

# Regoverning Markets

Small-scale producers in modern agrifood markets

## Innovative Practice

### South Africa

**The inclusion and empowerment of farm workers through partnerships: the case of Thandi fruit and wine**

Joachim Ewert, Gary Eva and Johann Hamman

University of Stellenbosch

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## **Regoverning Markets**

Regoverning Markets is a multi-partner collaborative research programme analysing the growing concentration in the processing and retail sectors of national and regional agrifood systems and its impacts on rural livelihoods and communities in middle- and low-income countries. The aim of the programme is to provide strategic advice and guidance to the public sector, agrifood chain actors, civil society organizations and development agencies on approaches that can anticipate and manage the impacts of the dynamic changes in local and regional markets.

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## 1. Executive summary

The central focus of the 'Regoverning Markets' study is on "innovative practices" that have resulted in the "inclusion of small-scale producers in dynamic markets".

In the Thandi case former farm workers have been included as newly established landowners and shareholders through partnerships with existing growers, retailers (both domestic and overseas) and established export firms in both the fruit and wine industries.

This has evolved over a period of ten years and in the context of a post-apartheid South Africa. However, political democratization has not made it easier for black farm workers to gain access to land and agricultural markets. If anything, deregulation of the wine and fruit industries in the early 1990s (before the democratic transition) has made it more, not less, difficult for 'new farmers' to become established. Establishment costs are high and both industries are capital, technology and knowledge intensive. Vineyard and orchard skills alone are not sufficient to launch a successful farming operation, let alone survive in highly competitive export markets.

So far, the government's market driven land reform policy has not been a great success. Although it does provide financial assistance in the form of a land grant, even the biggest grant in a multi-tiered system is not sufficient to establish a sustainable wine or fruit operation in industries where economies of scale matter and where cooperative entities are to be avoided.

For these reasons, Thandi has been built on a new business model, which hinges on *partnerships* – between workers, growers, wine and fruit (export) business, retailers and the state.

The Thandi project is a success in the sense that it has been able to grow and sustain itself for ten years – in a domestic and international environment where a skewed trade regime and unforgiving competition alone decide whether a venture survives or not. Although the future sustainability of Thandi fruit (sold under the Thandi label) is less secure, Thandi wine has been going from strength to strength and seems set to gain access to new international markets.

The farm workers concerned would not have been empowered in this way if it had not been for a number of factors: the political desire of their former employer to empower his employees, the business know-how, existing supply chains and marketing network of established businesses in the South African wine and fruit

export industries, their ability to build brands and the state's ability to contribute in the form of land grants.

In a neo-liberal world, with northern protectionism and 'home made' market-driven land reform, partnerships are necessary for 'small growers' to gain access to dynamic markets – especially in export markets where economies of scale, quality criteria, branding and efficient supply chains are sine qua non.

Paradoxically, the strength of the Thandi project is also its weakness. The partnerships and overlapping shareholding arrangements are complex and not easy to grasp – especially for workers and communities who are not highly educated, and often lack the confidence to participate in decision-making, even when offered the opportunity. At one stage, the difficulty of penetrating the complex business arrangements and the kind of returns they produce put the whole legitimacy of the project under serious doubt.

Consequently it is vital that the workers and communities involved are informed every step along the way as the project grows and unfolds. Equally important are the returns to workers/shareholders and their households. While informed workers may bring understanding to a 'long term' business perspective, too small a return over a lengthy period may be too little to sustain support or for others to emulate the model.

The results and conclusions of this study are based on interviews with key members of all stakeholder groups, Thandi financial data and other documentary evidence made available by the different parties involved in this partnership.

## 2. Background

By 2006, Thandi<sup>1</sup> fruit and wine had been going for ten years. It was started in 1996 by a farmer in the Elgin region of the Western Cape, Paul Clüver. He got involved when a community of wage workers living in a village ('Lebanon') adjoining Clüver's farm ('De Rust') were facing a bleak future after a decision by the state-owned South African Forestry Company Limited (SAFCOL) to scale down their activities in the Western Cape, cease forestry activities and dismantle the village.

It was Clüver's idea to 'empower' these workers and their families by combining social responsibility and sound business sense. Clüver sold 100ha of his own uncultivated land under the market value, while a further 100ha were leased from SAFCOL at a nominal rate, creating a 200ha farm called 'Lebanon' in 1996. Together with SAFCOL and an Anglican social development body, the workers from Lebanon village, workers employed on De Rust<sup>2</sup> and Clüver himself established the 'Thandi' brand<sup>3</sup>. The workers bought into the 'Lebanon' farm by sourcing the government's land grants with the help of a facilitator.

This was a pioneering act, not only because it was one of the first equity share schemes in commercial agriculture, but also because it predated the government's Black Economic Empowerment legislation by eight years<sup>4</sup>.

Between 1996 and 2001 a total of 44ha of wine and fruit were established. The cultivars selected were all high value apple, pear, plum and grape varieties, and planted in terms of dense planting programmes. Initially, the farm focused on fruit production, with its apples, pears and plums finding a ready market. However, the suitability of the area's land for the production of high quality grapes and the economic potential for quality, branded South African wine in the international market, prompted the decision that wine should lead the project. Ultimately it is envisaged that there will be 80ha under vines. From the start the business plan was to produce for the high quality end of the fruit and wine markets and to export on a large scale.

In 2005, more than 95 per cent of all Thandi wine was exported. Between April 2005 and March 2006 total exports amounted to 42,755 (nine litre) cases. Local sales remained at 3 per cent to 4 per cent of total production between 2002 and 2006, but

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<sup>1</sup> Xhosa for 'Nurturing Love'.

<sup>2</sup> The total number of workers at Lebanon and De Rust who were empowered in this way was 147. Two shareholders subsequently sold their shares bringing the total to the current 145.

<sup>3</sup> The brand is owned by a number of trusts – essentially equity share arrangements (see below).

<sup>4</sup> The 'Broad Based Black Economic Empowerment Act' became statute in 2004.

are expected to increase to 5 per cent in 2006<sup>5</sup>. Local sales occur in three locales at present. Thandi wine is available in selected Spar supermarkets (a national retail chain), selected restaurants, and at three 'cellar door' outlets – the Thandi farm stall in Elgin, and at the Welmoed and Helderberg cellars of 'The company of wine people' (Tcowp) in Stellenbosch. Future expansion of sales, both in the local and the international markets, depends on more grape producers joining the Thandi stable.

The position of Thandi fruit is similar. By mid-2006 approximately 90 per cent of Thandi fruit was going to export. Local sales of Thandi Fruit began in 2004 and have averaged between 8 per cent and 10 per cent of total sales. In the domestic market all Thandi fruit is sold through selected Pick 'n Pay (a national supermarket chain) stores in the Western Cape province – with small amounts being sent to Gauteng province. At present local sales are limited to pome fruit (i.e. apples and pears).

The demand for Thandi fruit currently exceeds supply. In 2006, the supply situation was aggravated, because it was a bad fruit year<sup>6</sup>. As in the case of Thandi wine, any future increase in the sale of Thandi fruit will depend on an increase in supply<sup>7</sup>.

The supply issue is being addressed by the programme of the Capespan Foundation, where four people are engaged full time in training new Thandi fruit suppliers to come on board. Thandi accreditation is not easy, as quality and empowerment criteria are strictly adhered to.

Although Thandi fruit is aimed at the Fairtrade market, the original hopes have not been fulfilled. Exports sold under the Thandi label have declined from 500,000 cartons in 2000 to 70,000 in 2005. However, total production and turnover at Thandi affiliated farms is on the increase<sup>8</sup>. This produce is sold as 'normal' Capespan fruit.

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<sup>5</sup> Until 2006 Thandi experienced problems with the local agent, resulting in a lack of focus. However, these problems have been resolved with the recent appointment of a new agent, and local sales are now expected to begin to show a healthy growth.

<sup>6</sup> Information on local sales ascertained in interview with Pierre van Zyl – local marketing manager, Capespan, July 2006.

<sup>7</sup> In South Africa the increasing market share of empowerment suppliers is promoted by the government's BEE policy wherein retailers etc. are expected to procure from empowerment firms. Whereas in Europe this process is driven by food safety and ethical requirements, in South Africa it is state driven – different drivers, same results.

<sup>8</sup> To qualify for supplying fruit to the Thandi brand, a farm must comply with certain quality standards and must have 'empowered' its workers by their acquiring a 25 per cent equity share. However, qualifying for Thandi does not mean that all fruit produced on the farm gets sold under the Thandi label. For one, it seems to be very difficult to 'brand' fruit as such. Secondly, the sales of Fairtrade products seem to grow 'horizontally, rather than in volume. Thirdly, Fairtrade does not always deliver the best margin for the producer.



Map 2.1: Western Cape Province<sup>9</sup>

Since the founding days, there have been a number of important innovations against the backdrop of changes in the value chains of fruit and wine. In both fruit and wine important new ‘players’ have come on board and joined the Thandi stable. In the fruit sector, Capespan, South Africa’s biggest fruit exporter took over the Thandi brand in 2002. Since then seven more fruit producing farms have joined Lebanon as suppliers<sup>10</sup> of Thandi fruit. Capespan markets all Thandi fruit<sup>11</sup>. Likewise in wine, one of the major private cellars in the Cape wine industry, Omnia<sup>12</sup>, acquired a 34 per cent share in the newly formed Thandi Wine Company in 2005. In the same year

<sup>9</sup> Permission to reproduce this map here from WOSA is gratefully acknowledged.

