbouring white farmers, and periods of work on the timber estates provided the early example to grower households, and sometimes the seed stock. When *Khulanathi* began their initiative, stands had been cut and coppiced many times and often very early in the life cycle of the tree. Local political violence was also prevalent, and limited effective extension support was possible until 1992. Some 155 woodlots covering 311 ha were established within a year, and 1000 of the independent growers using approximately 1000 ha agreed to supply the company, and a weigh bridge was established. The terms of the scheme and the support from extension meant that most growers would have to adjust their cropping regime and associated income streams, thus achieving greater returns (potentially doubling tonnages) but at less frequent intervals. Household responses have been positive, with the area planted to 1716 ha of trees by 2000. Local experience, new infrastructure, transport, technical support, and finance have together prompted growers in accessing the partnership. (from *Celliers, G. 1994. p30*). Some astute growers are now attempting to realise timber price advantages available in a wider market for producers, by supplying to the NCT Co-operative. 101 members have formed a co-operative and will supply directly to the NCT.

The Lima Foundation's experiences in responding to requests to establish trees in the Bizana area highlight the role of local level authority structures in mediating the introduction of forestry partnerships. Occurring over the present post apartheid era, initial discussions were mediated by a United Democratic Movement (UDM) councillor prior to district level local government elections. Acting as gatekeeper, the councillor intended to introduce the project as part of his political campaign, as part of a repertoire of *clientilistic* instruments to give to his local political constituency. Given that representation on council was likely to be very even, the project implied a potential to swing votes considerably. The foundation had to wait for approvals after elections. The particular councillor lost his seat, was killed by undisclosed factions and the African National Congress won a majority. They subsequently continued with discussions with the foundation and approved the establishment of the scheme.

Butler-Adam, Quinlan and Zingel (1992) have described how the introduction of the *Khulanathi* partnership enhanced the power and status of the tribal authorities in the Mbila Tribal Authority area, since they were able to use the 'intervention' as an instrument in challenging their subordination to the state, and dictate the terms and patterns of land use for the project in the context of a history of state appropriation of land. Conversely, tribal authority powers in land allocation have been partially undermined, as allocating land to individual growers has meant their basis for control over land use and allocation over the long term has diminished since. New growers are able to keep *de facto* use rights for some /20 years of the crop cycle, in a transforming system of 'open access' allocation based on new 'use it or loose it' principles (see below).

In the early stages of the introduction of the partnerships, the initial innovators taking up the opportunities were the families in leadership positions in local communities and those of long standing in the wards who were generally older, and had accumulated more wealth and assets as well as access to larger land holdings. . In ward households, family profiles are always changing over time since processes in lineage bifurcation through customs in marriage and inheritance lead to both aggregation and dispersion of members over the family lifecycle. Customary practice drives younger men in these families to seek land to establish a household and start

a family, and they gain preference in their original wards, or may go and ask for residential rights in a neighbouring ward.

In this process, the partnerships have led to strong levels of dissatisfaction between young residents and the tribal authorities and *indunas*. Celliers (1994,p33) records that in 1991 local groups of youth systematically destroyed 265 of 273 ha. of new plantings in the Mbazwana area. Investigations identified the causes as being a perceived unfair allocation by tribal authorities, favouring themselves and their 'associates', and a feeling among the youth that their inheritance was being taken away. Over time this category of residents have come to benefit from the introduction of outgrowing, since they come to negotiate lands in the wards.

More marginal and vulnerable single women, either discarded by husbands or not able to facilitate a marriage after periods of co-habitation with a range of households in a number of roles, are accommodated by ward authorities in land allocation and may gain access through this mechanism to the partnerships. Conversely, new widows are under pressure to relinquish land allotments passed down patrilineally, and many resort to tree planting to secure long term stability after the death of a spouse. A final category are those marginal men and women who come to a ward asking for residential rights in attempting to develop a survival strategy in urban areas and rural settings, and establishing bases in both localities. Many are from areas very distant from these wards (some subject to evictions off white farms, or from within households in wards), and are generally younger. They may gain access to the instruments in the partnerships, depending on the extent of land use to timber taken up by others, who have previously 'got into the queue'.

The size of the land allocations is on the whole smaller. Their existence in the wards does not imply that the timber stands in the partnerships have excluded them from residential access. It implies that, without productive activities, their tenure is more at risk. Since the timber companies have reduced their minimum land size criteria from 0.6 to 0.3 ha , their entry at the lowest level is possible. Most *indunas* are very accommodating of the more vulnerable, and it is only on transgression of a major social norm that rights to land in the community are removed. This principle ideally applies to all residents, and is one reason why the timber companies see security in investing in the partnerships.

Local tribal ward administration and allocation mechanisms thus recognise and manage a hierarchy of residential rights in approving tree planting. An important aspect of normative behaviour in the past was the maintenance of access to common property resources for all, in particular for grazing. This principle of 'access to the commons for all' has been eroded by growth in populations and new economic demands, and has shifted to one of 'open access'. This can be abused, as local interests and newcomers develop their own interests in land use which is usually negotiated with the sanction of tribal authorities without consideration for the rights of others., It has meant a greater diversity in investments of more economically realisable instruments such as forestry, which has generated wider returns without necessarily reducing the ability of the resource base to continue providing returns. *People have changed their definitions of resource use to suit changing economic priorities and possibilities.*

Othusitse (1997), covering four different grower communities, found that tribal authorities were active agents in encouraging the development and expansion of outgrowing. Proportionally most growers were of a higher economic standing than those who had not joined. Most household heads remained away from home for the majority of the year engaged in migrant labour. More than half indicated that the land

they planted was not of sufficient quality for use to food crops, and most family members supported the planting of trees and the replacement of other land uses to trees, with almost all respondents supporting tree planting by neighbours. The major reasons given were that the perceived economic benefits outweighed the costs of the potential displacement of other land uses (and the income and consumption 'streams' from the other uses). Only a small and marginal proportion of survey respondents grew tree and food crops together. Trees were viewed as easier to manage and sell, and also more reliable in the generally poorer, sandier soils in their respective areas.

Returns to outgrowers

The returns to outgrowers at harvesting have varied significantly. Annual average tonnage increments (MAI) vary between a low of 15 and a high of 25, achieving harvests of between 90 and 160 tons per ha. Smaller woodlots on virgin ground using clonal varieties produce equivalent and sometimes even better returns than the industrial plantations, since the proportional effect of edge trees-which capture more light, heat and nutrient- is more significant than in the blanket planting regimes. However, average sizes of land holdings-between 0.8ha. (Lima) 1.5ha (Khulanathi) and 2.7 ha (Project Grow) and estimates of average harvest returns at an 18 ton MAI (R8,912 in 1999) tend to mitigate against a full time enterprise centred on outgrower forestry.

Therefore, household management of the returns at harvesting are diverse, with the contract holder usually investing in essentials such as school fees, buildings, and their maintenance, marriage payments (*lobola*) and the paying off or purchasing of vehicles, and some developing secondary enterprises such as contracting or taxi transport. Use is made of early harvesting, at say 4 years, to meet short term cash needs, with original planting and coppice material being used in well developed local secondary markets for building poles. However these can get saturated.

Most household heads who have formal jobs remain in migrant wage labour or commute. Economic returns in relation to wage labour levels imply the need for growers to manage a minimum 3 ha on a rotational basis. Since the range of land holding sizes is wide, some growers manage a range of enterprises from a base in forestry outgrowing, and many expand into contracting or sharecropping, entering into informal lease agreements for the management of the stands and coppice with generally weaker households who cannot cope. Where holdings are very small, households struggle to realise any real returns, and some are thus beginning to hand their stands to the sharecroppers, so that they are at least guaranteed an agreed return. More entrepreneurial individuals have accumulated rights to develop up to 100ha in this manner. Marginal and vulnerable grower households – without members in formal wage labour – may venture from a position as grower into additional ventures such as weeding and firebreak contracting or chain saw operating. (*Othusitse, B. 1997; Vaughan, A. 1996, Ojwang, A. 1998, Cairns. 1993, 1996, 2000*).

The reasons given for not joining have been that people's land holdings were too small, that they wished to see the extent of derived profits before deciding about joining, or that the growing cycle was too long. Other minority reasons were that cattle may damage the plantations, a lack of household labour, preferences for other crops such as sugar cane, fruit trees and vegetables, and concerns regarding the long term commitment of the companies.

Some concerns and problems

Major concerns, expressed by differing interests over time, have been that the companies did not provide sufficient information on details of requirements and obligations, and were inclined to drive planting and production in the tribal wards themselves. People did not sufficiently understand the workings of the loan

agreements. Advances for annual maintenance tasks were seen as insufficient to cover costs of local task based workers, and orders and allocations were often held to be dishonoured by the companies, who were viewed as sometimes sourcing timber only on a mill need basis, and not when growers wanted to sell.

Other early concerns were that contractors were too expensive, and that companies should provide transport to mill gate. Khulanathi's interest charges were considered to be too high and there were feelings that prices were being set too low. Some growers reneged on contracts, sending timber to the opposition partnership when prices were assumed to be better. Despite these observations, most of the growers were not sure of the annual financial returns on their timber stands and did not record them. A large measure of the uncertainty was derived from the time lapse between planting and harvesting, and the extent and application of the annual advances paid out. Most participants were unsure of the extent of the reduction in costs and increase in benefits with continued coppicing, but wished to coppice and to manage the coppice.

Many of these reactions and responses are elaborated in specific household case studies in Cairns (2000).

2.4.2 The second phase: 1997-2000.

'To harvest to the full potential requires that we continue to prune correctly, and that we shelter our young trees from the ravages of frost, heat and storms'

(Trevor Manuel, Minister of Finance. Budget speech, Feb. 2000)

This present era is marked by a rapid increase in tonnages produced due to the 'phasing in' of the maturing stands planted with increasing intensity over the previous 10–13 years, and the contribution of the coppice crop. It is also marked by the increase in the volumes delivered by the non registered independents, and a continual increase in the number of grower and non-grower households who wish to join the partnerships. The extent of the grower response is being matched by a positive industry response. The major partnerships are simultaneously seeking to expand the promise of their investment at three levels;

- by attempting to access the benefits of the state forest privatisation process,
- by engaging with potential growers and aiming to ensure applications for new planting are approved, and
- by continually developing more advanced forms of grower and contractor support to ensure a more efficient infrastructure of services to promote getting improved products to markets.
- In so doing, this investment is creating the conditions which promote more applications to join.

The independent grower has come to comprise a vital entrepreneurial dimension to small scale timber production for the market, making a considerable contribution to 'regional' production. Currently faced with a number of dilemmas, the 'group' are caught between the promise of independence, and the prospects of reducing this in joining the partnerships. Much of the tension arises from the 'structural' nature of the sector at present. Since it is based on company commitment and investment in infrastructure, the absence of a wider infrastructure and frameworks of support in getting products to markets implies the need for careful consideration of the design of sustainable outgrower arrangements in the future (see concluding sections).

The private sector commitment is strong, presently extending to the maintenance, improvement and expansion of the relationships established thus far. This commitment is given in an industry climate characterised by increased retrenchments, continued outsourcing of operations, market uncertainty, and a variable and contested planning and regulatory regime impinging on the 'sector' as a whole (in sections 2.4.1-2.4.7). The partnerships are having to cope with high hassle factors arising from the demands of managing independent grower needs and their shift into the formal channels of the partnerships. Violence, theft and illegal practice are ever present problems in the day to day management of tasks. In 1998 an estimated R30 million of timber was stolen from the industrial plantations, much of it finding its way to partnership depots. 'Syndicates' have been reported leaving stock at depots –getting the production and sale recorded- and then moving it overnight and selling it to the NCT partnership (*Pers comm*; Development forester. NCT).

Sappi Ltd report having 'taken a bath'? meaning? by continuing to honour the mill gate allocations of Project Grow outgrowers over a period when international pulp price movements meant having to close down two pulp processing units in a major plant, and putting 30,000 tons of own sustainable harvest on hold. Their justification was that outgrowers cannot be expected to understand the implications of international price movements, nor are they in a position to endure any associated period of non-payment. Under similar market conditions, Sawgu report that all growers are 'combed with the same comb' when allocations based on annual harvests are adjusted downwards. Companies are thus having to incorporate more effectively, the increased output of the partnerships with the annual production and allocations from industrial and private forestry production in the face of international cycles of supply and demand.

