

This publication has been produced through cooperation between the GIZ Mpumalanga Rural Development Programme and the Business Trust. The Business Trust has established the Vumelana Advisory Fund to support the development of Community Private Partnerships.

Other publications in this series are:

- Commercial Partnerships for the Development of Restored and Communal Land: An Orientation Guide for the Implementation of Commercial Partnerships
- Commercial Partnerships for the Development of Restored and Communal Land: A Guide for Community Leaders



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**COMMERCIAL PARTNERSHIPS**  
for the **Development of**  
**Restored and Communal Land**

*Opportunities for*  
*Investment in Pro-poor*  
*Economic Growth*

# ABOUT THIS BOOKLET

This booklet is the first in a series entitled *Commercial Partnerships for the Development of Restored and Communal Land*.

It is based on the experience of the Business Trust Maruleng and Bushbuckridge Economic Development Initiative (MABEDI), and the Mpumalanga Rural Development Programme (MRDP), supported by the German International Cooperation (GIZ).

The series shares lessons learnt from MABEDI projects and shows how properly facilitated and carefully structured commercial partnerships can promote job creation and rural development in communities living on restored and communal land.

During the course of the project the managers of the Business Trust's MABEDI and the GIZ's Mpumalanga Rural Development Programme (MRDP) agreed to work in

*The majority of the completed MABEDI commercial partnership deals took place on restored land and, as such, the primary emphasis of this document is based on these experiences. However, the MABEDI experience was not completely limited to restored land. Whilst there are differences in the approval procedures for partnership-based projects on communal lands vis-à-vis restored land, the key principles for the mobilisation of investors and for the design of partnership deals remain essentially the same.*

cooperation. The purpose of the cooperation was to share information and produce various guidelines and toolkits. Practical support was provided where possible. This was manifested, in particular, in community facilitation support provided by MRDP staff in respect of the development of three partnerships in addition to the 16 deals concluded by MABEDI.

The GIZ supported this publication and promotes commercial partnerships in South Africa based on its six years of experience in capacity development in various locations including Blyde River, Botshabelo, Makuleke and the Richtersveld. Technical support provided by GIZ for these partnerships focused on commercial investments in the tourism sector and the management of natural resources on restituted and communal land.

The MABEDI and MRDP programmes are described briefly below.

## Maruleng and Bushbuckridge Economic Development Initiative (MABEDI)

The Business Trust's MABEDI programme aimed to pilot a market development approach to economic development in Maruleng and Bushbuckridge. The programme was developed in partnership with the Department of Cooperative Governance (then Provincial and Local Government) as part of the Business Trust's broader Community Investment Programme, which was launched in 2006. Among other things, the Community Investment Programme produced economic profiles of South Africa's 21 poverty nodes.

ECI Africa was appointed to manage the MABEDI programme on contract to the Business Trust. The programme enabled 176 smallholder farmers to improve productivity and provide produce to local markets. It established 16 partnerships between investors and local communities, which will attract R1,5 billion in investment and sustain 4 975 jobs (direct and

indirect). The total economic impact of this is forecast to be R99,3 million in annual wages and R70,4 million in lease fees to Communal Property Institutions (CPIs).

The success of the projects in which the Business Trust was involved is attributed to the sustained and dedicated attention of skilled transaction advisors, community facilitators and property institution administrators. Without these skills, transactions cannot be secured or property institutions stabilised. However, the parties most in need of the skills do not have the resources to acquire them when needed. At the point of land acquisition communities are asset rich but cash poor.

The Business Trust has thus established the Vumelana Advisory Fund to support the establishment of commercially viable partnerships between investors and local community land owners. It will pre-finance the acquisition of the skills required to establish Community Private Partnerships. Its goal is to enable beneficiaries of the land reform process to make effective use of their land. The Fund will operate nationally and be structured to support the development of rural land development partnerships on a sustainable basis.

#### **Mpumalanga Rural Development Programme (MRDP)**

The MRDP was established in 2001 in response to the development needs of the province. It is a partnership between the government of Mpumalanga and GIZ, coordinated by the Office of the Premier. At a provincial level the programme cooperates with the Department of Economic Development, Environment and Tourism, the Department of Cooperative Governance and Traditional Affairs, and the Department of Agriculture, Rural Development and Land Administration. Through these and other partnerships, the MRDP assists government and communities to develop sustainable solutions that efficiently utilise the province's resources for economic growth and development.