<sup>10</sup> These are: ‘Misgund’, ‘Keboes’, ‘Erfdeel’, ‘Sun Orange’, ‘Luthando’, ‘Rakopane’, and ‘Peperlaan’.

<sup>11</sup> Fruit sold under the Thandi label is on the decline, but fruit originating from Thandi producers is on the increase. As a result, the workers/shareholders on these farms continue to benefit.

<sup>12</sup> Formerly ‘Stellenbosch Vineyards’ and subsequently ‘The company of wine people’.

three additional grape farms joined Lebanon as suppliers<sup>13</sup> and acquired minor shares in the Thandi wine business. Together they supply grapes to three cellars where Thandi wine is made – one being Paul Clüver’s own cellar on De Rust, while the other two are in Stellenbosch owned by Tcowp.

Although fruit sold under the Thandi label has decreased, workers and their families included in the equity share arrangements on Lebanon and other Thandi affiliated farms have benefited significantly over the last ten years. All have acquired shares in a fruit and/or wine business that, by normal business standards, is doing well.

This is exceptional in a country where almost 50 per cent of the population live in poverty and in a sector where an increasing number of farm workers have become marginalized in the wake of deregulation and globalisation. It has never been easy to gain entry into horticulture as a ‘newcomer’, because unlike some other branches of agriculture, it is capital, management and technology intensive. Deregulation and the falling away of state support in the wake of democratisation has made it even more, not less, difficult. The same applies to the ‘historically disadvantaged’. In the context of a market-driven land reform, the state’s land grant is too small to even acquire a viable farm, not to mention establishment and running costs<sup>14</sup>. In addition there are skill shortages with regard to finances, management and technology.

As a result, independent farming has become an impossible dream for most. In addition, farm workers in the Western Cape can count themselves lucky if they can keep their regular job and cottage on the farm. In the wake of globalisation and government legislation, farmers have resorted to cutting labour costs by downsizing the core of permanent workers living on the farm, and making greater use of casual workers living off-farm. Thus, in the fruit and wine regions of the Western Cape an increasing number of farm workers are joining a rural human flotsam that makes a living from meagre wages and irregular employment. In this context, Thandi workers and their families are in a privileged position indeed.

The Thandi case illustrates what it takes for ordinary South African farm workers to become co-owners of a successful commercial agribusiness. It shows that such a process of innovation and inclusion is complicated and time consuming. It requires political will, partnerships, capital, know-how and patience. However, if based on sound business principles it is likely to be more viable and sustainable in the long term – unlike many land reform projects in the past.

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<sup>13</sup> They are: ‘Nietbegin’, ‘Lutouw’ and ‘Paardekloof’.

<sup>14</sup> For instance, establishment costs are estimated at R 70,000 for one hectare of vineyard.

### **3. Literature overview**

#### **3.1 South African agriculture**

Prior to democratisation, white commercial farmers were protected by previous government policies regulating commodity and export markets. Small farmers and waged workers were actively discriminated against, marginalized and restricted in their social and economic development.

Since 1994, many legislative changes have been put in place to address the gross inequalities and isolation of the South African economy. Labour legislation has been brought in line with international standards, and commodity and export markets have been deregulated to ensure competitive re-entry into international markets. Furthermore, policies have also been put in place to actively empower those individuals disadvantaged by previous government policies, with particular emphasis on land reform.

#### **3.2 The South African wine industry**

Over the last fifteen years or so the South African wine industry has gone through a 'triple transition': firstly, the process of local industry deregulation and restructuring; secondly, the increasing integration of the local industry into international markets and value chains; and thirdly, the legislative changes that have accompanied democracy in South Africa.

These transitions have had complex effects. On the one hand, the industry has seen lateral expansion and an impressive, sustained rise of exports (from 23 million litres in 1991 to 238 million litres in 2004). The success in export markets has gone hand in hand with an enormous growth in the number of private cellars (from 88 in 1993 to 384 in 2004). On the other hand, many cooperative wine cellars and their members have found it very difficult to re-gear themselves away from the industry's historic orientation towards bulk wine production, and to face up to the 'quality revolution' and the demands of supermarket retailers. As a result, the number of cooperative cellars has fallen from 69 in 1995 to 50 in 2005 – mainly as a result of mergers and conversion to companies. On the whole, power has shifted downstream: away from primary producers (i.e. growers) to processors, marketers, agents and retailers (Du Toit & Ewert, 2002). Lately life has become even more difficult for growers as a result of the strong currency (i.e. the 'Rand') and an oversupply of red wine in the domestic market.

This has important consequences for workers. Feeling increasing competitive pressures, and facing a sustained challenge to their power as a result of labour legislation, many farmers opt for the one measure still within their power:

restructuring their business. Many seem to be resorting to the casualization, externalization and contractualization<sup>15</sup> of workers, further deepening the divide amongst the labour force between ‘winners’ and ‘losers’ (Ewert & du Toit, 2005).

Although there has not been a major shakeout of growers since the onset of the ‘triple transition’<sup>16</sup>, it remains very difficult to gain entry into the wine industry as an ordinary farm worker or ‘historically disadvantaged’ South African. In addition to the reasons mentioned, export horticulture requires economies of scale, branding, efficient logistics, supply chain management and marketing if one wants to stand up to the increasing power of the retailers – both in South Africa and further north.

Retailer power is derived partly from the kinds of volumes they turn over and partly from the way in which they ‘govern’ the value chain (Ponte & Gibbon, 2005)<sup>17</sup>. In South Africa, for instance, the food retail trade is dominated by four big supermarket chains<sup>18</sup>. In the UK, 60 per cent of all South African wine (by volume, not value) is sold by supermarkets. While their ‘quality’ and ‘ethical’ requirements vis-à-vis suppliers may vary, they all have one thing in common: an unwillingness to compromise on their own margins, whilst squeezing those of the supplier and insisting that the latter absorb all kinds of costs, including promotions and the ‘social development’ of farm workers. In the case of Fairtrade, a so-called ‘social premium’ levied on the product does come back to the ‘farm gate’, but without the retailer taking a ‘cut’ on his margin. Although South African retailers increasingly procure from BEE suppliers, these are given no special favours when it comes to their margins. As yet there are no Fairtrade retailers in South Africa<sup>19</sup>.

By the late 1990s the South African wine industry openly acknowledged that the unequal distribution of assets and the ‘white’ nature of the industry were no longer desirable or tenable. A strategic study called ‘Vision2020’ highlighted “...socio-economic transformation and empowerment...through equitable access to resources [and] business opportunities...” as one of the industry’s key challenges for the future (SAWB, 2003: ii).

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<sup>15</sup> ‘Casualization’ refers to a reduction in the size of the permanent labour force and often an inversion of the ratio of permanent to casual workers. ‘Contractualization’ refers to re-employment under less favourable circumstances. Externalization refers to the rise of intermediaries like labour contractors and labour brokers.

<sup>16</sup> The number of growers has remained more or less stable at around 4,100 since the early 1990s.

<sup>17</sup> In this regard a distinction is often made between ‘legislative’, ‘judicial’ and ‘executive’ forms of governance.

<sup>18</sup> These are: Pick-‘n-Pay, Woolworth, Checkers/Shoprite and Spar.

<sup>19</sup> Mainly because the whole chain has to be Fairtrade certified. Most South African firms are not yet ready for this.

A working paper feeding into Vision2020's final report was more specific. It made the key point that although "...land makes up less than 10 per cent of the assets of the industry and that the production of grapes produces less value added than virtually any other part of the supply chain...land reform ...represents the key policy against which successful empowerment will be measured". By 2001, farm workers in the wine industry had only acquired some 1 per cent of the land fit for grape production, and often only partial interest. The paper then went on to propose a redistribution target of "...30,000-50,000 ha... for... 15,000 farmers over the next 20 years..." (Vink & Karaan, 2001:8).

A new industry body established in the wake of Vision2020, the South African Wine and Brandy Company (SAWB), took up the transformation baton. Although it refrained from setting specific land transfer targets, it echoed all of Vision2020's strategic challenges. In its first major policy paper, the Wine Industry Plan (WIP), it emphasised "...Black Economic Empowerment and...equitable access and participation...along the full value chain..." as one of its strategic goals. Meeting this challenge, like the rest of the WIP, would require the mobilization of funds from the industry, sources and levies, government provisions, international donors and investors. Presumably, those businesses and initiatives who had made most progress with regard to BEE as measured by a 'Wine Industry Scorecard' (WIS), would receive more backing from the SAWB and its five 'business units' (SAWB, 2003: ii; v).

However, this still begged the question of how, in the operational sense of the word, those excluded could gain entry into the industry, by acquiring land or other assets. To find a practical answer to this key question, a research team, funded by one of South Africa's major commercial banks (the Nedcor Foundation), "...designed a series of pilot projects for land reform in the wine industry" (VinPro, 2004: 1). The report made it clear that all designs had to meet four conditions:

- They should avoid sinking "too much capital into land purchase".
- The "transfer of skills should be part of the incentives and penalties of the project".
- There had to be an "exit strategy".
- There should be "immediate and tangible returns to the participants that would make a real difference to their lives" (VinPro, 2004: 3).