Apart from the provision of clonal varieties in the hardwood partnerships, initiatives are underway to develop approaches which ensure that certification of the product is developed according to both ISO 14000 criteria (in Project Grow) and the Forest Stewardship Council criteria (in *Khulanathi*). However these initiatives will be difficult to introduce and adopt, given present low levels of institutional development in the hardwood partnerships, the multiplicity of owners, and the complexities in developing collective local approaches to the stands, natural environment conditions and the range of social and informal labour conditions in the tribal wards.

In summary, the nature and extent of grower and company responses over time and within the framework of diverse social and market conditions, clearly suggest that the conditions in outgrowing require sustained attention. At the core are the requirements for balancing the growth in arrangements and output with the introduction of frameworks and strands of policy which generate the conditions for a more sustainable private sector led forestry sector. In the following sections of this report, the prospect for these conditions are considered.

3. Policy stories: Evolving policy influences on forests and people

3.1. National forestry policies

Despite a vigorous pre-independence policy debate on the desirability of promoting smallholders in agriculture, outgrower forestry received little focused attention in the 1996 Forestry White Paper. Much of post apartheid forestry policy and public investment has concentrated attention and resources on the processing, conservation, resource and community dimensions in the progress of the industry.

Community forestry policy has been defined in terms of the needs of the people it is intended to serve, rather than in terms of the types of forest resources produced or consumed. One of the consequences is that outgrowing is defined in policy for small producers; those people sourcing and supplying commercial forestry goods to private sector led marketing and processing interests. The bulk of resources have been directed towards supporting community forestry, to the detriment of outgrowing, where strands of policy are predicated on complex levels of national and provincial competencies, and emanate from many different ministries and acts.

In 1997 the National Forestry Action Programme (NFAP) devoted only one chapter to increasing the contribution made by small scale growers in private sector driven timber farming (with 25 chapters directed to community forestry). A stated goal was to maximise participation by emerging independent small-scale growers in the production of wood and other forest products, within acceptable social and environmental constraints (NFAP, p.97). The NFAP has been cautious about the constituent partnerships in small scale timber production, noting the following concerns;

- that afforestation may expand in areas where other forms of land use may be more beneficial if comparable forms of support were available,
- that tree planting may interfere with existing access rights by other stakeholders to land,
- that small scale growers are in a weak position to negotiate timber prices and other conditions of contract,
- that the terms of the loan finance agreements with the private sector may result in growers becoming dependent on the larger companies,
- that the cumulative effect of large numbers of small plantations may be significant, and
- that corporate support for outgrowers may be a means for the larger companies to circumvent restrictions on new afforestation.

By setting 'indicators of achievement' for measuring the attainment of the general policy goal, the NFAP has however simultaneously recognised some of the historical limits to the partnerships, and has provided a broad and positive strategic arena within which the sector can potentially move forward. These indicators (covered in this text and revisited in concluding sections) include;

- a greater understanding within the sector of the opportunities for, and constraints on, wider participation for small growers,
- increased numbers of independent small-scale growers involved in the production of wood and other forest products,
- greater bargaining power and improved marketing arrangements for small-scale growers through the formation of co-operatives or similar associations,
- a wider range of financing operations for small-scale growers,
- complementarity between government and the private sector in providing support services to small-scale growers, and
- government and private sector resources aligned with the provision of support services to small-scale growers (NFAP:97).

3.2 Post 1994 policies for land tenure: The SADT and tribal lands

Administration of access to land, and the forms of tenure prescribed clearly continue to determine the supply and demand factors underpinning outgrower forestry.

Embodied within a range of new laws and instruments applicable in rural wards and in Trust lands are certain vehicles which may prescribe the scope and limits of the overall enterprise.

With the re-absorption of the former bantustans into the 'new' South Africa, the trusteeship of land formerly embodied in the South African Development Trust (SADT) passed into the Department of Land Affairs (DLA), with the state the nominal owner of the land which is *de facto* occupied by black people. New policy for this land in trust has rejected its paternalistic trusteeship foundations and promoted moves for freehold ownership.

Since the outgoing Nationalist government entered into a deal with the then KwaZulu government, strong anomalies exist in KwaZulu-Natal. The legal ownership and administration of most SADT and the KwaZulu lands were ceded by the Act into the special purpose vehicle of the Ingonyama Trust, with over 3,425 million ha ultimately vested in powers held by the Zulu King. The principles underlying the administration of land held in the Trust have supported the maintenance of the foundations and integrity of the tribal authority system.

In order to sustain these principles while freeing up developmental and investment potential, the Trust has recently introduced modernised variations on historic forms of land title and tenure in the rural wards, also applicable to most of the former SADT lands⁵. All rely on the approval of chiefs and will provide the basis for a more secure private tenure and investment in rural wards, (*Pers comm*, Greene, O. Chair, *Ingonyama Trust Board*. 2000.) Over time they will thus provide for a more secure and possibly expanded investment in outgrower forestry.

KwaZulu-Natal have rejected one major instrument used in other provinces in promoting developmental investment in tenure reform. Objections from the House of Traditional Leaders to the principle of elected leadership and representation in Common Property Associations (CPAs) has meant this vehicle is not to be used in any reforms.

3.3. Broader policies for Land Reform and support for local production

Market led policies for land reform have proved difficult and costly to approve and implement since 1994, and have resulted in limited, if any improved livelihood generation. Within a very contested and sensitive political climate concerning land reform in Southern Africa, the whole process has recently been geared towards a rapid freeing up of state land within an integrated and co-ordinated framework driven by the departments of Agriculture and Housing. New instruments for redistribution have been developed⁶ with total funds secured to date amounting to R5,4 billion, with disbursement envisaged over a 20 year time frame (Department of Land Affairs Policy Statement: Strategic Directions on Land Issues. February.2000).

In KwaZulu-Natal, these new frameworks and mechanisms will remain residual within the Ingonyama Trust Act. The full range of national instruments will however be commonly used to drive new forms of settlement and investment in land reform, in parallel with the introduction of the new instruments promoting secure, bankable

semi- privatised tenure noted above (*Pers comm. Greene, O. Chair, Ingonyama Trust Board. 2000*).

The programmes thus have potentially very beneficial implications for applicants in land reform who want to enter into agri-business based investment, including timber outgrowing. Within the range of financing and land type options, there resides a wide framework of opportunity for economic and 'semi-economic' projects for interested and affected households or groups of households. It remains a singularly important arena (endorsed by provincial rural development policy) where social and economic returns can be realised throughout relevant areas in the province.

3.4. Privatisation of state forest assets

Beyond these potentials, considerable strides have been made in developing the context for industrial forestry's contribution to a wider 'rural development'. This is being attempted through government's commitment to withdraw from the management of its inherited, costly and economically inefficient commercial operations. State owned forest assets were initially commercialised in the 1980s but maintained within the framework of the public service, and then corporatised into a government owned corporation named the South African Forestry Company, Ltd., (SAFCOL). Forest assets inherited by DWAF (Department of Water Affairs and Forestry) from the former bantustans were also bundled into SAFCOL. Presently this body is the subject of an extensive, albeit delayed, bidding process open to local and international industrial forestry interests, and with comprehensive developmental criteria attached to the conditions in the bids. The restructuring goes beyond many 'conventional' privatisation processes (*Evans, J. Foy, T. , et al 1998*) and opens some windows for interests in outgrowing.⁴

Since access to the land and timber resource in the former bantustan areas is increasingly becoming an important determining condition of the viability of the industry, the process is demanding a large degree of public sector circumspection. At the heart of the privatisation process is the need to balance the demands of competing private interests, whilst also deconcentrating existing corporate investment in forestry. Simultaneously models need to be introduced during the process which maximise advantage to locally affected community interests in a manner which best accommodates the present and future capabilities of these local interests, and ensures the growth of the resource.

3.5. The Water Act

Flowing from the White Paper on Water and Sanitation, the National Forest Act of 1998, and the NFAP, a new Water Act (Act. No. 36 Of 1998) brought South African water legislation in line with the most advanced water legislation in the world. The Act is a response to the need for integrated management of the resource, with all water, irrespective of its immediate origin, now public property and held in trust by the government to be administered in the public interest. The local unit of management is devolved to defined catchments and catchment management agencies (CMAs) across the country, where all water user interests will negotiate an allocation based

⁴ The conditions include equity sharing and joint venture arrangements, mandatory management plans incorporating disadvantaged people in handling outsourced work, and comprehensive lease agreements ensuring long term access to communities with underlying land rights.

on, essentially, an estimate of the available water balance and associated pricing considerations based on opportunity costs to user sectors.⁵

While its introduction has been strongly opposed by private sector forestry interests due to the exclusion of other users, especially irrigated agricultural, its import for outgrowing is two-fold;

- there is, potentially, a beneficial concession to 'previously disadvantaged interests' in terms of an elimination or reduction of costs to users of water in commercial production, and
- stream flow reduction management has replaced the afforestation permitting system.

Serious impasses have developed between outgrower interests and the state since the past year has seen minimal approval for new planting in the face of increasing demand, following a long period of approvals. The *Khulanathi* partnership report long delays in approvals for planting 100 ha (1998, 833 ha), while the wattle based partnership report that 35 applications have been turned down over the past two years. Private forestry interests feel that the expensive and complex public bureaucracy developing around water management should support their promotion of investment and production in rural development. While the departmental response indicates a strong commitment to the use of Strategic Environmental Assessment instruments within the CMAs, and to only then approve planting applications on the basis of the generic frameworks developed.

The issues are compounded by a public sector inability to restrict independent planters in the tribal wards situated within identified catchments. Paradoxically, many of these independents have received planting material from departmental offices, and there are as yet no avenues through representative tribal administration to manage a hierarchy of environmentally sound plantings at ward level. The issue is further compounded by local political perceptions *vis a vis* the workings of the new South African state. The local outgrower lament is as follows;

'Why should us local people be told where and how to plant on our land which we have had through centuries, and is this not just another plot by the African National

Local antipathy towards the prescriptions of the Water Act and the new state is strong. In the absence of a record of appropriate support from agricultural departments, relevant financial institutions and water directorates the perceptions among outgrowers that a new generation of government officials are all too eager to trace a tax trail through the offices of the partnerships into producers' affairs. In this climate many retrenched people currently working who have inherited timber stands into realisable assets with the support of the partnership companies, are turning down real financial incentives from the DWAF 'Working for Water' programmes (related to pulling back plantings close to streams to reduce water uptake), despite their ongoing struggle to realise returns on aspects of operations. There is, overall, a strong sentiment in much of the northern parts of the province that any limits set to peoples' ability to develop and expand their investments in timber will be met with opposition. Local channels are being developed through tribal authorities and local politicians for the negotiation of this sentiment. (Various interviews over time, DWAF officials, Development forester, NCT, Cairns, R. 2000).

⁵ Water use is defined in the Act as a stream flow reduction activity (SFRA) and will be paid for. Only forestry is defined as a SFRA, and interpretations are that an average consumption, across species and

Congress, like the previous governments, to keep us Zulu speakers poor’.

Thus outgrower forestry, like its progenitor in the industrial forestry sector, is currently faced with a very strong conundrum. There is an inherent demand to expand planting and product, yet considerations of water scarcity in catchments, and the competing demands of other agricultural, urban and industrial users contrive to set limits. While water pricing based on opportunity costings will set a framework for the purchase of water rights, it will clearly impact on planting, productivity and profits in most species, and in aspects of processing.

3.6. Provincial policy and planning

KwaZulu- Natal’s Growth and Development Strategy and planning for urban and rural development incorporate principles in South Africa’s macro-economic Growth, Employment and Redistribution (GEAR) policy framework. Intended as a framework for higher growth rates, an acceleration in public investment, efficient service delivery and an expansion in private investment, the early targets were an ambitious 6% of GDP and after a number of years of achieving less than 1% are now set at 3.5%. In the main, the derived provincial policy principles are for the reinforcement, and creation of economic activities and the improved delivery of services, within a context of addressing past and existing inequalities.