In cooperation with its partners, the MRDP develops products and packages services that are embedded into partners' programmes in order to increase their efficiency and effectiveness. Special attention is given to mechanisms that link public development policy with large-scale private sector investment. This is based on the principle that both sectors should contribute to, and benefit from, economic solutions to reducing poverty. Therefore, both public and private interests are considered in the joint design of pro-poor development projects.

MRDP supported MABEDI to develop Community Private Partnerships adjacent to the Kruger National Park. When signed, these will result in a private sector investment of approximately R900 million for tourism development on communal land. It is estimated that the development will generate R16,4 million in direct wages per year and create about 1 500 new local jobs. These figures will add to the R1,5 billion investment and 4 975 jobs referred to above.

MRDP has also developed a comprehensive and coordinated support programme to establish standards and monitoring tools used to improve the services of home-based care centres for people living with HIV/AIDS. These centres serve approximately 500 000 patients throughout the province.

The programme supported the strengthening of provincial, local and district municipal structures to provide services urgently needed by communities for economic development. Capacity development interventions were based on a province-wide systematic assessment and were followed by training offered by the Wits Graduate School of Public and Development Management.



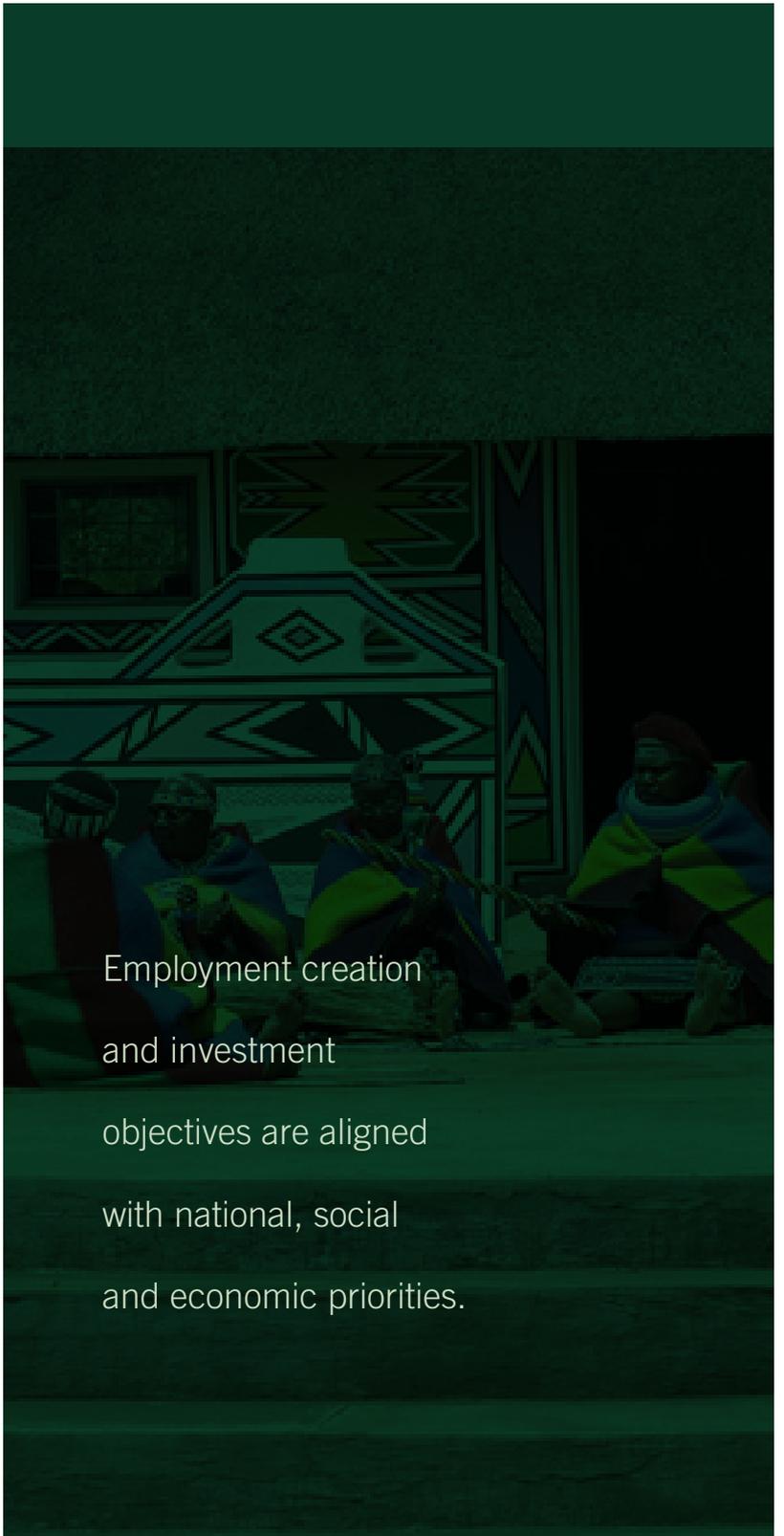
**Agriculture, land restitution and reform: One of five public spending priority areas**