Interestingly, of all six models proposed by the report, Equity Sharing (i.e. the model followed by Thandi) was thought to be "...the least preferred type unless preceded by a profit or crop share, or a contract model project". This, the report argued, was the case because "...none of the criteria [listed above] are endemic to such projects, unless specific allowance is made in the contractual conditions in setting up the projects" (VinPro, 2004: 8).

In the event, nothing came of these pilot projects, as the state insisted that the industry first draw up a 'Wine Industry [BEE] Charter'. Transformation driven by the SAWB received a further setback when the Black Empowerment lobby in the industry insisted on the restructuring of the SAWB itself. In practise this meant that many transformation initiatives were 'put on ice' until the power struggle over the 'commanding heights' of the industry had been resolved in one way or the other<sup>20</sup>. By the middle of 2006, ten years after the democratic transition, 'broad based' empowerment of the 'most disadvantaged participants' (i.e. ordinary farm workers) had made little progress. Entry remained as difficult as ever.

### **3.3 The South African fruit industry**

The transition in the fruit industry had an even more pronounced impact (Kritzinger et al, 2004). While there had been some independent estates in the wine sector prior to deregulation, all exports of fruit products had to follow a single marketing channel. Typically, farmers would deliver their crops to cooperative packing houses, from where the product would be exported and marketed either by Unifruco (deciduous fruit) or Outspan (citrus). In response to sanctions and consumer boycotts, the apartheid government subsidised exports by means of an export incentive scheme and subsidised credit. Deregulation saw the withdrawal of these subsidies and opening up of export channels.

A variety of new exporters entered the market, from the large international conglomerates (Dole, etc.), Southern African or provincial exporters, to grower-exporters. This fragmentation occurred due to increasing domination of supermarkets in the retailing of fresh produce. Furthermore, international competition increased tremendously as Chile and other South American producers improved their quality standards and increased production volumes. South African producers, on the other hand, had been shielded from market information, particularly with regard to changes in consumer cultivar preferences, by virtue of the pooling system under the single export channel. Thus a need for recapitalization in the sector arose, but investment in land was delayed due to political insecurity brought about by democratization.

It was in this tough economic environment that land reform had to be implemented. The World Bank-inspired land reform programme argued for the transition from a large-scale, capital-intensive farming system to small-scale, labour-intensive farms. The validity of this approach in the fruit industry was questioned by De Klerk (1996), while McKenzie (1996: 308) argued that "partnership approaches are more effective from a fiscal point of view than traditional state-led settlement models" and

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<sup>20</sup> This seems to have occurred by the middle of 2006 when it was announced that a restructured SAWB would henceforth be known as the 'South African Wine Industry Council'.

that such an approach would create the opportunity for workers to enter the mainstream of agriculture with the associated skills.

McKenzie's prediction became reality. To date, not a single small-scale fruit farmer has been settled, while the equity share and other joint venture arrangements became the standard land reform approach in the sector (Hamman & Ewert, 1999).

## 4. Methods

Our main sources of data and information were interviews with key representatives of stakeholder groups along both value chains, i.e. Thandi fruit and wine. These included workers from the Lebanon farm and de Rust and Lebanon communities, worker representatives on the various trusts, a manager at a fruit packing store, managers at Capespan and 'The company of wine people' and key management figures at the Fairtrade Foundation in London and South Africa, and Capespan, UK. (For the full list of interviewees see Appendix A). We did not interview managers or workers at farms other than Lebanon that supply either grapes or fruit to Thandi, because funds did not allow this. When analysing the information coming from the interviews, we took a 'triangulation' approach.

Interview data was supplemented by other information contained in Thandi business plans and financial spreadsheets.

## 5. Results and discussion

### 5.1 The innovation

The key innovation in the Thandi project has been economic empowerment through *partnerships* – between existing (white) farmers, farm workers and their communities, firms in the winemaking and fruit-distribution sector, the state and retailers. However, building these partnerships actually involved a whole series of innovations, as we will try to illustrate below.

From the start, the Thandi project at Lebanon Farm has been highly innovative in several respects. The innovation started on the upstream production side by establishing high value fruit orchards and vineyards, while renting orchards and vineyards on De Rust estate. Vineyards and orchards could be established by, amongst other means, sourcing the government's land grant<sup>21</sup> for 147 workers<sup>22</sup>.

Once the decision had been made to launch an empowerment project and the consent of the workers/community had been obtained, a facilitator put together a business plan and the application for 147 land grants to the Department of Land Affairs, government of South Africa<sup>23</sup>. Workers were not required to contribute any additional assets other than their labour or 'sweat equity'<sup>24</sup>. All land grants were

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<sup>21</sup> At the time (i.e. in 1996) the land grant amounted to R 16,000 per person or household.

<sup>22</sup> The South African land reform process has three major programmes: *restitution* (the restitution of land to persons who lost their land through racially-based legislation); *redistribution* (redistribution of agricultural land to landless persons with no land claim); and *tenure reform* (reform of land tenure systems in the previous reserves).

The Thandi project falls within the ambit of the redistribution programme. This programme entitles previously disadvantaged South African citizens to apply for a grant to acquire land. Initially the grant instrument was the Settlement or Land Acquisition Grant (S/LAG), which forced rural dwellers into a stark choice: apply for a grant to acquire either land for farming or a low-income house. These were set at the same level of R16,000 at the time of implementation of the project. This policy has since been amended to not penalise those who took a S/LA grant, wherein a new grant, the Land Reform for Agricultural Development (LRAD) grant was introduced for those persons who wished to enter commercial agriculture. These grants are disbursed upon approval of a business plan, and paid to the seller of the land. In short, the business plan must prove that the project meets the policy objectives (settling landless South Africans), and possesses institutional sustainability (robust legal entities) and financial viability. These business plans are then evaluated by a committee comprising the relevant government departments, local and provincial government and civil society stakeholders. This process takes place under the constraint of a limited budget for redistribution (restitution was the main focus of the first ten years of land reform).

<sup>23</sup> The workers on De Rust Estate as well as those living in Lebanon village, applied for the S/LA Grant in order to invest their grants in Lebanon farm. Although the project had been initiated in 1996, this application to the Department of Land Affairs was only made in 1999. By then most of the physical development had taken place and the applicants were buying into a productive farm.

<sup>24</sup> In effect, only ten people work full-time in the Lebanon orchards and vineyards, while some of the other 135 or so help out during the fruit and grape harvest.

invested in the farming operation, as this was the rationale behind the empowerment project in the first place. Once the business generates sufficient returns, consideration could be given to buy the cottages at Lebanon village from SAFCOL<sup>25</sup>.

In 2006, 32ha had been planted under fruit and 12ha under vines<sup>26</sup>. Thandi leases another 24.5ha of vineyard from De Rust estate. From the outset, the idea was to produce wine and fruit that would not trade on its empowerment image alone, but on quality first and foremost. The concept was to produce for the high value end and Fairtrade market. Wine and fruit under the Thandi label were first sold in 2002. In the same year Thandi wine received Fairtrade accreditation.

None of this would have taken off however, had Paul Clüver and the SAFCOL manager not pushed the idea of an equity share scheme with his own employees and former SAFCOL workers, respectively. Thandi became only the second equity share agreement in South African agriculture<sup>27</sup>.

Three trusts were set up to structure the business and manage the dividends: the Lebanon Fruit Farming Trust (LFFT), the Community Trust and the Community Investment Trust (hereafter: Investment Trust). The Community Trust is a charitable trust and is intended to benefit all who live in the Lebanon and De Rust villages – not only employees of De Rust or those actually working the Lebanon farm<sup>28</sup>. The aims of the Community Trust include the facilitation of democratic structures and

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<sup>25</sup> Why would a poor farm labourer invest in a farm rather than a house? The business plan presented to the committee recognised this problem when it took as a point of departure its purpose: “To establish whether the purchase of equity in Thandi Farming Company represents a reasonable investment. Beneficiaries that acquire Land Acquisition Grants pay the opportunity cost associated with no longer being able to apply for a housing subsidy. It is important that the perceived benefits of receiving and deploying the Land Acquisition Grant exceed the utility gains associated with a housing subsidy for a particular applicant. In this regard it is important to realise that different beneficiaries will have specific and different cash-flow preferences and risk aversion tendencies.” (Hamman and Cartwright, 1999:10)

The choice was influenced by the fact that the housing waiting list was very long, and that the applicants all had reasonable accommodation in the form of estate-provided housing or housing in Lebanon village.

Ten years on SAFCOL still owns the houses at Lebanon village. Worker representatives expressed the hope that SAFCOL would transfer ownership to the community free of charge in the near future. Personal communication, focus group discussion at Lebanon, 1 August 2006.

<sup>26</sup> There are plans to plant another four hectares of Pinot Noir on Lebanon farm.

<sup>27</sup> The first land reform project based on an equity share agreement was ‘Whitehall’ farm, also in the Elgin region, in 1993. It has since ceased to exist as an equity share scheme and is now fully worker-owned.

<sup>28</sup> Although 147 workers sourced the government’s land grant, only ten workers actually work full time on the Lebanon farm.

improving the social and economic conditions in the village. The Investment Trust, on the other hand, is controlled only by those workers who invested their land grant.