3.6.1. Rural Development planning

Ambitious new rural development policy and planning in a 1998 White Paper aims to give content to these frameworks through ‘in depth regionally focused policy and programmes’. Building on the experiences of the past three decades of ‘development’, and on lessons from Integrated Rural Development (IRD) programmes, a strong poverty focus is aimed at achieving an equitable balance between urban and rural areas and at, amongst other principles, building co-operation between customary and civil systems of governance. Land reform, agricultural production, tourism, entrepreneurial opportunities and rural financial services are the 5 principal sector based opportunities, with delivery through a framework of local government led provision and private sector support (*An Integrated Rural Development White Paper for Kwazulu-Natal. 1998. p1-35*).

Unlike national policy for small-scale timber production, it clearly recognises and endorses the history and structure of private investment in small scale sugar cane and timber outgrowing, and provides a logical local framework for its progression (*ibid.p29*). It also promotes a more strategic and integrated approach than past market led policies in land reform, where a framework of opportunities can be created and based on the structure of available productive opportunities in agriculture (*ibid.p25*).

The framework has considerable precedent in urban policy and programmes for local economic development (LED), where a variety of arrangements within a broad definition of public-private partnerships are key instruments which leverage proportional contributions into the provision of infrastructure, services and production in urban settlements. (See *Choshi. S, Rogerson. C and Zingel, J. 1999, LED Manual series 1-5. Dept. of Provincial and Local Government. 2000*).

3.6.2. Other instruments: land use management systems, new boundary definitions and agricultural planning

catchments, will be charged.

These strategic development options for rural development are supplemented by Provincial Planning and Development Act regulations due to be finalised during 2000. The relevant key instrument is the adoption of a refined land use management system (LUMS) developed from international and local best practice, which accommodates 'urban- rural interfaces' previously planned for separately and now commonly defined in terms of Demarcation Board boundary delineations.⁹ The LUMS introduces 'wall to wall' Strategic Development Plans in rural and urban areas, reinforcing ideas about the logistics in this 'seamless continuum', whilst simultaneously aiming to strengthen links between policy and land use management. It also incorporates the possibility of planning for special zones (*KZN Regional Planning Commission. December, 1999*).

In essence the instruments provide a vehicle within which careful consideration can be given to designing socio-economic models for agricultural use of land, and including forestry outgrowing, in areas which remain undeveloped or which can be negotiated in the context of the possibilities in land reform. Wider agricultural land use planning in the provincial Department of Agriculture, (which is 'redetermining' land capability in a unified province) will support the zoning of land for agriculture, setting limits to sub-divisions of agricultural land for other use, but which will not prescribe the specific crop uses to intending producers (*Pers comm: Strauss, H. Director, Dept. of Agriculture. KwaZulu –Natal*).

3.6.3. Spatial Development Initiatives

Spatial and sectoral investment in 'two agri-tourism' corridors between Durban and Mozambique is nationally driven -with the governments of Swaziland and Mozambique- but are provincially directed interventions aimed at facilitating private sector investment. The Lubombo SDI investment from Richards Bay northwards presently promotes a wide range of eco-tourism and agricultural projects, yet provides little planning or support for an expanded forestry regime.

Its present emphases are on eco-tourism, finalising the land use and investment for the Western Shores of the Greater St Lucia Wetland Park, (a part of a renowned World Heritage site and a major tourism destination), and on regional scale link roads to Swaziland and Mozambique (which also aim to facilitate the access of tribal areas and communities into a corridor of investment). Programme and project planners in the SDI administration have taken a formulated view that there is a competitive implication between forestry and eco-tourism, with tourism currently prioritised (*Pers comm; Terry Castis. SDI administration. Durban. 2000*).

However, broad land use suitability studies for the expansion of forestry have been developed for consideration within the areas of the SDI programmes, and working groups in the industry have given careful attention to demarcating nodes for expansion of planting in the region. Some 10,000 ha. have been identified for expansion, taking into consideration issues of complementarity and competition with eco-tourism and other major land uses (*Pers comm: Neville Perry. DWAF. 2000*).

In summary, the policy and planning environment, and the range of available instruments indicate a wide but firm basis on which further planning and investment in discrete areas for outgrowing, and for new models in outgrowing could proceed. The potential exists for a variety of developmental options and partnership based models in the expansion of an agri-business supported rural development driven at local government level, with provincial endorsement and possibly national support.

The implications for sustainable private sector led forestry and for outgrowing, is further considered in the two concluding sections of the report.

3.7. Other legislation and regulation, and associated responses

A wider range of legislation impacts on the performance of the forestry sector as a whole. National GEAR policies are also geared to a framework of human resource development and linked to strategies for a rapid catch –up in skills, participation and ownership by previously disadvantaged people. The Labour Relations Act, Skills Development Act, Basic Conditions of Employment Act, the Employment Equity Act and the Protection of Discrimination and Prevention of Racism Act apply to most industries and to enterprises of various sizes and locations. All are presently in stages of enactment and enforcement and have been received by the private sector variously.

Business response

There is a general sentiment that business is being asked to do too much while contributing significantly to the economy. The ‘atmosphere’ is one where the time and financial demands required to give effect to the requirements of central governments’ legislation are viewed as unlikely to be matched by a sufficient government contribution in service provision- in expanding the public good. A regime of enforcement is considered less likely to achieve the desired objectives in the industry than a system of incentives. Public-private partnerships in infrastructure and forestry development, based on proportional and concessional contributions from each sector (as in much of new investment in urban development) are potential possibilities in this regard, but have been weakly explored.

Private forestry interests maintain they already bear excessive social overhead costs in maintaining and developing rural infrastructure. They also express an urgent need for further infrastructure provision and of maintenance of a decaying rural infrastructure to be discretely driven and supported by central and provincial government.

They believe their potential for expansion and the related ability to remain internationally competitive is being diminished. Industry level comparisons with New Zealand and Australia to 2020 indicate that South Africa’s performance, at numerous levels of measurement, is likely to be extremely poor. Presently, increases in land to timber production (which create economies of scale in processing and promote re-investment locally) are occurring slowly, at rates of less than 1 percent over 1995-1997, or about 11,900ha. per annum nationally and of which 5,679 ha. were planted in 1997 in KwaZulu-Natal.

Outgrowing and its potential to support wider rural development objectives is seen as crucial, since between 110-150,000 ha of the land available for expansion of a total potential availability of 357,417 ha is in the former bantustan areas. Forest owners feel there is insufficient public movement for their interests in accessing these areas. The key issue being the perceived inability of the various tiers of central and provincial government to co-ordinate around specifically defined roles and objectives for the sector as a whole, and in outgrowing in particular. Under these conditions a significant transfer of investment in timber production and processing has been developed in countries offshore, where a more favourable regime supporting the expansion of the interests and assets of the local industry is held to exist.

In keeping with similar trends in international forestry, another consequence of these conditions, has been an increase in the rate of downsizing staff complements and in outsourcing aspects of operations. Between 1995 and 1997 total employment in forestry and forest product industries declined from 258,919 to 111,550 full time employees (*Poyry, J. Fibre options study. 1999, section 19*). Significant retrenchments in some forestry corporates have occurred, and an average 50% of 'total employees' are obtained from the contracting sector. In certain regions up to 68% of former staff have been retained in time and task based contracts on outsourced operations. This trend contributes to holding average wage rates at up to one third lower than in the large companies (*ibid*), and the requirements for complying with much of the new legislation has been devolved down to the contracting sector. Considerable learning about how to support the sustainable integration of contracting with the needs of the corporates is underway. Major initiatives are being designed via the Department of Trade and Industry Sector Partnership Fund and aimed at determining how best to develop a viable and sustainable contracting sector. The small independent African contractor who is beginning to develop a repertoire of sustainable skills and services in outgrowing is generally too far removed from the demands and reach of the legislation, which in any case will be difficult to enforce.

These trends have *not* been accompanied by policies to divest of the extensive investment in the industrial forestry estates and move away from direct tree and plantation management, as has occurred elsewhere in the world (and with Sappi's North American plantation interests). Unlike the adjacent sugar industry, where company estates adjacent mills are being divested into empowerment ownership as a form of support for land reform/ redistribution. The general thinking is that consistent policies to 'unbundle' plantation assets towards a range of investors with fixed supply agreements, and to reduce gearing is a high risk activity. The major reasons give are the uncertainties regarding the long term supply conditions and constraints in the industry, and the potential competition from the other private grower producers and exporters who have achieved the considerable price gains over the processors.. (*Pers comm; various Sappi Ltd. and Mondi Ltd. officials*).

(*DWAF, 1998, FOA, 1998, Other independent calculations. 1999. Poyry. J. Fibre options study. 1999.*)

Labour response

The labour response to the trends in outsourcing and sub-contracting has been negative, and the official view of SAAPAWU, (the union representing members in the paper and allied industries) is that contracting results in reduced conditions of employment, notwithstanding the contractors requirements to comply with the terms and conditions of the relevant labour acts. Outgrowing is viewed as a form of subcontracting, since the agreement is between the company and the individual grower, and not with the labour employed. The variable ability of growers to temporarily engage people for piece work is viewed seriously, and the lack of job security in these arrangements is contested. At present moves towards incorporating trade union and community interests in equity arrangements in privatisation possibilities are receiving positive attention from SAAPAWU and other interest groups in the labour movement (*Naledi research notes on Outgrowing. 1999*).

Forestry industry relationships in South Africa are structurally complex, and the promise for a sustainable private sector forestry could be constrained at a number of levels. Relations with government, provincial planning, divestment locally and

offshore, land and water restrictions are key determining variables. The concluding sections deal with their significance.

4. Small scale sugar cane production: Contrasting the levels of economic and institutional development with timber outgrowing

Comparisons between the development, support, output and organisation of small scale sugar cane and outgrower timber provides important insights and a strong basis on which to develop recommendations for sustainable private sector led forestry outgrowing.¹⁰ This section highlights the key points and contrasts important structural issues in a summary table.

- **Early Histories**

Significant support for African sugar production occurred as early as 1865. By 1890, 6 mills had been established across the province, with most however not surviving beyond 15 years of production. Over the period 1930-1950 various public departments assessed and supported the potential for outgrower development. In 1955 the Tomlinson Commission recommended the establishment of a full time class of African sugar cane producers. This was finally enacted between 1973-86, in the third of three major planned phases of expansion in the industry, when the South African Sugar Association provided an initial R5 m. for the support of African production. The association gradually allocated processing quota and allowed the registration of some 7, 800 ha of land in the then Kwa-Zulu territories close to mills.

- **Structure of Support**

Financial support was developed through a Small Cane Growers Financial Aid Fund (FAF), and run through the office of the South African Sugar Association, which represents both the producer/grower and miller interests in the industry. Financed through levies on the sale of sugar, the milling companies act as agents for the FAF, providing extension and administering credit, with the future crop as collateral. Small grower cane tops up mill throughput from the private white growers and adjacent company estates, providing economies of scale to available milling capacity and production. A large measure of state support for infrastructure was provided during the apartheid era. Growers are further supported by tariff protection measures, which maintain prices at 100% more than international prices, and by a preferential price to that of white growers.

- **Outgrower responses and gross production.**

Responses to this wide framework of support and guaranteed single channel marketing were significant. By 1992, 41,917 growers had planted about 98,000 hectare. By 1999, about 45,000 small scale cane growers were producing an annual 4.1 million tons to an infrastructure of 17 mills throughout the province. Their output comprises 13% of total tonnage delivered while the proportional land use to sugar cane is about 23% of total land to cane production in the province.

- **Credit, production and profits**

Credit is provided within the framework of conventional contract farming methods. Rates are lower than commercial charges and cover the full production cycle of the crop of between 10 and 18years, with deductions for services 'in kind' off each annual ratoon. A savings, or retention scheme was introduced whereby a proportion

of the annual proceeds can be held over to finance part of the next year's working costs. Some analyses suggest the credit scheme is unsustainable at existing rates, and while the FAF articles have changed over time towards a more user friendly framework of application, grower leadership resent the present nature of its application and control.