*“Co-operation with the private sector ...  
will also be central to our agricultural and rural  
development strategy ... Our programme seeks to improve  
training and productivity alongside rural infrastructure  
investment and enhanced support for beneficiaries of land  
restitution and land reform.”*

Finance Minister Pravin Gordhan  
Medium-term Budget Policy Statement 2009

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Employment creation  
and investment

objectives are aligned  
with national, social  
and economic priorities.

# 1 INTRODUCTION

The restitution of land to families dispossessed under apartheid and the redistribution of land to black South Africans are imperatives for the establishment of a free, fair and prosperous nation. But the productivity on transferred land has been disappointing.

Approximately 90 per cent of businesses on restored<sup>1</sup> and communal land have failed in the past decade. Most new owners have been unable to benefit from the opportunities presented by land which they now own.



According to the Minister for Rural Development and Land Reform, Gugile Nkwinti, “farms totalling 5,9 million hectares, which were active and accruing revenue for the state, were handed over to people and more than 90% of those farms are now not functional ...”<sup>2</sup>

Behind this failure lies an opportunity for government, communities and the private sector to find viable solutions to making land productive through agriculture, tourism, forestry, mining and other ventures.

Recent experience<sup>3</sup> demonstrates that by forging commercial partnerships, communities on restored land can deliver significant economic and social benefits for all partners involved. For communities in rural areas the benefit lies in regular and reliable income, employment, skills development and local economic development. For private investors the benefit lies in the promise of growth and productive returns. For government, commercial partnerships represent a critical opportunity to meet the goals of its rural economic development strategy.

This booklet contextualises commercial partnerships in the post-land settlement process, presents a commercial partnership model that has been tested, and outlines the critical success factors required.

1. This publication refers to restored land as land which communities now own through the restitution process.
2. “Massive Farm Failure”, *SA Times*, 2 March 2010.
3. Commercial partnership projects have been run by the Business Trust's Maruleng and Bushbuckridge Economic Development Initiative (MABEDI) and the German International Cooperation's Mpumalanga Rural Development Programme (MRDP).



Inclusive economic development will only occur if public, private and community sectors combine efforts to create added socio-economic value.

# 2 THE CONTEXT

One of the most fundamental aspects of land restoration to claimants from previously dispossessed communities is that past injustices are seen to be corrected through redress. However, land reform initiatives are often overshadowed by unintended negative results produced by the institutional, technical and financial consequences that communities face. The most important are outlined in the box on page 6. They include the collapse of existing enterprises and the consequent loss of jobs and revenue. The decline of the local economy leads to a loss of investor confidence and produces disillusionment among rural

communities who face deepening poverty instead of the prosperity they had envisaged.

By contrast, the application of sound and inclusive economic models for land reform can have significant economic and social benefits for previously disadvantaged communities as well as for commercial partners. However, inclusive economic development will only occur if public, private and community sectors combine efforts to create added socio-economic value.

## 2.1 Community constraints

Very real constraints have made it difficult for claimant communities to operate business ventures on restored land.

Following the process of land restoration, a community may set up a communal property institution (CPI) as a legal entity to manage land on its behalf. However, in most cases CPIs have had limited institutional, financial and technical capacity and have been unable to assume the range of commercial responsibilities required to make a success of business ventures. Some of the key capacity constraints that CPIs face include a lack of technical and managerial skills and an absence of experience in commercial agriculture, forestry and tourism, to name a few.

These constraints produce inter-related and often cumulative negative impacts on commercial enterprises. They are a product of factors such as: the new landowners' limited understanding of legal responsibilities; their limited experience of good governance obligations and of managing and operating commercial enterprises; minimal business and technical capacity or experience; and an absence of market linkages or market access.

In these instances, many CPIs have lost legitimacy in the eyes of the community they represent and have also seen the systematic destruction of their asset base.