Prior to 2004, Paul Clüver appointed several foremen working on De Rust and a recognised woman leader in the Lebanon community to liaise with the worker/shareholders and the community. They were assisted by the facilitator in their meetings with the shareholders/community. However, until 2004, only three members of the Clüver family, plus the facilitator were registered as trustees. Since 2004, the worker/shareholders elect representatives onto the different trusts<sup>29</sup>. To equip them with the necessary skills, they receive management training from the Capespan Foundation<sup>30</sup>.

Originally the shareholders in the LFFT were De Rust, SAFCOL, and the latter two trusts. Since 2005 when SAFCOL sold its shares<sup>31</sup>, De Rust, the Community Trust and the Investment Trust are the only shareholders<sup>32</sup>.

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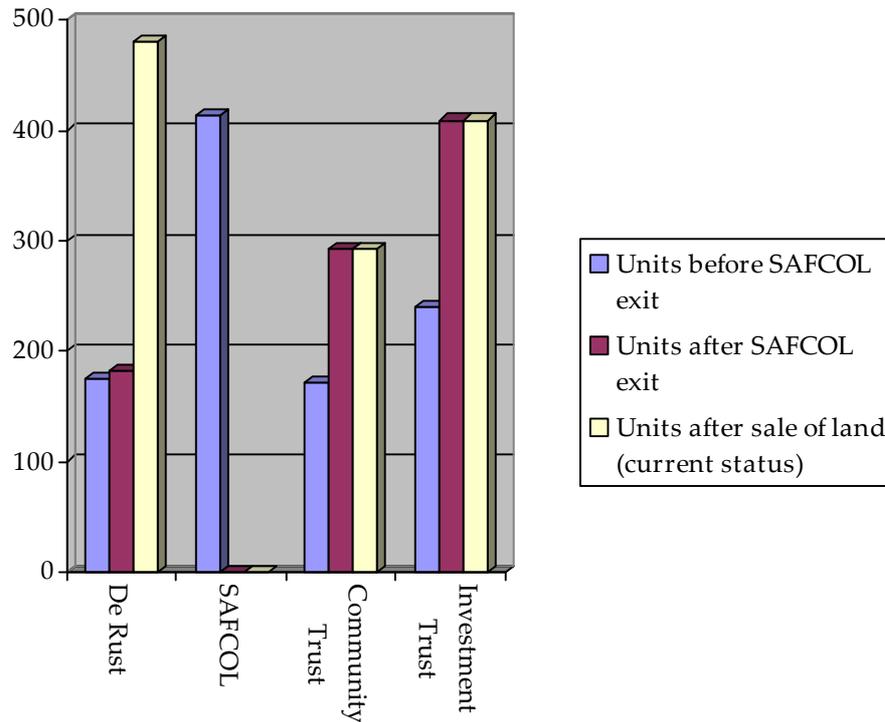
<sup>29</sup> Technically they still had to be registered as trustees at the time of writing.

<sup>30</sup> The fact that genuine worker representation was lacking before 2004, and the fact that the Clüver family was 'doing the books' (i.e. accounts) on behalf of LFFT, sowed distrust in the minds of some worker/shareholders. On request of the latter, a consultancy firm 'Resources for Africa Innovation' (RAINN) became involved to 'sort out the structures', i.e. worker representation on the different trusts. One of the problems to be avoided is the 'knock-on effect', i.e. at present some individuals serve on more than one trust, so when she/he resigns from one or is not re-elected, immediately vacancies arise on other trusts. Another change being envisaged is for the workers to appoint their own manager to scrutinise the financial statements and to manage the relations with Capespan. There is a feeling that in the past, sales figures of Thandi fruit and the returns to the LFFT were not always sufficiently transparent. However, according to recent interviews with worker representatives, the genuine elections (since 2004), plus the intervention of RAINN seem to have restored the trust with the Clüver family and the project as a whole.

<sup>31</sup> Taking over the SAFCOL shares cost the Community and the Investment trusts R 2 mill.

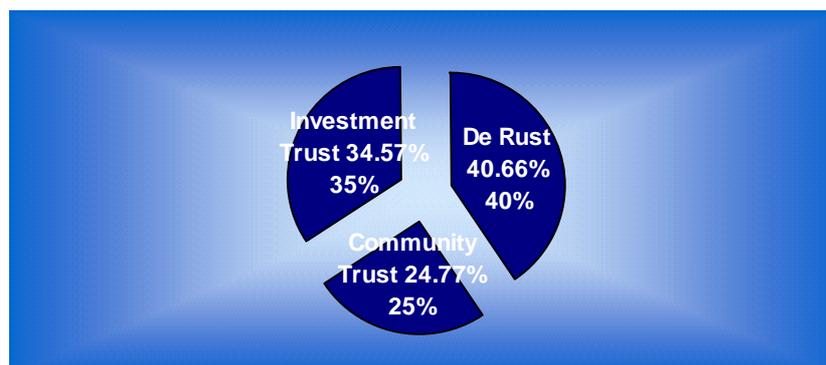
<sup>32</sup> The current participation levels are as follows: De Rust: 40.66%; Community Trust: 24.77%; Investment Trust: 34.57%.

**Figure 5.1 Share change breakdown**



SAFCOL sold its units to the parties on a pro rata basis, with the result that each party increased its number of units. The third phase of the project saw De Rust grant servitude over its own land to LFFT and sell some of its shares to the Lebanon Fruit Farm Trust for R1,793,400. This amount was paid through the issue of further participation units (see Figures 5.1 and 5.2).

**Figure 5.2 Current status of LFFT shareholding**



The LFFT manages the business side and decides whether a dividend is declared or not. If it does, the dividend is channeled back to the workers and the community via the latter two trusts in accordance with their respective shares. The social premium on Thandi Fairtrade fruit is managed by a Joint Body as required by Fairtrade ‘rules’.

It operates independently from any of the trusts. The social premium may only be used for social investment, such as education.

After acquiring the farm, the next step was to establish the Thandi brand – first for fruit, later for wine. While the Lebanon vineyards were not yet in production, grapes were sourced from Paul Clüver’s farm, De Rust, and vinified in his cellar<sup>33</sup>. In 2005 two additional cellars in Stellenbosch were added after ‘The company of wine people’ (Tcowp) acquired shares in Thandi wine. The sales of Thandi wine have been on the increase, possibly helped by winning an award at an international wine expo in London in 2003. The award-winning wine maker used to be a farm worker at De Rust – another pioneering innovation in an industry where the training of black wine makers has only just begun.

In 2002, Thandi took another innovative step by selling the Thandi fruit brand to South Africa’s biggest fruit exporter, Capespan. At the time the idea was to market as much fruit as possible as a Fairtrade product, and the hope was that it would get preferential market access because of its empowerment origin. Although this hope did materialize in the early stages, Thandi fruit has been facing increasing competition from a proliferation of empowerment brands. Since 2002, seven additional farms have joined the Thandi fruit stable. In all cases the conditions of affiliation were two-fold: to produce high quality fruit and empower<sup>34</sup> the workers on the farms. In fact, all of them had already done the latter before they joined. On all these farms workers receive wages, dividends and the Fairtrade social premium.

These farms are aided in their efforts by the Capespan Foundation, Capespan’s empowerment division, which tries to enlarge the Thandi stable by providing mentorship and financial advice. Capespan itself was created from an amalgamation of the Deciduous Fruit Board and their export arm Unifruco with The Citrus Exchange and their export arm Outspan after one channel marketing for both deciduous fruit and citrus was abolished in the early 1990s (i.e. deregulation)<sup>35</sup>. The advantage that Capespan brought to the Thandi project was an established supply and marketing network, especially in the UK. Nevertheless, deregulation and the fragmentation of supply have weakened its position vis-à-vis retailers.

Capespan holds a 27 per cent share in ‘The company of wine people’<sup>36</sup> who, in turn, hold a 34 per cent share in the Thandi Wine Company<sup>37</sup>. The partnership of Thandi

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<sup>33</sup> This practice continues to this day, although Thandi Wine is to acquire a new cellar, at which point the De Rust cellar will no longer be part of the operation.

<sup>34</sup> One condition is that workers hold at least 25 per cent of the assets.

<sup>35</sup> Capespan has become a global player in the sourcing and supply of fruit. Its principal brands are CAPE®, OUTSPAN®, GOLDLAND® and BELLA NOVA®.

<sup>36</sup> Until April 2006, the company was known as Omnia Wines. Omnia Wines itself was the result of the merger of two of South Africa's largest wine producers and exporters, Stellenbosch Vineyards and

and Tcowp resulted from an overlap of interest: Thandi wine was looking for bigger volumes and a distributor and Tcowp for an empowerment partner giving increasing pressure for BEE since the 2004 legislation. In addition to Tcowp, three other grape growers<sup>38</sup>, all of them empowerment projects, acquired a 7 per cent share each in Thandi wine.

At the same time, the UK government's Department for International Development (DFID) became a partner in the Thandi wine project. It was agreed that DFID would match every (South African) cent that Tcowp would spend on the marketing of Thandi wine (as a Fairtrade product). In total DFID support amounts to £400,000 over three years.

The destinations of Thandi wine and Thandi fruit are mainly the international market, particularly the UK and European supermarkets. Supermarkets themselves have undergone a series of changes over the last ten to twenty years. Increasingly retailers carry both fair trade and ethical trade labels, including empowerment brands like Thandi. Representatives of supermarkets visit suppliers, assessing production and labour standards.