Outgrower yields average a commendable 41 tons per hectare annum against an industry average of 71 tons and are realised on average land holdings of 5 ha, with a range between 1-2.5ha. Annual average financial returns are presently around R560, with a wide range (R6,900 to —R258) due to irrigation adopted in some mill areas and due to temperature and altitude variances across the varied Kwazulu-Natal topography.

- **Institutional development**

A large investment has been made in an evolving structure of representation, partly conditional on USA loans into the FAF, and supported by a Trust. This was originally racially and regionally geared into a Kwa-Zulu Cane Growers Association, which expanded in the early 1980s into non-racial representation in the South African Sugar Association (SASA) based on a largely unequal tonnage and quota principle. Recent changes have seen representation at this level based on a more devolved structure of Mill committees, from where 2 quota and 2 small grower representatives obtain seats on the central SASA board. At mill level the evolving grower associations are supported with staff and training via the Trust, in an arena highly contested by the traditionalists who control many relationships in the tribal wards, and by the more progressive modernists.

- **Structural changes in the sugar industry**

Serious threats to the privileged structure and protection in the sugar industry are occurring as a consequence of general trends in 'globalisation'. South African commitments to GATT, and recent World Trade Organisation deliberations imply the end to present levels of price protection, also threatened by the opening of markets to the low cost producer SADC countries. The corporate millers are responding by expanding investment into good (grower-cum-processor) opportunities in Africa, limiting local risk and reducing associated gearing by divesting their holdings in wholly owned estates adjacent to the mills. These are being transformed into politically astute land reform or redistribution initiatives, where many non rural based African investors are securing portions of estates and equipment. Recent deregulation in small scale cane growing has dropped requirements for registering of land and eliminated restrictions on forcing growers to deliver to particular mills. This has been aimed at freeing up participation, and for greater returns to less institutional effort. Within this framework, some milling companies are reducing their models of support for small scale sugar, which may in time have important bearings on its output and overall viability.

Table 4. Contrast in sugar cane with tree outgrowing

Key Determining Arrangements	Small-scale Sugar Production	Timber Outgrowing
Historical Investment	Considerable early colonial investment in small milling: 1940-1955: ongoing public sector promotion of a producer	Early public support. Planting for consumption, conservation and erosion control. Limited market

	<p>class. Structured integration into 'white' industry in 1970s with strong state support and industry protection.</p> <p>Rapid and dramatic grower uptake under these frameworks of support.</p>	<p>development. 1930s shift to restrictions on expanding peasantry class, introduce central plantations in reserves and to wage labour. Some planting support in 1960'-1970s. Grower uptake partial and strategic.</p>
Contemporary Support Structure	<p>Centralised industry sourcing and management of credit: Millers as agents and extension service providers. Single channel, guaranteed markets and high industry tariff protection, with preferential prices vis- a-vis white growers. Strong public support (apartheid Kwa-Zulu govt.) for essential infrastructure: roads, zones etc. , as well as extension.</p>	<p>Company sourcing and management of credit and own limited extension. No public extension, infrastructure or technology transfer support. Single milling markets linked to company contracts. Recent diversification of market options and prices. No tariff protection or price support.</p>
Gross Production, Output and Land Use	<p>1992: 41,900 people producing off 98,000ha. 1999: 45,000 producing 4,1 m. tons. 1999: Production 13% of total cane : land use 23% of total land</p>	<p>1999: 15,547 people using 31,615ha. Variation of 2 –5% of industry output. Land use to trees 4%</p>
Credit, Production and Profits	<p>Standard contract farming system of advances for annual tasks, deducted off milling proceeds. Retention scheme added. Subsidised interest. Yields 41tons/ha/annum average against Industry 71tons. Average annual net return: R560 (range R6900 irrigated to-R258)</p>	<p>Similar. No retention schemes. 10% simple interest, or no interest.</p> <p>Yields: 22 tons MAI against industrial forestry 25 tons Average annual returns R1,485</p>
Institutional Development	<p>Strong. Funded Trust supports local association development, integrated into Mill cane committee structure. Strong central representation at central level. No equity participation.</p>	<p>Minimal or weak in hardwood partnerships. Some local downstream. Well integrated at central and local levels in wattle partnership and NCT. Equity in both.</p>
Wider Structural Constraints and Opportunities.	<p>Reduction in tariff protection. Low cost SADCC producer/price competition. Industry expansion to Africa. Divestment of company</p>	<p>No tariff protection envisaged. Commodity cycle peaks and troughs well managed for outgrowers. No</p>

	estates. Reduce risk and gearing. Allow non rural entrepreneurs into Land reform on estates. Deregulation of small producers and withdrawal of some company support. Explicit vulnerability.	divestment in estates yet but is considered. Well located for opportunities in agri business supported land reform, and privatisation of state assets. Vulnerability to company policy changes inherent risk issue.
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The changing structural conditions in the sugar industry, combined with deregulation, may have significant effects on sustainability in small scale production. Many of the larger white producers close to the processing plants are considering shifts into timber production, where long term returns and a reduced investment in labour are attractive given the future regime of reducing tariffs.

5. Summary Analysis

This section balances the presentation of trends in outgrowing in KwaZulu-Natal with a summary analysis of key impacts and outcomes from the arrangements, instruments, and maintenance and progression of the partnerships.

5.1 Why forest based industries enter into partnerships

The economic and financial background to schemes and partnerships

The broad economic background was embedded in a base of fluctuating state support for African growers in the colonial period, which continued in the apartheid era but without policies for African timber production and markets. Coinciding with a framework of positive national economic policies in the 1980s, expanding grower-cum-processor interests initiated large land purchase programmes; capitalising on the base set in African tree growing, and assessed the potential of woodlot schemes as a supplement to planned throughput. The early investments were undertaken in conditions of potential land scarcity and of price competition with existing private timber growers.

For one hardwood partnership the investment in households and in the availability of suitable land in the bantustans was undertaken in broad 'social responsibility' terms. Business principles were applied for the other hardwood partnership, . In both, economic savings were attained through the economies of scale achieved in outgrower production, and in the margins from an associated reduction in land rental costs (See Cairns, R. 2000).

*Why the parties **currently** enter into partnerships:*

The forces driving the maintenance, improvement and expansion of the partnerships are strong, and emanate from both grower and company interests.

- Growers have a largely secure base in prevailing systems of land tenure. They are beginning to recognise the real returns on their initial investment, with secure markets and possible options, while local and regional communities appreciate the range of down stream enterprises being created and supported. Timber production on marginal tribal lands continues to transform peoples perceptions of economic resource use practices. It also enables economically stronger households to maintain diverse survival strategies, and provides a base from

which to activate other resources. For the more marginalised and vulnerable households some production possibilities. The support tasks available, provide one potential vehicle to sustain livelihoods in insecure settings (See Cairns, R. 2000).

- For the companies, the partnerships now provide a significant proportion of processing throughput, sometimes a balance of product for use in periods of shortfall, and worthwhile margins on the product traded, while devolving any investment in land and labour costs onto outgrowers. They continue to provide a base for developing and supporting strategic relationships with rural communities alongside its major industrial forestry investment, thus reducing aspects of social risk. This is both a 'public relations' and a practical vehicle to use in negotiating access to the standing timber assets in the privatisation of state forests in the province.
- More significantly, the partnerships provide a base from which to access and secure more land to timber, and thus throughput, in the former bantustan areas. This potential, and need, moderated by water use sanctions and the costs of transport to mills, is driven by constraints on the availability of suitable land, which increasingly determines the overall viability of the sector in both international and local trading and productivity conditions.

The financial basis of the partnerships has been developed through company/association sources of funding, with 'start-up' seed capital obtained internally. Overheads are covered by the margins on the timber traded, and operational costs are funded (in two of the partnerships) by means of the simple interest bearing loans.

The strategic financial time horizons.

Strategic financial time horizons are applicable at three levels.

The first is determined by the extent of the cropping cycle. In the eucalypt based partnerships loans are paid up after the 5th to 8th year of the growing cycle, and in the wattle partnership the loans are due after the 10th year of the cycle. Loan finance recovered on harvesting is thus rolled over to finance loans for new participants. Loans for managing coppicing in the eucalypt based partnerships are minimal, while the deposited wattle seed which forms the basis for the second 'generation' crop requires a minimal level of finance for silviculture. Taking the possibility of two sustainable coppice crops the financial horizons move to 20 years in the hardwoods, with a minimal level of financing required after 6-10 years.

The second level applies to grower finances. Shorter strategic financial time horizons than those described above would meet grower objectives in terms of quickly covering the incurred debt. Both technology transfer in providing quality fibre and fast growing clonal varieties, and price variations and policies for price support would support new entrants more effectively, as well as increasing the scope for more sustainable livelihoods in production.

The third level concerns the strategic financial basis for the sustainability of the partnerships. *Khulanathi* report that after 13 years of operation the overall overhead cost of the scheme has been recovered through the means of the (undisclosed) margin on the timber traded. Therefore the margins on financing and managing outgrowing when compared against the margins in running industrial plantations are good. While the opportunity cost of managing outgrower allocations against industrial

plantations have at times been negative, these generally profitable relations probably contribute significantly to the private sector desire to maintain and expand the partnerships. One factor impacting on company horizons over time may be the potential negative impacts of alternative markets for growers.

What alternatives are there?

Potential alternatives to these models are treated summarily, and covered strategically in the concluding sections of the report.

- Financial and institutional development

One is to take the financing of outgrower partnerships away from the bosom of the private sector, and to consider a wider and more comprehensive service to be provided by development finance institutions, micro-level finance organisations in the development sector, or the commercial banks. A further option is to maintain the source and application of outgrower financing 'in house' by locating it in the representative structures of the timber industry. Linking its redesign along principles more beneficial to growers, and to ownership and management in a more developed and integrated system of outgrower representation, similar to the progress achieved in the wattle based partnership and the sugar industry.

The debate and obstacles to financing the commercial development of rurally based enterprises in South Africa is wide. It is compounded by the pervading problem of tribal systems of tenure, and the associated issues around collateral (see *Ardington, E. 1999*).

- New ventures and models for outgrowing

Evolving national policy and planning in land reform, and in provincial rural development and land use planning, (covered in section 2.4). provides frameworks for the progression, or partial replication of the partnerships. Scope exists for a range of instruments and planning to be accessed, and in so doing new and innovative forms of partnerships could be established. For example;

- An expansion of the 'Lima model' could be used as an agency type instrument to engage in land reform and in new planning for the integrated frameworks now available for a reconstituted 'rural- urban interface' in the province.
- Forms of public-private partnerships, wherein the state, timber companies and growers (including sharecroppers and contractors) design and negotiate concessions for investment in land and infrastructure.
- Possible integration of innovative forms of grower association or grower companies into the ownership and management of portions of the industrial forestry estates, While policies for divestment of these assets are yet to be considered seriously, these possibilities would contribute significantly to unblocking present communication 'impasses' in the industry, whilst also widening the range of rural livelihood options and the associated returns. Securing an expanded local participation in a range of ventures could contribute significantly to a reduction in land hunger, land invasions, in income redistribution and more empowering forms of local livelihood generation.

What motivators are provided by strategic plans and financial time horizons?

The major partnerships are presently moving from the narrow concerns of securing timber supplies into developing a wider strategic framework in support of the expansion of outgrowing. This is adding to its consolidation and a more sophisticated integration of its requirements within the industry.

For households and community, strategic planning and financial time horizons are only beginning to become significantly understood and managed at the level of each enterprise. Returns from coppicing are beginning to be a major motivator, and new more lucrative markets are providing an important impetus. People are learning modern marketing and business skills through experience and from extension support services, and are entering into contractor, weeding and producer associations and co-operatives across the province. Some sharecroppers have made considerable gains from planning and managing a diversity of stands, but are in a small minority in the wider community of growers.