## The consequences of land reform failure

Experience has shown that numerous land reform initiatives have been overshadowed by unintended negative results which stem from the institutional, technical and financial constraints that communities face. The negative consequences of the land reform process include the following:

- **Substantial public expense:** The cost of land restoration (or the cash compensation alternative) to the South African economy has been enormous and to date this investment has generally not resulted in the improvement of the local socio-economic situation of the claimant communities.
- **Collapse of existing enterprises:** A confirmed pattern is that in most cases the enterprises operating on properties at the time of claims settlement have collapsed. This is no surprise bearing in mind that even moderately sized enterprises are capital and skill intensive and operate in a highly competitive local, national and international environment. Since marginalised rural communities lack financial and technical resources, a solution is required that responds to their needs.
- **Loss of existing jobs:** With the collapse of enterprises, employment has been lost.
- **Lack of revenue streams:** Claimants' hope of securing increased and diversified revenue is dashed as income dries up and recurrent costs result in bankruptcy of the business.
- **Weakening of the local economy:** As a result, production in the local economy and disposable incomes decline.
- **Loss of investor confidence:** The decline of the local economy and land reform failures act as a disincentive to private investment.
- **Declining tax revenues:** The assumption that the land reform programme promotes sustainable economic growth and development, resulting in increasing the tax revenue stream, does not hold.
- **Disillusionment among rural communities:** Expectations among communities are not fulfilled creating increased conflict among claimants and fuelling competing local political interests.
- **Increased poverty levels:** Finally, despite substantial public investment borne by South African tax payers, poverty often deepens.

## 2.2 Working capital

The skills challenges that claimant communities face are often compounded by an absence of working capital. Most communities cannot make the necessary capital investments to develop properties optimally or carry the working capital costs that are required to maintain operations.

A lack of capital in turn leads to poor farming practices. Communities with inadequate working capital take 'short-cuts' such as limiting the use of fertilizer or reducing the specialist expertise that needs to be brought in. These developments have direct short- and long-term impacts on yields and production, and result in revenue declines and ultimately commercial collapse.



## 2.3 Evolving models for commercial support

The intention of land reform is to see rural communities benefiting from the productive use of land. However, experience demonstrates that a new approach is required to support rural communities to develop their land post-restitution if that intention is to be realised.

Over the past decade a number of models have been implemented to improve the sustainable operation of business ventures on restored land in rural areas. The figure on page 9 describes their evolution from the community owned and operated model to the strategic equity partnership model – both of which have resulted in poor performance – to the commercial partnership model, which has most recently produced better results.

Private businesses make an important contribution to the rural economy. They introduce investment, support skills transfer to the beneficiaries of land reform, and assist with the integration of emerging farmers' value chains into both national and international markets. Good business governance combined with public support provides a possible solution for inclusive and pro-poor economic development.

In summary, the development of viable partnerships can safeguard existing assets, increase investment and improve productive capacity by ensuring profitable and sustainable benefits to rural communities and their partners. The next section describes the commercial partnership model that has been successful in achieving these goals.



## Evolution of the commercial partnership model

The past 15 years have seen the development of three different models to improve the operation of business ventures on restored land.

### 1. Community owned and operated model (collective model)

**APPROACH:** Rural communities use grant funds to market, operate and maintain assets.

**RESULT:** Communities have institutional, technical and financial capacity constraints leading to deterioration of the asset and loss of employment, which results in disillusionment and poverty.

### 2. Joint venture and share equity schemes

**APPROACH:** The community partner assumes the majority shareholding position in the enterprise (51%). Commercial partners are expected to contribute equity capital, raise working capital, make joint decisions about operations and share commercial risk.