Cumulatively these series of innovations over a period of ten years have made the Thandi project sustainable and a success, if measured by commercial criteria and the question of inclusion and empowerment. In 2005 more than 95 per cent of all Thandi wine was exported. In the period April 2005 to March 2006, total exports amounted to 42,755 (nine litre) cases – a 166 per cent increase from the previous year.

The performance of Thandi fruit is more mixed. Fruit sold under the Thandi label has declined from 500,000 cartons in 2000 to 70,000 in 2005. Deregulation of supply and the vagaries of the Fairtrade market are largely responsible for this.

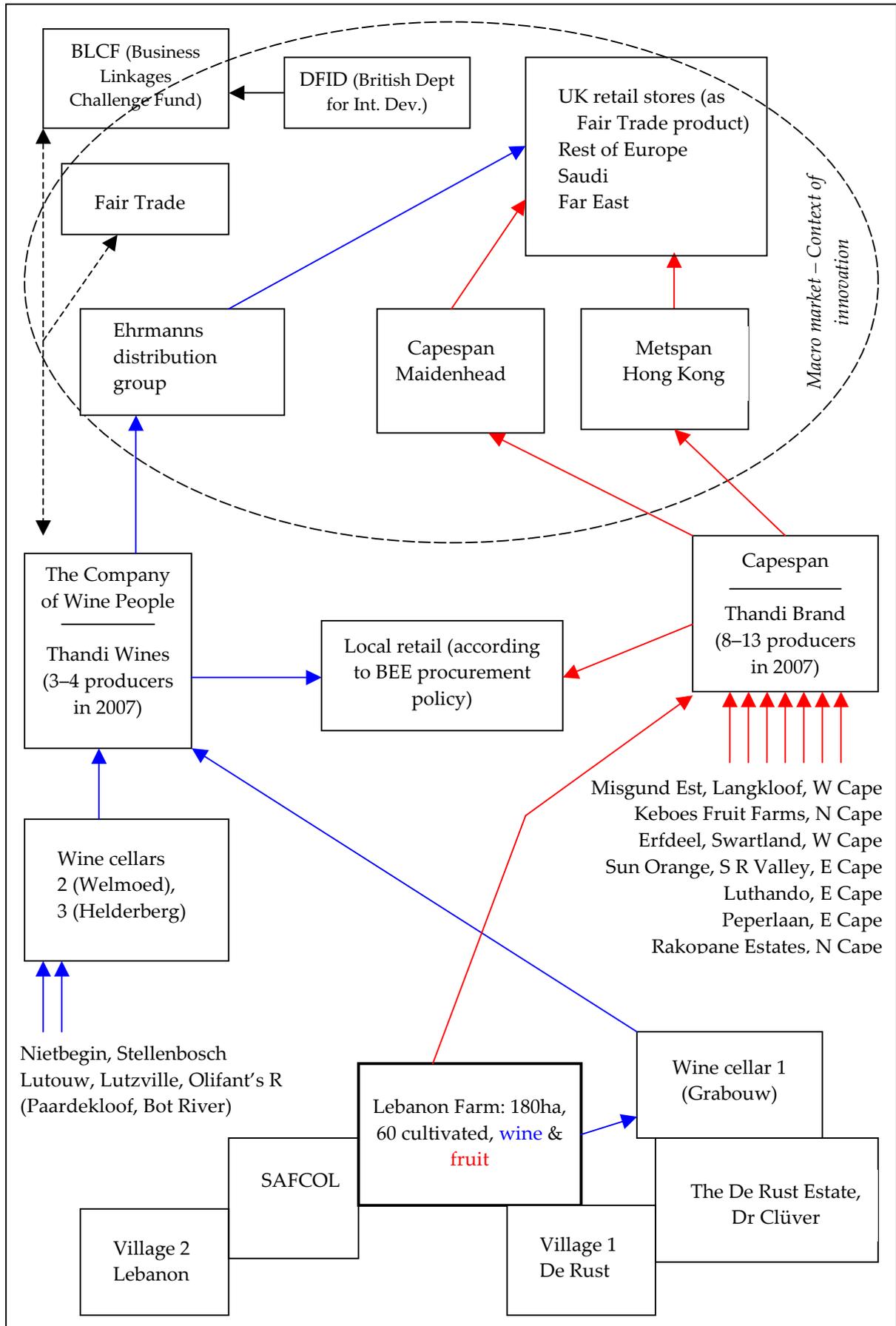
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Vinfruco, in June 2004. Vinfruco was established as an independent company in 1992, and its shareholders included staff, Capespan and local wine producers. The merger of the two public, but unlisted, companies created a group with more than 200 shareholders, including institutional investors, agribusinesses, wine producers, grape growers and private individuals. The merger represented the response by the two wine cellars to the growing pressure to cut costs and achieve other efficiencies in the face of the then strong exchange rate of the rand, which had eroded export margins across the entire local wine industry over the previous two years.

<sup>37</sup> The LFFT holds 45 per cent and three other growers 7 per cent each.

<sup>38</sup> They are: 'Nietbegin', 'Lutouw' and 'Paardekloof'.

**Figure 5.3 The original Lebanon farm within the current Thandi Network**



## 5.2 The supply chains and their segments

Thandi consists of two autonomous supply chains (see Figure 5.3)

### 5.2.1 The fruit supply chain

The fruit supply chain consists of five or seven segments, depending on whether the fruit is sold on the local or the international market (Figure 5.4).

The chain supplying the local markets includes the following segments:

- 1) Eight Thandi affiliated suppliers, situated in the Western, Eastern and Northern Cape provinces. None of their empowerment arrangements are identical and historically preceded them joining the Thandi stable. They all receive assistance from the Capespan Foundation free of charge, if so requested.
- 2) Capespan owns the Thandi fruit brand and is the exclusive marketer of Thandi fruit. Established in 1994 it also manages the Capespan Foundation, its empowerment arm. Today Capespan is a global firm trading in fresh deciduous fruit and citrus<sup>39</sup>. For distribution in the local market Capespan subcontracts transport firms to move the fruit from the packing firms to the retailer.
- 3) Packing firms. All are companies, e.g. Kromco in Elgin where fruit from the Lebanon farm is packed. Through a bar coding system the packing firms maintain inventory control and guarantee the traceability of Thandi fruit.
- 4) Transport firms. In all cases these are private companies subcontracted by Capespan. Only in one case is there a contract between a packing firm and the transporter. This came about in the wake of the packing shed selling off its transport division when it converted from a cooperative to a company.
- 5) Retailers. So far fruit sold under the Thandi label has only been offered to the consumers by one South African retailer once, viz. Pick 'n Pay in 2005. Apparently, they stopped sourcing Thandi fruit this year, because the existence of a 'middle man' (i.e. Capespan) did not fit into their concept of empowerment procurement. According to a Pick 'n Pay spokesperson they were concerned that "not enough returns were going back to the Lebanon

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<sup>39</sup> One of its most recent business ventures includes the acquisition of shares in the Chinese Three Gorges horticultural project, putting it in a position to supply fruit to northern retailers all year round.

farm". However, it is not clear how much this has to do with the retailer's own expectations regarding their margins.

In the supply chains servicing the international markets, five more segments are added:

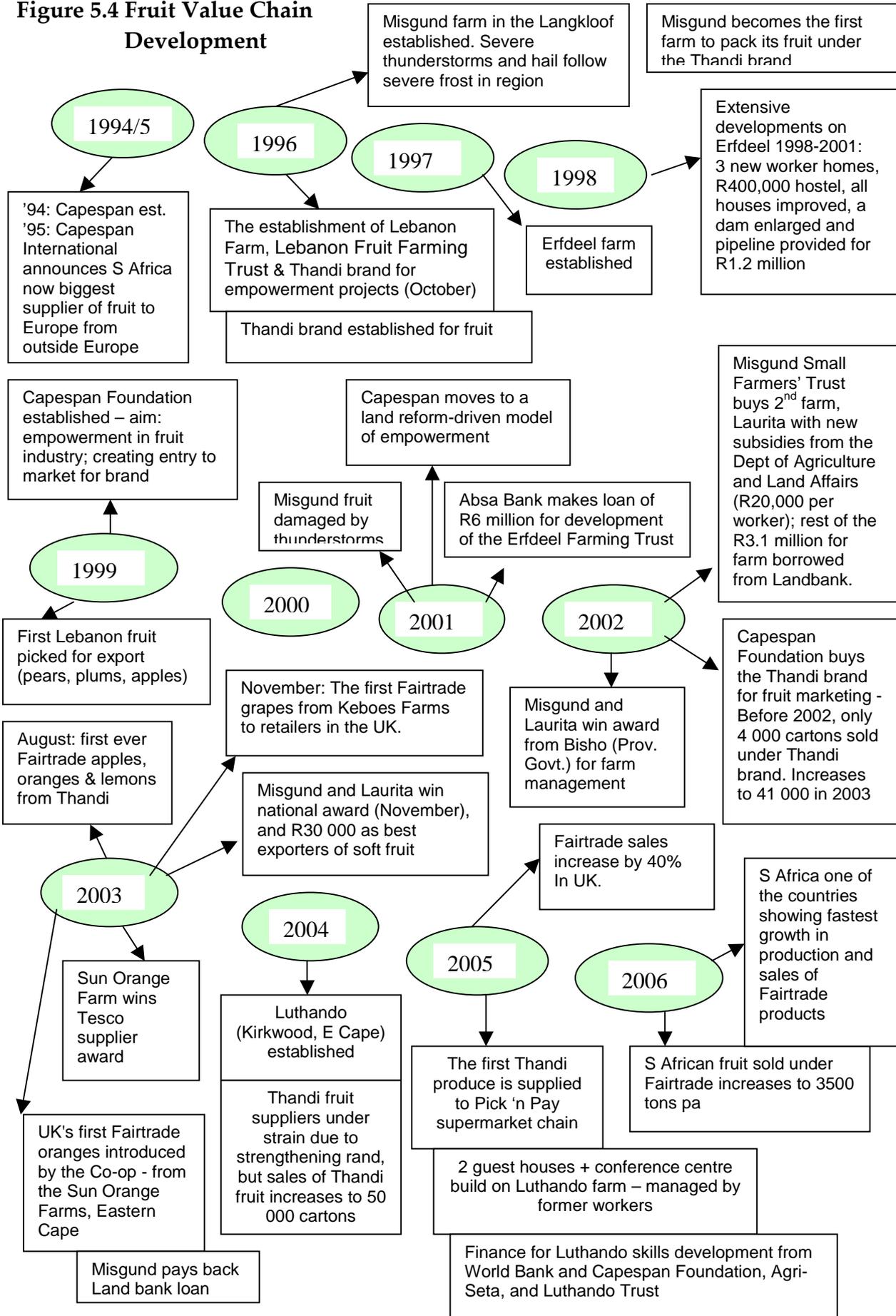
- 6) Shipping firms who take Thandi fruit to Antwerp, Rotterdam and other central distribution points. Some ships are wholly owned by Capespan, some are chartered, while space is leased on others. Most fruit is transported on chartered ships.
- 7) Terminal handling companies at overseas harbours subcontracted by Capespan. In addition Capespan employees monitor all handling of Capespan fruit at these harbours.
- 8) Freight companies who transport the fruit to wholesalers and retailers.
- 9) Marketing companies who do some of the marketing for Capespan.
- 10) Employees at Capespan's international offices (e.g. Maidenhead, UK) act as 'agents', deal with retailers and wholesalers and try to find the best available price on the day.

While not an additional segment, it has to be underlined that the northern retailer probably has more power than the local ones in South Africa, mainly because of the volumes being turned over, the fact that they source globally and the way in which they 'govern' the value chains. Some industry insiders are of the opinion, for instance, that Capespan seriously underestimated the kinds of premiums retailers in the UK were prepared to add on to Thandi Fairtrade fruit. The same retailers have exploited the fragmentation of supply to the extent that according to some "South African Fairtrade is in the hands of UK retailers"<sup>40</sup>.

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<sup>40</sup> For the sake of protection the sources are not named.

**Figure 5.4 Fruit Value Chain Development**

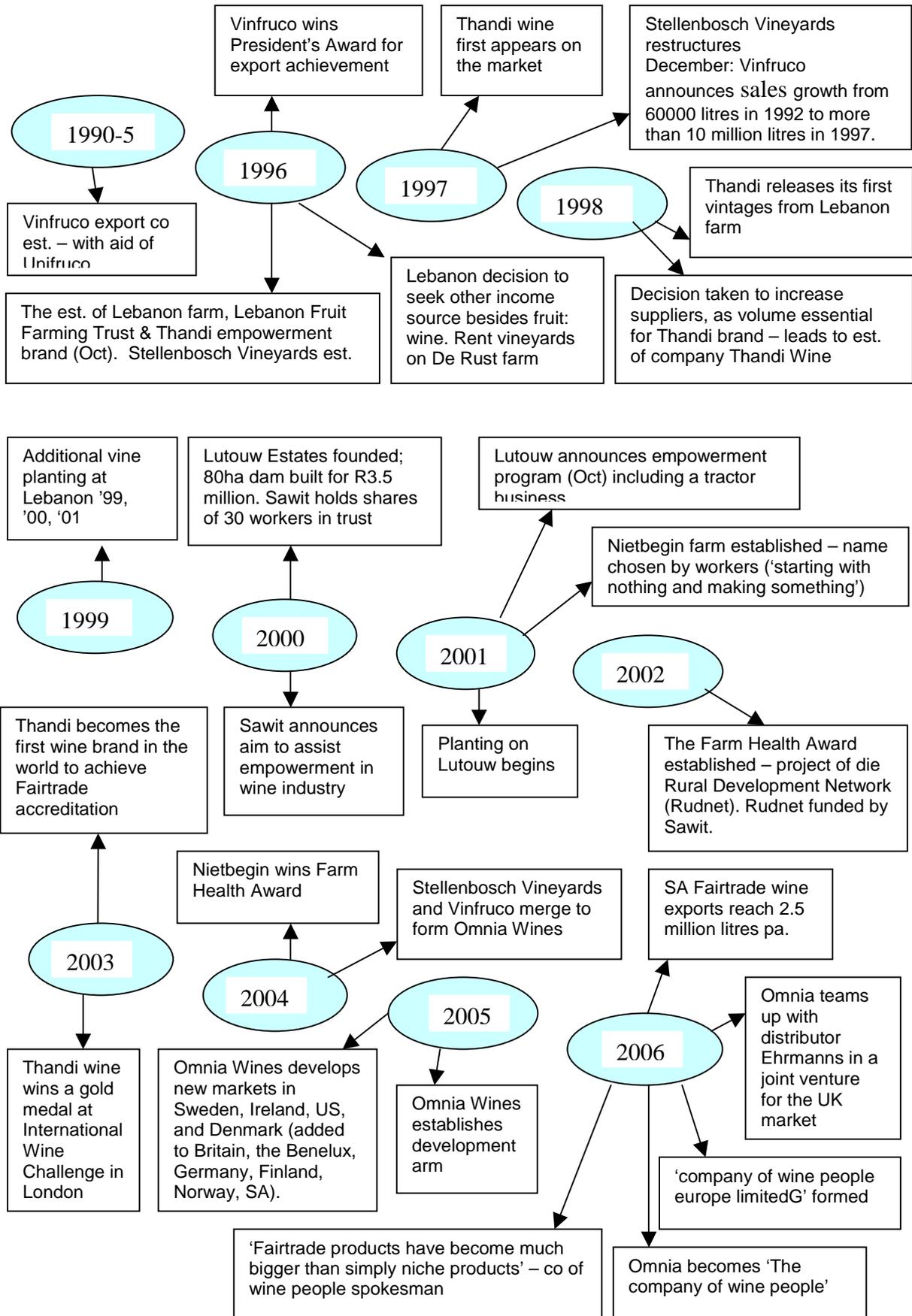


### 5.2.2 The wine supply chain

Practically all Thandi wine is sold on the export market, especially in the UK. This international supply chain consists of five segments (see Figure 5.5):

- 1) Three growers: Lebanon, Nietbegin and Lutouw. (A fourth, Paardekloof, will start supplying in 2007). They are all farms where workers have become part of an equity share arrangement. The last three each acquired a 7 per cent share in Thandi wine in 2005.
- 2) Two cellars or three production sites. Grapes grown on Lebanon are processed in De Rust's cellar, a portion of which is leased by Thandi from the Clüver family. Since Tcowp became a partner in Thandi wine (2005), two of its production sites are used to vinify grapes supplied by Nietbegin and Lutouw. The intention is for Thandi to buy one of these two cellars, making it the first wine cellar wholly owned by an empowerment company.
- 3) Wine vinified and bottled in Elgin and Stellenbosch is transported to Cape Town harbour by Two-a-day Transport, a firm subcontracted by Thandi.
- 4) In the UK all Thandi wine is marketed by Ehrmanns in a joint venture with Tcowp.
- 5) Retailers: all Thandi wine is sold as Fairtrade wine, thereby earning the so-called 'social premium', which is invested at the farm level in social development projects for the worker communities. Unlike Thandi fruit, Thandi wine has seen sustained growth since its launch, selling 42,755 cases in 2005-2006 (up from 15,789 in 2004-2005). In its efforts to help the brand grow, Thandi is aided by a partnership between Tcowp and Ehrmanns who jointly market Thandi wine in the UK.

**Figure 5.5 Wine Value Chain Development**



### 5.3 History of innovation against the evolution of the supply chains

As shown in section 5.1 ('Innovation'), it is impossible to separate the history of innovation from the evolution of the two supply chains, because in many ways the building of the chains *is* the innovation.

At the beginning there was Paul Clüver's vision to launch an empowerment project not based on charity, but on sound business principles. Part of the vision was to produce branded, high quality fruit and wine for the international market. As an experienced producer and businessman he knew that sustainable brands need volumes and an efficient distribution and marketing system. He and the Lebanon workers could not do this alone and they would need partners further downstream in the value chain. However, there were no obvious partners at that stage and they would have to be found.

The fact that he occupied pivotal positions at both fruit and wine companies did help in the search. As a director of Capespan he approached the company, with the result that even before Capespan bought the brand (2002), they marketed fruit grown on Thandi farms. Before the first Lebanon fruit came on stream (2001), a farm near Piketberg, 'Erfdeel' had been contracted into the Thandi stable for the sake of sufficient volumes. After 2002 a further six farms were drawn into the stable. In one fell swoop all Thandi farms had the benefit of Capespan's established marketing and logistics network and international business experience.