In the hardwood partnerships there is little local understanding of the planning required for the gross contribution of outgrower timber in allocations and annual harvesting, and of the consequences of major market movements. However in both the NCT and the wattle based partnership this is integral to outgrowing, and is predicated on the levels of institutional incorporation achieved to date.

How do companies evaluate risk?

Risk is evaluated at number of levels. These issues are covered in detail in Cairns, R.2000, and briefly summarised here.

- A considerable portion of production risk (from fire, drought, theft, cattle and social damage) is delegated to the growers with limited protection offered by the companies themselves, while requests have been made to the state for assistance in providing the necessary cover.
- For the companies, risk concerns the ability of households to manage loans and deliver timber regularly, where institutional and organisational relationships can be weak, and checks and balances between company requirements, contractor demands and grower needs can be confusing. Companies mitigate these risks through a large time based investment in a framework of services, and some manipulate the advance payment regime to ensure attention is paid to essential tasks. Where instances of default, death and fraud occur, these are generally written off as part of a learning process. Costs are well covered by pricing policies in processing tradeable timber, ensuring minimal overall risks on the investment.
- A third component is associated with company image. This 'perceptions' based risk is mitigated through comprehensive strategic environmental consultation processes, and the manner (and attitudes) with which the companies engage local communities, support new entrants to the outgrower 'market' and accommodate independent grower interests in a sometimes violent climate of potentially insecure expectations and limited procedure.

How stable are the partnerships in terms of their vulnerability to market forces?

Vulnerability to market forces operates at two levels.

- For growers, contractual terms are binding on prevailing mill gate prices. They can however rescind on contracts and engage with alternative markets, based on their perceptions of the costs and benefits in the prevailing price differentials, and thus reduce vulnerability to local price setting. For the companies, harvesting and mill allocations can be disrupted by these practices, which include early or late harvesting. Given the proliferation of new entrants to their markets, the differentials created in supplies can easily be accommodated in practice.
- The second level is that arising from the boom and bust cycle in international pulpwood, pulp and tanning extract markets. The hardwood partnerships have shown a willingness and ability to prioritise outgrower allocations during low price periods, to the detriment of companies own standing timber and at considerable financial cost. However segmented relations in the industry allow for mitigation of the effects, either through *ad hoc* log export markets, or by arranging swaps of product with other exporters and local marketers. The wattle industry's response to price cycle movements (particularly recent Brazilian production practices and prices) has been to reduce annual allocations on harvesting across the full spectrum of grower membership. As the extent of indigenous and local markets for wattle is diverse, this can be compensated for. In the NCT partnerships, proportional reductions to allocations are imposed on each of the three categories of producer, contractor and association, based on their proportional contributions (and therefore production capacity), to the annual harvest in times of expanding markets and market certainty.
- Any expansion in outgrowing as a whole would simply require a fairly sophisticated balancing of new industrial forestry planting regimes with an expansion of outgrowing. The relative margins made on the respective 'throughput' could be likely to determine the balance of forces at play in this regard.

5.2. Why outgrowers and communities do or do not enter partnerships

Incentives:

Communities and households choices have been determined by;

- A history of working in the industry, and the availability of land,
- The availability of private sector provided finance in their own areas and in a regional climate where these key instruments were not previously available,
- The proximity of technical support in the partnerships,
- Soil type conditions more suitable for timber than sugar cane, and the absence of other schemes offering wider crop alternatives,
- A less demanding labour and maintenance regime in comparison to sugar cane,
- Little risk of crop failure and a widening local market for products,
- The asset value of the crop and the coppice, particularly if larger land holdings to trees can be achieved, and the small annual payments for work done,
- The associated interim work opportunities available in annual tasks, as well as the potential ability to work at home, where jobs are difficult to find.

Disincentives:

The most important disincentives are:

- The long term commitment to the crop over other land uses, and the time required for the trees to mature,
- The average size of land holdings to trees,

- The availability of land in certain tribal wards,
- Reductions in returns at first harvest due to contracting charges and long transport distances, sometimes predicated on the history of racially based land delineation, and
- The organisation of product to diverse markets which can be complex, and sometimes managed at varying levels of intensity.

5.3 Impacts of partnerships

Direct economic impacts:

What are the financial costs and benefits per hectare for the outgrower households

These data are fully developed in the Cairns component report. Taking an average MAI of 22 tons/annum/ha, and a 133 tons/ha harvest over a 6/7 year cropping cycle, average net profits of R8,912 per ha, or approximately R1,485 per annum can be realised. Harvesting and transport charges eat heavily into gross returns. These results compare very favourably against sugar cane, where outgrowers are achieving averages of around R560 per ha off dryland production and around R1660 irrigated. With the price differentials available through the expansion of the NCT support, improved margins are being achieved. These averages mask real opportunities, since Khulanathi's most successful grower, adopting available best practice has recently achieved net returns of R16,000 per hectare.

What impact does participation have on household budgeting? What changes in savings and expenditure do households experience?

Income and expenditure studies in Kwazulu indicate that the majority of rural households have an expenditure of less than R12, 000 per annum. Using a poverty line of R750 per month or R9 000 p.a, 44%-60% of rural households have livelihoods insufficient to prevent its members living in poverty. Micro-studies which include income from subsistence agriculture –maize, vegetables and poultry, indicate that average household incomes may be in the region of R18,000 to R29,000 per annum, with agriculture contributing about 16% of total incomes. (Ardington, E. 1995, May, J.1998). With the above estimate of average net profit from tree growing, its contribution to household income provides a significant 12-45% of annual income, depending on plot size and transport distances, significantly more than the other activities.

On receiving the harvest cheque, most expenditures are on childrens' school or university fees, home improvements, car purchases, transfer payments in a second marriage or sons' marriages (*lobola*) and entry into a range of local small business ventures, such as taxi transport, contracting, or shop keeping, many dependant on the extent of local demand.

The component report suggests that households from all of the four 'vulnerability classes', (i)households with marginal support systems, (ii) with vulnerable and (iii)semi-vulnerable support systems, (iv)to reliable support systems, have been able to join the partnerships as growers. Weeding and firebreak contractors and chain saw operators tend to come from highly vulnerable households, while the short and long haul transport contractors all had formal wage earners in their families.

How are benefits distributed within households

The predominant pattern is for male control of the contract and the resources arising from the harvest. Where women have access through shared decision making, there is a greater prevalence for expenditure on the house and household and on children's needs (see Cairns, R 2000).

Wider economic impacts

Do schemes result in empowerment through enhancing economic decision making?

The timber crop cycle suggests that the time lags between planting and the relatively limited annual tasks and the actual harvest, have in the early stages of the partnerships mitigated against consistent and rational economic decision making. Decisions to 'attempt timber, and see what returns come out of it' probably predominated. Various studies and case studies in the component report suggest that many households have not developed advanced economic decision making. Conversely however, taken together a community of astute sharecroppers and contractors have obviously adopted highly developed decision making strategies in the context of operating their respective enterprises.

The differences may be in levels of education as well as in working experience in other sectors, and in the extent of exposure to timber farming. Extension practice is beginning to support a more rational assessment by growers of the costs and returns at all the necessary levels of operations. The newer alternative markets are promoting more rational economic decision making and choice. The limits to enhanced economic decision making are similarly a function of the level of institutional development and incorporation. In Sawgu, economic decision making in the management and use of finance, and the harvest (where producers are accessing equity in wattle bark extract companies) is much better developed.

Do schemes result in wider entrepreneurial development?

Sections in the report have indicated the ongoing expansion of downstream activities available to entrepreneurs at the four levels of essential operations in outgrowing. The estimate for Project Grow, Lima an Khulanathi together is for about 60 planting and weeding contractors, for 30 bow saw and 85 chain saw operators, and 40 short haul and 16 long haul operators. Beyond this, numerous local casual operators work independently in their own neighbourhoods, or move across the *isigodi*. This encourages growers to maintain or harvest and in so doing, incorporates local people into subsidiary casual day labour tasks.

Forms of company support are generally organisational, without policies for an up front financial component, and are aimed at securing the crop more efficiently and equitably. The framework clearly lacks a co-ordinated, well defined system of financing specific to the needs of the four defined areas of contractor involvement.

What are the employment effects of schemes?

Expansion of the schemes has meant small increases in employment in the company extension operations, and in the Lima foundation. However, beyond the framework of enterprise development noted above, which is significant in the areas in question, little formal employment creation takes place. essentially it is in the downstream casual work of each enterprise that numerous day labour tasks are locally negotiated and developed. Seasonal maintenance demands and the cropping cycle in tree growing may appear to limit the number and 'sustainability' of these enterprises, particularly when compared with the more rigorous annual demands inherent in

small-scale sugar cane production and harvesting. However the growth in enterprises is being matched by the growth in opportunities in the expanding regime of maintenance, cropping, transport and coppicing.

Summarising, the partnerships provide a significant contribution to the sustainability of marginal, vulnerable and semi-vulnerable households. Scope exists for an expanding range of enterprises and opportunities, and to create 'space' to negotiate and develop better practices, and wider contributions to improving rural livelihoods. These potentials are covered strategically in the concluding sections.

5.4 The contribution of outgrowing to empowerment and redistribution

The present contribution to a 'formal' definition of empowerment and redistribution is occurring through the privatisation process. Bids have been assessed firstly on the basis of equity sharing, and secondly on company levels of skills training and contractor development, with these criteria the basis for participation in management of the assets. In KwaZulu-Natal a limited equity participation, at 10% of value of the purchase, and taken up by previously disadvantaged interests in the cities (not in the constituent rural areas), is inherently partial. An emerging consensus in South Africa suggests that equity participation on its own is insufficient to drive effective empowerment, and that the residual performance in the underlying enterprise can be significantly compromised, without wider conditions in the ownership which support management and performance (*Business Map, 2000*).

At the next level of empowerment, the constituent rules in the bidding which promote contracting will contribute significantly to the expansion and sustainability of contractor enterprises currently working physically close to the plantation assets. Secure and long term relationships in production and extraction can be ensured. (*Various company and government officials. Cairns, R. 2000*).

It appears unfortunate that linkages between contractors and equity sharing have not been sufficiently promoted or recognised, thus promoting a more dynamic local empowerment directly linked to redistribution. It is in the future management of the potentials inherent in the outgrower sector that more relevant and more radical empowerment and redistribution can occur.

5.5 The environmental costs and benefits in outgrowing

It is only recently that concerns about industrial forestry's environmental impacts have been transferred into concerns with the outgrower partnerships. The impacts of the large plantation sector are discussed below, and the positive and negative costs and benefits in outgrower forestry tabulated.

Debate, research, assessment and mitigation have centred on the following aspects of industrial forestry:

Its water use impacts, particularly the preferential and uncontrollable water use status in the upstream parts of catchments, and the associated effects on runoff and reduction of water availability for other agricultural, domestic and industrial use. Its effects on the water-table and the now statutory reserve are contentious, as are those on human needs during low flow regimes in rivers;

Its bio-diversity impacts, predominantly from land use changes, and on the associated irreversible loss of wetlands and of an open and expansive grassland habitat. The effects of these on endangered bird, animal and plant species, many

endemic to areas of high afforestation potential or use, and the invasion by alien species onto land adjacent plantations are renowned. Residual effects of pesticides and pollution effects from burning slash, litter and firebreaks, and potential neglect in managing archaeological sites are also well recognised;

Forestry's role in contributing to a 'landscape ecology', presently viewed as the pattern in landscapes which should aim to maintain biological diversity and sustain economically viable levels of timber production. There are two inherent concepts one being 'ecotones', the boundary areas between two fundamentally different landscapes held by ecologists to be key sustainability features of biological communities and systems (*Le Maitre 1994 in Gandar, 1995*). The second are 'island bio geography,' concerned with the long term viability of specific tracts of land, usually small and isolated areas, in plantation areas or areas of potential afforestation within which natural communities are confined.

In outgrowing, these predominant impacts are partially conditioned by the more dispersed nature of plantings and by land tenure practice. The major effects are related to the changing nature of land use, on water use and on the conditions supporting bio-diversity.