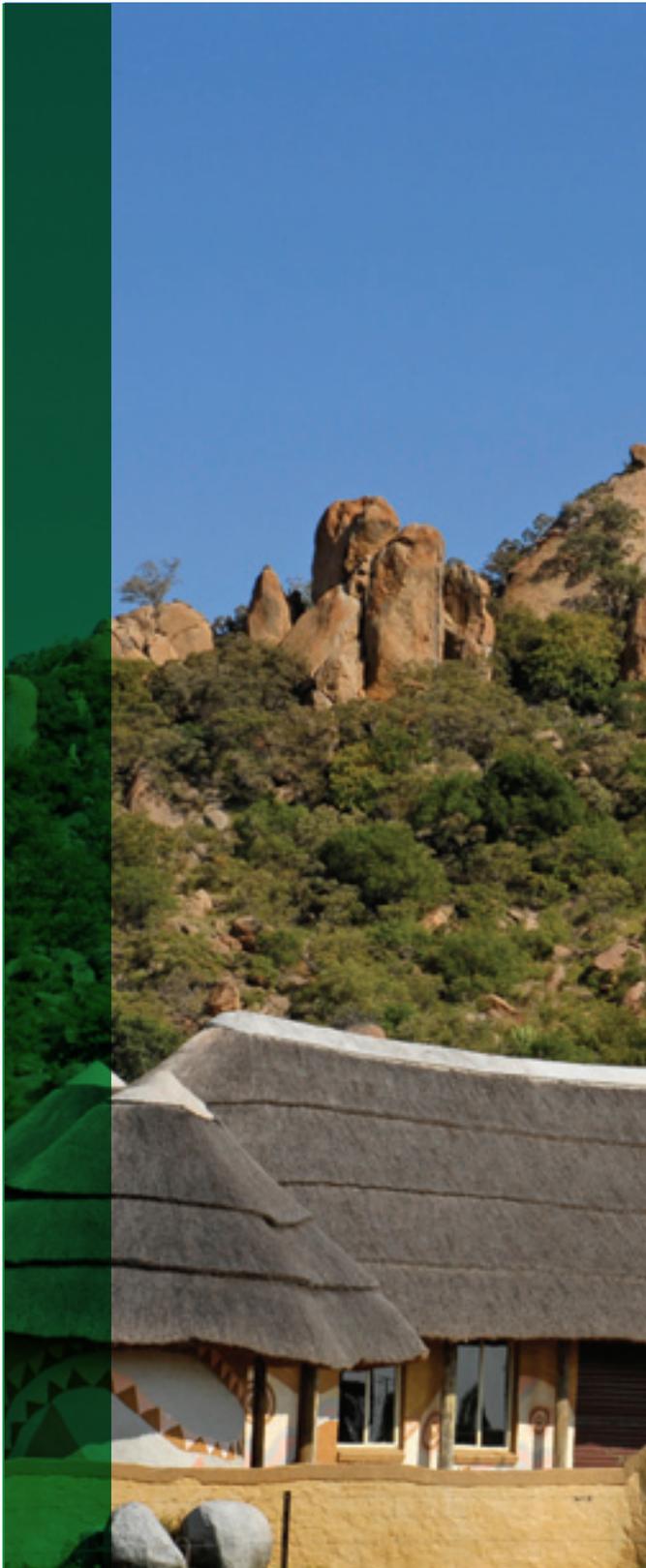
**RESULT:** Many rural communities did not have the resources and skills to share the roles and responsibility involved in running a business.

### 3. Facilitated commercial partnerships model between communities and investors

**APPROACH:** Commercial partnerships are established between communities and private investors. Communities retain land ownership and lease their properties to investors who pay rent, make capital investments and manage operations.

**RESULT:** Commercial partnerships create productive enterprises on restored land, employ members from local communities and impart skills. They are lease-based contractual arrangements that allocate risks and responsibilities to parties that can reasonably assume them. Equity share options can be exercised by communities in the operating company when the risk profile of the enterprise looks attractive to the community.





The MABEDI programme has concluded 16 commercial partnership deals to a value of over R1,5 billion. This will create 4 975 employment opportunities and will have a wage-based impact on South Africa's local economy of about R99,3 million per year.

# 3 GETTING RESULTS

Over the last five years positive results have been produced by communities and private sector investors entering into commercial partnerships on communal and restored land through a facilitated process. These carefully structured partnerships between communities and the private sector or between communities, government and the private sector have produced a proven model that can deliver on investment, job creation, skills development and social cohesion in South Africa.

The MABEDI programme has concluded 16 commercial partnership deals to a value of over R1,5 billion. This will create 4 975 employment opportunities and will have a wage-based impact on South Africa's local economy of about R99,3 million per year.

These partnerships have a significant role to play in terms of rural economic development priorities and present strategic

and operational benefits for all stakeholders involved.

- For the **private sector**, commercial partnerships are financially rewarding and provide new growth opportunities.
- For **communities**, commercial partnerships lead to employment, revenue generation for development and skills transfer.
- For **government**, commercial partnerships are an accessible, relevant, viable and economic means of fulfilling the objectives of the land reform programme.
- For **society**, commercial partnerships in rural areas can support economic growth and successful land reform, add value to public expenditure and create commercially active local communities, thereby enhancing local economic development.

The challenge now is to implement this model on a much larger scale.

## 3.1 The commercial partnership model

Typically, the commercial partnership takes the form of a Community Private Partnership (CPP) or, where government is a party to the agreement, Community Public Private Partnership (CPPP). It is based on a negotiated, commercial and lease-based contractual arrangement between the land owner and a private investor. The community enters the partnership with its land and the private investor brings resources which ensure the financial sustainability of the business.