At the time of Capespan's coming on board no fruit had ever been marketed as Fairtrade fruit. After several years of talks, this world first was achieved in 2003 (subsequently, different fruit varieties achieved their own firsts).

This was the same year that Thandi wine received Fairtrade accreditation (another world first). This came eight years after the first vines had been planted at Lebanon and five years after the first Thandi wine had been bottled (1999). From the outset, some of the grapes were sourced from the De Rust estate from which Thandi leases vineyards.

For the wine value chain, 2005 was a pivotal year. In that year, Tcowp, plus three other growers bought into Thandi. This step not only secured a bigger supply of grapes and more equity capital, but also the production sites of Tcowp and Vinfruco's considerable marketing experience and network in the UK<sup>41</sup>.

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<sup>41</sup> Vinfruco had scored an important market success in the UK with their 'Arniston Bay' brand. Partly owned by Capespan, the firm merged with Stellenbosch Vineyards to create Omnia in 2004. The latter was renamed 'The company of wine people' (Tcowp) in 2006.

Looking back it is clear that after formulating a particular business vision and establishing the Lebanon farm, the original actors in the project (i.e. Clüver and the workers) went on to carefully forge new partnerships in both the fruit and wine business that secured the necessary assets, business know-how and existing supply chains. Thus the innovation lies not only (or even mainly) in setting up an empowerment farm, but in 'buying' into partnerships that bring with them well-functioning value chains based on international experience.

## 5.4 Explaining inclusion

Today the workers and communities at Lebanon practically own 60 per cent of a flourishing wine and fruit business. Former workers are now shareholders. Even those living in the Lebanon and De Rust villages not directly involved in the Thandi business benefit from the latter. Thus a wider group than those working the Lebanon farm are effectively included in the success of Thandi.

Patrick and Susan Kraukamp personify the empowerment process that has occurred at Thandi. Patrick started at De Rust as a forklift driver in 1994. Subsequently he became the assistant winemaker at De Rust cellar and was sent for further training in South Africa and the United States. On his return he was asked to design the wines for Thandi and is now the Thandi winemaker at the De Rust cellar, producing award-winning chardonnay, pinot noir, and cabernet sauvignon. In 2003 his Thandi Chardonnay won a gold medal at the 2004 International Wine Challenge in London. His wife Susan manages the Thandi farm stall, an autonomous business in which twenty workers have shares. The farm stall, in turn, is linked to smaller empowerment projects in the community.

As pointed out in previous sections, the original 'driver' behind the Thandi project was not state policy, a particular business model, collective action or support systems. Rather, in this case, *inspired and knowledgeable individuals* have been key drivers. In the post-apartheid political climate, when economic redistribution was defined as one of the key challenges for the new society, enlightened individuals like Clüver decided to combine self-interest with worker empowerment and the interest of the new state. As yet there was no political pressure on employers to 'do' empowerment. The state merely offered a land grant as an incentive in its market driven policy of land reform. For Clüver and like-minded people it was a matter of conscience and political vision. In his endeavour he was fortunate to enlist the help of an innovative agricultural consultant who agreed to act as facilitator between the different stakeholder groups. Both individuals had extensive knowledge of international agricultural markets, agricultural projects in Africa, and the legal requirements for successful models.

Once the Thandi empowerment concept had been launched, it was to be based on a sound *business model* and not driven by feelings of charity. What was novel about the plan was the idea that the ‘empowerment’ fruit and wine was to be sold at the top end of the price ladder (as a brand) and in international markets. Although originating on empowerment farms, the products would have to stand or fall on the basis of their quality.

As the project unfolded, *collective action* (i.e. partnerships) and corporate support services became increasingly important – not so much in driving the project, as in making it viable and sustaining it. For the Thandi label to ‘fly’ it needed at least two things: more growers to secure the necessary volumes, and firms with established international marketing networks and expertise. As discussed above, both types of new partners came on board between 2001 and 2005. What brought them together was the common desire to ‘do’ empowerment and to be commercially successful. Although all growers had launched empowerment schemes before the 2004 government legislation, political pressure may have provided the extra nudge for Tcowp.

Whatever the case may be, once on board, the corporate partners contributed a number of very useful assets, including *support services*. Both the Capespan Foundation and Tcowp provide mentorship, legal support and technical services to growers who are already in the Thandi stable or are considering joining. The Foundation’s skills development programme improves farm worker skills and exposes workers to the requirements of international fruit marketing. A special feature of the programme is training in food safety and due diligence, and integrating Fruit Management to achieve EurepGap accreditation.

The *political pressure* on farmers and agribusiness to get involved in empowerment initiatives is increasing. Under the government's BEE legislation 25 per cent of the industry must be black-owned by 2010, and 35 per cent by 2014<sup>42</sup>. In this context the Thandi project may have a ‘replication’ effect. Instead of opting for a 100 per cent black owned empowerment project, employers may rather pursue the partnership model exemplified by Thandi. One hundred percent black-ownership might look good, but experience has shown that it can be too much responsibility too soon for workers with no business experience whatsoever.

As mentioned previously Thandi is also receiving *financial support* from the UK government’s Department for International Development (DFID). It supports Thandi Fairtrade wine to the amount of £400,000 over a three-year period, with the hope that it will be self-sustaining thereafter.

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<sup>42</sup> See footnote 10 above.

Lastly, an *internal driver* seems to be the values emphasised in Thandi's Mission Statement, i.e. 'quality', 'value for money' and 'consistent improvement'. International awards for both wine and fruit<sup>43</sup> together with statements from role-players interviewed, suggests that the mission statement is taken seriously.

## 5.5 Costs and benefits of inclusion

The farm workers and communities that came to be included in the Thandi project have had few costs to speak of, only benefits.

Although there is no regular, guaranteed annual income for all former waged workers at De Rust or SAFCOL, they are now co-owners of land and a viable, ongoing business. In 2005, the 147 workers owned a 60 per cent share in a business estimated to be worth more than R11 million. Together they owned 603 'participatory units' (out of 1084) in a 200ha farm with the share being valued at R9,800 (Hamman, 2006). As shareholders they are entitled to dividends as declared by the LFFT. So far only one dividend has been declared, amounting to R280 per shareholder. In addition the community benefits from the charitable trust and the 'social premium' earned on Fairtrade wine and fruit. To date there have been two premium payouts, totaling R114,000<sup>44</sup>.

The ten workers who work the Lebanon farm on a full-time basis receive wages and bonuses on top of their dividends.

On the cost side it could be argued that the workers could have used their land grants to purchase the houses at Lebanon village. At the moment the housing stock still belongs to SAFCOL, while the cottages at the De Rust farm worker village are the property of the Clüver family. However, this would have been a one-off, without any ongoing income<sup>45</sup>. Thandi fruit and wine, on the other hand, have seen capital growth. If SAFCOL and the Department of Public Works decide to hand over the houses and the land respectively as a gift, the workers' children would not only inherit shares in an agribusiness, but homes as well.

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<sup>43</sup> Gold Medal for Thandi Chardonnay at London Wine Challenge in 2003; this was followed by other awards. 'Sun Orange' farm was awarded Tesco's 'Supplier of the Year' in 2003, etc.

<sup>44</sup> This money has been used to pay for school fees, a computer, a tractor, funeral expenses and to assist a person in the community whose house burnt down. Focus group discussion at Lebanon, 1 August 2006.

<sup>45</sup> See footnote 28 above.

Nevertheless deferred dividend payments have caused some dissatisfaction, especially amongst those not directly involved in the Thandi operation<sup>46</sup>. Land taken over from SAFCOL had to be purchased with LFFT funds<sup>47</sup>. Dividends may have to be deferred even further if Thandi wine decides to acquire its own cellar. This may involve a capital outlay of between R11 million and R34 million<sup>48</sup>.

For the key figure of Paul Clüver there have been costs and benefits. On the cost side he transferred 100ha of his land to LFFT far below market value. In addition he invested capital to buy 40 per cent shares in the LFFT. Like the workers he has received hardly any dividend on his investment. In exchange, he has earned the respect of the Lebanon/de Rust worker community and the respect of the industry at large.

Further down the wine chain, all those who became partners in 2005 had to incur costs. Tcowp acquired a 34 per cent share and three growers 7 per cent each (valued at R140,000). It is not known what kinds of financial returns each of the other seven received from the 42,755 cases sold in 2005-2006.

Unlike the wine partners, fruit growers who joined the Thandi stable after Lebanon were not required to buy shares in Thandi fruit. However, each of the seven producers had concluded an empowerment scheme with their own workers. The costs involved, if any, are not known. Unlike the shareholders in LFFT who depend on a dividend, fruit growers receive returns on a continuous basis – whether it is sold as Fairtrade or as ‘ordinary’ Capespan fruit.

To complete the picture, Capespan had a relatively minor expense when it acquired the Thandi fruit brand for the amount of R100,000 in 2002. The costs involved in providing assistance to growers through the Capespan Foundation are bound to be far greater, although the precise amounts are not known.

## **5.6 The sustainability of the Thandi project**

In ferociously competitive markets Thandi wine and fruit will stand or fall on quality, effective supply chains and financial strength. Although there is still (and some would even argue growing) sympathy for empowerment products originating in South Africa, poor quality will get little consumer support.