Table 6. Environmental costs and benefits

Positive Benefits	Associated Impacts	Negative Costs	Associated Consequences
Land Use			
Changes open commons management to open access to the land resource	Develops alternate and improved production possibilities	Can conflict with common resource management	Some conflict, mediated by community leaders
Relatedly, adjusts patterns of local land use towards economic resource use	Promotes improved household income generation by between 12-45%	Possible displacement of food crops. Low prevalence.	Can affect regional land use planning in SDI's; generally mitigated
Substitutes other cash crops on existing unsuitable soils	Higher returns, different labour intensity	Reduces possible nutrition status of households	Increased cash purchases in the market
Relatedly, minimal displacement of other food crops	Allows for spread of labour between some food and timber crops	Can conflict with cattle regime	Local conflict
Water Use			
Dispersed stands in tribal wards have lesser impact than industrial	Reduces extent of stream flow reduction inherent in timber	Contributes to stream flow reduction and water table loss	Negative impacts on other land use planning /eco-tourism
Generally downstream in low lying catchments	Limits effects on other demands	Some impacts on eco-tourism interests	Contested planning regime in regional development – in SDI's
Bio-diversity			
Ecotones and	Creates	Has potential to	Negative NGO

island bio-geography more pronounced	opportunity for maintenance and promotion of bio-diversity	deny the integrity of existing systems	reaction, conservation body reactions
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Most of these impacts have not been sufficiently quantified in the past. The table therefore suggests a basis for the development of more detailed, integrated investigations which should allow for the development of specific guidelines and criteria for application in the progress of a more sustainable outgrower forestry regime in the province.

5.6. The balance of power and interplay of forces

During establishment of the partnerships the balance of power could be described as lying within the orbit of the companies. Access to finance, technological knowledge, control of the available markets, and setting conditions to loans to growers allowed for the expansion of the partnerships within a climate aimed on the whole at achieving company objectives and derived production targets. In the case of the *Khulanathi* partnership, this balance was moderated by community lawyers, who renegotiated terms of the partnership contracts around the crucial areas of household rather than company control of the returns to coppicing, and of inheritance.

This balance of forces could be said to have continued through the early years of the programmes, which were marked by conflict and opposition. There was a tendency for company extension staff to drive production arrangements without the full knowledge and understanding of many illiterate outgrowers. There was, probably, an inherent attitude among company staff that they were assisting households in their best interests, since they knew how to operate the development and management of timber stands and contracting on the growers behalf.

A general trend of displacement of land use from other potential crops and from grazing occurred over the initiation of the programmes, but soil types and climate in the physical areas of the partnerships generally mitigate against extensive subsistence production. Where this occurs, with planting of trees is in the wetter valley bottoms, adjacent local wetlands and stream beds, areas which company extension service staff aim to avoid in following environmental management guidelines. Over time households began to make positive trade-offs towards tree growing based on perceptions of greater economic returns to trees, and to adjust patterns of resource use to suit their changing economic conditions. However, for many growers the annual and year of harvest returns to timber stands were not clearly understood, or consistently managed. Refined economic decisions and choices were not made, and other factors impinged on decisions for planting trees. One is the need to secure access to land holdings when a local principle of usufruct applies only if the land is used.

A large measure of the shift to a climate of co-operation within partnerships, and an increase in independent growers outside of the partnerships using the available facilities and extension support, can be attributed to a richer understanding in households of the potential and actual returns over the term of the second and third coppice. While the record shows a strong ability to manage receipts and payments on loans, there has been a reported inability to take the necessary jump towards assessing cash flows and returns at the scale of an 'enterprise' in the greater community of outgrowers. Much of this has to do with grower management of household survival strategies, with use of harvest income being one source in multi-facetted strategies.

The balance of forces have shifted away from the companies, since perceptions in the community and individual responses to the partnerships reflect an increasing overall willingness to engage with the companies. This may be a reflection of large scale job losses in South Africa's economy over the past 5 years, as well as the absence of any really effective state support for rural production. However it is attributed locally to neighbours seeing the use to which growers put the lump sum returns from harvesting and the potential of the coppice, which has increased local demand for membership in the partnerships. In addition the range of downstream activities which are generated are a benefit which local communities can access, albeit for many on temporary terms and in weakly defined, locally negotiated conditions.

Companies are now managing a service, which is driven by a strong local demand, and are having to cope with upgrading and supporting its integration with other essential activities. The key issues are contractor support, the management of allocations in conjunction with the industrial forest product and wider market and commodity price fluctuations, and the development of certification of the product while dealing with the requirements of the public sector in promoting company and grower interests.

Despite these shifts in relations of power, households and communities have not on the whole been sufficiently 'empowered' institutionally, nor 'transformed' economically. With general exceptions, refined extension methodology and technology transfer programmes have not been introduced, and public planning for physical infrastructure has been minimal. Institutional development is weak in the hardwood partnerships, with the range of producers not incorporated into understanding and managing the various 'systems' in outgrowing partnerships. Unlike the sugar cane sector there is no preferential protection and pricing support. The economic opportunities and impacts at household level remain limited, and are 'structurally' partially inhibited by the nature of the crop itself, land tenure practice and the levels and type of support for extension. However numerous windows of opportunity exist in the context of new legislation and planning noted in the report.

Within this changing interplay of forces, the role of the state in the partnerships has been minimal, and where active, limited to generating or refusing afforestation permits, following principles based on wide and new criteria and the requirements of competing interests in diverse national and provincial bureaucracies.

Summary issues reside in considerations about 'who drives the sector'.

Are the land tenure, time horizons, contractual risk, and price and marketing elements in the partnerships sufficiently appropriate and stable to allow for a sustainable private sector led outgrower forestry? In the absence of positive investment by the state in the contemporary era, will the private sector continue the operation of the models, if subject to serious commodity price changes, local political interference and restrictive water policy, or increased market competition from the other timber producer associations? Is there a sufficient commonality of interests in private sector led forestry to mitigate risks, (and the hassle factors) through a collaboration in marketing, pricing and institutional development, or is there a role for the state and donor community in providing for key instruments in financial and institutional development, where the private sector may in future be commercially compromised. Can forestry agribusiness be persuaded to go beyond the bounds of the present partnerships by entering into innovative possibilities in land reform, within new forms of producer partnerships in the KwaZulu-Natal setting, arranged to

achieve wider developmental objectives and better livelihoods than the company derived possibilities at present.

Finally are the returns to outgrowing sufficient for households to warrant continual investment in trees, without shifting into other crops. Does tree outgrowing reach the more marginal and vulnerable households sufficiently. Does the promise exist for a sustainable expansion of forms of 'partnership' where all interests can maximise in a, commonly stated, 'win-win' scenario which goes beyond present parameters, and widens options and increases opportunities. If so what are the ceilings and who provides the resources to achieve them.

6. Issues affecting the future type and extent of developments in outgrower forestry

The foregoing sections provide the basis for a wider consideration of the sustainability in private sector led outgrower forestry.

Strengths

The base in outgrowing is strong.

Land tenure arrangements in the tribal wards are secure enough to provide the basis for sufficiently consistent returns to growers over a minimum 20 years, and for sufficient security (collateral in the crop) to companies to warrant continued investment in outgrowing. The transition from a system of common property resource management towards one of open access is well mediated and supported by tribal authorities. While stronger households have benefited from the structure of opportunity in the wards, weaker households are capable of gaining access through reductions in minimum size of plantings. Small growers appear to be a better financial risk than the private growers, due to their relative reliance on the balance of finance, infrastructure and support provided by the companies. While tenure security may have been a major motivator in the early stages in the development of the partnerships, the desire for cash returns predominate in a changed structure of land use and economic opportunity.

Time horizons in the cropping cycle allow for good returns to growers against the structure of opportunity in sugar cane, with less rigorous labour demands. Returns on the overall investment to the companies (against the estates) are good, with the balance of contractual risk spread between parties in a setting which encourages an overall compliance to the requirements of the programmes.

Markets are both secure and diverse, allowing growers to choose between options, with a range of possibilities within a segmented industry structure. This way the partnerships are allowed to develop sophisticated transfer or swop arrangements to accommodate any oversupply and undersupply from the effects of negative commodity price cycles, protecting both grower and company interests. These potentials can be actively developed and integrated within a wider structure of formal arrangements.

Pricing structures offer similar options to growers, while the extent of local demand (and the structure of support) is unlikely to allow for a situation where growers bypass the grower-cum-processor investment towards the opportunities offered by the marketing co-operatives in numbers which would warrant any downscaling. The extent of this local demand is strong and is supported by the timber companies, who

wish to expand in the context of a limited structure of opportunities for planting in the industry.

Institutional development and the integration of outgrowers into Sawgu and the NCT provide exceptional examples of the possibilities for a non racialised organisation of producer interests, with the potential for equity participation in higher value added processing component of the partnerships. The limited downstream institutional organisation in the hardwood partnerships also provides a basis for further development of local outgrower and contractor interests. Industry representative associations in forestry are also considering mechanisms for integrating all outgrowers into a representative structure of producer and processor interests. These positive movements will require astute support and development given the present segmented structure of industry interests.

Weaknesses

Land tenure constrains the opportunity for households to consolidate stands into holdings of a minimum size which would allow for full time livelihoods from outgrowing. It also limits the potential for an effective extension methodology based on managed rotations and therefore real annual returns, which also restricts more marginal and vulnerable households from generating any real returns. It does however encourage forms of sharecropping a form of entrepreneurial development which provides a base for the entry of some outgrowers into wider possibilities in the industry.

The effects of commodity price cycles in the hardwood partnerships suggest a fluctuating vulnerability in outgrowing to aggregate demand in the industry as a whole. Given the growing contribution of the outgrower product to total production, the effects can be mediated due to the relative margins achieved by outgrowing against the industrial and private contribution to total output. And practically, by developing sophisticated internal harvest allocation methods, and tools for transfer of the product to other agencies across the segmented industry. The wattle and marketing co-ops have shown the possibilities for this integration and the willingness to co-operate in finding diverse markets for competing interests.

Local price controls by the grower–cum-processors and the absence of any price support, as exists in the sugar industry inhibit better returns to growers, but mediated by the elimination of Value Added Taxes to outgrowers.

Trends in investment offshore by industrial forestry interests (along with the factors inherent in promoting this movement), and the potential for corporate divestment from their industrial estates towards other forms of ownership imply a degree of vulnerability in outgrowing to the effects of corporate restructuring. With the present absence of public support for small scale producers, vulnerability to a reduction in private sector led support is inherent in outgrowing.

Costs to private sector interests in outgrowing arising from the absence of organised public sector support inhibits the progression of the sector. The provision of infrastructure and extension as well the price support, whilst contentious, would promote broader sustainability considerations. It will also depend on the terms and conditions of their respective introduction.

Opportunities

Foregoing limitations are counterbalanced by a wide range of institutional, economic and land use possibilities for the consolidation and diversification of interests in outgrowing. All are conditional on a measured commitment by a multiplicity of public and private interests to the benefits and progression of outgrowing.

Opportunities lie in the present acceleration of land reform in KwaZulu-Natal, and are supported by rural development policy and new provincial planning. Political imperatives, available funding and the nature of demand for land, clearly imply the prospect of investments in economic and semi-economic forestry projects. The projects are in discrete physical areas of land reform, supported by the potential in the industrial forestry companies and co-ops to provide appropriate support and markets for product.

Wider possibilities exist for forms of public-private partnerships in land reform based on outgrowing supported by local governments' mandate to secure an effective local economic development; which devolve responsibilities for aspects of infrastructure to participating parties based on combinations of equity participation. The creation of discrete development companies led by specialist smallgrower managers in these partnership arrangements are real possibilities. Further opportunities exist in industrial forestry companies to divest estates towards different forms of ownership. Development agency led projects that incorporate existing local outgrowers into ownership and management of the devolved asset, introduces innovations in the underlying land use, would allow for the empowerment of existing enterprise and expertise in outgrowing. Considerable precedent exists in the conditions supporting the nature of investment in the privatisation of state forest assets. These possibilities indicate considerable time based investments by both public and private interests. All promote the need for private companies to secure long term production.