*The commercial partnerships model ensures low risk regular incomes for communities through lease agreements with investors. Unlike some other joint ventures that have been implemented, where communities must wait for 'profits' prior to receiving revenue (which often takes years), these revenue streams commence at the start of the partnership.*

– Geoff de Beer, MABEDI Transaction Advisor

Private partners provide financial investment and technical expertise to develop, operate and maintain assets on behalf of the community land owners. In addition to the upgraded and commercially functional assets which are transferred back to communities at the end of the lease, the community partners receive guaranteed revenue as well as preferential employment and training opportunities.

**Three features underpin the commercial partnership model:**

- a. Commercial partnerships are **lease-based contractual arrangements**. The length of the lease is determined in relation to the scale of investment and the period of time within which investment can be recovered and a reasonable commercial return made.
- b. There is an **allocation of risks and responsibilities to parties that can reasonably assume them**. The principle of commercial sustainability applies. These commercial partnerships do not assume or require long-term grants or technical assistance from the public sector. The commercial sustainability principle is underpinned by a legally secure partnership. Risks and responsibilities are allocated between the partners according to their relative strengths. The key risks and responsibilities allocated in the commercial partnerships include the areas of financial, technical, marketing, operations and maintenance issues, as well as infrastructure development, and the maintenance of stable community relationships. Generally the following principles apply:
  - The **private party** by virtue of its greater technical and financial capacity and experience takes on the major burden of these responsibilities in exchange

for the opportunity to invest and operate the assets on restored land.

- The **community** establishes a representative body which will provide access to the land and the existing facilities based on a lease at market-related rates. It will carry primary responsibility for maintaining stable community relations which are critical to the long-term sustainability of the business.
  - **Government** is responsible for ensuring compliance with prevailing regulatory frameworks and procedures.
- c. The **private partner has resources that the land-owning community needs**. Based on experience, the following key criteria have emerged for the selection of private partners:
    - **Financial capacity:** The private partner must be able to mobilise all capital requirements (fixed and working capital) for the development and operation of the business.
    - **Ability to construct and maintain the proposed fixed assets:** The private partner must have the ability to cope with the operating risks of constructing, operating and maintaining facilities in remote locations.
    - **Track record in marketing similar products or facilities:** The private investor must demonstrate a proven track record of marketing the types of tourism/agriculture/forestry products and/or facilities. They must also demonstrate market credibility and an existing client base.
    - **Experience in managing similar projects:** The private investor must be able to demonstrate experience in operating similar business activities in similar locations.



- **Policy and strategy that relates to local community upliftment:** Private partners must have policies or strategies in place that assist with local community upliftment in relation to procurement of local labour, skills transfer and capacity building of employees, support for SMME development, and the local procurement of goods and services.

*MABEDI rendered a good service in this regard. The agreement was negotiated on commercial terms. The investor was on board and at the same time the community's benefits were well taken care of.*

*We would prefer that the community became partners as soon as possible, or from the outset. But later we realised we were over-optimistic, over-ambitious to do it that way.*

– Erasmus Cornelius, Limpopo Department of Agriculture

## 3.2 Benefits for land-owning communities

A fundamental aspect of the design of rural commercial partnerships is that the land-owning communities achieve a range of benefits. These include:

- **Local economic growth:** Increased productivity and market competitiveness of the enterprises owned by the local community.
- **Financial flows:** Direct capital and operational investment in the land owned by the community; rental payments to the community; and equity share options in the operating company to be exercised at a time when the risk profile of the enterprise looks attractive to the community.
- **Secure employment:** Most of the employment opportunities should be filled by members of the local community, except people with specialist skills (such as financial and other skills) who may not be immediately available in the community. Specialist training should be offered to local people as they gain experience in the project.
- **Wages:** The employment of local people will in turn result in increased disposable cash income in the local economy.
- **SMME development opportunities:** These may derive from the need for certain production inputs, operational, maintenance and/or expansion activities along the value chain.

- **Skills transfer and capacity development:** The intention of the CPI is generally to structure a partnership agreement in ways that make it a contractual obligation of the private partner to train local staff in technical and managerial areas.
- **Maintenance of assets:** Since the proposed commercial partnerships are generally based on the 'build operate transfer' (BOT) model, the fixed assets need to be properly maintained over the period of the lease and transferred to the community at the end of the lease period.

There are also secondary spin-off opportunities which occur. Once the initial commercial partnership is fully operational and levels of trust increase between the partners, there are opportunities to develop further partnerships. For example, community smallholder agriculture outgrower schemes can be structured where emerging farmers produce independently with the private partner providing mentorship and access to production inputs, extension support, and primary marketing and distribution channels.