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<sup>46</sup> Roughly speaking, some 135 of the 147 beneficiaries are only involved part-time in the Thandi farming operations. In that sense they are passive recipients.

<sup>47</sup> The costs involved are R3.1 million. R2.2 million were paid with a loan from a commercial bank. R900,000 still have to be found.

<sup>48</sup> If a brand new cellar is built on Lebanon farm, this may cost R11 million. If Thandi wine decides to buy Helderberg cellar from Tcowp, this could amount to R34 million.

So far the supply side has been well managed. Before new empowerment producers can join the stable, they have to meet specific criteria regarding quality of product and worker ownership. However, they are all assisted by the development arm of either Tcowp or the Capespan Foundation. Commercially successful in their own right, plus this support, make it likely that these suppliers will survive. The ongoing incorporation of new producers, thereby achieving greater volumes for both Thandi wine and Thandi fruit, will contribute to the sustainability of the brand itself. Both fruit and wine suppliers have gained recognition from retailers in the UK for their quality standards.

Assistance from DFID has been helpful for Thandi wine to establish itself in the market. However, the support will terminate if it does not break even within three years. Fairtrade accreditation does offer a commercial advantage, but Thandi knows that once the wine is on the shelves, quality and price will be key. "Quality is what we focus on. You can't sell wine on social issues", according to the Thandi wine brand manager<sup>49</sup>. So far sales are encouraging, doubling between 2004 and 2005. Right now a great deal of effort is being made to break into the US market.

The fortunes of Thandi fruit suppliers are not as bad as it seems. The decline in sales of fruit under the Thandi label from 500,000 cartons in 2000 to 70,000 in 2005 does not tell the full story. While the Thandi label has suffered, both the production and sales of non-branded (Capespan) fruit have increased.

Thus on the whole Thandi has enjoyed commercial success and has survived ten difficult years. However, a number of important challenges remain.

Firstly, in an increasingly competitive market of brand proliferation and growing retailer power, no commercial venture can rest on its laurels. Existing relationships with retailers have to be nurtured in such a way that producer and retailer perceive the relationship as mutually beneficial. Losing one major supermarket contract could spell disaster for all the partners involved, especially the worker/shareholder communities of the Thandi growers.

Secondly, Fairtrade sales seem to be growing 'horizontally', rather than in volume. In addition there is a proliferation of 'empowerment' products from South Africa and elsewhere. The fact that some of them trade without any objective verification of empowerment status, does not make life any easier for genuine projects like Thandi. Some argue indeed that it is the failure to coordinate 'empowerment' marketing of South African fruit that lies behind the decline of Thandi fruit label.

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<sup>49</sup> Personal communication, Rydal Jeftha, Thandi wine company, 26 April 2006.

Thirdly, there is the question of the environment. In the long term, global warming and a water shortage may start to affect fruit and wine farming in the Western Cape in general and Thandi suppliers in particular. Farmers and scientists alike have noticed a steady increase in maximum and minimum temperatures over the past three decades. Climate modelling by some of the country's leading scientists in the field indicate that fifty years from now certain areas (including Elgin) could be too hot for the production of export quality apples.

A change in the rainfall regime is also a cause of concern in a region where the water supply is already beleaguered by drought and shortage of storage facilities<sup>50</sup>. A seasonal shift is also expected, reflecting those of the past two years where the bulk of the season's rain has fallen very late in winter and early spring. It will probably require more careful terroir selection for heat sensitive varieties such as Sauvignon Blanc, supplied by some Thandi growers. A theoretical option is moving to cooler sites, but stringent laws under the new National Environmental Management Act and the need to conserve the rare Cape Floral Kingdom will act as a deterrent.

Aside from these 'big' issues, there are challenges at the micro level. For instance, there is the question of regular returns on investment. While other Thandi grape growers receive cash for grapes delivered at the cellar, the Lebanon community has to wait for up to three years before the (red) wine is sold and before there is the possibility of a dividend.

Absent or meagre cash returns have the potential of undermining the legitimacy of the project. One way of countering the erosion of legitimacy is genuine worker representation, transparency, information flow and worker education, thereby hoping to balance expectations with sound business decisions. Empowerment partners must be resourced to be equal partners. Although worker representatives on the different trusts understand '...we must work very hard to make this farm a success'<sup>51</sup>, there was a stage when the project lost some of its legitimacy, especially amongst the more passive members of the community, somewhat removed from the day-to-day management of the project. Of late the decisions involving the acquisition of an own cellar sowed doubts even in the minds of the more central worker figures. It remains unclear whether this was an issue of transparency, workers not reading their minutes, or the dissemination of information. However, with RAINN getting involved and 'sorting out the structures', trust in the project seems to have been restored.

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<sup>50</sup> Recently water restrictions were again imposed on the Cape Metropole, and farmers were reminded that the demand for water is soon expected to outstrip supply. Even the R1.4 million planned Berg Water Project near Franschhoek will only meet needs until 2014, whereupon new sources of water will have to be found.

<sup>51</sup> Personal communication, Susan Kraukamp, 23 May 2006.

## 5.7 The potential for up-scaling and / or replication

There is potential for both scaling up and replication. The former is easier than the latter, and is, in the case of Thandi, ongoing.

*Scaling up* has been ongoing every year since the inception of the Thandi project. The first element of scaling up was the inclusion of empowerment farms from outside the original Lebanon site. Between 1997 and 2005, three grape suppliers ('Erfdeel', 'Nietbegin' and 'Lutouw') were included in the wine chain, receiving payment for product and sharing in dividends. Paardekloof near Elgin will start supplying their first batch of grapes in 2007. Regarding fruit, an additional four suppliers ('Misgund', 'Keboes', 'Erfdeel' and 'Sun Orange') came on board in 1996-1997. They were subsequently joined by three more ('Luthando', 'Peperlaan' and 'Rakopane'). About 20 other growers are currently being assisted by the Capespan Foundation and will probably join the Thandi stable.

As a next step in the scaling up process the members of the Thandi Wine Company have taken a decision to acquire their own cellar, which may become a reality within next two years.

It is important to emphasise that both these scaling up initiatives – additional new sites with their own empowerment histories and arrangements, and continuous development at all sites – are intimately connected with increased inclusion in two ways: the inclusion of additional, previously disadvantaged participants, and the further empowerment of existing participants.

*Replication* of the model will be more difficult to achieve, because it depends on a whole number of conditions:

- the political will of an existing farmer and businessman to empower his own employees and members of adjacent communities by engaging in a partnership with them;
- the existence of financial state support for land reform;
- experienced workers with vineyard and orchard skills;
- the ability to produce a high quality product;
- the ability to build a brand;
- the ability to secure sufficient volumes of product;
- the ability to either build or become a partner in effective supply chains and marketing systems;
- the acquisition of grants, loans, and subsidies from banks, NGOs and funders;
- the participation of other role-players experienced in business, law, trade, development, policy and production;

- the positive reaction of markets, both local and international.

In addition to partnerships, the issues of (1) sustainability, (2) continuous innovation, and (3) quality, are crucial. They are intertwined, and the successful replication project would have to conceptualize and implement decisions related to these principles from the pre-planning stages right through to production, marketing and distribution. As current competition occurs within continually changing micro, meso and macro contexts (of policy, consumer behaviour, etc), it is clear that unimaginative participants following some recipe are doomed to failure or non-sustainability.

## **6. Conclusion and recommendations**

Thandi would not be where it is today without a complex network of partnerships, carefully woven and expanded over ten years. Once there was a vision, every step was taken to ensure that the project would take off and be sustainable.

In the careful construction of the project, business experience, marketing knowledge and existing supply chains played a crucial part – all factors that farm workers normally lack.

Partnerships and equity share arrangements between workers and experienced farmers/businessmen are the appropriate route to inclusion, rather than simplistic notions of land reform or the idea that everything except 100 per cent black ownership falls short of 'empowerment'. A simple transfer of land, unaccompanied by a sound business plan or technical and business know-how is bound to fail. This is true for 'new farmers' who want to compete in local markets, and even more so for those who want to get onto global agro-food chains and compete in international markets.

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# Appendix A

## Interviews and focus groups with representatives of stakeholder groups

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## Regoverning Markets

Regoverning Markets is a multi-partner collaborative research programme analysing the growing concentration in the processing and retail sectors of national and regional agrifood systems and its impacts on rural livelihoods and communities in middle- and low-income countries. The aim of the programme is to provide strategic advice and guidance to the public sector, agrifood chain actors, civil society organizations and development agencies on approaches that can anticipate and manage the impacts of the dynamic changes in local and regional markets. The programme is funded by the UK Department for International Development (DFID), the International Development Research Centre (IDRC), ICCO, Cordaid, the Canadian International Development Agency (CIDA), and the US Agency for International Development (USAID).

## Innovative Practice

Innovative Practice is a series of case studies from the Regoverning Markets programme providing examples of specific innovation in connecting small-scale producers with dynamic markets at local or regional level. Based on significant fieldwork activities, the studies focus on four drivers of innovation: public policy principles, private business models, collective action strategies by small-scale farmers, and intervention strategies and methods of development agencies. The studies highlight policy lessons and suggest working methods to guide public and private actors.

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