Threats.

The major threat to the expansion of a more sustainable private sector led outgrowing are the implications arising from the operation of new water legislation. Presently it is being felt by the partnerships in the limits being set to new plantings in existing operations, and in the limits set to outgrowing in the planning for eco-tourism and agriculture in the spatial development initiatives. The latter has been mediated by innovative public private co-operation in identifying non competitive land use options for the expansion of forestry in relevant areas.

Other considerations to think about are the limits in corporate forestry interests to outgrowing mentioned above, should market and investment conditions fluctuate sufficiently to warrant either the withdrawal of support, or its devolution towards a more laissez faire structure of production. In contrast with the need to secure long term production stated above, many market trends and shareholder demands, reward short term behaviour and do not necessarily fit with the time cycles in tree growing, despite the evolution of early maturing varieties.

Further threats are the complex and tardy nature of bureaucracy inherent in managing complex reforms. Government concerns regarding small scale growers stated in the National Forestry Action Plan (NFAP), highlighted in the policy stories section (p28) of this report, pointed to six major concerns; 1) That small scale afforestation may expand into areas where other forms of land use may be more beneficial if other forms of support were available; 2) that tree planting may interfere with existing access rights of other stakeholders to land; 3) that small-scale growers are in a weak position to negotiate timber prices and other conditions of contract, 4) that loan finance agreements promote dependency on the timber companies; 5) and

that corporate support may be a way of circumventing restrictions on afforestation while 6) the accumulative effect of small plantations may be significant.

All these issues have been addressed in this study and in *Cairns, R. 2000*. The reports also address issues in the window that government allowed for the progression of small scale timber growing in the NFAP. These issues covered are- 7) A greater understanding within the sector of the opportunities for, and constraints on, wider participation for small growers; 8) increased numbers of independent small growers involved in the production of wood and wood products; 9) greater bargaining power and improved marketing arrangements through co-operatives or similar associations; 10) a wider range of financing options for small growers; 11) complementarity and 12) alignment between government and the private sector in providing support services to growers,

Together these potentials and constraints inform the framework and basis of the final section of the study.

7. Recommendations: Best bet options, principles, next steps

This report has assessed the performance and progress of the outgrowing enterprise in KwaZulu-Natal, focusing on the development and operation of the instruments in company –community partnerships, their social, economic and institutional impacts, and the potential for a wider more sustainable private sector led forestry.

Best bet options

- Markets

The diversity of potential markets for outgrowers need to be organised and promoted. This can be achieved through restructuring of grower representation into the central grower and processor association, and activated by adjustments to the contracts in the hardwood partnerships. The principle is one of 'deregulating' the partnerships via adjustments to contract provisions, and the precedent exists within the wattle based partnership. The effects on the partnership companies will be mediated by the extent of local demand for their infrastructure and support in getting product to markets, and the uptake of their facilities by the many independents. Companies will have to compete for the outgrower product.

- Prices

Since the timber industry is not subject to GATT provisions, any phased price support is unnecessary. The objective should be to maintain the development of a viable outgrower sector without artificial, and expensive support. Local price competition in the segmented industry structure should be encouraged as a way of stimulating markets and production. Competition could also promote a reduction of interest charges in the loans to outgrowers.

Commodity price fluctuations need to be mediated by the organised introduction of sophisticated allocation mechanisms within each partnership which balance the contribution of the estates and of outgrowing. This has been achieved in the wattle and marketing co-operatives. Further mechanisms can be developed with the organisation of vehicles, through representative industry associations, for the management of stock 'transfers' and 'swops' into other log and chip markets. These are already being considered, and the segmented structure of markets, supply and

demand have sufficient alternative avenues to counteract the effects of down cycles to the outgrower product.

- Institutional development

The above are conditional on the ability of the industry associations to accommodate outgrowers. Planning is already underway in the proposed amalgamation of the Forest Owners Association (FOA) and the South African Timber Growers Association (SATGA). The development of outgrower representation will require long term support, and the recommendation is for the national department to promote this through the establishment of a Trust, which may be amenable to donor support. It would need to operate at two levels, the first centrally promoting the organisation of interests into the association, and the second promoting the work done in the partnerships at local level. The latter can be developed through interactions with the provincial department of agriculture.

- New ventures and producer associations

The scope for new ventures identified in preceding sections and aimed at supporting wider and more sustainable forestry will require a considered investment in organisational and institutional development, and the participation of a multiplicity of interests. The recommendation is for an initial endorsement of the objectives by the national department, as an element of policy, and the establishment of task teams to drive their preparation with the departments of Land Affairs, provincial Agriculture Local Government, and the Forest Owners Association. NGOs and other private sector interests in outgrowing can be brought on board in an initial ad hoc manner. As these deliberations develop, the possibilities of establishing a specialist unit in the province to arrange and negotiate implementation could be considered.

- Land use practice and environmental impacts.

The report has identified the major impacts of outgrowing. There is already a body of knowledge about the non-competitive use of land for future plantings. These can be used as the basis for deciding on where new investments can occur, in conjunction with other criteria in land reform, transport distances etc.... Secondly, the environmental impacts developed in this report can be further developed into criteria to be used in the adoption of new planting. Which can then provide the frameworks which would need to be adhered to in initiating new investments.

- Technology transfer and improved extension

These aspects are already being handled via the companies, but with immediate objectives and within a limited framework. In order to expand on this potential the recommendation is for models to be developed that incorporated best practice. These can be done by research agencies in the timber industry in the province in conjunction with development professionals, and funded by the state or donor community. The models then become a package of practices which can be used by organisations and actors as they see fit. Options for the relative balance of suppliers, implementing agents and costs and charges, can be researched and negotiated locally.

- Physical infrastructure

Some of the conventional infrastructures required can be developed by provincial forestry offices in conjunction with local government, if a widening of departmental priorities from community forestry into considerations for small scale growers occurs. In the proposed innovative partnerships, new requirements can be developed through proportional provision of capital from the respective parties. There is sufficient evidence of the success of these options in urban development. The underlying principle is to unlock public and private investment in growth promoting activities, reduce the burden on an overburdened state, and promote wider ownership in local investment..

Conclusions

The recommendations recognise the potential for a viable and sustainable outgrowing sector, and point to areas for refinement, adaptation and improvement, where the balance of participating interests can be better served. It implies a conceptual and procedural shift in the way in which outgrowing is conceived and managed in the future. In essence the recommendations take outgrowing out of the bosom of private sector forestry, and into a framework of potential arrangements where a multiplicity of interests drive the progression of the sector. The private sector essentially become agents for supporting and participating in a refined and widened 'development process' which will need to be driven with key structural concerns and objectives The primary driving concerns are:-

- The expansion of opportunities in accessing land,
- Wider institutional development and technical improvement,
- More elaborate partnerships for the participation of new interests, and
- 'Tighter' financial and wider marketing arrangements.

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Dr Mike Lyne. Professor. Dept. Agricultural economics. Pietermaritzburg. 27-33-260-5110

Prof. Mike Lawes. Forest bio-diversity programme. Dept. Zoology and Entomology. University of Natal. Pietermaritzburg. 27-33-269-5110

Dr. Fred Kruger. Fred Kruger consulting. Pretoria. 27-12-343-6167

Dr Dudley Jackson. National Productivity Institute. Pretoria. 27-12-341-1470

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Dr Dieter Heinsohn. Managing Director: ACER (Africa). Mtunzini. 27-353-402-715

Brian Sugden. Chief economist: South African cane growers association. South African sugar association. Durban. 27-31-3056161

Glen McKay. Senior manager: Financial aid fund (FAF). South African sugar association. Durban. 27-31-305-6161

Peter Keyworth. Managing Director: The NCT Co-operative Ltd. Pietermaritzburg. 27-33-394 1202

Vusi Dladla- Development forester. NCT. 27-33-394--1202

James Van Zyl. Commercial manager. NCT. 27-33-394-1202

Mike Farrow. Manager: Development extension. NCT. 27-33-394-1202

Ingrid Ferguson. Public relations. NCT. 27-33-394-1202

John Feely. Manager: Development extension. Sawgu. Pietermaritzburg. 27-33-451-368

John (Doggie) Kewley. Manager: Khulanathi. Mondi Ltd. Kwambonambi. 27-35-5801-534

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Beverly Russel. Director: Social Surveys. Johannesburg. 27-11- 487-1833

Jeremy Evans. Environmentek. CSIR. Pretoria.27-12-841-3551

Andrew Zaloumis. SDI project manager. Durban. 27-31-261-8181.

Terry Castis. SDI project manager: cluster investments. Durban. 27-31-261-8181

Peter Simms. Manager: Corporate loans and agri-business. Ithala. Kwazulu-Finance and Investment Corporation. Durban.27-31-646-7421

Dr John Ledger Director: Endangered wildlife trust. Johannesburg. 27-11-486-1102

Dr Richard Bates. Director. Finasol.Durban.27-31-764-0545

Wendy Forse. Independent regional planner. Mtunzini. 27-35-

Timberwatch. Richards Bay.27-35-

Owen Greene. Chairman: Ingonyama Trust Board. Pietermaritzburg. 27-33-426-709; 083-600-4495.

Elizabeth Ardington. Centre for Social and Development studies. University of Natal. Durban. 27-31-260-1111

Dr Julian May. Centre for Social and Development studies. University of Natal. Durban. 27-31-260-1111

Dr Alistair McIntosh. McIntosh, Xaba and associates. Durban. 27-31-3014331.

Dr Jenny Manders. Institute for natural resources. University of Natal. Pietermaritzburg. 27-33-269-5110

David Perkins. Chief Engineer: Water resources. Department of Water Affairs and Forestry. Durban. 27-31-336-2700

Beverly Warren. Department of Water Affairs. Durban. 27-31-36-2700

James Mayers. Director: Forestry and land use programme. IIED. 44- 0- 207-388-2117

Annexe 1

Land policies and their impacts on conditions in the rural wards

From 1913 onwards a general history of haphazard incorporation and dispossession of African lands prior to the formation of the Union of South Africa gave way to a more structured and legally based approach. Successive governments progressively legislated 14,7 million African people into a spatial framework of separate 'ethnic' bantustans. The 1913 Land Act allocated some 7% of land for African occupation only, restricted Africans from buying freehold title in 'white' areas, forcing sharecroppers and cash paying tenants off land they had occupied, and confining them to marginal tribal areas under the clan based system of tribal authority administration. The 1936 Development and Trust Act extended the area for black occupation to 13 % of the total of land in South Africa. A system of land purchases from white farmers and landowners, (to be held in the South African Development Trust-SADT), established 'released areas' for African occupation and 'scheduled areas' contiguous with existing, residual native lands and where only Africans or the SADT could acquire land.

Together these three categories of land became the basis for the consolidation of 10 bantustans in 1972. The Group Areas Act of 1950 further entrenched restrictions on African ownership of land in urban areas and together with the Prevention of Illegal Squatting Act of 1951 provided the basis for a pattern of forced removals and resettlement of over 3 million people into the largely rural bantustans, which continued into the 1980s.

At the rural end of this spectrum, the traditional powers of communally and clan elected leaders (which provided a delicate balance of locally negotiated powers, responsibilities and rights between leaders and the led) were undermined by the Bantu Laws Amendment Act of 1951. Chiefs and *indunas* (the next devolved level of authority responsible for tribal ward or *isigodi* administration) were entrenched as paid government officials. In Zululand however, these new roles allowed for an intermediary relationship between government and rural communities, with magistrates playing a central role in liaising with local leaders in getting policy and local service delivery implemented (See McIntosh *et al*:1995.p3).

With the consolidation of KwaZulu after 1972 these locally negotiated service delivery functions of the magistrates and chiefs were undermined by the formation of apartheid's 'modern' line function service departments separately in the capital of Ulundi. Despite Kwa-Zulu legislation making traditional leaders administrators of their communities, they were effectively bypassed by a weak line function capability, and their *de jure* powers to administer 'development' were diminished. Chiefs became progressively disempowered, confined largely to matters of customary law, dispute resolution and most importantly, to land allocation and were supported with only modest stipends, a secretary's salary and occasional grant funding (ibid: p4).