### 3.3 Process of establishing a commercial partnership

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The gap between the community and a potential private investor in terms of access to information and experience poses a significant challenge. Rural communities that control high value land assets, which have been paid for by the public sector, mostly have limited capacity and little experience to negotiate equitable and beneficial deals.

Communal institutional structures are different from those that operate in a typical business environment. The level of education, training and business experience amongst community members is often limited. As a result, decision-making processes are much more protracted and less predictable than those in the formal business sector. Strong traditional structures operating in the rural areas in tandem with modern government structures also need to be acknowledged, consulted and respected when structuring partnerships.

The provision of support to the CPI is thus essential to avert unequal partnerships that produce conflict between partners and subsequent under-performance or the collapse of the enterprise.

Specialised expertise in the form of experienced community facilitators and transaction advisors are a prerequisite for sound commercial partnerships which have the community's support.

A commercial partnership support team helps the community negotiate with a private investor and achieve a commercial partnership agreement. The support team ensures that the partnership benefits both the community and the private investor and usually comprises a project manager, a community facilitator, a transaction advisor and a legal advisor.

The support team:

- helps the community make contact with a private investor and handles the negotiations between the community and the investor;
- supports the community in communicating with its members and assists with advanced decision-making around the commercial transaction;
- advises the private investor on how to strike a partnership with the community that is to their advantage and which also complies with government's requirements; and
- supports communication between the different parties so a fair commercial partnership can be made.



*They [MABEDI] were a conduit. We talked to the Moleteles, and the Moleteles talked to us, but it was necessary to have an intermediary. Some of their aspirations may have been unachievable, just as some of our aspirations were unachievable. MABEDI gave us a template for adjusting aspirations. We never had heated arguments.*

– Hoppie Nel, private investor in a commercial partnership initiative in Limpopo

## The outcomes of successful commercial partnerships: Job creation, rural development and pro-poor economic growth

Successfully implemented commercial partnerships can contribute significantly to the implementation of government policy for rural development and land reform through:

- **Fixed investment without public resources:** Creating fixed investment with private capital on community-owned land.
- **Working capital:** Mobilising working capital for restored land via private sector investors.
- **Skills transfer:** Providing much-needed managerial and technical expertise in support of land reform projects at no direct cost to the public sector.
- **Increasing and retaining employment:** Maintaining and increasing employment opportunities and wages at no direct cost to the public sector.
- **Increasing productivity:** Enhancing productivity levels in rural areas at no direct cost to the public sector.
- **Capacity building:** Providing structured skills transfer and capacity-building programmes as contractual obligations of commercial partnership deals to benefit farmers and entrepreneurs within the designated area.
- **Equity sharing options:** Providing land-owning communities with the option of equity sharing in the business that operates the venture (farms, etc.) when the commercial risk is acceptable.



The MABEDI experience demonstrates that the commercial partnership support team needs to support both the CPI and the private investor in order to ensure a win-win partnership that will operate effectively throughout the duration of the lease.

# 4 CRITICAL SUCCESS FACTORS

The success of commercial partnerships on restored or communal land depends on five critical factors. These are:

- **Support from government for the concept of commercial partnerships and for the role to be played by independent commercial partnership support teams.** Government has a formal role to play in releasing communal land for development purposes. Government also plays an important role in approving any land-

use changes (e.g. from agriculture to tourism). The public sector can delay or hinder the implementation of a commercial deal (by omission or commission). Conversely, government officials can positively contribute to the deal-making process by providing authority, encouragement and legitimacy.

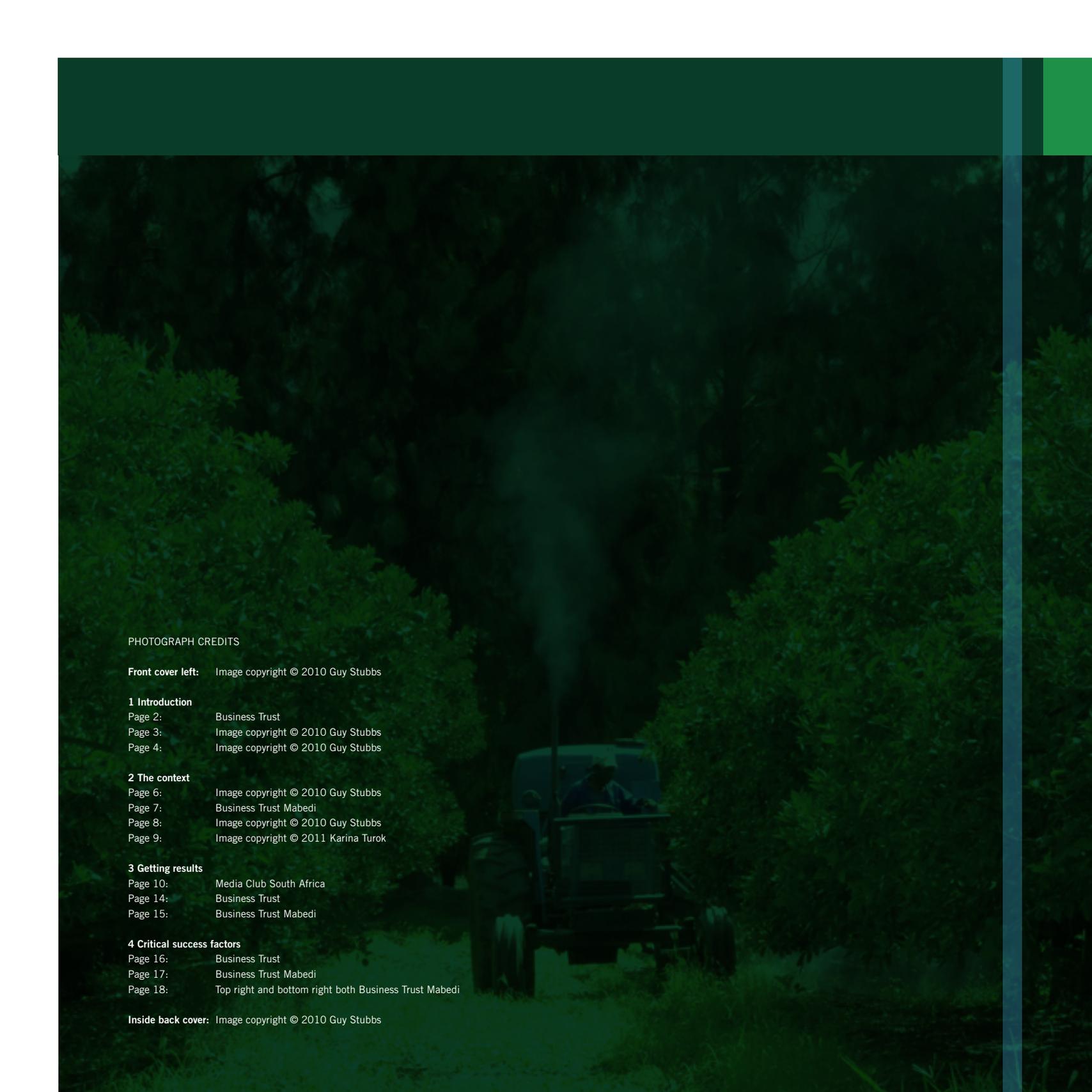
- **Understanding the investment context and responding appropriately.** Partnership-based projects cannot be successfully implemented in locations where the 'inherent development potential' is missing. It is absolutely essential for communities and transaction advisors to assess the development potential of each project site and to mobilise related investors accordingly. This is critical for matching the expectations of the community and the private investor with the investment realities.
- **Provision of transactional advisory and community facilitation services.** These are critical technical services needed in all post-settlement projects. The MABEDI experience demonstrates that the 'operational reality' is that private investors, rural communities and the public sector are in most cases novices in terms of the procedural, legal and operational methodologies for structuring commercial partnerships on restored land. Similarly, the MABEDI experience demonstrates that the commercial partnership support team needs to support both the CPI and the private investor in order to ensure a win-win deal that will operate effectively throughout the duration of the lease.





- **Support for CPI administration.** Communities are becoming owners of large capital investments, but they generally do not have the necessary governance and management structures and capabilities. As a result, they require professional services. Institutionalising community support is an integral part of the post-land claims process. In addition to the provision of post-settlement grants, there is also room for private service providers to provide property management, legal and administrative services to CPIs. Once CPIs achieve steady and reliable revenue streams, they can independently procure and pay for CPI administration support services. In the initial stages, however, CPIs have neither the resources nor the experience to procure appropriate services and therefore require external technical and financial support.
- **Knowledge dissemination.** Post-settlement arrangements on commercial land have variously included the establishment of management contracts (for collectives), joint venture agreements (with former land owners) and, more recently, commercial partnerships with reputable and capable private companies. Unfortunately there is relatively little institutional memory – within government and within the private sector and community circles – regarding the underlying principles and results of these past endeavours. As a result, practitioners, officials and leaders often engage in arrangements based on limited experience. A significant need therefore exists for establishing a clearer understanding of the potential of partnerships for the development of restored and communal land. This publication aims to contribute to meeting that need.





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**3 Getting results**

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**4 Critical success factors**

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