Under these circumstances some chiefs counterbalanced their emasculation by seeking political office, many using this access to centralised political authority to achieve an enforced local acquiescence in administrative, political and development matters. Others quietly retained resemblances of an historic order through maintaining the balance of their functions which centred on the equitable distribution of secure, affordable access to land for poor rural people, thus providing the 'welfare' function essential to the conditions prevailing over both this era and more contemporary times.

Annexe 2. Development of segmented industry relationships

The differences between the predominant grower cum processing interests and the 'white' private grower sector can be traced back 30 years to rifts between the South African Timber Growers Association (SATGA) and the emerging corporates in the late 1960s. The ability of processing interests to set limits to mill-gate timber price increases led Satga members to begin to seek more secure and lucrative independent export markets in Japan, and to develop a strong independent infrastructure for wattle chip and subsequently wattle log exports. This was done without any state support or facilitative frameworks of policy. It also promoted a strong move towards the concentration of the private grower interests and representation in the central NCT Co-operative.

In the late 1970s, over supply situations had developed in local pine and eucalypt markets, and so long term export markets in privately produced pulpwood logs were expanded. Between 1978 and 1983 the NCT removed some 314,000 tons of eucalypt and 130,000 tons of pine pulpwood from local markets in the province. The effects of this period of independently led pulpwood exports, and the competition for available supplies marked the beginnings of the serious expansion in the industrial processor companies to secure land and the preferred 65% of 'throughput' yardstick.

Subsequent periods of provincial level undersupply during the 1980s led the NCT to push an expansion of private members' available land to both hardwoods and softwoods, as well as to expand production to meet quota via the purchase and lease of timber farms, integrating production vertically (The NCT Story.1999.10-50). The scale of this investment in land and the integration of production interests allowed the NCT to fully develop an additional range of discrete local markets across the country.

The comparative strength of export prices obtained and drought determined shortages also assisted the NCT in negotiating more favourable long term supply contracts with the local processing plants. While the private producers presently supply some 20% of total tonnage used by the industrial grower cum processors, the private grower sector is in the position of leading the determination of timber prices in the province. Generally, prices are set at levels 20% higher than the processors, who are in the position of having to 'follow' price levels in securing mill-gate supplies.

Annexe 3

Contrasting sugar cane outgrowing

In contrast to the early investments in the development of small timber producers, African sugar production for markets was strongly supported as far back as 1861. The Colonial government erected a sugar mill for 'Zulus' on the Umvoti river, and an *Nkosi* (chief) Umnini purchased an estate and mill in 1876 at Umgababa. Six mills were subsequently established by the government between 1865 and 1888, often with assistance of American missionaries. With one exception none survived beyond 15 years of production and were closed down due to 'production and management problems' (Osborne, 1961, in Bates, R. 1999). The Groutville mill on the Umvoti River, home of Sir Albert Luthuli, a former leader of the African National Congress, continued for over a century until 1978.

Government assistance for African production was again promoted by the Board of Trade and Industries in 1934, and later by the Board of Trade in 1946. Problems in promoting African production were seen as a 'lack of knowledge and a lack of transport and draught animals'. Recommendations were made for the provision of extension services, and in 1947 millers began experiments in this direction. In 1955 the Tomlinson Commission, established at the time to make recommendations for the socio-economic development of the bantustans, recommended the creation of a 'full time agricultural class' with sugar cane suggested as a preferred crop in a future Kwa-Zulu state.

The 1940s were drought years, and resulted in a phased programme of planned expansion and international export agreements were secured in order to stabilise the sector. The period between 1948-59 saw some 100,000 additional ha. established to cane (by white growers), and the second planned phase between 1963-67 saw 90,000 new ha. established.

Public support for the provision of infrastructure in the coastal and rural areas of the province was a major boost to this expansion, and one of the determining factors in the subsequent levels of production achieved.

During a third period of planned expansion between 1973 and 1986, content was finally given to the history of policy statements about the promotion of the small grower sector. Sugar industry consultations with the then Dept. of Bantu Affairs and Administration and the Dept. of Industries agreed on a 'limited and gradual development programme for Africans'. A gradual formal allocation of additional land for cane production, mainly in Kwazulu, was begun and R5 million was allocated by the South African Sugar Association 'to ensure the production of small sugar cane growers (SASJ:1972.559, cited in Bates.1999).

In order to keep a balance between markets and production in a highly regulated and planned industry structure, small producers were allocated some 7,800 ha. of 34,500 ha. or 14% of regulated expansion over this third phase, and the Small Cane Growers Financial Aid Fund (FAF) was established by the South African Sugar Association (SASA). The FAF is financed and guaranteed by SASA, which itself is a self regulatory association by Act comprising the millers (South African Millers Association), and the producers (South African Cane Growers Association) and financed through levies on the sale of sugar. It is the forum for the negotiation of the apportionment of proceeds from cane production and from milling between the two predominant sets of interests. A "Division of Proceeds" formula is calculated and based on annually determined costs of production and costs of milling: currently the ratio stands at approximately 60/40. The milling companies act as agents for the

Financial Aid Fund, on-lending credit to small growers, taking the future crop as collateral, and providing extension services. Throughput of small grower cane 'tops up' mill throughput, providing greater returns through economies of scale to available milling capacity and to production.

Small growers are defined in the sugar industry as those who produce no more than 5000 tons per annum, (or 200 tons of sucrose-the extracted sugar base). This was subsequently adjusted upwards to 450 tons of sucrose in 1993. Significantly, small growers also benefit from tariff protection measures which maintain prices at 100% more than the international price. Small growers are further supported by preferential 'A pool' prices for their entire crop, set slightly higher than for most of the white grower crop which receives B pool prices. In 1996 the price was 38% higher than the export price (Lyne, M. et al :1999). Within this framework of agreements and support, the subsequent growth of the sector was dramatic.

Between 1973 and 1992, the numbers of participating, registered growers increased from 3,628 to 41,917, with increases in land use to sugar cane growing from 14,861 ha. to 98,253 ha. over the same period. Production moved from 315,702 tons in 1974 to 1,627,233 tons in 1985 (in Bates. R ,1999), and has increased to 4,073,955 tons in 1999. Deliveries are to an infrastructure of 17 sugar mills throughout the province, of which 13 are held within two major milling and vertically integrated producer groups and 5 are independent millers. By 1995, some 59,597 FAF loans had been approved for small growers, at a total value of R175 million. During 1993 the small grower structures were deracialised, and the Kwazulu Finance Corporation also entered the small grower arena, providing another R7,5 million in production credit, from a base in financing contractor development (the cutters and hauliers of cane to depots and to mills) in the apartheid era. At this time the 'sector' comprised around 43,500 people, of a total of 45,500 producers (95% of regulated producers, the balance being white 'quota' growers on commercial farms and the company estates supplementing mill throughput).

Presently small grower production at 4,073,955 tons comprises 13% of total annual sugar cane production, produced on approximately 23% of total land under sugar cane (Draper, P.1995; SACGA.1998). While there is a large variation across the various mill supply areas ranging from 11 to 2.5 ha., average farm size is about 5ha. (SACGA.1998). Average yields are about 41 tons of cane per ha, against an industry average of 71 tons. Average annual net profit in 1998 was about R1660 per ha., with a range of R6,900 (under irrigation) to -R238. Excluding irrigated cane, average returns across five mill supply areas reduces to R560 per ha. Deregulation of the industry in the mid 1990s has lessened constraints, widened options, and created more opportunity for small growers. Participants no longer have to register land, nor have to be attached to a particular mill, while new small growers will have free entry into the industry.

Credit support

The Financial Aid Fund has been the major instrument in drawing small producers in KwaZulu into cane growing (McDonald. C, and Vaughan, A :1995:7).

Credit is managed through the millers' extension services in a manner typical to contract farming. It is offered in a standard agreement from FAF at rates lower than commercial rates, and over the full production cycle of the crop (usually between 10-18 years of annual or bi-annual cropping). The credit is allocated 'in kind' against necessary inputs, such as seed cane, fertiliser, local contractor charges, and final delivery costs from depot to the mill. Deductions for these 'managed' services against

the debt are then made from the proceeds of each annual ratoon. Twenty five percent of the total advancement is also deducted annually, and the grower receives the balance of the value of his tonnage delivered (and sucrose content measured in processing). Ideally, growers can finance their crop through credit and have the total debt cleared by the 4th or 5th ratoon, with subsequent harvests essentially profit (less annual fertiliser, weeding costs, harvesting and transport costs).

Adaptations have been made over time, such as the introduction of a savings, or retention scheme, where a proportion of the annual proceeds of the tonnage delivered are retained to cover the next years weeding and fertiliser costs. There are a number of anomalies in this (such as growers having to organise and complete tasks before receiving payment, as well as the potential for a cycle of diminishing returns) and the credit scheme has been contentious from a number of points of view.

Growers have felt that the FAF and miller management controls on their loans are too rigid, and many, often due to high levels of illiteracy, fail to understand the nature of the original agreements. Limited annual payouts due to the two systems of deductions discussed, often lead to very high rates of dissatisfaction. The millers thus become targets for a diffuse anger, compounding what some commentators suggest are an already imbalanced set of power relations between miller and growers (Draper.1995.14).

The FAF articles have changed over the years to reflect small grower concerns about both the structure of the management of credit, and its application. In 1992 FAF introduced clauses indicating a shift to “procedures which are more relevant to the needs of the borrowers”, and in 1996, articles were further amended “to ensure that its (FAF) operation is supportive of the wider development of small cane growers being undertaken through other sugar industry bodies”(in Bates 1998; p24). Senior grower representatives have clearly stated that the small growers should have much more control of the system for the delivery and management of credit. The industry structure is conservative, and given the fund’s sources, is cautious about the form in which the future sourcing, management and application of credit finance is handled.

Bates’s comprehensive 1998 evaluation of the developmental outcomes of the FAF provides a range of cautionary observations about the operation and impact of the fund. The major concerns highlighted were;

That the fund has been subject to policy and procedures not conducive to the ‘sustainability’ of the fund itself. The subsidised rates of interest charged is a major factor and rates closer to 34% per annum would need to be charged,

The analysis suggests the rate issue is linked to the viability of the small grower enterprise, where inefficiencies in weed control, fertiliser regimes and contracting are viewed as contributing factors,

Institutional development in small grower sugar has received considerable attention and is continually evolving. The original representation of small growers was on racial lines and into the KwaZulu Cane Growers Association, with close ties to the KwaZulu state, and dominated by interests in tribal authority leadership. In the 1980s, small growers requested representation onto the Board of the South African Cane Growers Association, and were granted 3 seats of 37 on the board, with the ratio based on tonnages delivered and allocated quotas.

Constitutional changes in the industry changed the nature of representation considerably, devolving the structure down to the mill supply areas, and away from the one ton, one vote principle. Each mill supply area has a local grower council where representation is shared between small growers and quota growers, and this council shares representation on the local mill group board with the miller. It then sends two 'quota' grower representatives and two small grower representatives to the board of the SA Cane Growers Association. While it is ideally non racial, there is a bias in that most small growers are black, and quota growers white.

The workings of small grower representation have implied a massive shift in local level authority structures and politics. It is a vehicle for individual producers to represent themselves through their farmers associations in the context of a modern system of production and sophisticated forums of negotiation and debate regarding their interests and the direction of the industry. It is also a basis for modern grower leadership (often dynamic grower- contractors) to represent themselves outside of the constraints of the tribal authority system and its complex relations. Therefore the internal structures are contested, with traditionalists attempting to maintain control of their relations in the forum and the modernists aiming to resist it!

It also has required a large measure of support, both from millers, and the SACGA in the form of a Small Grower Development Trust Fund (SGDTF) with has three aims:

to promote institutional and community development among small growers, to enhance agricultural production and economic extension, and to promote the financing of cane development (Draper;1996;14).

Funded through the Trust, administrative secretaries at the mill cane committee level receive training, as do facilitators at the level of the local farmers associations, which